

## STAKEHOLDERS BASED MANAGEMENT - A NEW ENTERPRISE MANAGEMENT SYSTEM

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### ABSTRACT

*Organization management is increasing focused on the main stakeholders. Managers - stakeholders win-win relationship became the generator of multidimensional and sustainable performance. This study is focusing on stakeholders based management which became a new enterprise management system much more comprehensive and performant than classical management systems, able to valorize the stakeholders potential, through collaborative mechanisms using to a larger scale emotional intelligence. Starting point in the development of the stakeholders based management system is approaching of the enterprise as an ecosystem, very open to the all stakeholders, aiming to generate economic, social and ecologic performances. The study presents the definition of new stakeholders based management system and its specific content, managerial synapse, its main component, main differences between stakeholders based management system and „classical” enterprise management systems, and major advantages and limits of this new system. The article contains certain elements regarding the stakeholders based management system, resulted from an empirical research involving 332 stakeholders in the Romanian enterprises.*

**KEYWORDS:** *enterprise management system, manager-executant relationship, manager-stakeholder relationship, managerial synapse, stakeholders based management.*

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### 1. INTRODUCTION

Edward Freeman has launched in 1984 (Freeman, 1984), the stakeholder strategic approach having, a major influence on the main stakeholders management theory and practice. Today, the placement of the stakeholders in the forefront of the enterprise management represents one of the deepest and most comprehensive mutations, which was fast increasing in the last decades. Harvard University mathematical biologist Martin Nowak (Nowak, 2006) has provided the scientific explanation of this evolution: “Perhaps the most remarkable aspect of the evolution is its ability to generate cooperation in a competitive word”. This we might add “natural cooperation as a third fundamental principle of evolution beside mutation and natural selection”. In our research, we consider the stakeholder as a person, a group of individuals or an organization which has significant interests in the other organization, having a major impact on its activities and performances.

Number and categories of stakeholders is different for every type of organization. For company - the most common organization - the main stakeholders are the followings: owners, managers, employees, clients, suppliers, banks, providers of consulting and training services, administrative bodies, business organizations, local community, concurrent companies and venture capital investors.

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In the last decades within the companies a lot of attention has been given to the clients and suppliers, two of the most important stakeholders. For each of this categories of stakeholders have been developed and there are extensively used specialized management approaches. Customer relationship management (CRM) is the approach used by management of companies for the clients and direct consumers. For the supplier company management has been developed the supply chain management (SCM).

Our researches have demonstrated that company management is dealing with more and more stakeholders and more intensively developing and using many innovative management elements, both from theoretical and pragmatic point of view. This evolution is based on approaching of the company as an ecosystem and more than that - as have been argued recently by Furr et al. (2016) - as "innovational ecosystem".

In this study we present a part of the results (conclusions) of our research regarding the development in the numerous modern companies of a new management system - stakeholders based management or management by stakeholders. The results of the empirical research based on the 332 questionnaires filled out by 136 managers and 186 executives from 89 enterprises, provided us significant arguments regarding existence of certain elements of the stakeholders based management system in the Romanian companies.

## **2. NEW ENTERPRISE MANAGEMENT SYSTEM**

Stakeholders based management consists of all processes and managerial relationships that predict, coordinate, mobilize and evaluate the main stakeholders of an organization, based on intense and participative sharing of information, knowledge and other resources, on common and / or harmonized decisions, actions and behaviors, through it is obtained synergies and added value for the involved stakeholders, increasing the functionality, performance and sustainability of the organization. Stakeholders based management is emerging as a new management system through which valorize in the interest of the organization, the potential of its main stakeholders, using to a large extend emotional intelligence, with beneficial results for all involved.

In our opinion the new stakeholders based management system represents the most comprehensive and effective approach able to manage the collaborative enterprise. Stakeholders based management system is one of the best managerial feed back to collaborative revolution, which is taking place in present times according to the study published by Adler et al. (2011).

The stakeholders based management system mainly aims achieving two goals:

- Achievement of certain common purposes of involved stakeholders categories based on the common and/ or complementary interests. Common objectives vary from one stakeholder category to another - clients, suppliers, executives, shareholders, etc., and often within each category, from one stakeholder to another. The most frequent, they refer to the direct and indirect acquisition of knowledge, human, technical, material and financial resources, to the renewal of products, services, technologies, managerial, marketing, environmental, etc. tools, to maintaining and increasing sales, market shares and profit, to ensure the sustainability of the organizations involved;
- Establishment of a collaborative mechanism, able to facilitate higher level accomplishments, through joint efforts and contributions, of certain important stakeholders needs, arising from major goals of each of them.

