STAKEHOLDER MANAGEMENT CAPABILITY:
EXPLORING THE STRATEGIC MANAGEMENT OF DISSENTING
STAKEHOLDER GROUPS

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Abstract

Since its inception, Stakeholder Theory has served as an important corporate governance theory, providing an holistic framework for situation analyses and strategic decision-making. Since its conceptualisation, there has been a call to go beyond normative models of stakeholder management to explore the implications of 'stakeholder conflict management' and the development of 'stakeholder management capabilities'. This paper undertakes an analysis of the regional Tasmanian state government's approach to the management of dissenting stakeholder groups towards a controversial retail development. The paper provides a discussion of the manner in which their governance structure included the use of delay tactics, the abdication of responsibility, and the building of bureaucratic layers that effectively diluted the will of stakeholder groups to continue their dissenting activities.

Keywords: Stakeholder Theory; Stakeholder Management Capability; Dissenting stakeholder strategies

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1. Introduction

Since its inception some 25 years ago, Stakeholder Theory has served as an important theory of the firm, providing an holistic framework for situation analyses and strategic decision-making (Freeman, 1984; Frooman, 1999; Hendry, 2001; Nwanji and Fu, 2007; Preble, 2005; Sternberg, 1997). Stakeholder Theory's intuitive appeal, and relative simplicity of operationalisation, has contributed to its widespread acceptance by both academics and practitioners alike as an important corporate governance tool (Fassin, 2008; Friedman and Miles, 2006; Tomasic and Fu, 2006). Since its original conceptualisation, substantial research effort has been undertaken to solidify its tenets (see for example Donaldson and Preston, 1995; Gibson, 2000; Wolfe and Putler, 2002) and to prescribe a means for the effective management of stakeholders (see Greenwood, 2007; Roloff, 2008; Schaefer, 2007; Szwajkowski, 2000; Zakhem, 2008). The almost singular focus on the practical implementation of Stakeholder Theory has increased in recent years (see Bourne, 2008; Frynas, 2008; Johannsson, 2008; Vilanova, 2007), and there has been a call to go beyond normative models of stakeholder management to explore the strategic implications of 'stakeholder conflict management' and the development of 'stakeholder management capabilities' (Letza, Sun and Kirkbride, 2004; Zakhem, 2008).

2. 'Stakeholder Management' Versus 'Stakeholder Management Capability'

'Stakeholder management' is the term given to the system by which organisations pursue their objectives whilst considering the interests of its stakeholders (Freeman, 2004; Jackson, 2005). To develop specific strategies to manage its stakeholder relationships, organisations first need to determine 'who is a stakeholder?' and 'what is the nature of the relationship between the organisation and the stakeholder?' (Frooman, 1999; Greenwood, 2001). Within the realm of Stakeholder Theory there is a divergence between the normative and instrumental doctrines. The normative theorists have attempted to develop a more comprehensive framework of strategic management by broadening the definition of stakeholders to include any group or individual who affects or is in any way affected by the organisation. One problem for the construction of effective corporate governance regimes is that this virtually includes 'everyone, everything and everywhere' (Stenberg, 1997, 2000). Under this broad definition, organisations may be faced with a bewilderingly complex set of claims that cannot reasonably be accommodated (Letza, Sun and Kirkbride, 2004; Zakhem, 2008). The instrumental theorists have recognised this vaguely defined term of stakeholder limits the usefulness and validity of the concept,
therefore, they have put forward a more narrow view which is based on the actual limits of the organisation’s resources, time, attention and patience of managers for dealing with external constraints (Letza, Sun and Kirkbride, 2004; Mitchell, Agle and Wood, 1997). A typical instrumental process model for the identification (and ‘management’) of an organisation’s stakeholder groups is represented in Figure 1.

