



Chapitre de livre

2005

Published version

Open Access

This is the published version of the publication, made available in accordance with the publisher's policy.

A Stakeholder Perspective of Human Resource Management

Ferrary, Michel

How to cite

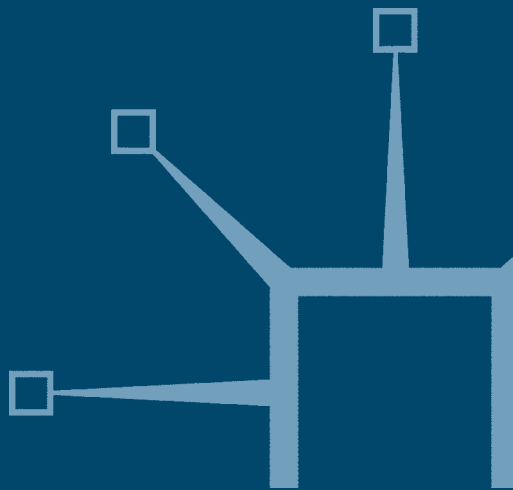
FERRARY, Michel. A Stakeholder Perspective of Human Resource Management. In: Stakeholder Theory: A European Perspective. Bonnafous-Boucher, M. & Pesqueux, Y. (Ed.). New York : Palgrave MacMillan, 2005. p. 104–124.

This publication URL: <https://archive-ouverte.unige.ch/unige:47397>

Stakeholder Theory

A European Perspective

Edited by
Maria Bonnafeous-Boucher and
Yvon Pesqueux



Stakeholder Theory

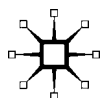
A European Perspective

Edited by

Maria Bonnafous-Boucher

and

Yvon Pesqueux



Selection and editorial matter © Maria Bonnafeous-Boucher
and Yvon Pesqueux 2005

Individual chapters © contributors 2005

All rights reserved. No reproduction, copy or transmission of this
publication may be made without written permission.

No paragraph of this publication may be reproduced, copied or transmitted
save with written permission or in accordance with the provisions of the
Copyright, Designs and Patents Act 1988, or under the terms of any licence
permitting limited copying issued by the Copyright Licensing Agency,
90 Tottenham Court Road, London W1T 4LP.

Any person who does any unauthorized act in relation to this publication
may be liable to criminal prosecution and civil claims for damages.

The authors have asserted their rights to be identified
as the authors of this work in accordance with the Copyright,
Designs and Patents Act 1988.

First published 2005 by
PALGRAVE MACMILLAN

Houndmills, Basingstoke, Hampshire RG21 6XS and
175 Fifth Avenue, New York, N.Y. 10010

Companies and representatives throughout the world

PALGRAVE MACMILLAN is the global academic imprint of the Palgrave
Macmillan division of St. Martin's Press, LLC and of Palgrave Macmillan Ltd.
Macmillan® is a registered trademark in the United States, United Kingdom
and other countries. Palgrave is a registered trademark in the European
Union and other countries.

ISBN-13: 978-1-4039-9159-1

ISBN-10: 1-4039-9159-6

This book is printed on paper suitable for recycling and made from fully
managed and sustained forest sources.

A catalogue record for this book is available from the British Library.

Library of Congress Cataloging-in-Publication Data

Stakeholder theory : a European perspective / edited by Maria
Bonnafeous-Boucher and Yvon Pesqueux.

p. cm.

Includes bibliographical references and index.

ISBN 1-4039-9159-6 (cloth)

1. Social responsibility of business—Europe. 2. Business ethics—

Europe. 3. Corporations—Moral and ethical aspects—Europe.

