- Challenging historic assumptions about your dependence on others when situations have changed?
4 Build collaborative relationships with others and:
   - Identify new ways in which you could help target others?
   - Communicate your needs with those others you can trust in order to encourage them to provide the resources you require?
   - Enlist the help of others to influence third parties inaccessible to you?
5 Use all the above to negotiate advantageous agreements with others?

Stakeholders

Leaders need to be able to identify those stakeholders who can influence the outcome of the change. Freeman (1984) defines a stakeholder as any individual or group who can affect or is affected by the achievement of the organization's objectives. In the context of evaluating corporate performance, Clarkson (1995) widened the traditional definition to include the government and the communities that provide infrastructure and markets – whose laws must be obeyed, and to whom taxes and other obligations may be due – as well as traditional stakeholder groups such as employees, shareholders, investors, customers and suppliers. Stakeholders other than employees can exercise considerable influence over the outcome of many change initiatives, but often the success of a project is highly dependent on support from other organizational members. Several examples illustrate this point.

IV

McNulty and Ferlie (2002) attribute the lack of success of a project to change the care process for patients in the accident and emergency (A&E) department of a large UK hospital to the change agent's failure to generate sufficient support for the change from senior doctors and nurses. Clinical staff viewed the attempt to introduce change as interference from 'outside' by people who lacked adequate experience and understanding of the department's work. They were suspicious of the change agent's objectives, and believed that the project failed to address the core problems of the department and was more concerned with achieving cost savings rather than improving services provided to patients. McNulty and Ferlie also report that A&E doctors viewed the process-based philosophy behind the initiative as a threat to the established function of the A&E department, in the broader context of the hospital, and doctors' roles within the department.

In a large manufacturing company, a change was blocked by a senior manager who was not immediately involved in any of the departments directly affected by the change but who was pursuing a separate agenda that was inconsistent with the proposed change. The proposal was to drive down costs by centralizing procurement in order to gain economies of scale. It had many supporters but the senior manager who opposed it did so because he favoured the company adopting a more decentralized structure.

While internal stakeholders can exercise considerable influence, external stakeholders can also be important. Local residents in a UK city were offended – to the point of rioting in the streets – when a large leisure company decided to rebrand its bingo halls as 'Mecca Bingo'. The problem arose because the company failed to recognize the impact of demographic changes, which resulted in many of its bingo halls being located in neighbourhoods with predominantly Islamic populations.

Another example involved the Bank of Scotland when some customers, including West Lothian Council with a £250 million account, threatened to close their accounts in protest at the bank's proposed joint business venture with US evangelist Pat Robertson. Customers were unhappy with the proposal after he proclaimed that Scotland was a 'dark land' and a stronghold of homosexuality. These examples illustrate the point that it is not always easy to identify all the individuals and groups who may be affected by a change or who have the power to influence the outcome of the change.

Which stakeholders should be taken into account by those leading change?

Jones and Wicks (1999) identify two divergent approaches to stakeholder management: normative (also referred to as ethical) and instrumental.

Ethics-based theories

According to ethics-based theories, the interests of all stakeholders have intrinsic value and should be taken into account when formulating strategy and planning and implementing change. Berman et al. (1999) note that ethics-based theories hold that many stakeholder claims are based on fundamental moral principles unrelated to stakeholders' instrumental value to the organization. Those who subscribe to normative theories argue that moral commitments should provide the basis for managing stakeholder relationships rather than the desire to use stakeholders to promote managerial interests.

While pressures from investors and analysts might make it difficult for managers to address the concerns of all stakeholders, because investors may fail to see any connection between 'doing good' and financial performance, adopting an ethics-based approach can make business sense over the longer term. Fombrun et al. (2000, p. 90) assert that:

> Sustained corporate citizenship creates reputational capital and so provides a platform from which other opportunities may spring. The supportive social relationships that a company builds through its citizenship programmes today put it in a more favourable position to take advantage of opportunities that emerge tomorrow. In contrast, companies that fail to invest in corporate citizenship today may lack the relationships and reputational capital that they need to exploit emerging opportunities tomorrow.