Figure 1. An Instrumental Process Model for Stakeholder Management (Johansson, 2008)

1. Identification of salient stakeholder groups, perspectives and agendas
   Perceived legitimacy, influence, urgency and coherence of stakeholder claims

2. Stakeholder synthesis: Accommodation of disparate stakeholders.
   Hostile/instrumental/ethical organisational stance

3. Emergent system: Philosophy, process, performance criteria etc.
   Stakeholder perceptions of management system

   Procedural justice – stakeholder perceptions of performance management

5. System outcomes: Decisions on reward, progression etc.
   Distributive justice-stakeholder perceptions of performance management system decisions

   Stakeholder’s perceptions of overall operation of performance management system.

7. System reporting: Level and quality of information disclosure and significance of stakeholder reaction.
   Stakeholder’s satisfaction with dissemination and use of information of performance management system.

Typically, instrumental process-driven models have been widely accepted as ‘an effective means to identify and manage stakeholder groups’. To effectively manage the potential conflict between the various stakeholders, and to minimise its impact on an organisation’s ability to achieve its objectives, it needs to work towards a balance between its resources and the various claims from its stakeholders (Asher, Mahoney and Mahoney, 2005; Frooman, 1999). In order to provide management with a more functional and less complicated framework, researchers have attempted to establish a set of determinants of stakeholder salience for managers (Asltonen, Jaakko and Tuomas, 2008; Harrison and Freeman, 1999). Stakeholder salience goes beyond the identification of stakeholders, and refers to the degree to which managers give priority to competing stakeholder claims, as current stakeholder framework does not clearly explain the dynamics and the complex considerations inherent in each stakeholder (Michell et al., 1997; Parent and Deephouse, 2007). The salience of discrete stakeholder groups is dependent upon three key relationship attributes: power, legitimacy and urgency.

Power is the central determinant of outcomes in situations where a stakeholder and a firm hold opposing interests (Frooman, 1999). In an early definition of power, Weber (1947) described power as a situation where one social actor within a social relationship would be in a position to carry out his/her own will despite resistance from others. According to Etzioni (1964) there are three types of power base within the stakeholder network setting: coercive power – physical power, the use of a loaded gun, a whip, or physical sanctions; utilitarian power – material power, the use of material or financial means such as rewards, or granting material to allow one to acquire goods and services; and social power – symbolic resources, the use of symbols such as prestige and esteem. Mitchell et al. (1997: 866) proposed that power is not a stable state and is transitory: it can be acquired as well as lost. Therefore within a relationship a party that can gain access to resource/s needed to exercise its power has
the ability to impose its will in the relationship.

The notion of legitimacy is often coupled with power when people attempting to evaluate the nature of relationships in society (Mitchell et al., 1997). Various scholars have made implicit assumption that legitimate stakeholders are fundamentally powerful (Mitchell et al., 1997). Suchman (1995), for example defines legitimacy as "...a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (1995: 574). Mitchell et al. (1997) accept that Suchman's (1995) definition contains descriptions that are useful in the approach to stakeholder identification, but it is difficult to operationalise. Mitchell et al. (1997) consider legitimacy as only one of the three vital attributes to achieve salience for a firm's managers.

A stakeholder group also needs urgency to drive the claim and the power to enforce it. Urgency refers to the degree to which the stakeholder claims call for immediate action. The two vital conditions of urgency as described by Jones (1995) and Mitchell et al. (1997) are: time sensitivity – when a relationship or claim is of a time-sensitive nature; and criticality – when the relationship or claim is critical to the stakeholder. Attending to stakeholder claims in a timely fashion has been a focus of management for decades (Wartick and Mahon, 1994). However, being time sensitive is necessary, but not sufficient. To be identified as urgent and call for immediate action by the management, the stakeholder’s claim or its relationship must be viewed by the firm as critical or highly important (Mitchell et al., 1997).

The three critical attributes of stakeholder salience as proposed by Mitchell et al. (1997) can be summarised as follows:

- Power itself does not necessitate high salience in a stakeholder-manager relationship. Power gains its authority through legitimacy and its exercise through urgency.
- Legitimacy needs the other two attributes, power and urgency to gain its power and voice.
- Urgency, when combined with at least one of the other two attributes, will increase the level of salience in a stakeholder-manager relationship.