At present, stakeholders based management is most intense within large sized, multinational companies. Numerous large sized organizations have been using managerial systems focused on stakeholders for many years, in which the new type of relationships management with key customers and suppliers, with their managers and employees is widespread, intense and effective. Within large companies, the management based on external stakeholders is multi-layered, frequently the management of relations with the main external stakeholders is attributed almost permanent to certain senior or medium level managers.

On a growing scale, stakeholders based management is expanding and in smaller firms. At their level, stakeholders based management frequently has highly personalized and informal content, often focusing only to the main stakeholders - managers, shareholders, executives, customers and suppliers.

Within stakeholders based management, there is a new type of stakeholder-manager relationship, which largely replaces the classical managerial relationship, manager-executant. Managerial relationship, manager-subordinate, is based on hierarchical dependence and organizational membership. On the contrary, the new manager-stakeholder relationship is based on:

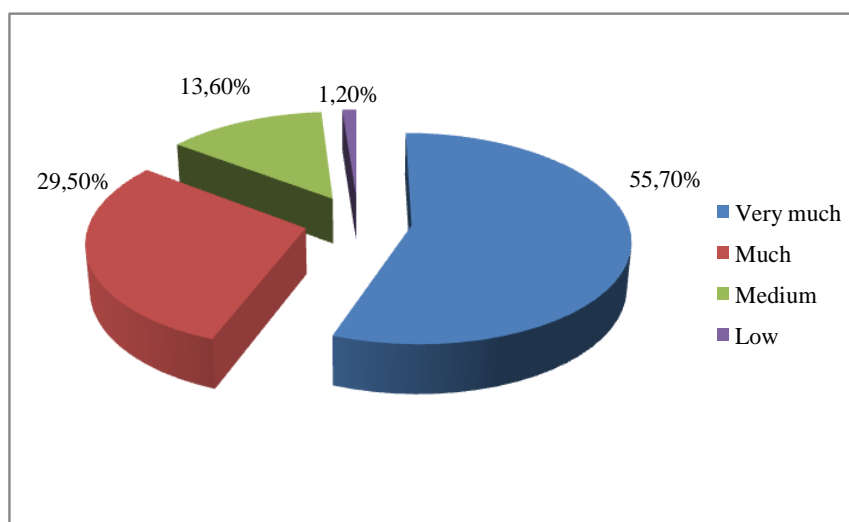
- the interests of each stakeholder in the proper functioning and performance of the organization
- the capacity of the stakeholders to influence significantly - positively and/ or negatively - the activities of the organization;
- the emotional intelligence of stakeholders, which facilitates interrelations among stakeholders and gives them more consistency
- motivating stakeholders to be useful for the organization, contributing to the running of processes and achieving performance on the basis of a win-win relationship

### 3. EMPIRICAL EVIDENCE

Our research has considered three of the four features outlined and as can be seen in figures 1, 2 and 3, they are found at an appreciable level, but of course with different intensities:

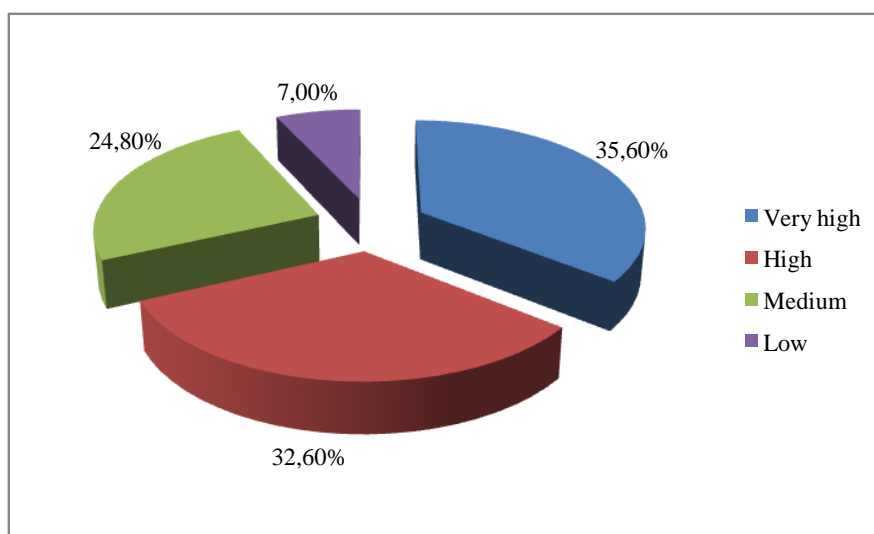
- 85.2% of respondents said they are very much and much interested in maintaining and developing the organization they work in
- 68.2% of the sample components appreciated that their decisions, actions and behaviors have a large and very large influence on the activities and performances of the organization
- 64.8% of the respondents considered that they are motivated to be very high or high to make efforts to develop the organization in which they work

These elements demonstrate the appreciable practice of stakeholder management at the level of two important stakeholder groups - managers and executives. These are, of course, only partial elements of the new stakeholders based management system.



