Stakeholder Analysis

The goal of a stakeholder analysis is to identify the set of stakeholders for which the firm's management must actively develop and implement strategies. The definition of a stakeholder is very broad: *Any person or group that affects or is affected by an organization's decisions, policies, or operations.* Lots of people and groups qualify as stakeholders under this definition, but managers don't need to develop and implement strategies for all of them.

Thus, a stakeholder analysis is centrally concerned with identifying which stakeholders are critical ones -- which ones are so important to the firm's work that managers perceive that dealing with these stakeholders is essential to the success of the business. Consequently, the manner and degree to which stakeholders affect the firm, or are affected by the firm, becomes a central part of the analysis. Stakeholders that have strong influence over the firm's mission-critical activities; stakeholders that management identifies as making legitimate claims on the firm, and to whom the firm feels significant obligations; stakeholders who are demanding immediate action by the firm -- all these are cases of stakeholders that are likely to attract the attention of managers.

The logical steps that managers should follow in identifying such stakeholders are as follows:

1. Based on your knowledge of the firm's business, make a list of the stakeholders that seem to be prominent in the things the firm does. For example, if the firm markets consumer products, consumers are stakeholders -- the firm can't make money if it doesn't sell its product. If the firm is in a capital-intensive industry, or needs a line of revolving credit to conduct its business, it is likely that lenders -- banks, for example -- are important stakeholders. Thus, working from your knowledge of how the firm's business is done, make a list of stakeholders.

2. Look at the nature of the dependencies or interests that the firm has on or in the stakeholders, and that the stakeholders have on or in the firm. In essence, how do they affect or depend on one another?

For example, a firm needs customers to generate revenue; it may need government regulators to create a level playing field with the firm's competitors so that no company in the market is able to manipulate the market in a way that gives it a special advantage. The local community may depend on the firm for ongoing contributions to the arts.

Consider as well whether the firm and its stakeholders have access to alternative means of acquiring what each is getting out of the stakeholder relationship. For example, does the firm have alternative revenue streams, so that it is not particularly dependent on, say, a particular group of retail customers? Do arts programs in the community have access to many corporate contributors so that the loss of one won't severely damage their programs?

Firms or stakeholders who depend critically on the stakeholder relationship, whether because of the special relationship itself or because there are no alternative relationships available that will satisfy what that relationship provides, are subject to the *power* of the other party in the relationship. By and large, they will need to be particularly responsive to the wishes of the other, controlling actor in the stakeholder relationship.

Has the firm or a stakeholder enjoyed a special relationship with the other so that one or the other feels an obligation to continue that relationship -- perhaps the firm or stakeholder is seen as an especially appropriate or historically legitimate partner? For example, does the management of the firm feel that because of its deep roots in the local community that it needs to continue contributions to the arts even when economic conditions make it more difficult for the firm to do that? Thus, one or both actors in a stakeholder relationship may feel tied to the relationship and/or view it as important or even critical because they recognize that it is a *legitimate* one -- i.e., that it is proper, appropriate, or otherwise desirable because of the values or beliefs or institutional ties or perceived obligations that each actor holds.

Finally, a firm or a stakeholder may perceive that the other actor in the stakeholder relationship is making extraordinary demands on the other for attention or responsiveness. Attention and perhaps action are demanded with great *urgency.* Demands for urgent action highlight the importance of the existing dependencies/effects in the stakeholder relationship; they imply that the relationship does indeed involve important and perhaps critical impacts on one or the other or both of the actors in the stakeholder relationship.

For example, environmental groups may request urgent action by a public utility to reduce its polluting discharges into a community's river or airshed. Whether and how the utility responds may depend on local community support for the environmental group, the applicability of EPA regulations on water pollution, the utility management's views on whether the group represents a legitimate interest of the local community, and how urgently the group's demands are presented.

Thus, in analyzing stakeholder relationships, the nature of *power, legitimacy*, and *urgency* must be considered. If claims are made on the firm's management that have all three -- the stakeholder group making the claim has power over the firm in being able to affect its competitive success, the group is viewed as a legitimate one or one making a legitimate claim, and the demands are presented with high and credible urgency, then it is far more likely that the firm's management's attention will be directed to them and the firm will recognize them -- the claims will have high *salience* for firm management, and management will respond to them. Managers will act on that part of their agenda that has high salience to them.

3. Having identified the set of stakeholders, and the nature of their interactions with the firm, you now need to determine the conditions of power, legitimacy, and urgency in each relationship. Remember that when high levels of these conditions coincide, it is likely that the relationship will be especially salient to firm managers. And these conditions will help you identify how critical the relationship is to the firm.

4. Once you have identified the set of stakeholder relationships that are critical to the firm, you can provide an analysis of both their individual and their joint effects on firm management. Given this constellation of stakeholder relationships, how should each stakeholder relationship be managed, and how should the set of relationships, viewing them as a whole, be addressed by management?

Note that the process of stakeholder analysis is based on *cognitive judgments* of power, legitimacy, and urgency; in other words, the analysis creates a set of *stakeholder frames.* Analysis done by different actors, or actors with different perceptions of how the firm relates to actors in its environment, may produce different stakeholder frames. Such perceptions can be affected by such factors as available information, interpretative capabilities, beliefs regarding the logics that drive firm interactions, and so on. The identification of stakeholders is a *social construction* -- it abstracts elements of the perceived environment and structures them into perceptions of stakeholders with certain characters. There is nothing necessarily concrete or immutable about stakeholders and their relationships. The stakeholder "world" can be redefined and reorganized as easily as perceptions can change.

Thus, management of stakeholder relationships can be a shifting enterprise as perceptions change, and as capabilities to perform particular management tasks with respect to stakeholders also change over time.

Note: The description of stakeholder analysis (power, legitimacy, urgency) is adapted from a widely-referenced article:
Mitchell, R.K., Agle, B.R., & Wood, D.J. 1997. Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. *Academy of Management Review*, 22(4): 853-886.