**Figure 2 Pictorial representation of this interrelationship**

![Diagram](source: Mitchell et al., 1997)

Notwithstanding the general acceptance of the descriptive models of stakeholder management as presented above, their ability to prescribe the actual conflict management capabilities required to manage dissenting stakeholders groups is quite limited (Greenwood, 2007; Roloff 2008; Zakhem, 2008; Schaefer, 2007). Recent literature in stakeholder management has called a movement away from the instrumental process-driven approach to one that adopts a strategic view to understanding the resources.
and capabilities needed to effectively deal with conflict and dissent between an organisation and its stakeholder groups (Freeman, 2004; Froeman, 1999; Zakhem, 2008). ‘Stakeholder management capability’ has been forwarded as one potential concept upon which to conceptualise the strategic management of dissenting stakeholder groups, and recommends that the effective management of stakeholders must occur at the ‘rational’, ‘process’ and ‘transaction’ levels of analysis (Daake and Anthony, 2000; Elias, Cavana and Jackson 2002; Malvey, Fotler and Slovensky, 2002; Olden, 2003).

At the rational level of analysis, strategic managers must “map” their organisational stakeholder groups and accurately define the interests each has in its operations. Whilst this at first may appear a simple or straightforward exercise for the strategic manager, the effective development of stakeholder management capabilities requires extensive market research to understand the nature and the source of the interest. At the ‘process’ level of analysis, strategic managers must include stakeholders in the firm’s actual strategic decision-making process (e.g. to invite stakeholders into the boardroom discussions) with the view to use their multiple perspectives as a resource for the organisation. At the ‘transaction’ level of analysis, strategic managers must establish and execute “win-win” transactional exchanges with their stakeholders. Given that it is in the early stages of its development, the research that has been done into the development of stakeholder management capabilities has focused largely on private sector organisations. There has been some work done on public-private sector partnerships’ stakeholder management (see El-Gohary, Osman and El-Diraby, 2006; Johnson, 1998; Lim, Tan and Pan, 2007), but as yet little empirical work has been done to explore governments’ stakeholder management capabilities and the manner in which they deal with the ‘power’, ‘legitimacy’ and ‘urgency’ of dissenting stakeholder groups.

3. Method

This paper undertook an analysis of the manner in which the Tasmanian state government’s dealt with dissenting stakeholder groups that were concerned with a controversial retail development proposed for a Hobart Airport shopping precinct. This paper draws upon the content analysis of a considerable number of secondary data sources on the matter, which included local councils’ media publications, official newspaper reports, special reports commissioned by peak business bodies (and Tasmanian-based daily newspaper) over a period of 35 months (i.e. from August 2005 to June 2008). After the conversion of these sources to a Microsoft Word document format, they were uploaded to the NVIVO qualitative data analysis software program. Each of the documents were then scrutinised and its content coded to provide a basic definition of the types of stakeholder group represented in the reports (i.e. whether the report concerned a dissenting stakeholder group or not), as well as the concomitant stakeholder management strategy adopted by the Tasmanian state government.

The contents of the first round coding categories were then further scrutinised to explore and define the stakeholder management capabilities demonstrated by the Tasmanian state government in their management of the dissenting stakeholder groups. The identification of similarities in the systematic implementation of the stakeholder management strategy, therefore, formed the unit of analysis for this stage of coding. The text searching functions, interpretations of data, coding, and the verification of conclusions were facilitated by the use of the QSR NVIVO software package. In the method literature, it has been emphasised that computer software programs such as NVIVO are of significant value in qualitative analysis and any subsequent pattern matching and theory building (Kelle, 1995; Weitzman and Miles, 1995). The following section details the case of the Tasmanian Direct Factory Outlet, and the evidence of stakeholder management capability that emanated from it.

In order to facilitate the theory building process later in the research process, memos were maintained about the data, their categories, and the relationships between them as they emerged. Designed to store and organise ideas about the data, they were integrated into the analytic process. Wilson suggests that memos assist in the development of theory in five important ways:

- They require that you move your thinking about the idea to a conceptual level.
- They summarise the properties of each category so that you can begin to construct operational definitions.
- They summarise propositions about relationships between categories and their propositions.
- They begin to integrate categories with networks of other categories.
- They relate your analysis to other theories (1985: 420).