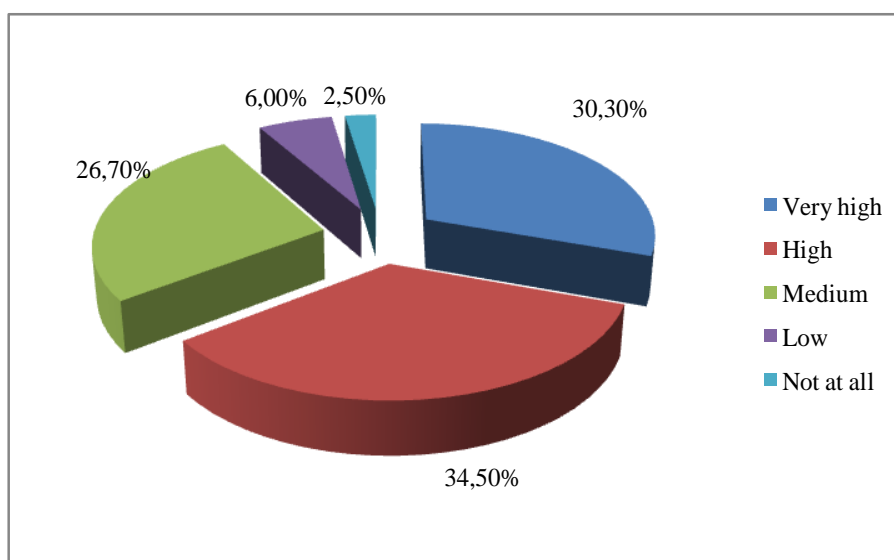
**Figure 1. Intensity of managers and executives' interest in maintaining and developing the organization they work**

*Source: authors*



**Figure 2. Influence intensity of managers and executives' decisions, actions and behaviors on the activities and performances of the organization**

*Source: authors*



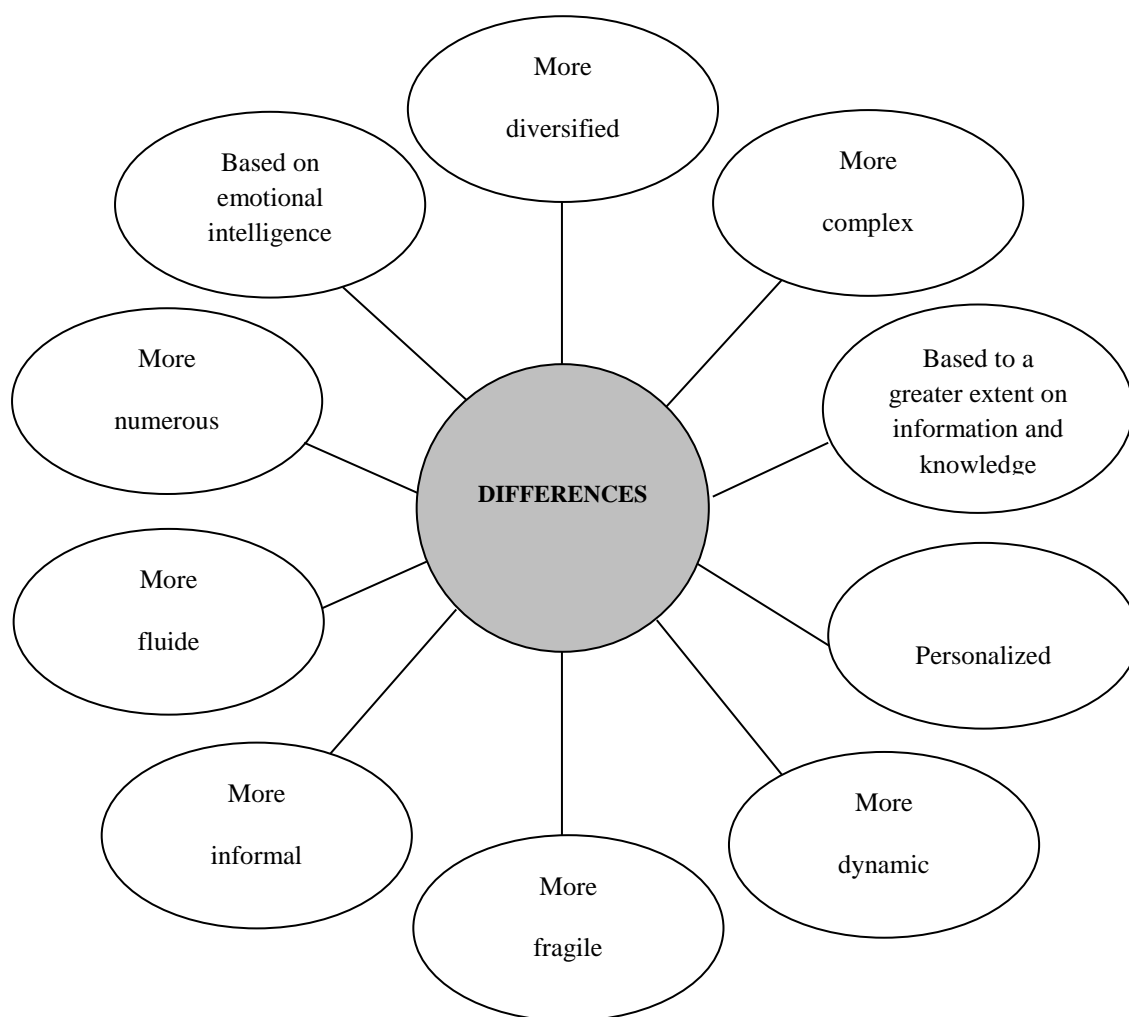
**Figure 3. Motivation intensity of managers and executives to make efforts for developing the organization in which they operate**