4. Corporate governance—Europe. I. Bonnafeous-Boucher, Maria.

II. Pesqueux, Yvon.

HD60.5.E85S73 2005

174'.4—dc22

2005047290

10 9 8 7 6 5 4 3 2 1
14 13 12 11 10 09 08 07 06 05

Printed and bound in Great Britain by

Antony Rowe Ltd, Chippenham and Eastbourne

7

A Stakeholder Perspective of Human Resource Management

Michel Ferrary

Introduction

Human resource management (HRM) often appears as an instrumental science, defining and analysing management practices while ignoring the power games and conflicts of interest, which those same practices may induce. From this perspective, HRM takes its cue from the rationale of management whose aim is to optimize a company's financial performance. This non-conflictual interpretation has been denounced in the scientific field of management (Brabet, 1993). Competent observers of organizational functioning noticed that management practices resulted not only from the strict application of rational criteria, but could also be influenced by elements whose line of reasoning would be of a different type.

Professional relationships are far more than mere individual relationships between employee and employer; other elements influence this interaction. For one thing, the fairness or otherwise of HRM practices is a relative notion which leads each employee to compare management practices inside his organization with those applied to other employees, both inside his own company and in other organizations. Secondly, employees constitute social groups which may be more or less aware of their common interests, and more or less organized to ensure that their voices be heard.

The relationship between employers and groups of employees has often been reduced to one of conflict. This results both from a social reality and also from the implications of the Marxist model of professional relations whereby economic activity is reduced to the exploitation of workers by capitalists. While it is necessary to understand the logic of employee action, along with that of the trade unions representing

them, this alone is not sufficient to analyse the socio-political dynamics of implementing HRM practices. Firstly, because far from being systematically conflictual, relationships between employee and employer are generally based on cooperation. Secondly, HRM must be understood within a socio-political environment large enough to comprise other elements such as competitors, public authorities, consumers, local officials and the media. All of these have a direct or indirect influence on management practices within the company. HRM practices are not the result of choices made by only one decision-maker. They are determined by the cooperative or conflictual interactions of a multitude of actors, resulting in practices divergent from the optimum as seen from a strictly managerial viewpoint. The example of the company Nike is a case in point. This case shows how consumer groups and non-governmental organizations were able to influence management decisions. By denouncing the use of underpaid child labour in factories subcontracted by the company, they obliged Nike to change its management practices to counter the loss of sales resulting from its tarnished image. More generally, systems of remuneration, flexibility of employment or training policy are governed by previously negotiated formal and informal rules regulating professional relationships. These rules are not written in stone and can evolve in the context of new negotiations between stakeholders.

In order to understand this system whereby human resource management practices are determined by the interactions of a complex system of actors, it is necessary to have a conceptual framework of analysis. In this respect, the works of scholars (Mitroff, 1983; Freeman, 1984) concerning stakeholder theory opened new perspectives in management theory. The company is understood as being part of a politico-economic system of stakeholders who interact and influence management practices. Each stakeholder tries to optimize and protect his interests (Frooman, 1999; Savage *et al.*, 1991).

The framework of stakeholder analysis enables us to escape from a purely instrumental approach to HRM, and avoid reducing our understanding of conflicts within companies to mere antagonism between employees and their employers. It enables us to point out the existence of other stakeholders in the relationship. Notably, it allows for the incorporation into management theory of actors from the sphere of politics (president of the republic, government, national elected representatives – deputies and senators – and locally elected representatives – mayors and regional councillors, and so on) as well as their dependent administrations. All these actors are considered to be stakeholders who

define the legal framework of company management and guarantee the application of these laws.

In the first part of this chapter we will explain the main contributions of stakeholder theory to the understanding of company management. In the second part, applying this theoretical framework to HRM, we will refine the definition of stakeholders, both in terms of their nature and their interests, their means of action and the justification of their intervention in the functioning of the company. In the third part we will try to specify the systemic dimension of stakeholder theory by defining the structure of the system and the dynamics of its functioning. We will illustrate the construction of the conceptual framework through examples of industrial restructuring, which resulted in staff reductions. These examples involve many different stakeholders, given the socio-political impact of employment.