Reputational capital

While there may not be any clear and immediate correlation between corporate *social* performance and corporate *financial* performance, Fombrun et al. (2000) argue that by 'doing good' and addressing the concerns of a wide range of stakeholder groups, it is possible for organizations to generate reputational gains that will improve their ability to attract resources, enhance performance and build competitive advantage. For example:

- committed employees can help to build reputational capital when they convey the merits of the company to customers, friends and neighbours
- satisfied customers can promote a positive image of the company

- activist groups are more likely to endorse organizations that promote safe working practices, pollution prevention, philanthropy and equal employment opportunities
- the media is more likely to feature positive stories about organizations that are seen to be behaving in a socially responsible way
- joint venture partners will be more inclined to collaborate with companies that are viewed as good corporate citizens.

Ignoring stakeholder interests, either through carelessness or in order to improve the bottom line, can seriously damage the organization's reputation and undermine long-term success. For example:

- Delta Airlines ended its strategic alliance with Korean Airlines after it was cited for safety violations.
- Primark, the Irish clothing retailer operating in eight countries across Europe, began to pressurize its suppliers to improve safety after hundreds of workers died following the collapse of a factory in Bangladesh.
- When News International was accused of phone hacking, police bribery and exercising improper influence in the pursuit of attention-grabbing stories, public pressure and advertiser boycotts led to the closure of *The News of the World* in 2011, one of the company's leading titles, and News Corporation (News International's parent company) was forced to abandon its bid to take over BSkyB.
- In the banking sector, attempts to inflate or deflate interest rates and manipulate LIBOR (the London Interbank Offered Rate) in order to profit from trades led to criminal investigations, massive fines and the dismissal of senior bankers. In 2013, regulators in more than 10 countries were investigating the rigging of LIBOR and other interest rates and there was speculation that the cost of litigation, penalties and loss of confidence could drive down finance industry profits for years to come.

IV

Instrumental theories

The basic premise of instrumental theories of stakeholder management is that managers will only attend to the interests of stakeholders to the extent that those stakeholders can affect their interests. They posit that managers are selective in who they attend to and are not motivated by a concern for the welfare of stakeholders in general. Managerial interests vary, and may range from parochial concerns such as status or the end of year bonus, to more strategic concerns such as marketplace success and organizational survival. In most formulations of the instrumental approach, however, managerial interests are equated with the firm's financial performance and shareholders' satisfaction. Schein (1996, p. 15) refers to a tacit set of assumptions that CEOs and their immediate subordinates appear to share worldwide:

> This executive worldview is built around the necessity to maintain an organization's financial health and is preoccupied with boards, investors, and capital markets. Executives may have other preoccupations but they cannot get away from having to worry about the financial survival and growth of their organization.

At lower levels in the organization, however, many managers may be more concerned with managing relationships with different stakeholders who can have a more immediate impact on the performance of their department.

Implicit in the instrumental perspective is the assumption that change managers will abandon modes of dealing with stakeholders that prove to be unproductive. Berman et al. (1999) argue, for example, that while a firm might try to improve sales by adopting a total quality management approach that involves investing considerable effort in improving relationships with workers and suppliers, it might reassess its commitment to this strategy if it fails to deliver results. Similarly, an organization might adopt an employee share ownership scheme in the hope that it will motivate organizational members to work more effectively, but might abandon the scheme if it has little effect on performance.

The instrumental approach to stakeholder management is highly pragmatic. In the context of change management, regardless of the purpose of the change, it dictates that the change manager will focus attention on those relationships that will affect the success of the change.

