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Analysis of Stakeholder Management in Privately Owned Institutions

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Abstract: *Changes in the environment of any institution, founded for religious, educational, professional, or social purpose, are unlikely to succeed as 'separated closed' institutions that are unresponsive to their environment and stakeholders. Stakeholder analysis is considered as an important part of institutional management. Institutions have to take care of key stakeholder groups and build long term relationships with them. Stakeholder management is essentially stakeholder relationship management as it is the relationship and not the actual stakeholder groups that are managed. This paper focuses on the stakeholder analysis and adopts the 'stake-holder theory' and analysis for the needs of stakeholder management in privately owned institutions and public institutions.*

Stakeholder groups of public and private institutions can be categorized into four basic groups

1. *Primary internal stakeholder groups,*
2. *Primary external stakeholder groups,*
3. *Secondary internal stakeholder groups*
4. *Secondary external stakeholder groups.*
5. *Primary internal and external stakeholder groups which are crucial for survival of institutions are the most important stakeholder groups.*

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I. Introduction

A stakeholder is an individual or group that has a legitimate interest in the activities and affairs of an institution. They have something to gain or lose through the outcomes of a planning process, programme or project. In decision-making process of stakeholders for institutions, including large business corporations, government agencies, and non-profit organizations, the concept has been broadened to include everyone with an interest (or "stake") in what the entity does. The stakeholders of an institution are mostly divided into internal and external stakeholders but can be grouped severally depending on the interest of the institution and their strategic plan. Internal and external stakeholders can further be grouped into primary or secondary stakeholders. This classification is dependent on the degree of contact or effect of the institutions programme/project on the stakeholder group.Institutions have had to fundamentally change for development in growth as the market is affected by the growing competition in institutional systems. These changes in the structure of the market of an institutional system around the globe have resulted in new approaches to stakeholder management.

II. Identification, Categorization and Prioritization

The first step in the stakeholder analysis is to strategically brainstorm who your stakeholders are, because the idea to establish the institution is built around them. Every institution defines its stakeholders in terms of their need for, or provision of. At the heart of the stakeholder management, relationship is an implied two-way exchange of value, although the mutuality of benefit is often unclear. In the absence of clarity, dissimilar stakeholders are lumped together, entire categories of stakeholders are omitted, and other erroneous assumptions tend to take hold. From literature it is clear that a plethora of classification of stakeholders have been suggested. It seems that none has been generally accepted. This paper aligns its discussion with the classification of stakeholders into external and internal stakeholders and further categorizes them into primary and secondary internal and external stakeholdersInternal stakeholders are entities within a business (e.g., employees, managers, the board of directors, investors). They are those that are directly affected by the business's performance. They participate in the management of the company. They can influence and can be influenced by the success or failure of the institution because they have vested interest in the organization. Employees want to earn money and stay employed. Owners are interested in maximizing the profit the business makes. Investors are concerned about earning income from their investmen External stakeholders are entities not within a business itself but who care about or are affected by its performance (e.g., consumers, regulators, investors, suppliers). These parties are not directly involved in decision making and other business affairs and, therefore, may or may not be affected by the company's decisions or operations. The government wants the business to pay taxes, employ more people, follow laws, and truthfully report its financial conditions. Customers want the business to provide high-quality goods or services at low cost or unique products. Suppliers want the business to continue to purchase from them. Creditors want to be repaid on time and in full. The community wants the business to contribute positively to its local environment and population. Stakeholder attitude identification is useful for risk management planning. Each individual or group rated as having negative or neutral attitudes toward the firm presents potential liabilities. The firm should prioritize stakeholders who do not support the firm and who have the greatest influence. Addressing these stakeholders through targeted outreach will reduce firm risk. Arguably external stakeholders wield the most influence on the long term success of a business or project, because external stakeholders will often be the end users/customers.

In analyzing stakeholder management in institutions you need to identify or differentiate between the "Internal Stakeholder from the External Stakeholder", knowing their interest.

2.1 Internal Stakeholders: Managers, Employees, and Shareholders

Employees are primary internal stakeholders. Employees have significant financial and time investments in the organization, and play a defining role in the strategy, tactics, and operations the organization carries out. Well run institutions take into account employee opinions, concerns, and values in shaping the strategy, vision, and mission of the firm. Having a good reputation among employees is an important aspect of a strong reputation [1](Davies, Chun, & Kamins, 2010), because the greatest reputation leverage can be achieved through them[2](Fombrum, Gardberg, & Sever, 2000), as they shape other stakeholders' perceptions of the firm. But what companies can and should do to improve their reputation in the eyes of existing employees is unclear. By investing in the community and showing interest in social issues, an organization is showing a strong ethics code, and this will not go unnoticed by the internal stakeholders. It is not uncommon now for businesses to draw up extensive, specific ethics programs and issue an ethics manual to every employee on the date of hire. Ethical issues will always arise in business settings, but by having a basic outline on how the company should handle certain moral situations, major disasters are much easier to snuff out before they have a chance to take place.

Managers play a substantial role in determining the strategy of the organization, and a significant voice in operational decisions. Managers are also accountable for the decisions made, and act as a point of contact between shareholders, the board of directors, and the organization itself.