The contribution of stakeholder theory

A socio-political approach to management

Stakeholder theory (Mason and Mitroff, 1981; Mitroff, 1983; Freeman, 1984) opened up a new perspective in the field of management by adopting an approach akin to that of political science. Stakeholder theory analyses the company as an entity enmeshed within a set of interactions between parties inside and outside the company. The different interests these parties hold *vis-à-vis* the company lead them to try to influence the company's functioning in their favour. The notion of stakeholders extends from the most formal (shareholders, company board and so on) to the most informal (friendships between directors for example). Stakeholders are defined as being the ensemble of parties who can have an effect on the company or who can be affected by it (Freeman, 1984, p. 46). Freeman (1984, p. 45) insists on the 'legitimate' rather than the 'legal' justification of stakeholders' involvement in the company. This allows a wider spectrum of parties to be included in a definition of the company's socio-political system. The legitimacy rather than the legality of stakeholders justifies taking into account as stakeholders groups such as the media, consumers or ecological movements. A stakeholder is defined as an individual or a group of individuals (formally recognized as such or not), claiming a share of the value created by the company's production, or holding an interest in the company's existence (Donaldson and Preston, 1995).

The legitimacy of this claim is justified by the parties' past or potential contribution to value created by the company, while its legality is based on the law. A stakeholder may also be a group whose contribution is vital for the company's existence (SRI, 1963; quoted by Donaldson and Preston, 1995). Other theorists (Frooman, 1995, p. 192) define stakeholders as parties holding resources, which are essential to the company's existence.

Stakeholder theorists propose different categories of stakeholder. These can be distinguished into voluntary and involuntary (Clarkson, 1995), primary or secondary (Carroll, 1979), strategic or moral (Goodpaster, 1991). These actors can be formally or informally involved in the company. It is convenient to analyse stakeholders, who are active or potential, and those who are affected by the company and those who affect it. Moreover, Frooman (1999, p. 191) insists on three points: the necessity of knowing who the stakeholders are, what they want, and how they will try to obtain it.

The persistence of antagonistic relationships within the system of production is due to stakeholders necessarily being enmeshed in economic interactions with other parties in the system. The division of labour and the specialization of economic actors make stakeholders interdependent in the creation of value (Durkheim, 1930). However, the value created being limited, competition ensues amongst stakeholders in order to obtain it legitimately. The distribution of value created within the company becomes a source of conflict amongst all the parties who are directly or indirectly involved in this value creating process. In other words, directors and employees demand a salary, shareholders demand dividends, the state demands taxes; customers want to buy goods at low prices while suppliers want to sell at high ones. This dual dimension of interdependence in creating value and competition for a share in its distribution, is the basis of the persistence of conflictual economic relationships. It also shows the pertinence of stakeholder theory as a framework for analysing organizations.

The company director plays a central role in the socio-political environment of production. In terms of how the creation of value can be optimized, the director can be considered as a rational party who organizes the resources at his disposal. Coordinating such resources (technological, human, financial and so on) scientifically, he aims to generate a maximum of added value. On the other hand, when it comes to distribution of value, the company director should be considered as a political animal

who forges alliances in order to gain for himself a large part of the value created, and distribute it to others who will ensure that he keeps his position at the head of the company.

An interactionist interpretation of stakeholder relationships

The sources of conflict between the company director and the stakeholders comprising the company's socio-political environment stems from stakeholders' differing definitions of the challenges facing the organization which result in their wishing the company to act in different ways (Mitroff, 1983, p. 5). For example shareholders will favour a redundancy plan resulting in increased profitability, whereas local politicians will prefer to safeguard their electors' jobs, and their tax revenues.

This interactionist perspective means that the power of negotiation or action is not considered as intrinsic to each party, but as an attribute of their interrelationship. The degree of importance accorded to each party by the company director will depend on the urgency of the situation in hand, and the legitimacy and power of the stakeholder concerned (Mitchell, Agle and Wood, 1997). The power relationship will be determined by the degree of dependence and interdependence between the firm and the stakeholders. A high degree of dependency will weaken the focal company, whereas a high degree of interdependence will reduce the negotiating power of the stakeholder (Frooman, 1999, p. 196). The analysis of exchanges between stakeholders constitutes an important dimension of management, not least because possession of a resource is a source of power which implies the possibility to exchange, to refuse exchange, or to choose the conditions of exchange. Uncertainty concerning stakeholders' greater or lesser freedom to choose how to use their own resources, or to condition access to resources sought, determines their power with regard to the company.

