

STAKEHOLDER SALIENCE THEORY IN MANAGEMENT OF SMALL AND MEDIUM ENTERPRISES

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Abstract

The stakeholder theory is becoming very important part of the management of all profit as well as non-profit organizations. With the growing competition the understanding and managing of key stakeholder groups that are able to influence the company and the company is able to influence these stakeholder groups has become very important part of management for all business entities. This article focuses on the application of the stakeholder salience theory in the management of small and medium enterprises. The stakeholder salience theory answers the question, which stakeholder groups are the most important stakeholder groups for the company. The aim of this article is to reveal the most important stakeholder groups for small and medium enterprises in the Czech Republic with respect to the stakeholder salience theory. The initial list of stakeholder groups for the author's research was identified based on the literature search of relevant foreign research papers. Stakeholder salience theory divides all stakeholders in to the groups of latent, definitive and expectant stakeholders based on the following important attributes – power, legitimacy and urgency and their combination.

Key words: stakeholder, stakeholder salience theory, latent stakeholders, expectant stakeholders, definitive stakeholders

JEL Code: M14, M19

Introduction

Small and medium enterprises (SMEs) represents the backbone of the economy of European economy. SMEs employed 67 % of total number of employees in the EU-28 non-financial sector. More than 90 % of all SMEs are micro SMEs with less than 10 employees. Despite the unfavourable fact that SMEs suffered considerable problems during the global economic crisis, European SMEs continue to recover from the global economic crisis and generate 57 % of value added in the EU-28 non-financial sector (European Union, 2017).

The same is true in the Czech economy, where 98 % of business entities operating in the Czech market are SMEs. The competition at the SMEs market is strong and SMEs has to search for specific competitive advantages to help them succeed in this tough competitive struggle.

Identification of key customers and understanding of their needs and wants is a necessity of successful marketing strategy. Customers, however, are not the only group that is necessary for a successful business. All companies have to deal with stakeholder community including different stakeholders – individuals, as well as groups. Stakeholder management and theory promotes an effective, practical and ethical way to manage business in the business turbulent environment (Harrison, Wicks, 2013). This article focus on stakeholder salience theory developed by R. K. Mitchell. Stakeholder salience theory has become quite prominent in management at the turn of the millennium. Entrepreneurs have to take into account the legitimate interest of key stakeholder groups (Winkler 2009). Stakeholder salience theory suggests that stakeholders should be identified by applying specific sorting criteria – power, legitimacy, urgency. Mitchell applied his stakeholder salience theory in different fields for example family firms, that incorporate business and the family system (Mitchel et al. 2011). Author will focus on the application of stakeholder salience theory in management of SMEs. Author choose the application of stakeholder salience in management of SMEs for these three reasons. First, SMEs represents the backbone of the European economy with strong competitive market. Second, stakeholder salience theory serves to identify which stakeholder groups really counts in the organisation. Third, any business could not be successful without prioritisation of stakeholder groups to find out which stakeholders matter most.

1 Stakeholder salience theory

The first definition of stakeholders states “stakeholder is any group or individual who can affect or is affected by the achievement of an organization’s purpose” (Freeman, 2010, p. 53). This definition offers very wide scope of possibilities as to who is a stakeholder. Mitchell therefore suggests identifying stakeholders by applying specific sorting criteria (Agle, Mitchell, Sonnenfeld, 1999). Stakeholder salience theory developed by Mitchell represents a tool for both the prioritization and identification of stakeholder groups and claims of the stakeholder groups (Majoch, Hoepner, Hebb, 2017). This theory tries to understand the stakeholder community based on the application of three main criteria – power, legitimacy, urgency (Mitchell, Agle, Wood, 1998). Stakeholder salience thus can be defined as a “the degree to which managers give priority to competing stakeholder claim” (Mitchell, Agle, Chrisman & Spence 2011, 235).

1.1 Attributes of the stakeholder salience theory

Power, urgency and legitimacy are independent attributes within the stakeholder salience theory that are used to define the relationship between organisation and these stakeholder groups (Winkler 2009).

Power represents “the probability that one actor within a social relationship would be in a position to carry out his own will despite resistance” or “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done” (Mitchell, Agle, Wood, 1998, p. 865). The power is the ability of the individual or stakeholder group to influence the survival of the company based on the access to specific resources or on the ownership. The level of the ability of the stakeholder to influence the company is based on the relevance of the resources to the company and the amount of the resources controlled by the stakeholder (Winkler 2009).