*Source: authors*

#### **4. DIFFERENCES BETWEEN THE MANAGER-STAKEHOLDER RELATIONSHIP AND CLASSICAL MANAGER-EXECUTANT RELATIONSHIP**

In the stakeholders based management, the number and variety of endogenous and exogenous variables involved in managerial processes and relationships is much higher compared to classical management. Accordingly, the volume and heterogeneity of information and knowledge used in the stakeholders based management are substantially higher.

The main differences between the managers-stakeholders relations compared to the classical managers-subordinates relationships are summarized in figure 4.



**Figure 4. Main differences between the manager-stakeholder relationship and the manager-subordinate relationship**

*Source: authors*

## 5. MANAGERIAL SYNAPSE

The new manager-stakeholder relationship forms the content of a new management mechanism called by us managerial synapse. Managerial synapse is the primary component of stakeholders based management. The most common management synapses are at the level of the main external stakeholders.

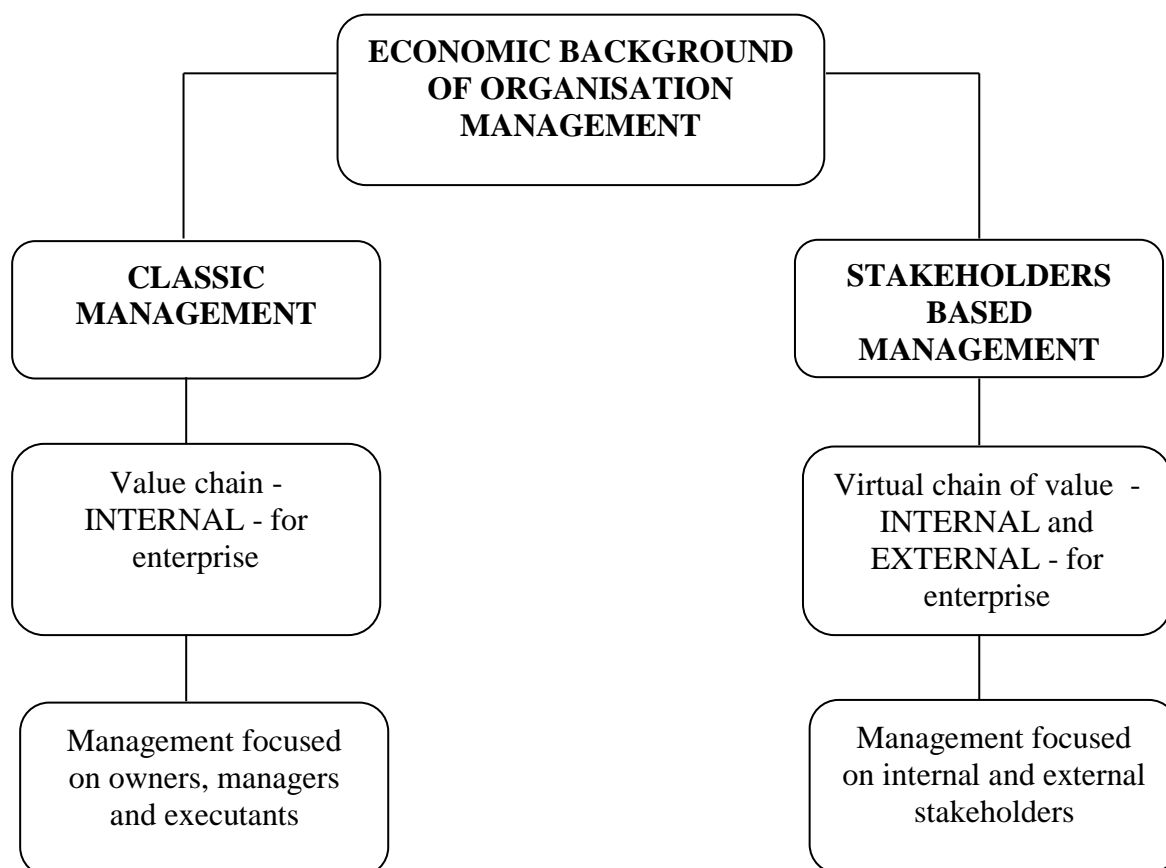
We define the managerial synapse as an elementary managerial mechanism, which involves one manager and one stakeholder, which consists of an intense exchange of information and knowledge, in joint and/ or harmonized decisional, operational and behavioral processes, able to generate superior value added and synergies, satisfying the main interests and objectives of each of them. Managerial synapse is – similar with electrical synapse - a bilateral mechanism. Managerial synapses, taking into account of the organizational membership of the 2 stakeholders, could be separated in 2 categories:

- the endogenous managerial synapse between an organization manager and one person from the same organization
- the exogenous managerial synapse between an organization manager and one outside stakeholder

Managerial synapse is the key component of the stakeholders based management system, its characteristics decisively influencing the organization functionality and performances. For some managerial synapses such as customer relationships or supplier relationships, have been shaped and used for many years specific managerial approaches such as Customer Relationship Management and respectively, Supply Chain Management.

## 6. ECONOMIC, SOCIAL AND ECOLOGIC BACKGROUND OF THE STAKEHOLDERS BASED MANAGEMENT SYSTEM

The economic background of stakeholders based management is the virtual vector of value (Nicolescu & Nicolescu, 2011). As we know, the vector of value means all activities that contribute directly and substantially to generating added value in obtaining products and services bearing of competitive advantage. The virtual value chain based on knowledge- - unlike the classic value chain - goes beyond the organization's upstream and downstream borders, incorporating key customers, suppliers, and so on. As a result, the stakeholders of each company there are economically determined and takes into account the virtual value chain (see figure 5).



**Figure 5. Organization management and value chain**

*Source:* authors

The social and ecological background of management by stakeholders is Corporate Social Responsibility (CSR). Modern organizations, unlike the traditional ones, do not only focus on obtaining profit and economic performance. Modern enterprises, especially those based on knowledge, pay great importance to the human, social and ecological aspects at individual and group level in the organization and in the organization proximity, in its environment. The environment is essential for the company because from there takes its inputs in the form of

employees, information, knowledge, raw materials, equipments, assets, credits, services, etc. Also the organization's outputs - mainly products, services, knowledge, investments, taxes, sponsorships - are designated to the environment. Corporate Social Responsibility represents an essential manifestation of the organization management regarding the reconsideration of the importance of the social and ecological factors and their decisive influence on the company sustainability. The management mechanism able to implement effective and permanent Corporate Social Responsibility is stakeholders based management.

## **7. SPECIFIC CONTENT OF THE NEW ENTERPRISE MANAGEMENT SYSTEM**

The stakeholders based management at the level of the main managerial components (Nicolescu & Verboncu, 2007) of the organization presents specific features (see figure 6). Essentially these consist of the following elements:

(a) The strategic managerial vision of the organization is not only about its own future, it is also shaped according to the vital interests of the main stakeholders, naturally placing the fundamental interests of the entity in the first place;

(b) The strategies and policies of the organization, through its mission, fundamental objectives, strategic options, resources, terms, and competitive advantage, take into account, in addition to its core interests and the major interests of its main outside stakeholders. From this point of view, it can be said that it is an "open" strategy, which makes the connection with the systems represented by the main stakeholders;

(c) Establishment by the organization at the overall level and the main organizational subdivisions, of objectives, tasks, deadlines, etc. which will be fully or partially realized by the stakeholders for the benefit of the parties involved. Naturally, these are jointly predicted with the stakeholders involved, forming the subject of special programs for stakeholder activities, being periodically evaluated and reviewed;

(d) The management system of the organization has multiple ramifications to its external stakeholders, with a strong informational, informal and participative content. Thus, there are realized real managerial bridges between the organization and its external stakeholders, which ensure the continuity and consistency of the harmonization of the main decisions, actions and behaviors in the areas of common interest.