NVIVO has a facility for the creation and retention of such memos for later consideration and analysis. Utilising the memo capability within the NVIVO package, memo reports were generated by the software during ‘stage two’ coding. From these reports, the interaction between the parties’ became clearer, the context of the various phenomena surfaced, causes and effects were revealed, and motivations were exposed. The themes emanating from the ‘second round’ coding form the basis of the discussion section that follows.
4. The Case of the Tasmanian Direct Factory Outlet (DFO)

In 2005, Austexxx a leading Australian development company proposed to build Australia's largest Direct Factory Outlet (DFO) at Hobart Airport in Tasmania. A DFO concept is described by Fernie (1997) and Omar and Kent (2001) and as the “fourth wave of retailing”. A DFO incorporates a large range of premium branded manufacturers under one roof in the (form of a shopping mall) that is then promoted as a discount distribution channel. The proposed Hobart DFO is a circuit of about 100 direct factory outlets organised so that shoppers move past them all between entering and exiting the complex. Given the relatively small size of the Tasmanian market (i.e. Tasmania has a population of approximately 500 000 people), the proposed AUD$100 million development would be by far the largest Greenfield retail development in the states’ history. Indeed, the proposed DFO was to be the largest of its type in the whole of Australia. Throughout 2005 and 2006, the developer and the Tasmanian state government identified three important factors underpinning the development: Firstly, that statistics indicated approximately 50 per cent of retail spending by Tasmanians is 'leaked' to similar DFO complexes interstate; secondly, that it would contribute to the economic development of the state; and thirdly, that it would lead to the creation of additional jobs in the retail sector:

...the DFO will provide lower prices and more variety and cut the spending done outside the municipality (The Mercury, 2005a).

This demonstrates council's long-held view that Cambridge and the airport precinct has great potential for economic development (The Mercury, 2006a).

...the DFO will create 600 construction jobs and 1000 full-time and part-time jobs for the state labour market (The Mercury, 2005b).

After the DFO announcement was made to the public, five distinct stakeholder groups presented their arguments against the development. The first of these groups were the opposition parties in the state parliament, whose objections were concerned with the state government’s planning process and its business dealings with the DFO developer, Austexxx:

The state government had “refused” to exercise its right to have the DFO go through state planning processes (The Mercury, 2006e).

The state government’s inappropriate use of taxpayer’s money to shepherd through a “controversial” DFO development (The Mercury, 2006d).

The second dissenting stakeholder groups were classified as ‘Local Councils’ whose objection was concerned with the state government’s infrastructure priorities. This group has expressed strong opposition to the DFO development because of the likely increase in public infrastructure costs, such as upgrades to roads, stormwater, sewerage systems and public transportation. To ask their constituents to pay and support a mainland style development, which has been labelled as unfair to local businesses was not perceived to be a viable option for this group:

...it’s outrageous that the state government prepared to support the massive project without assessing its social and environmental implications and its impacts on existing Tasmanian businesses (The Mercury, 2005c).

...if these extra costs are not born by the developer or by the state government, then they will become the responsibility of the relevant councils (The Mercury, 2005d; 2006b; 2006i).

The third dissenting stakeholder groups were classified as ‘peak business bodies’ such as the Shopping Council of Australia, the Property Council of Australia, the Australian Retailers Association and the Tasmanian Chamber of Commerce and Industry. This group’s objection concerned with the state government’s planning process, which most of this group perceived as assisting the developer to get the DFO into the state through the backdoor:

...if the DFO is approved, it will create unfair competition in Tasmania’s retail market, which in turn will destroy the local businesses in the CBD and its surrounding areas (The Mercury, 2006c; 2006g; 2006h; 2006j).