Stakeholder theory is a systemic theory in as much as interactions between parties can be direct or indirect (Frooman, 1999, p. 198). This is partly due to coalitions between socio-economic parties who are against the organization, but it is also due to the company director's capacity to mobilize parties to act indirectly on a party over which he or she has no direct power. The stakeholders' strategy aims to increase the cost of 'unfavourable' behaviour on the part of the focal company, and influence the latter towards behaviour more 'favourable' to the stakeholder.

For example, employees have no legal power to 'get rid of' a director, however they can act in such a way as to harm the company directly

(strike action for example), or indirectly (giving the company an unfavourable press as a bad employer). This type of action may result in shareholders obliging the director to step down, or change his or her policy. A case in point is that of Danone whose board of directors decided to close the LU biscuit factory in order to increase profitability and give shareholders an increased share of the company's value. The ensuing trade union action publicized in the press and on TV harmed Danone's image. Consumer associations called for a boycott of the company's products resulting in a drop in sales. This consumer action led Danone's directors to grant employees hit by redundancies highly favourable conditions, which resulted in halting consumer antagonism thus putting a stop to factors which would have mobilized more stakeholders.¹

Stakeholder influence and the organization's strategy of reaction will be affected by the nature of a broader system of stakeholders inside which the relationships of these two parties are enmeshed (Rowley, 1997). The law imposes confrontations between stakeholders. For example in France, redundancy plans are governed by a specific social law that obliges any firm envisaging restructuring to inform the Committee of Workers' Representatives, and the Regional Labour Department. Then, once the redundancy plan has been drawn up, the law imposes a follow-up commission comprising representatives of the personnel and of the Regional Labour Department. For companies of over 1,000 employees, the law requires a plan to reactivate employment in the locality, and this involves representatives of the State, employee and employer trade unions, representatives of the Chamber of Commerce and relevant politicians. Finally, the possibility of resorting to the law courts (business court, employment watchdogs, and so on) enables the various stakeholders to use these as platforms for exerting socio-political pressure.

A strategic management of socio-politic alliances

From a systemic standpoint, the objective of stakeholder management is to build alliances between several stakeholders whose interests converge with those of the company. This system of alliances enables the firm to counter antagonistic stakeholders and to escape from a bilateral relationship in favour of a multilateral one (Freeman, 1984, p. 135). The stakeholder is defined as much in terms of its own particular characteristics as by its potential alliances. Managing stakeholders implies being able to grasp the ensemble of parties involved in the company's activity, which means knowing

which interests these parties can optimize, what their capacity of action may be and what possible alliance-strategies may occur between them (Savage *et al.*, 1991). For a company director, taking account of stakeholders means contributing to and managing a network of allies (cooperative alliance), and facing up to a network of opposition (competitive alliance). It means the director will try to modify the various parties' optimization function in order to make their interests converge with his own (for example, turning employees into shareholders).