Legitimacy represents a level of legitimacy of the stakeholder's claims. Stakeholder groups can have legitimate claim on the company. The core of legitimacy is a risk, moral claims, or property rights (Agle, Mitchell, Sonnenfeld 1999). Legitimacy can be defined as “a socially accepted and expected structures or behaviours” (Winkler 2009, p. 5).

Urgency represents “a degree to which stakeholder claims call for immediate attention” (Mitchell, Agle, Wood, 1998, p. 867). Urgency can be defined as “a multidimensional construct that includes both: (1) time sensitivity—the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder, and (2) criticality—the importance of the claim or the relationship to the stakeholder” (Mitchell, Agle, Chrisman & Spence, 2011, p. 240). Urgency then represents the urgency of the stakeholder's requirements towards the given organisation (Currie, Seaton, Wesley 2009), or the degree to which the claim of stakeholder is perceived by the organisation’s management as prompt for immediate attention (Mikalsen, Jentoft, 2001). Therefore the urgency could be the most important and crucial factor in achieving the maximum stakeholder salience (Majoch, Hoepner, Hebb, 2017).

Legitimacy, urgency and power are thus defined as a key attributes that affect stakeholder salience. Power of the stakeholder to influence organisation’s behaviour, whether or not the stakeholder has a legitimate claim, organisation must take into account (Agle, Mitchell, Sonnenfeld 1999). The more the stakeholder group possesses these three attributes, the higher the salience of this stakeholder group (Winkler 2009).

1.2 Stakeholder typology in stakeholder salience theory

Classes of stakeholder groups in the stakeholder salience theory result from combinations of main attributes of stakeholder salience theory - power, urgency, legitimacy. Based on this aspect stakeholder groups are classified into three main groups and several subgroups. There are three main stakeholder groups identified in the stakeholder salience theory - latent stakeholders, expectant stakeholders, definitive stakeholders. Latent stakeholders are stakeholders who possess only one attribute. Stakeholders with two attributes are expectant stakeholder and

stakeholders with all attributes are definitive stakeholders. Individuals or groups without any of the attribute of stakeholders salience theory are not considered as stakeholders within this theory and that means that these groups or individuals will have no salience. Stakeholder ability to influence the company depends upon the type and number of attributes. Needs of latent, expectant and definitive stakeholders are different (Currie, Seaton, Wesley, 2009).

Hence the latent stakeholder groups possess only one of the key attributes, latent stakeholders are not important for managers, who mustn't recognize the existence of these stakeholder groups. Stakeholder salience of these stakeholder groups is low. Latent stakeholders are divided into three sub categories - dormant stakeholders, demanding stakeholders, discretionary stakeholders (Mitchell, Agle, Wood, 1998). While dormant stakeholder groups holding the attribute power, these stakeholder groups lack urgency and legitimacy (Currie, Seaton, Wesley, 2009). In spite of the fact that relevant attribute of this stakeholder group is power, this attribute is very often used insufficiently. These stakeholders possess the attribute power to impose will on the organisation, but this stakeholder groups does not have an urgent claim or legitimate relationship. These stakeholder groups have no or limited interaction with the organisation. However, these stakeholders could have potential to acquire another attribute and become salient. (Mitchell, Agle, Wood, 1998).

The group of discretionary stakeholders holding no urgency or power to influence the company (Currie, Seaton, Wesley, 2009). The group of discretionary stakeholders possess only the attribute of legitimacy and therefore these stakeholders are especially interesting stakeholder for corporate social responsibility of the company. Nevertheless, no all recipients of corporate social responsibility belongs to the group of discretionary stakeholders. The crucial point regarding these stakeholders is that there is no pressure to engage any active relationship with these stakeholder groups because of the absent of any urgent claims, or power (Mitchell, Agle, Wood, 1998).

