

Balancing Conflicting Interests between Organisation and Uncontrollable Actors: The Stakeholder Perspective

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Abstract

Ever since organisations started to work in intrusive environments, vulnerabilities in organisational theory have increased. In the present study, we seek to incorporate the resource-based view (RBV) with the stakeholder theory (SHT) to understand how conflicting interests between an organisation and its environment are balanced, and to better understand what leads to success in the manufacturing business. Using stakeholder theory, we find that the relationship between an organisation and its stakeholders is bilateral: one is the influence of the organisation over stakeholders, and the other relates to the power that stakeholders have over organisational outcomes. Recent literature points out that the manufacturing sub-sector of Pakistan is in a state of crisis. Taking cues from Gomes (2006) and a case identified in the Gadoon Amazai industrial estate, we conceptualised an integrative model based on RBV and SHT for manufacturing business success. To sum up, the study offers a comprehensive research model on balancing conflicting interests between an organisation and uncontrollable actors.

Keywords: resource-based view; stakeholders; success

Introduction

Recent literature shows that manufacturing acts as an engine of growth in developing countries (Szirmai and Verspagen, 2015). Fagerberg and Verspagen (1999) corroborate this view. Rodrik (2009) states that the “faster movement of growth in developing countries is colligated with the transition of resources from the traditional to the industrial sector”. It is for this reason, the role of manufacturing sub-sector in income generation, employment creation, and poverty alleviation, has been recognised worldwide (Zindiye, 2008). Chakravarty and Mitra (2009) also found that “manufacturing is still one of the important drivers of economic growth and development. As this sub-sector earns a good amount of foreign exchange, and changes the pattern of foreign trade. In addition, it provides job opportunities, which contribute to poverty alleviation”. It leads to an increase in government revenues through various kinds of taxes. Unfortunately, however, the manufacturing sub-sector in Pakistan has been unable to operate to its optimal level of capacity, even though this sub-sector is the most vigorous element of the

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industrial sector, with 65.4% contribution. Its share of national is 13.3% (Economic Survey of Pakistan, 2016). Various strategies have been adopted to address this issue; for example, according to Tariq and Shah (2003), to encourage the manufacturing sub-sector in the Khyber Pakhtunkhwa province, the federal government provided incentives to stimulate the pace of industrial development in 1988. Nevertheless, the process of industrialisation in Khyber Pakhtunkhwa suffered a setback when the incentives either expired, or were pre-maturely withdrawn by the government. The importance of government support in the context of the Pakistani manufacturing industry should not be underestimated.

Freeman (1984) highlights the importance of stakeholders in stakeholder theory, following up on which, we see the same concern from a different perspective in the form of the power that stakeholders have over organisational outcomes. It is for this reason that stakeholder theory, in combination with the RBV, forms the theoretical underpinning of this study. Here we postulate that strategic resources in the manufacturing businesses doubtless play a crucial influencing role in success, the direction of this relationship could be affected by the power that stakeholder hold over an organisation.

Review of Literature

Resource-based View (RBV)

William et al. (2011), state that “the origin of the RBV can be traced back to the earlier work of Ricardo in the 19th century”. Some authors believe that “the RBV appears in the previous works of Bernerard (1938), Selznick (1957), Penrose (1959), and Wernerfelt (1984)”. However, Penrose’s (1959) work is considered to be a displacement of RBV, as it began with the argument that an organisation comprises “*a bunch of productive resources*”, and that only these resources, organised adequately, can contribute to the growth of the organisation.

Contrary to this, Wernerfelt (1984) contends that “resources on their own are unproductive, and that the organisation must treat raw resources to make them useful. He says that the performance of an organisation depends on its products, and indirectly on its resources”. According to him “products and resources are two sides of the same coin”. The integration of these views with the name of resource-based view (RBV) was found in the early work of Barney (1991). This view according to Newbert (2007) is the most widely accepted theory of strategic management. Akio (2005), corroborate this notion by stating that “RBV focuses on the internal resources and capabilities of an organisation; internal resources are the main source of an organisation's success”.

A recent study by Ghapanchi et al. (2014) states that “the resources of an organisation are those that an organization can use to carry out its strategies”. Barney (1991) classifies organisational resources – also called stable material (tangible assets and intangible assets) – into three categories: “human capital resources, physical capital resources, and organisational capital resources. Human capital resources include the intelligence, experience, judgement, education, and the relationships among the managers and employees in a company. Physical capital resources include the physical technology used in an organisation, its setup facilities and equipment, its access to raw materials, and its geographical location. Organisational capital resources include organising the firm structure, formal and informal planning, control and coordination of the system, as well as informal relationships among the groups within an organisation and between the organisation and its environment”.