These strategies of political alliances can be illustrated by the conflict, which opposed the West Coast Dockers to the Pacific Maritime Association in autumn 2002. The conflict began with a plan to modernize the port, in particular to automatize container handling. The trade unions accepted the project on the condition that it did not result in redundancies, and that the new jobs be unionized, thus benefiting from the same advantageous status (a docker's salary is on average 80,000 dollars per annum, and can rise to as much as 160,000 dollars). The management choice made by the directors of the West Coast ports shows clearly that they took advantage of a favourable socio-politic environment. They refused to negotiate with the unions. The unions responded by blocking the ports, thus harming imports and exports. The directors of large industrial groups (notably, the director of Dell) protested publicly, calculating the cost of the conflict to be 1 or 2 billion dollars. Journalists got hold of the story, and financial markets took up the information and the result was a drop in the shares of the companies concerned (for example, Thomson shares plunged by 18 per cent in one day). At the same time, the American government of the day was preparing to invade Iraq, but the dockers' strike blocked the military preparations by preventing the troops from leaving. To stand up to the strike, Bush's government intervened. It put a stop to the conflict by requisitioning the dockers in the name of the Taft-Hartley law of 1947. The dockers were obliged to return to work without any rise in salary. Through their strategy of entering into direct conflict with the dockers and leaving the situation to deteriorate, the management of the West Coast ports involved other stakeholders who had not been concerned at the beginning of the conflict. These stakeholders consequently became implicit allies in settling the outcome of the conflict in the directors' favour.

When a strategic change occurs, there is a polarization of stakeholders which results in win/win reciprocal relationships *within* alliances, and

win/lose power relationships *between* alliances. Each member of an alliance hopes that his or her alliance will win, less for the alliance's sake, than to achieve his or her own ends (Abbott, 2003, p. 31). The winning stakeholder in a conflict of interests will be the one which has understood the interests of all the other stakeholders. This understanding can be used to mobilize the latter to act in the right direction, and to neutralize opposing parties either by modifying their optimization function, and/or by constituting a stronger alliance.

Adapting stakeholder theory to HRM analysis

Stakeholder theory is not specifically aimed at understanding HRM practices, so in order to make it into a pertinent framework for analysis of HRM, it needs to be revised and adapted. Stakeholder theory describes a political system, whose epicenter is the company. This system is made up of a number of unspecified parties interacting continuously and exclusively. From our standpoint, the stakeholder system is made up of individuals with multiple identities who have to justify the legitimacy of their actions, and whose interests and alliances are defined within a context.

For the predominance of individual parties

The company is not an entity with a will of its own, but is the expression of cooperation and competition between socio-political entities. A firm is a 'legal fiction' whose behaviour results from contractual relationships between individuals holding elements of the production process, whose interactions are crystallized in the company (Coriat and Weinstein, 1995). The contractual relationships between various stakeholders of the firm (clients, suppliers, employees and others) are the essence of what makes up a company. The object of stakeholder theory is the analysis of contractual relationships between individuals, not between organizations. Inter- or intra-organizational contracts spring from inter-individual relationships which may be implicit or explicit.

From this perspective, contracts, laws, company agreements and rules constitute the crystallization at any given moment, of a balance of power between politico-economic parties concerning their ability to recoup their share of the value created by the company. The law can be analysed as the materialization at a given time of the dominant position obtained by an alliance. The same alliance may in turn put this law into action to preserve and defend its own interests. The evolution of economic legislation over the past twenty years shows that HRM

(training, remuneration, redundancies, working hours and so on) is strongly influenced by choices in public policy, notably those resulting from the strategies of influence of professional unions (MEDEF²), and trade unions (CGT, CFDT³) and politicians' understanding of the role of economic activity. Taking account of individuals' reasoning rather than that of the organizations which employ them is particularly pertinent in understanding how public authorities are involved. Behind the organizational structure of public authorities are elected representatives, one of whose objectives is to get re-elected, or at least, to ensure the re-election of a member of their political party. Thus, when the site of the private company Metaleurop in Noyelle-Godault was closed in 2003, the French government, via the Prime Minister (M. Raffarin), condemned this restructuring, and decided to involve the government. Paradoxically, it was not the Minister of Social Affairs (M. Fillon), nor the Minister of Industry and the Economy (M. Mer), nor even the Minister of the Environment (Mme Bachelot) – the company being of a polluting nature – who was put in charge of this case. Instead, the responsibility fell to the Minister of Public Administration (M. Delevoye). This paradoxical situation can only be understood if one takes into account the fact that M. Delevoye was a candidate for the 2004 regional elections in the Nord-Pas de Calais (where Noyelle-Godault is located), and his involvement in the government's action might have had a favourable influence on his re-election.