Balancing corporate interests and stakeholder concerns

Shell provides a good example of an organization that has worked hard to integrate commerce and good citizenship. In 1995, the company's reputation was severely damaged following its proposal to sink the Brent Spar oil storage platform in deep water, rather than break it up on land, and the accusation that it was despoiling the Ogoni people's homeland in southeastern Nigeria. Mirvis (2000) reports how the company's 50-strong committee of managing directors 'held up a mirror' and examined the Shell Group's culture. What they found raised doubts about the viability of Shell's traditional culture that gave primacy in decisions to analysis and hard facts and had a tendency towards insularity and arrogance when dealing with many stakeholder groups, including nongovernmental organizations and the public. This triggered the development of a culture that valued the engagement of the global public in a two-way conversation over profits and principles and the measuring and reporting of the company's social and environmental record alongside its financial performance.

A life cycle approach to stakeholder management

Jawahar and McLaughlin (2001) offer an approach to managing stakeholders that draws on resource dependence theory, prospect theory and organizational life cycle models. Their underlying premise is that an organization faces different pressures and threats at different stages in its life cycle. Thus, over time, certain stakeholders will become more important than others because of their ability to satisfy critical organizational needs. Their theory identifies which stakeholders will be important at different stages in the organizational life cycle and indicates how the organization will attempt to deal with each of its primary stakeholders at every stage.

The contribution of resource dependence theory

Resource dependence theory conceptualizes the organization as being dependent on the resources in its environment for survival and growth. Jawahar and McLaughlin (2001) extend this theory to stakeholder management and propose that organizations will pay most attention to those stakeholder groups who control resources critical to the organization's survival. In the context of change management, resource dependence theory indicates that change managers will be motivated to attend to those stakeholders who control the resources that are critical to the change project's success. The different levels of attention they devote to different groups of stakeholders are manifest in the form of different stakeholder management strategies. Following Carroll (1979), Clarkson (1995) and others, it is possible to identify four ways of managing stakeholders:

1 *Being proactive:* doing a great deal to address stakeholder issues
2 *Accommodating:* a positive but less active approach for dealing with stakeholder issues
3 *Defending:* doing only the minimum required to address stakeholder issues, for example attending to employee concerns only to the extent required by employment legislation
4 *Ignoring:* ignoring or refusing to address stakeholder issues.

The contribution of prospect theory

Prospect theory also helps to explain why, sometimes, change managers are selective about which stakeholders they attend to, whereas on other occasions they will be more inclined to address the concerns of all (or many) stakeholders. Prospect theory posits that, relative to whatever reference point is used to evaluate an outcome, which might be the current position or a level of benefit that an individual hopes to achieve, outcomes evaluated as losses are weighted more heavily than similar amounts of outcome evaluated as gains. Central to prospect theory is the notion that the actual (objective) and psychological (subjective) values attributed to an outcome can and do differ. Bazerman (2001) illustrates this with the observation that the pain associated with losing $1,000 is generally perceived to be greater than the pleasure associated with winning a similar amount.

The work of Kahneman and Tversky (1979) suggests that the way people react to situations depends on whether the outcomes are framed in terms of gains or losses. They hypothesize that when outcomes are framed in terms of gains, individuals will be risk averse, and avoid acting in ways that might threaten the anticipated gain, but when outcomes are framed in terms of losses, they will be more prepared

to pursue a risky option if this offers the possibility of avoiding or minimizing the anticipated loss.

Bazerman (2001) provides an example of how this might work in practice. He describes a plant closure problem. When managers are presented with a positively framed version of the problem, the majority select plan A, the option with the 'certain' outcome (Table 10.1).

Table **10.1** *Positive frame*

Plan A 'Certain' (no risk) outcome Selected by the majority		Plan B High-risk outcome
Save one of three plants and 2,000 of 6,000 jobs	versus	1 in 3 chance of saving all three plants and all 6,000 jobs, but a 2 in 3 chance of saving no plants and no jobs

However, when managers are presented with a negatively framed version of the same problem, the majority select plan D, which is the risky option (Table 10.2).