(e) Within the organization management system, new elements are introduced and use at the level of the each five management subsystems. As an example, we mention some of these:

- in the decisional management subsystem, new decision makers are emerging, represented especially by external stakeholders, new decisions are made and new decisional flows are taking place that involve or are intended for new stakeholders, individuals and entities, outside and inside the organization;

- in the organizational managerial subsystem of the organization, are being introduced objectives, tasks, competences and responsibilities at the level of jobs, on the basis of which the relations with the stakeholders are being developed, the organizational relations are established especially regarding the coordination and cooperation with the external stakeholders, a.s.o.;

- in the informational management subsystem, appear new recipients and providers of exogenous information, circuits and information flows with organizational entities and individuals outside of their own organization, files and databases related to the main external and internal stakeholders, etc;

- in methodological - managerial subsystem are used methods and techniques, especially participative, together with the external and internal stakeholders of the organization. Most of these are participative - brainstorming, best practices, delegation, Delphi technique, benchmarking, knowledge audit, expert search technique, etc.;

- in the field of human resources management of the organization, are included some of the external managers and specialists, who are evaluated, motivated, improved, etc. depending on the organization's major interests, goals, and approaches. At the same time, internal human resources management produces substantial qualitative changes in relationships with their own employees, approached and treated in their complexity, based on the win-win principle.



**Figure 6. The specificity main areas of the stakeholders based management**

*Source: authors*

(f) Design and use of specific management guides, methods and techniques focused on capitalizing the advantages of stakeholder relations. Among these are stakeholder analysis (BABOK Guide, 2009), RACI matrix (Doglione, 2016), stakeholders' map (BABOK Guide, 2009), stakeholder circle (Bourne & Walker, 2008), onion diagram (Alexander, 2005) and living lab (Furr et al., 2016).

(g) Developing and practicing a strong leadership centered on information, knowledge and skills that covers all major stakeholders within and outside the organization. It is a participative type of leadership, with many personalized elements, which increasingly determine the organization's achievement of sustainable performance. Background of stakeholders' leadership lays the emotional intelligence of the organization managers, as well as the involved stakeholders. Leadership of stakeholders makes extensive use of identifying and understanding not only of stakeholder motivation but also of identifying, understanding, regulating and using their emotions. (Goleman et al., 2002). This gives more consistency and effectiveness to stakeholder leadership relationships;

(h) Developing a "very open" organizational culture, that addresses to all relevant stakeholders, regardless of organizational membership, as members of the organization. Organizational culture through symbols, norms, behaviors, approaches, etc. develops the attachment of internal and

external stakeholders to the organization and determines more intense and effective participation in its activities. Organizational culture manifests itself as a connector of the organization's stakeholders, as a stimulator for increasing its competitiveness;

(i) The performances of organization are predicted and evaluated by its management in an organic connection with those of the main stakeholders, both internal and external, from the perspective of ensuring the competitiveness and sustainability of own entity. Such an approach ensures that stakeholders' main interests are taken into account and provides a strong motivational content for stakeholders based management.

Undoubtedly, stakeholders based management is characterized by much more elements than what we pointed out. We only summarize these, not only because of the constraints afferent to a publishable management study, but because, in our opinion, they demonstrate with sufficient arguments the specificity and characteristics of stakeholders based management system.

## **8. MAIN DIFFERENCES BETWEEN STAKEHOLDERS BASED MANAGEMENT SYSTEM AND „CLASSICAL” ENTERPRISE MANAGEMENT SYSTEMS**

For better understanding of the content and specificity of stakeholders based management system, we find it useful to point out the main elements that distinguish itself from classical management systems. According to our analysis, the most important differences refer to the issues presented below.