The fourth dissenting stakeholder groups were classified as ‘local business owners’ whose objections were concerned with the uncertainty that the DFO has created within the local business community and the state government’s planning process. This group argued that the proposed DFO is too big for the state and that it will destroy established local businesses:

...using the Australian Airport Act as a way to exemtp the DFO is having a negative effect on local businesses as it creates an unfair competition environment in the state (The Mercury, 2005d).

...the DFO will “dismembowl” the CBD, and Hobart City will lose its appeal to local shoppers and tourists (The Mercury, 2006k).

The fifth dissenting stakeholder groups were classified as ‘private citizens’ whose objections were concerned with the state government’s infrastructure priorities and the planning process. They perceived that the state government’s infrastructure priorities do not include the needs of the local communities and that the state government’s planning process is not working in the interest of the local business
...the DFO will be a huge white elephant funded by the Tasmanian people (The Mercury, 2006h).

The state government should have 'got off its arse' long ago and pressured the federal government to allow the project to go through state planning laws (The Mercury, 2006g).

In order to manage (and perhaps marginalise) the dissenting stakeholder groups' position on the DFO development, the Tasmanian state government was observed to have demonstrated three important governance tactics (i.e. stakeholder management capabilities) that reduced their salience. Firstly, the state government was able to abdicate its own power base by not opting to bring the DFO development under the state planning laws, thereby enabling it to claim that it's not the decision maker:

...it [the state government] is not the decision maker for the proposed DFO development; the federal government is. (The Mercury, 2006f; 2006g; 2006h).

This abdication of power and responsibility had the effect of outsourcing the responsibility for the process (and the perceived equity therein) to a legitimate alternative third party, thereby reducing the local stakeholder group's legitimate power-base to complain to their direct political representative about the controversial development. In terms of the stakeholder management capability concept, the Tasmanian state government demonstrated an ability to outsource any responsibility they may have been perceived to have on the controversial issue, and thereby abdicate any concomitant responsibility for the equitable treatment of the stakeholder groups' members. This capability also enabled the government to deflect any criticism concerning delays in the appeal/complaint process away from itself and onto the legitimate third party.

Secondly, and in order to diminish the urgency of the dissenting stakeholder groups' claims, the state government was observed not to lobby the third party (in this case the Australian federal government) to expedite the process, and continued with its position that 'the state has to wait for the federal government's decision'. By refusing to intervene or provide lobbying support for the dissenting stakeholder group, the Tasmanian state government was able to diminish the urgency of the issue by elongating the decision making process. In terms of the stakeholder management capability concept, the Tasmanian state government demonstrated an ability to diminish the stakeholder group's motivation for their cause, as well as their concern about the overall processes, reporting procedures, and the outcomes of the governance system.

Lastly, by removing the power to complain and the urgency of the claims, the Tasmanian state government effectively reduced the legitimacy of the entire DFO controversy. Over time, the relevance and importance of the DFO issue faded in its relative importance, as the local community either 'moved on' or was challenged by a new or more pressing issues:

...the last few months have been quite good and things are only going to get better. We are looking to expand. I think the DFO will have an impact for a short time only (The Mercury, 2007a).

It seems that the Tasmanian state government achieved its objective by adopting a 'governance' stance of simply doing 'nothing' for long enough. However, it is the manner in which the state government mobilised its resource and governance processes to 'do nothing' that is of most interest here. The Tasmanian state government did not simply employ a native set of delay tactics, but rather set in play a series of legitimate inactions that could not easily be criticised by the dissenting stakeholder groups. The following discussion will attempt to delineate some specific strategies and 'stakeholder management capabilities' displayed in this case.

5. Discussion

This exploratory research suggests that the 'stakeholder management capability' concept has a number of important implications for the 'instrumental process model for stakeholder management' depicted in Figure 1. Firstly, institutions must go beyond the mere recognition that different stakeholder groups exist, and develop specific capabilities to accurately define the factors that make a stakeholder group legitimate, influential and their cause urgent within their community. This would entail developing greater boundary spanning capabilities, as well as the allocation of resources for high quality environmental scanning. Secondly, and in addition to the above, the organisation must strive to specifically define the ideology of the stakeholder groups, as well as the motivations of the individuals within relevant stakeholder groups. Only when such information is known to the organisation can it effectively conceptualise its position within the community, and fully understand the relationship and expectation that the various stakeholder groups have with it.