Table **10.2** *Negative frame*

Plan C 'Certain' outcome framed in terms of what will be lost		Plan D High-risk outcome Selected by the majority
Lose two of the three plants and 4,000 jobs	versus	2 in 3 chance of losing all three plants and all 6,000 jobs, but a 1 in 3 chance of losing no plants and no jobs

Both sets of alternative plans are *objectively* the same. Plan A (saving one of three plants and 2,000 of 6,000 jobs) offers the same objective outcome as plan C (losing two of the three plants and 4,000 of the 6000 jobs), and plan B offers the same objective outcome as plan D.

Based on contributions from resource dependence theory and prospect theory, Jawahar and McLaughlin (2001) take the first step towards the development of their descriptive stakeholder theory by proposing two theorems:

1 In the absence of threats, a 'gain frame' will be adopted, and those leading the change will follow a risk-averse strategy and actively address all stakeholder issues. They will actively address all stakeholder issues because doing so is likely to persuade them all to support the change.

2 In the presence of threats, a 'loss frame' will be adopted, and those leading the change will pursue a risky strategy that involves addressing the concerns of only those stakeholders who are relevant to the immediate loss threat, while defending or denying any responsibility for the concerns of other stakeholders. For example, if a firm is in danger of being forced into administration, senior managers might do everything possible to address the concerns of creditors, while giving little attention to the concerns of employees.

Case study **10.1** Me

Familiarize yourself with
individuals and groups w
affected by the outcome
    This is a real case. Imag
appointed human resou
acute hospital. You have
weeks. The hospital has b
of two hospitals (A and B
chief executive (CE) was
was previously CE of hos
from another hospital els
the last of the directors t
place but the structure o

The contribution of organizational life cycle models

Life cycle models posit that a change proceeds through a sequence of stages. Jawahar and McLaughlin (2001) argue that, at each stage, the threats and opportunities that could affect the success of the change may vary, so the resources required to support the change will also vary. This led them to argue that at any given life cycle stage, certain stakeholders become more important than others because they control the resources required at that stage in the process.

Jawahar and McLaughlin's stakeholder theory

Drawing on contributions from all three theories, Jawahar and McLaughlin argue that if, at any stage in the change project life cycle, the fulfilment of critical resource requirements is threatened, change managers will adopt a loss frame and focus their attention on those stakeholders who control the critical resources and interact with them in a proactive or accommodating manner. In those stages where the flow of resources is not threatened, decision makers are likely to adopt a gain frame, pursue a risk-averse strategy, and actively address the concerns of all stakeholders.

Change managers must not assume that if they engage in the kind of stakeholder analysis suggested below, they will have identified, once and for all, the key constituents who require attention. Power relationships and the ability of various individuals and groups to influence events will change over time, thus it may be necessary to review and manage stakeholder relationships on a continuing basis.

Managing stakeholders

Building on the key player matrix developed by Piercy (1989), Grundy (1998) suggests a useful approach for managing stakeholder relationships. The first part of the process involves a stakeholder analysis to identify important stakeholders and assess their power to influence and their attitude towards the proposed change. The second part involves developing a strategy for persuading influential stakeholders to support the change.

> ### Case study 10.1 *Merger of two hospitals: stakeholder brainstorm*
>
> Familiarize yourself with this case and list all the individuals and groups who can affect or might be affected by the outcome of the change.
>
> This is a real case. Imagine that you are the recently appointed human resources (HR) director of a new acute hospital. You have been in the post for four weeks. The hospital has been formed from the merger of two hospitals (A and B) in the same city. The new chief executive (CE) was appointed five months ago. He was previously CE of hospital B. You moved to your post from another hospital elsewhere in the NHS. You were the last of the directors to be appointed. The board is in place but the structure of the new hospital has not yet
>
> been finalized. The two parts of the new organization continue to operate much as they did before the merger. However, the CE feels that the HR and finance functions need to be reorganized as quickly as possible, and expects that these two functions will help facilitate the merger of other parts of the new hospital.
>
> You have been tasked with merging the HR departments of hospitals A and B and achieving an annual saving of £140,000 on the HR budget. The HR staff obviously have high expectations about what you will deliver. Almost everybody wants the merger of the two departments to be completed quickly, but with minimum disruption to the status quo. There are ▶

important differences in the culture and structure of hospitals A and B, reflected in the way their HR departments operate. A potential problem is that the staff in both HR departments, and line managers in their respective former hospitals, appear to be happy with the way things are operating at present and would like their way of working to be the template for the new merged department.