It is necessary to understand the personalized dimension of stakeholders in order to avoid the conceptual vagueness maintained by many stakeholder theorists in whose analytical model, organizations and individuals coexist. Our own analysis considers the stakeholder system as being made up *only* of individuals; organizations are seen only as the expression of their members' interests, the entity where interactions are mediated and where compromises between parties are reached.

Stakeholders with multiplex identities

The complexity of understanding the system of individuals constituting stakeholders stems from their multiple identities, linked to the different roles an individual may play. The same individual can play different roles in the economic, political or social spheres. In the economic sphere he may be an employee, a shareholder or a client, for example. In the political sphere he may be a trade unionist or an elected official, and in the social sphere he could be a parent, consumer, member of an association or church, and so on. The multiplexity of actors' identities

(Breiger, 1974; Tichy, Tushman and Fombrun, 1979) introduces uncertainty as to the type of interests which they will optimize (Rowley and Moldoveanu, 2003), and thus as to the alliances or oppositions with which they will align themselves. As Abbott (2003, p. 46) points out, if socio-economic reality was made up of a small number of actors each with only one identity, it would be easy to understand. Reality is not that simple because political actors are not bound by a single identity.

Multiplexity results in individuals belonging to different groups of stakeholders, which obliges the individual to make judgements concerning his interests, which are sometimes contradictory. The usefulness of one type of interest may overlap with another and these may converge or diverge, leading the individual to abandon certain elements in order to reach a compromise between his various interests. This individual compromise is influenced by the interests and potential actions of other stakeholders involved.

The multiplexity of identities opens up opportunities for strategic management of stakeholders. The development of employee shareholders, or company directors who are also locally elected representatives are cases in point where the actor will be torn between optimizing different utility functions which may turn out to be contradictory. For example, during an acquisition, will the employee/shareholder act as an employee, and move against the acquisition which is often synonymous with redundancies, or will he act as a shareholder and profit from selling his shares to the purchasing company?

This multiplexity can sometimes lead to situations which are defined in law as conflicts of interest, and may lead to the individual's action being questioned on legal and/or legitimate grounds. As an example, during the bankruptcy of Air Lib,⁴ the commission of enquiry from the National Assembly wondered about the conflict of interest potentially present from the start, given that the company was taken over by a former employee of Air France, an Air France shareholder and former president of the Airline Pilots Union (Assemblée Nationale, 2003). The multiplexity of an actor's identity will shed doubt on the legitimacy of his involvement in running a company if one dimension of this identity can be suspected of causing a conflict of interests.

Stakeholder alliances defined within a context

Stakeholder theory is context-dependant because according to the situation of strategic management envisaged, the parties will have more or less power of negotiation and pertinent resources to make alliances to

engage efficiently in opposition. The means used to reach an objective may cause stakeholders' interests to converge or diverge. For example, in order to gain certain competencies, a company can either hire staff or subcontract the activity. If the former solution is chosen, the unions will probably be in favour, but if the company decides on the latter, unions will be more reticent.

The involvement of each of the actors and their mobilization will evolve according to the context, and stakeholders who are adversaries in a situation where their interests diverge, may become allies in another situation where these interests are convergent. There are no objective allies and adversaries, but only allies and adversaries determined by the context of the convergence or divergence of interests in a given situation.

The restructuring plan of the French state-owned railway SNCF in 1995 illustrates that this contextualization is necessary to understand stakeholder involvement and alliance strategies. The directors of the SNCF, back by the right wing government of Alain Juppé in turn supported by the right-wing RPR party, wanted to get rid of 6,000 kilometers of railroad track. This plan would result in a reduction of the workforce. The unions, particularly the CGT, systematically alerted the elected representatives of the towns concerned so that they would put pressure on the government to modify the plan. In fact, this led to what would normally be 'unnatural' alliances, between the SNCF's CGT (quasi-communist) union delegates and the elected representatives of the RPR (deputies, senators and mayors) against the action of the RPR government. Reforms of the Postal Service which will probably lead to post-office closures in France, resulted in the same alliance strategies between left-wing unions (CGT, SUD⁵) and locally elected representatives, particularly from the right-wing UMP⁶ party (mayors, deputies, senators, regional councillors, and so on) to put pressure on the UMP government.