The last group of latent stakeholders are demanding stakeholders. Demanding stakeholders possess as the only attribute – urgency, therefore these stakeholder groups are demanding stakeholder groups. These stakeholders could be troublesome but not dangerous to the company (Mitchell, Agle, Wood, 1998). Although demanding stakeholders do not have the legitimacy or power to influence company (Currie, Seaton, Wesley, 2009). Expectant stakeholder groups include dependent, dominant, and dangerous stakeholders. These stakeholder groups possess two attributes of the stakeholder salience theory (Mitchell, Agle, Wood, 1998). Groups of dependent stakeholders are those stakeholders without any power to carry out their legitimate claims toward company. These stakeholder groups use another stakeholders possess power to

influence the company to assert their claims toward the company (Currie, Seaton, Wesley, 2009). The group of dangerous stakeholders do not possess the legitimacy but has the urgency and power to influence company (Currie, Seaton, Wesley, 2009). Since these stakeholders lack legitimacy, they could be possibly violent and therefore dangerous. These stakeholder groups can you strikes or sabotage to assert their claims (Mitchell, Agle, Wood, 1998).

Dominant stakeholder groups “have legitimate claims and the ability to act upon their claims by the power “(Currie, Seaton, Wesley, 2009, p.49). The influence in the company of this stakeholder groups is assured since, since these stakeholder groups are both legitimate and powerful. These stakeholders have the ability to act on their urgent claims and therefore are important for stakeholder management of the company (Mitchell, Agle, Wood, 1998).

All three attributes belong to the definitive stakeholder groups. Stakeholder groups possess both legitimacy and power are considered as a members of the company dominant coalition, but the most important stakeholders are definitive stakeholders (Mitchell, Agle, Wood, 1998). Definitive stakeholders represent stakeholder groups that are able to influence the company in the immediate future (Currie, Seaton, Wesley, 2009).

Managers have to take into account that any expectant stakeholder or stakeholder groups is able to become a definitive stakeholder group by acquiring the last missing attribute (Mitchell, Agle, Wood, 1998).

The following table summarise the main groups and subgroups of stakeholders based on the stakeholders typology in the Mitchell’s stakeholders salience theory.

Tab. 1: Stakeholder typology based on the stakeholders salience theory

Stakeholder group	Stakeholder subgroup	Level of significance	Power	Legitimacy	Urgency
Latent stakeholder groups	Dormant	Low level of significance	✓		
	Discretionary			✓	
	Demanding				✓
Expectant stakeholder groups	Dominant	Middle level of significance	✓	✓	
	Dangerous		✓		✓
	Dependent	Active stakeholder groups		✓	✓
Definitive stakeholder groups		High level of significance	✓	✓	✓

Source: author’s processing based on Mitchell, Agle, Wood, 1998, Currie, Seaton, Wesley, 2009

2 Author’s research

Author’s research focus on many aspects of stakeholder theory including stakeholder analysis, prioritisation, mapping, stakeholder salience theory and stakeholder circle methodology. In this section author will focus on the classification of the stakeholder groups of SMEs based on the Stakeholder salience theory. For this purpose author use the quantitative research methods. As

a main research method author used a questionnaire that was compiled on the aim of the author's research and basis of literature review concerning stakeholder analysis and stakeholder salience theory. In total, 350 questionnaires were obtained from SMEs. 38 were rejected due to the incomplete answers of respondents. The structure of the respondents follows.

Tab. 2: Structure of the respondents

Category	Number of employees	Annual turnover	Absolute frequency	Relative frequency (in %)
Micro	<10	≤ € 2 million	96	31
Small	10-49	≤ € 10 million	178	57
Medium	50-249	≤ € 50 million	38	12

Source: European Union, 2017, author's research

As the first step for the author's research, it was necessary to compile the initial list of stakeholders based on the literature search. The initial list of key stakeholder groups for SMEs compiled based on the literature search follows (Freeman, 2010, Ackermann, Eden 2011, Buysse, Verbeke, 2003):

- Banks, competitors, consultancy firms, customers, education institutions, employees, government, local communities, management, media, owners, suppliers, transporters.

This initial list of stakeholders was used as the basis of questionnaire. There was an option others in the questionnaire, where the respondents could fill in any other stakeholder groups they considered important. This option has not been used by any of the companies addressed.

For the purpose of author's research, respondents were asked to:

- identify key stakeholder groups for their organisation,
- prioritise the stakeholder groups,
- assign the attributes power, urgency and legitimacy to key stakeholder groups.

Based on the assigned attributes, author carried out the categorisation of the key stakeholder groups of SMEs by the stakeholder salience theory.