Stakeholder Theory (SHT)

The roots of stakeholder theory are traced back to the strategic management book *A Stakeholder Approach* by Freeman (1984). He believes that the success of an organisation can be measured by its ability to keep stakeholders satisfied. In the same spirit, Aveni (1994) argues that top-quality stakeholder satisfaction is important for the success of an organisation.

Donaldson and Preston (1995) describe the three aspects of stakeholder theory: 1) descriptive aspect of stakeholder theory, which describes how an organisation works with its stakeholders; 2) instrumental aspect of stakeholder theory, used to identify the relationship between stakeholder management and organisational performance. 3) normative aspect, which deals with how an organisation should treat its stakeholders.

Clarkson (1995) describes stakeholders as those “without whose participation an organisation cannot survive as a non-going concern. He claims that if key stakeholders withdraw and become unhappy, then the organisation will be seriously damaged and cannot continue”. Studying European and North American stakeholder models, Jurgens et al. (2013) concluded that corporate reputation is a function of treating suppliers not just as a source of raw material. To maximise firm performance, stakeholder needs and interests ought to be considered, because the interests of stakeholders are often in conflict (Länsiluoto et al., 2013). Effective management and communication skills are needed to develop relations with key suppliers (Ivens et al., 2013). While several theoretical and empirical studies enrich this theory, it remains vague because of the

complexity of the relationship between people and organisation (Gomes, 2006).

Classification of Stakeholders

Savage et al. (1991) groups stakeholders into two categories: primary stakeholders (individuals or groups formally and economically associated with an organisation), and secondary stakeholders (individuals, agents, or groups not directly associated with an organisation, even though they influence or are influenced by organisational outcomes). In the same vein, Kaler (2002) explains that stakeholders may either be influencers or claimants, or a combination of both.

In contrast, the Atkinson et al. (1997) typology of stakeholders is environmental. According to them, environmental stakeholders are contained within the external environment in which an organisation operates. Freeman's (1984: 46) study reveals that stakeholders may be individuals or groups who can affect or are affected by organisational outcomes. According to Bryson (1995: 27), similarly, a stakeholder may be a person, group, or organisation who can make a claim on organisational resources or outcomes or be affected by these outcomes.

Based on these ideas, it can be concluded that in stakeholder theory, the relationship between an organisation and its stakeholders is bilateral. Therefore, stakeholder theory can be interpreted from two distinct perspectives:

1. The influence of the organisation over stakeholders, and,
2. The power that stakeholders have over organisational outcomes

The first has been explored in various studies that show how an organisation behaves when dealing with its stakeholders (Freeman, 1984; Freeman and Reeds, 1983). However, the second perspective of stakeholder theory is still poorly understood in literature. This perspective of stakeholder theory relates to the power that individuals, agents, or groups have over organisational behaviour and outcomes.

“Power is the ability to make an individual or group do what he or she otherwise would not do” (Mintzberg, 1983). Mintzberg suggests five bases of power: control of resources, control of body of knowledge, power from legal prerogatives, control of technical skill, and access to those who can rely on the previous sources of power. In the same line of thought, Mitchell et al. (1997) argue that power stems from three sources: coercive power, normative power, and utilitarian power. Lukes (1974) suggests that power is the result of resources, processes, and meaning.

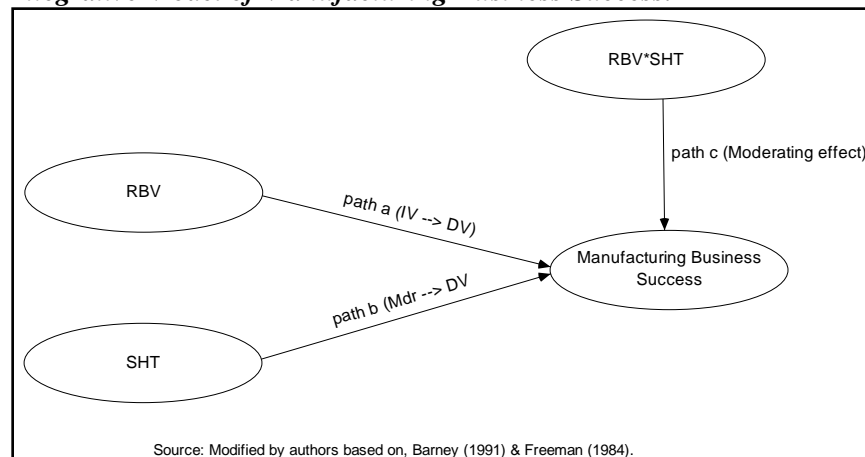
Following up on Mintzberg's (1983) categorisation of power, this study considers the normative perspective of stakeholder power (power