Some of the main differences between the two original hospitals are shown in Table 10.3.

You recognize that it may be necessary to slim down the HR establishment if you are to achieve the £140,00 cost savings. Additional issues that might influence your approach to managing this change are:

1 The two former heads of the HR functions, who are still leading the two departments, have different philosophies about the nature of HR.

2 Since the two hospitals were merged, there has been a rapid rise in the number of grievances registered by staff across the new organization, especially from

Table **10.3** *Differences between the two hospitals*

Hospital A	Hospital B
Decentralized structure. Two big, largely autonomous directorates (surgery and medicine), each with its own operational director	Centralized structure. Many small departments led by general managers who report directly to the CE
Fragmented culture, medical staff and managers are separate groups	Collaborative culture, medical staff and managers work closely together
The HR department is only responsible for personnel information and employee relations. Training and development is located under nursing	All the HR functions, including training and development, are centralized within one department
The HR department employs a small group of staff who tend to stay within their own department and act as professional advisers to the operational managers. Operational managers are responsible for much of the HR management within their own departments	The HR department is 'staff rich'. HR staff work closely with operational managers, accompany them to meetings, take notes for them and assume responsibility for much of the day-to-day HR activity
Line managers hold personnel files in operational departments	HR holds personnel files centrally

staff required to work alongside colleagues from the other former hospital. Most of these grievances relate to the differences in terms and conditions that apply across the new hospital. For example, there are differences in the protection agreements that safeguard an individual's pay and conditions when their work is regraded, and there are differences in holiday entitlements that led to problems when members of the two former hospitals started working together. This has had a marked effect on the day-to-day workload of sections of your staff.

3   Managers across the new organization are seeking help from HR on issues related to the merger. This presents you with two related issues. First, it adds to the HR workload problem. At a time when HR needs to allocate resources to managing its own internal merger, it has to respond to new demands from client departments. Second, managers across the new hospital, depending on where they worked previously, have different expectations regarding the support HR should provide.

You are required to develop a plan to bring together the two HR departments in order to:

- Create a new HR function that will promote excellent HR practice.
- Deliver efficiency gains of £140,00 p.a.

With this in mind, brainstorm a list of stakeholders.

Identifying the power and commitment of stakeholders

Grundy (1998) outlines three steps for identifying the power and commitment of stakeholders:

1   He refers to the first step as the 'stakeholder brainstorm'. This involves identifying all those who might be affected by and/or could affect the outcome of the proposed change.

2   The second step involves assessing how much power and influence each group of stakeholders has. This can be quite difficult in practice:
   - There may be people with little influence over organizational issues in general but who have considerable influence over a particular issue related to the change.
   - There may be individuals who express support for the change but who cannot be relied on because their supportive efforts are undermined by other people in their departments.
   - There may be people who have exercised little influence in the past but who have more power than anticipated or who have recently acquired the ability to influence others.

3   The third step involves assessing stakeholders' attitudes towards the proposed change. Again, this can be difficult. For example:
   - There may be individuals or groups who appear to support the proposal in public but who work against it behind the scenes.
   - There may be others who misunderstand the proposed change but would be supportive if they were better informed.

Attitudes can range from positive, through neutral to negative. Shaw and Maletz (1995) describe those who proactively work to prevent the change effort from succeeding as 'blockers', and those who proactively work to ensure that it succeeds as 'sponsors'.

The two dimensions of 'attitude' and 'power' are brought together in the stakeholder grid presented in Change tool 10.1 below.

IV