(a) The areas of stakeholders based management are substantially amplified by the individuals, processes, relationships, and organizational entities that previously did not form the subject of the organization management or were tangential related to it random only;

(b) The stakeholders based management goes beyond the frame of entity, taking into account its increasingly number and importance of external stakeholders - which is reflected in certain different parameters, approaches, processes, mechanisms, methods, etc. as against those used in the organization's endogenous framing;

(c) The information and knowledge generate considerably higher impact on the content and modalities of stakeholders management processes, providing them more consistency, complexity and effectiveness;

(d) The personal characteristics of the stakeholders - qualities, knowledge, competencies and especially emotional intelligence, fairness, sense of responsibility, ability to communicate, desire and capacity to collaborate, team spirit, long term vision, etc - have a major influence, often decisively, on the content, ways of operationalization and the effects generated by the managers - stakeholder relations;

(e) In the stakeholders based management, the informal elements are more numerous and condition to a greater extent the effectiveness of managers' decisions, actions and behaviors;

(f) The strong motivational dimension of stakeholders based management, because all stakeholders have significant interests in the functioning, development and competitiveness of the managed organization, whose awareness, consideration and fulfillment is decisive in order to achieve organization sustainable performances;

(g) The participative dimension of stakeholders based management is substantially amplified because it produces intensely interacting not only with its own employees, shareholders and other owners representatives, but also with many other outside stakeholders - consumers, wholesalers and retailers, suppliers, consultants, designers, researchers, trainers, risk investors, representatives of banks, local government, employers' and professional organizations etc.;

(h) The stakeholders based management is a tense management, because at the level of each organization the stakeholders, besides the common interests, have other interests, to whose achievement must be allocated, time, skills, resources, etc. which are always limited. In addition, in the case of certain stakeholders - usually one belonging to the organization and another being

external - they may also have competing interests, even if they are less intense than the common ones, on the basis of which the stakeholder relationship is built;

(i) Managerial flexibility is intensifying as a precondition for harmonizing a significantly larger and more diverse set of interests, expectations, decisions, actions and behaviors of organization stakeholders;

(j) The design and work out of managerial relationships with stakeholders, based on the win-win principle, which characterize the successful modern negotiations, is rapidly expanding and tend to predominate not only in the organization's relations with external stakeholders, but also with the internal ones. Win-win negotiation is likely to contribute substantially to balancing and harmonizing the common and particular interests of all stakeholders involved;

(k) Protecting the major interests of the organization in its relations with its stakeholders, especially with the external ones, becomes a major component of the managerial relationships with them, embracing complex and subtle ways of expression, only rarely met in classical management;

(l) More extensive, faster and more accurate informing of managers on a broader range of endogenous and exogenous aspects of the organization, becomes a conditional requirement for ensuring the effectiveness and efficiency of managerial processes and relationships with stakeholders. In order to achieve this, on large-scale and intensive are used information and knowledge banks, participative approaches and integrated informatics systems;

(m) The complexity, dynamism and difficulty of managerial processes and relationships are greatly amplified, being substantially more demanding for the organization's managers, involving more and diversified resources, more creative managerial approaches, superior efforts and skills;

(n) Organizational leadership has within stakeholders based management a much greater importance and, partially changed content, compared to classical leadership, as it has to compensate the absence of hierarchical dependence on the relationship of the organization's managers with its exogenous stakeholders, and secondly to lead knowledge based specialists, characterized by greater spirit of initiative, creativity and autonomy;

(o) Stakeholders based management has a systemic character associated, superior to classical management, due to the organization's approach as an open system, organic linked to many other independent systems, afferent to the external stakeholders, with which they are in relevant interdependence relations;