The necessity of justifying the legitimacy of an action

The involvement of a stakeholder in the workings of an organization must be legitimate; that is to say, it must be willingly accepted by others. Conversely, any contestation towards a stockholder's action will firstly occur as a contestation towards the legitimacy of his intervention. The analysis developed by Weber (1971) stated that all dominant parties will seek to gain and maintain the belief in their legitimacy. The legal-rational legitimacy described by Weber is the management rationale – the

justification whereby directors carry out their decisions and management actions. The director appears as the one who is competent because he understands the mechanisms of the market economy and is able to take decisions, which will optimize the interests of the organization. The positive aspect of the 'laws' governing the mechanisms of competition becomes the system, which justifies managerial action. The economic rationality of a management decision may be contested by employees. In France, the law enables them, via their representatives in the Employee Representative Committee, to resort to economic experts endowed with the necessary legitimacy to contest a managerial decision, using the very principles of justification invoked by the director. However, economic justification is not the only factor which can legitimize stakeholder action. Boltanski and Thévenot (1991) showed that within the same economic system, different systems of legitimacy coexist, and other stakeholders will evoke other principles of justification to contest managerial action. The organization may not possess its own 'free will', but it does give employees rational and legitimate principles of justification on which to base their actions. The director's principle of justification will be the survival of the company; that of the trade unions, the defense of employee interests; consumers associations defend the interests of consumers; and elected representatives, those of citizens. The fact of belonging to an organization legitimizes the actions of different parties. The analysis becomes more complex in as much as, besides the diversity of systems of legitimate justification for action, stakeholders may also have a hidden agenda of interests, which are defended under cover of the legitimacy embodied by the justifying principle of their organization.

From the standpoint of strictly rational economics, the 2001 closure of Metaleurop, a lead and zinc-producing plant in Noyelle-Godault, was completely legitimate. The following factors are some of the economic justifications for the closure: the market value of zinc in 2001 had reached a historic low; the decline of Western consumption resulted in a 19 per cent drop in the company's turnover; and certain legal factors like work regulations and anti-pollution measures resulted not only in increased production costs but also in increased probability of sanctions due to obsolescent equipment. The strategic decision to close the plant illustrates a rational choice to cease a non-profitable activity. The stakeholders who protested against the restructuring did so mostly from the standpoint of other justification systems: job-protection, social justice, respect for

citizens and workers. Such were the arguments put forward against the site closure.

Towards an exhaustive taxonomy of stakeholders

A recurring objective of stakeholder theorists is to reach an exhaustive definition of stakeholders. The wish to be exhaustive is as much of a scientific challenge as it is a managerial one. Just as the researcher sees the force of his model weakened by the omission of a single element, so a company director unable to correctly identify all the stakeholders affected by his decisions runs the risk of seeing these decisions questioned by the one stakeholder absent from the list.

As far as we are concerned, we have defined different politico-economic roles which might potentially be held by an individual within the system of company stakeholders. These roles constitute ideal-types in Weber's sense. This means that an individual as stakeholder may have to hold several roles given his multiplex nature.⁷ This multiplexity obliges him to make a personal compromise between his various roles before undertaking an action.

Attempting to be exhaustive allows the inclusion within the politico-economic sphere of actors and institutions sometimes ignored in models of analysis of the company environment. For example, this approach enables us to include the public authority as a politico-economic actor disposing of means of action and trying to further its interests by forging temporary alliances according to those interests. The State, through its elected representatives and public officials, is a vehicle of expression of specific interests which can be defended thanks to specific resources, such as the power to legislate, the monopoly of violence (Weber, 1971), administrative back-up and the power to incite action through grants and subsidies.