Owners (who in publicly traded institutions can include shareholders) are the individuals who hold significant shares of the firm. Owners are liable for the impacts the institution has, and have a significant role in strategy. Owners often make substantial decisions regarding both internal and external stakeholders.[3] (Boundless, 2016)

2.2 Stakeholders: Customers, Regulators, Suppliers, Trade Association.

Customers are one of the most immediate external stakeholders that an institution must consider. The primary purpose of providing goods and services is to fill needs. Understanding the needs of an institution's core customer base, and optimizing operations to best fill those needs, is therefore a significant part of managing a business. Attracting, retaining and generating loyalty from core consumer markets is critical for competitiveness. Regulators and communities are closely tied external stakeholders. Institutions operate within communities, and their activities affect more than just customers. Businesses pay taxes, but they are also informally expected by residents to operate ethically and with environmental responsibility. Regulators can in fact be considered primary stakeholders, considering the profit motive involved. Regulators also provide regulatory oversight, ensuring that standards, procedures, ethical practices, and legal concerns are being handled responsibly by business representatives. Communities also like to see businesses get involved in events and local charitable giving. Regulators make decisions that can significantly impact a company's operations. It is important, therefore, for company managers to maintain good relationships with local officials to anticipate legal or regulatory changes or community developments that may affect them.

As a result of the digital and global economy, a business can have a significant impact on society at large. Manufacturing facilities in developing nations are transforming entire ecosystems. Social networks are also collecting vast amounts of data. All of these concepts are not intrinsically good or bad, but managing them to ensure outcomes are positive for society as a whole is a critical responsibility.Suppliers have become more critical stakeholders in the early 21st century. More often, companies build a number of small, loyal relationships with suppliers and associates. These strategic alliances are interdependent, where the success of one will impact the success of another. As a result, suppliers are closely related to institutions as key external stakeholders. Trade buyers and sellers can effectively collaborate to deliver the best value to end customers, which is beneficial to each partner. Additionally, trade partners expect that you operate ethically to avoid tarnishing the reputation of institutions with whom your business associates.

An industry trade association participates in public relations activities such as advertising, education, political donations, lobbying and publishing, but its main focus is collaboration between institution, or standardization. Associations may offer other services, such as organizing conferences, networking or charitable events or offering classes or educational materials. One of the primary purposes of trade groups is to attempt to influence public policy in a direction favorable to the group's members. This can take the form of contributions to the campaigns of political candidates and parties, contributions to "issue" campaigns not tied to a candidate or party, and lobbying legislators to support or oppose particular legislation. In addition, trade groups attempt to influence the activities of regulatory bodies. Almost all trade associations are heavily involved in publishing activities, whether in print or online.[3] (Boundless, 2016)

III. Monitoring And Managing Stakeholder Relationships

Increasingly, institutions are motivated to become more socially responsible because their most important stakeholders expect them to understand and address the social and community issues that are relevant to them. Branco & Rodrigues(2006)[4] describe the stakeholder perspective of CSR (corporate social responsibility) as the inclusion of all groups or constituents (rather than just shareholders) in managerial decision making related to the organization's portfolio of socially responsible activities. In this regard, there is no limit to who a stakeholder should or could be.

Suppose an institution is engaging in environmentally harmful practices, pressure from these stakeholders can force the institution into adopting a corporate self-regulation policy that improves their environmental footprint.The agency view of the corporation posits that the decision rights (control) of the corporation are entrusted to the manager to act in shareholders' and other stakeholders' interests.Partly as a result of this separation, corporate governance mechanisms include a system of controls intended to help align managers' incentives with those of shareholders and other stakeholders.The deviation from the principal's interest by the agent is called 'agency costs. ‘Agency costs mainly arise due to contracting costs and the divergence of control, separation of ownership and control and the different objectives of the managers and other stakeholders.Three parties key to the functioning of the corporation are the managers, shareholders, and bondholders.While managers control the corporation and make strategic decisions, shareholders are owners, and bondholders are creditors.Corporate governance is the system by which companies are directed and controlled. It involves regulatory and market mechanisms; the roles and relationships between a company's management, its board, its shareholders, and other stakeholders; and the goals for which the corporation is governed. In contemporary business corporations, the main external stakeholder groups are shareholders, debtholders, trade creditors, suppliers, customers, and communities affected by the corporation's activities. Internal stakeholders are the board of directors, executives, and other employees. Much of the contemporary interest in corporate governance is concerned with mitigation of the conflicts of interests between stakeholders.

The aim of public relations by a company is to persuade the public, investors, partners, employees, and other stakeholders to maintain a certain point of view about it, its leadership, products, or of political decisions. In other words, public relations is a management activity that attempts to shape the attitudes and opinions held by an organization’s stakeholders. Examples include: Corporations use marketing public relations to convey information about the products they manufacture or services they provide to potential customers to support their direct sales efforts. The aim of public relations by a company is to persuade the public, investors, partners, employees, and other stakeholders to maintain a certain point of view about it, its leadership, products, or of political decisions.

IV. Conclusion

Stakeholder Management is an important discipline that successful people use to win support from others. It helps them ensure that their firms succeed where others fail. Stakeholder Analysis is the technique used to identify the key people who have to be won over. All firms have stakeholders-employees, managers, customers, suppliers, owners—but the amount of time; energy and money firms devote to them vary. While research suggests investing to keep stakeholders happy may help the bottom line, it is difficult to justify extra effort or resources without knowing the benefits. A firm ‘managing for stakeholders’ allocates more resources to them than would be necessary for normal operations, resulting in more stock options, better customer service, or shared cost savings. In return, stakeholders reveal information about what they want, allowing the firm to better meet their needs e.g. designing a new product or offer for customers. Trust is key. A firm could easily exploit knowledge they receive. Stakeholders expect reciprocity and fairness.

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