The author will use the chi-square test to analyse if there is a significant difference in answers among micro, small and medium enterprises. Chi-square test formula follows.

$$\chi^2 = \sum_{i=1}^k \frac{(X_i - Np_i)^2}{Np_i}$$

The author established the following null and alternative hypothesis:

H0: The priority assigned to the stakeholder group is independent on the category of business.

H1: The priority assigned to the stakeholder group is not independent on the category of business.

2.1 Results and discussion

This section summarized and analysed the results of the author's research. In the first part of the survey, respondents should identify the stakeholder groups, which they consider as important for their management. In the next step, the respondents assigned priority to identified stakeholder groups. The results are presented in the following table.

Tab. 2: Identification of stakeholder groups

Stakeholder group	Micro companies				Small companies				Medium companies			
	Absolute frequency	%	Priority	Std. deviation for priority	Absolute frequency	%	Priority	Std. deviation for priority	Absolute frequency	%	Priority	Std. deviation for priority
Banks	25.00	26.04	5	0.98	38.00	21.35	6	1.10	4.00	10.53	6	1.10
Competitors	58.00	60.42	3	0.90	125.00	70.22	3	0.79	30.00	78.95	3	0.82
Consultancy firms	12.00	12.50	12	1.50	29.00	16.29	12	1.02	4.00	10.53	12	1.60
Customers	90.00	93.75	1	0.52	176.00	98.88	1	0.57	37.00	97.37	1	0.61
Education institutions	19.00	19.79	11	1.92	65.00	36.52	11	1.12	12.00	31.58	11	1.61
Employees	65.00	67.71	2	1.86	145.00	81.46	2	2.01	30.00	78.95	2	1.92
Government	20.00	20.83	6	0.64	40.00	22.47	5	0.72	9.00	23.68	5	1.01
Local communities	12.00	12.50	13	1.01	21.00	11.80	14	1.26	9.00	23.68	14	1.13
Management	15.00	15.63	10	1.54	30.00	16.85	10	1.32	18.00	47.37	10	1.13
Media	31.00	32.29	9	1.01	98.00	55.06	9	0.71	21.00	55.26	9	0.69
Owners	3.00	3.13	7	0.71	12.00	6.74	7	0.62	3.00	7.89	7	0.57
Suppliers	47.00	48.96	4	2.13	100.00	56.18	4	1.83	21.00	55.26	4	1.58
Transporters	27.00	28.13	8	2.23	53.00	29.78	8	2.05	13.00	34.21	9	1.83

Source: author's research

All stakeholder groups were chosen by at least several respondents belonging to SMEs. Contrary to author's expectation (100%), only 97 % of all respondents selected customers. The most likely reason is that some respondents belongs (according to the NACE classification) to the public sector categories. Therefore, these stakeholder groups do not consider customers as an important stakeholder group. Although, for example researches of Varvasovszky (2000) shows that customers are important for public sector or non-profit organisation, too. The most important groups for all respondents (micro, small as well as medium-sized enterprise) follows:

- customers – priority 1, employees – priority 2, competitors – priority 3, suppliers – priority 4.

For most of respondents the stakeholder group with priority 5 is government, followed by banks, owners, transporters, media, management, educational institutions, consultancy firms, and local communities in this other. The smallest standard deviation in the priority was

calculated for customers and owners. On the contrary the highest standard deviation in the priority was calculated for transporters and suppliers, some of the respondents assigned much higher priority to these stakeholder groups than others. It is clear that the importance of these stakeholder groups depends on the type of product offered by the company.

The author tested following hypothesis

H0: The priority assigned to the stakeholder group is independent on the category of business.

H1: The priority assigned to the stakeholder group is not independent on the category of business.

Tab. 2: Results of the chi-squared test

Chi-squared test	df	p-value
0.35	24	1.000

Source: author's research

The statistical chi-squared test determine whether to reject the stated hypothesis. Since the P-value is greater than 0.10, author cannot reject the hypothesis that rows and columns are independent. And the priority assigned by the SMEs to the stakeholder groups is not independent of the category of SMEs.

In the following part of the author's questionnaire, respondents were asked to evaluate the basic attributes of the Mitchell's stakeholder salience theory – power, legitimacy and urgency.