Thirdly, when an organisation is required to respond to criticism or action by a dissenting stakeholder group they must be capable of deflecting or abdicating their responsibility for the issue at hand. In the Tasmanian state government case, this stakeholder management capability included the creation of a 'power vacuum' (or more simply, a capacity 'to do nothing' and get away with it) when dealing with dissenting stakeholder group criticism. By this, we interpret the Tasmanian state government's action to abdicate their own power and
legitimacy to another body (in this case, the Australian federal government) meant that the dissenting stakeholder groups were similarly unable to exercise their own power as constituents of the Tasmanian state government. The effective stakeholder management capability, therefore, would consist of an ‘ability to remove or reduce the power of the dissenting stakeholder groups’ to influence their direct representatives in any political process.

Lastly, in terms of the 'system operation and outcomes', we feel that the Tasmanian state government was able to use the procedures they themselves developed to constrain the legitimacy of the dissenting stakeholder groups by instituting a number of due-process systems that served to extend the time of the project’s evaluation. This in turn diminished the capacity of the dissenting stakeholders to continue their protest given the time and cost implications associated with a protracted campaign. Essentially, the Tasmanian state government was able to ‘out-wait’ the dissenting stakeholder groups, and to marginalise the agitators at their core. Similarly, the ‘urgency’ associated with the controversial project was diminished by the abdication of responsibility and the protracted process employed by the Tasmanian state government – over the period of several months, the DFO issue changed from a controversial one to one that became relatively ‘routine’ (perhaps even a fait accompli) in the eyes of the majority of Tasmanian residents, and the urgency of the matter (and that of the dissenting stakeholder group) was similarly diminished over time. Figure 3 proposes a model of stakeholder management capability that reflects the evidence and coding insights of this research.

Figure 3. A Model of Dissenting Stakeholder Management

1. Identification of salient stakeholder groups, perspectives and agendas
   The ability to define the legitimacy, influence, urgency of stakeholder groups

2. Stakeholder synthesis: Recognition of disparate stakeholders. The ability to specifically define the ideological stance of dissenting stakeholder groups

3. Emergent system: Philosophy, process, performance criteria etc.
   The ability to manage stakeholders’ perception of the firm’s management system

   The ability to deflect or abdicate responsibility for the system’s performance

5. System outcomes: Outsource and/or delay decisions on reward, progression etc.
   The ability to deflect or abdicate responsibility for the system’s outcomes

6. System evaluation: Stakeholder evaluation of system efficacy, efficiency and equity. The ability to diminish the dissenting stakeholder groups’ concern for the performance management system as well as their own cause.

7. System reporting: Level and quality of information disclosure and significance of stakeholder reaction. The ability to diminish the dissenting stakeholder groups’ concern for the performance management system as well as their

'Stakeholder management capability' as a corporate governance concept appears worthy of further research. This single case explored the manner in which an Australian state government used (and indeed ‘didn’t use’) its resources strategically to marginalise those stakeholder groups opposed to the construction of a controversial DFO. The DFO case demonstrates the state government’s capacity to build and influence legitimate systems that serve to marginalise stakeholder dissent by removing their ability to exercise power, and to reduce the urgency and legitimacy of their dissent. In terms of theory, it would appear that this case has implications at the 'rational', 'process' and 'transaction' levels of stakeholder management. At the rational level of analysis, the case indicates that managers must do
more than simply “map” their organisational stakeholder groups and go beyond simply defining the interests each has in its operations instead to understanding the ideology and personalities at the core of the stakeholder group. At the ‘process’ level of analysis, managers must consider developing alternatives to the widely espoused ‘inclusive’ management techniques that may include disengaging dysfunctional stakeholder relationships and/or ignoring stakeholder groups altogether. At the ‘transaction’ level of analysis, the case suggests that strategic managers need not necessarily establish and ‘nil-all draw’ that somehow favours the organisation.

References