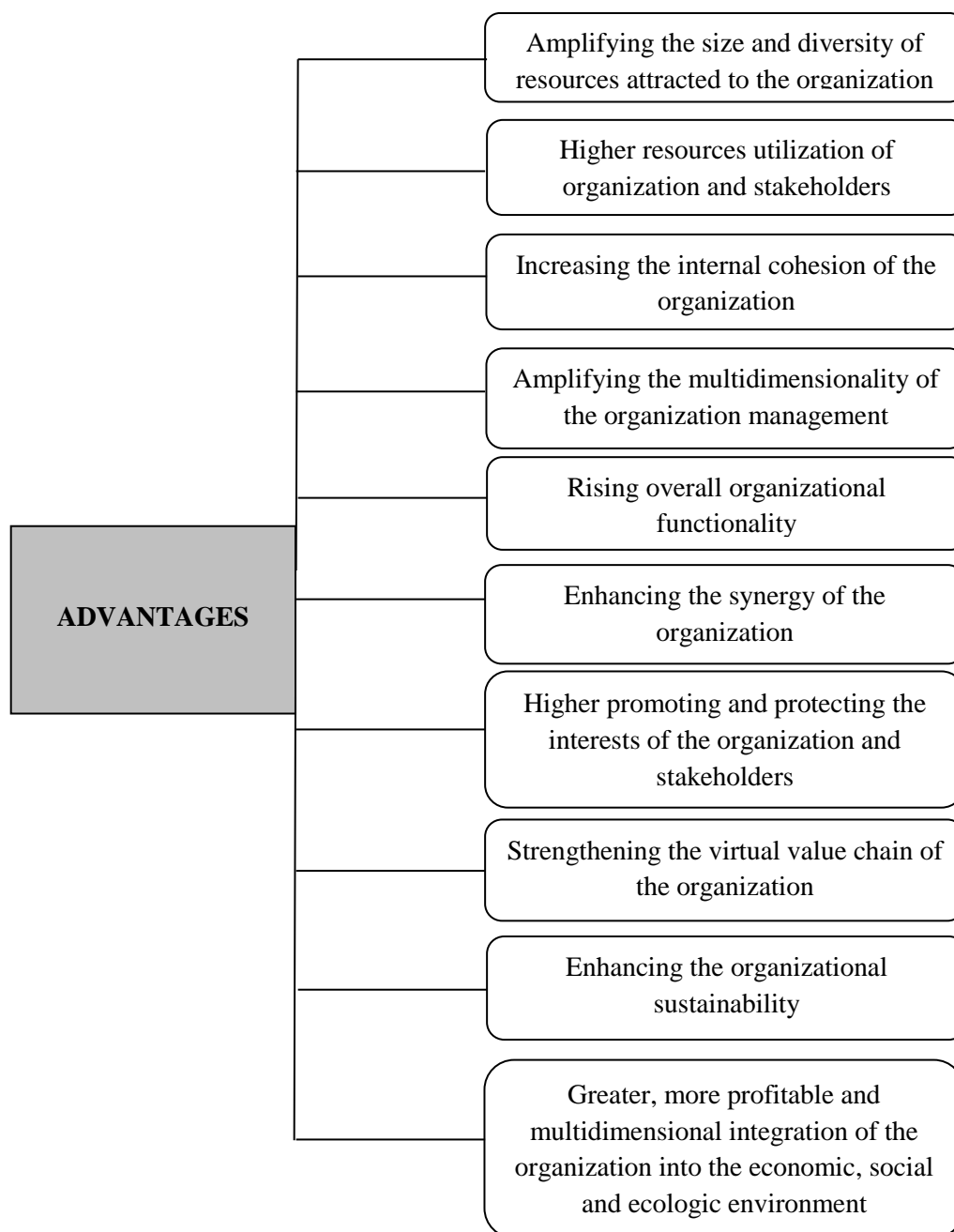
(p) The synergistic long-term effect of stakeholders based management is to strengthen the sustainability of the organization, due to the contribution of managed stakeholders and the blending of their strategic interests with the strategic interests of the organization.

As a whole, the many highlighted differences demonstrate the large specificity and complexity of stakeholders based management compared to classical management and contribute to its better perception, understanding and operationalization.

## **9. CONCLUSIONS: RELEVANT ADVANTAGES AND LIMITS**

Stakeholders management system responds to a large extent to the 25 management's great challenges formulated by the „renegade brigade” of academics, CEOs, consultants, entrepreneurs, and venture capitalists in 2009 (Hamel, 2009). Among these we mention the followings: ensure that the work of management serves a higher purpose, reduce fear and increase trust, expand and exploit diversity, expand scope of employee autonomy, share the work of setting direction, redefine the work of leadership, reinvent strategy making as an emergent process, retool management for open world, destructure and disaggregate the organization.

In figure 7 we formulate synthetically in a more pragmatic manner the main advantages of the stakeholders management system, its multiple beneficial effects on the organization and its stakeholders.



**Figure 7. Main advantages of stakeholders based management**

*Source:* authors

Beside of numerous and consistent advantages, stakeholders based management has several limits:

- the dependence of its operation and performances on a very large and heterogeneous number of stakeholders, some of which are located and activate outside the organization;
- the high complexity of the management system, generated by many and very different stakeholders, with multiple interests and, not rarely, even contradictory;
- major difficulties in implementing stakeholders management due to the many and the diversity of variables involved;
- the relatively long duration of full implementation of the stakeholders based management system, explained through the previous three limits;

- higher building and operationalization costs of the system, due to the larger scope, represented by all stakeholders and the need to consider and meet the interests of numerous stakeholders, many of them with great impact on the organization.

The advantages of stakeholders based management prevail over its limits, reflected by the substantial gain of functionality, competitiveness and sustainability, which explains its wide and rapid proliferation over the past decade, in the many organizations.

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