Tab. 3: Attributes of the Mitchell's stakeholder salience theory

Stakeholder group	Micro companies			Small companies			Medium companies		
	Power	Legitimacy	Urgency	Power	Legitimacy	Urgency	Power	Legitimacy	Urgency
Banks	✓		✓	✓	✓	✓	✓		✓
Competitors	✓		✓	✓		✓	✓		✓
Consultancy firms		✓			✓			✓	
Customers	✓	✓	✓	✓	✓	✓	✓	✓	✓
Education institutions		✓			✓			✓	
Employees	✓	✓	✓	✓	✓	✓	✓	✓	✓
Government	✓		✓	✓		✓	✓		✓
Local communities	✓		✓			✓			✓
Management	✓	✓		✓	✓	✓	✓	✓	✓
Media	✓			✓			✓		
Owners	✓	✓	✓	✓	✓	✓	✓	✓	✓
Suppliers	✓		✓	✓		✓	✓		✓
Transporters	✓		✓	✓		✓	✓		✓

Source: author's research

As we can see from table 3, the answers of all categories of SMEs are very similar, therefore the classification of the stakeholder groups for SMEs will not be divided based on the SMEs categories.

The chi-squared test proved that attributes of the Mitchell's stakeholder salience theory assigned by SMEs are independent on the category of the enterprise.

The most of the stakeholder groups dispose of two or three attributes of stakeholder salience theory. That means that these stakeholder groups dispose middle or high level of significance, these stakeholders are active and they are or they could be dangerous for the company. The detail classification of stakeholder groups of SMEs based on the Mitchell's stakeholder salience theory follows in the next table.

Tab. 4: Stakeholder groups of SMEs based on the Mitchell's stakeholder salience theory

Stakeholder group	Stakeholder subgroup	Level of significance	Identified stakeholder groups of SMEs
Latent stakeholder groups	Dormant	Low level of significance	
	Discretionary		Consultancy firms, educational institutions
	Demanding		Local community
Expectant stakeholder groups	Dominant	Middle level of significance Active stakeholder groups	
	Dangerous		Government, competitors, suppliers, transporters, banks
	Dependent		
Definitive stakeholder groups		High level of significance	Customers, employees, management, owners

Source: author's research

Based on the author's research we can say that the most of the key stakeholder groups belongs to the dangerous stakeholders (subgroup of expectant stakeholders) and definitive stakeholders. None of the identified stakeholder groups belongs to the groups of dormant and demanding stakeholders (subgroups of latent stakeholders) as well as dominant and dependent stakeholders (subgroup of expectant stakeholders). SMEs should give a particular attention to dangerous stakeholders - government, competitors, suppliers, transporters and banks. Dangerous stakeholders hold two attributes – power and urgency. This stakeholder group is considered as dangerous stakeholder group even though it does not have an explicitly legitimate relationship with a company but has the power to enforce its own urgent demands. This stakeholder group often uses pressure to enforce its claims and seeks various benefits to enforce claims through the power that this stakeholder group has. Therefore this stakeholder group is considered as dangerous. The most significant stakeholder groups with all three attributes are customers, employees, management, owners.

Conclusion

Based on the research, it can be stated that the key stakeholder groups of SMEs with highest priority are - customers, employees, competitors, suppliers, government, banks, owners, transporters, media, management, educational institutions, consultancy firms, and local

communities in this other. Government, competitors, suppliers, transporters and banks have two characteristics, namely power and urgency. These groups of stakeholders do not have any form of direct relationship with the SMEs, although they may be dangerous to the organization, because they can use power to enforce its demands. Therefore sufficient attention should be given to these. The most critical stakeholder groups of SMEs are customers, employees, management, owners belonging to the definitive stakeholders. Mainly these stakeholder groups should be involved to the strategic decision of management of SMEs, they should be analysed and observed very carefully. Management of SMEs should monitor the development of these stakeholder groups regularly. Especially in the case of dangerous stakeholders the monitoring should be done regularly. This stakeholder group has a potential to become definitive stakeholder group.

Statistical tests proved that attributes of the Mitchell's stakeholder salience theory assigned by SMEs are independent on the category of the enterprise, but the priority assigned by the SMEs to the stakeholder groups is not independent of the category of SMEs.

The following author's research will focus on the relationship between assigned priority and attributes of the stakeholder salience theory – power, legitimacy, urgency and the development of the stakeholder groups at the selected organisation through time.

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