from legal prerogatives) as a moderator on the relationship between strategic resources and firm performance. As, according to Tariq and Shah (2003), the federal government provided incentives for the encouragement of the Gadoon Amazai industrial estate in Khyber Pakhtunkhwa in 1988, which stimulated the pace of industrial development in the province. However, the process of industrialisation in the province suffered a setback when the incentives either expired, or were pre-maturely withdrawn by the government.

Theoretical Framework

In this study, manufacturing business success is conceptualised as a dependent variable, while the independent variable is organisational resources and capabilities. The direct path emanating from RBV to manufacturing business success shows a statistical significance between the organisation's strategic resources and manufacturing success.

Integrative Model of Manufacturing Business Success.



The RBV suggests that the resources possessed by a firm are the primary determinants of its performance (Wernerfelt, 1984; Barney, 1991). According to Johnes and Johnes (2013), in the RBV, profits continue to exist because of heterogeneity. Specifically, resources can benefit the firm when they bring competitive advantage (Hulland et al., 2007). According to the RBV, certain assets with certain characteristics lead to high profit (Ford, 1998).

To address the issue identified in the Gadoon Amazai industrial estate, we model an interactive effect from the stakeholder perspective between strategic organisational resources and firm performance. We hypothesise that the direction or strength of relationship between strategic organisational resources and business success is at least moderated through the power that stakeholders hold. While the influence of the organisation over stakeholders is measured in various studies, the

power that stakeholders wield over organisational outcomes is still poorly researched. Therefore, our model offers a comprehensive understanding of the balancing of conflicting interests between stakeholders and the organisation.

Business Success

A considerable body of literature on success within the organisational context defines it as achievements of organisational goals and objectives. There are many methods to measure success, such as assessment of financial performance, assessment of marketing input, and assessment of effectiveness and efficiency (Neely, 2002). According to Pasanen (2003), success in business studies means the firm's outstanding financial performance. Day et al. (1995) report that market share and profitability are common dimensions for business success. MattiJaakkola (2006) suggests the balance scored (BSC) method for measuring success, which includes four dimensions. Liargovas and Skandalis (2010) suggest that success may be measured by three variables: return on sales and profit margin, return on assets, and return on equity. For the purpose of this study, successful firms are: firms that have an above average sale, profit, increase in assets and cash flow (as compared to competitors of the same size and type of business) and have been in business for five years or more (Hadi and Abdullah, in press).

Conclusion

The manufacturing sub-sector is considered to be the main source of economic growth and development, bearing forward and backward linkages with other sectors of the economy. However, ever since organisations started to work in intrusive environments, vulnerabilities in organisational theory have increased; the Pakistani manufacturing sub-sector is not an exception to this. Therefore, this study attempts to explore the direct influence of controllable factors on business performance through the moderating role of uncontrollable actors, using the resource-based view as well as the stakeholder theory as theoretical backdrop. To emphasise stakeholder view, this study also addresses the power that stakeholders have over the performance of an organisation in the manufacturing industry. The study offers a comprehensive research model on balancing the conflicting interests between the organisation and uncontrollable actors. It is therefore important for business managers/owners to maintain good relationships with officials, anticipating legal or regulatory changes that may affect them positively.

Contribution

This study offers a conceptual framework which may be considered a contribution towards the enhancement of existing literature.

Implications

As government decisions significantly affect the direction of the relationship between enablers and outcomes, with this knowledge manager or owners of manufacturing businesses maintain good relationships with officials to anticipate legal or regulatory changes that may affect them positively

Limitations and Directions for Future Research

The present study has limitations that may be addressed in future research. The conceptual nature of the paper is the main limitation, since a conceptual framework is not a remedy to solve the problem. To provide strong evidence, future research needs to test this conceptual model empirically. Future studies also need to explicitly include variables that measure both aspects of SHT. Further, by focusing on stakeholders, we give secondary importance to other theories that may be used in conjunction with stakeholder theory, such as resource dependency theory, institutional theory, etc.

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