Beyond affording an exhaustive identification of stakeholders, this approach should aim to define their respective interests, their means of action and the legitimacy of their claim to involvement in the company's activity. Table 7.1 illustrates these four dimensions. This typology of actors defines the characteristics of each, and can help, in a given situation, to identify potential allies and adversaries for the construction of a network of alliances. For example, a company preparing a redundancy plan can anticipate legitimate and influential action on the part of the labour inspectorate. Thus, one large company recruited a labour inspector from the department upon which it depended (he had taken leave of absence) in order to prepare a redundancy plan and present it to the administration. In this way, the risks of opposition from the inspectorate were reduced.

Table 7.1 The four dimensions of an exhaustive taxonomy of stakeholders

<i>Actor</i>	<i>Interests</i>	<i>Means of action</i>	<i>Justifying principle</i>
Managing Director	Salary, job security, status	Authority, information, delegation	Firm's economic performance
Employee	Salary, job security	Passive resistance, strike, competition	Contribution to the firm, law
Trade Union	Representation, negotiating power, status	Representation, rules, strike	Defending workers
Member of Board	Indemnity, dividend, share value	Vote, legal competence	Capitalist ideology, law
Shareholder	Dividend, share value	vote, transfer of shares	Capitalist ideology
Client	Minimum price, maximum quality	Competition	Market forces
Supplier	Maximum price, minimum quality	Competition	Market forces
Competitor	Growth, profit	Strategy	Market forces
Consultant/ Chartered Accountant	Growth, profit	Demand, network	Law
Merchant Banker	Growth, profit	Demand, network	Market forces
Lawyer	Growth, profit	Demand, network	Law
Member of professional association	Company interests	Lobbying	Market forces
Member of consumer association	Minimum price, maximum quality	Lobbying media publicity	Defending minorities
Financial analyst	Reliability of information, status, salary	Grading	Transparency of information
Journalist	Event, reliability of information, status, salary	Publication	Transparency of information
National elected representative	Reelection, taxes, national employment	Use of force, lawmaking subsidies	National public welfare
Local elected representative	Reelection, taxes, local employment	Subsidies	Local public welfare, law
National official	Respect of laws and administrative rules	Law courts, fines, use of force	Public welfare, law
European official	Respect of laws of competition	Law courts, fines	European public welfare

The dynamics of the stakeholders system

From an 'orga-centric' to an acentric system

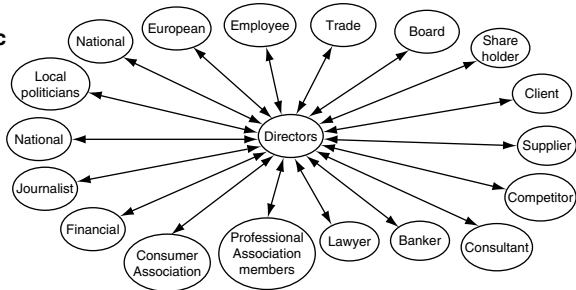
Stakeholder theorists present the stakeholder system as constituting a system of 'orga-centric' actors whose epicenter is the company. From this perspective, the company is a focal point, which maintains a multitude of bilateral links with the various stakeholders.

Company relationships cannot be understood from a dyadic, stable perspective. It is more suitable to consider a systemic approach in as much as all the actors involved with the company to greater or lesser degrees, can be called on to interact with the company, but also with each other in order to manage to influence the functioning of the organization. What is more, the nature of these interactions may vary depending on the interests of the actors towards the management of the company. This approach supposes that we do not consider the company as a collection of bilateral contracts between politico-economic actors unaware of each others existence, but rather as a multitude of actors making and breaking multilateral alliances according to their strategy of optimizing their respective interests.

A systemic approach leads us to consider that stakeholders interact not only with the company itself, but also amongst themselves in order to intervene indirectly in the functioning of the company. From this viewpoint, the company is not the central entity of the politico-economic system, but only one of its component parts. The stakeholder system is an a-centric one in which all actors interact (Figure 7.1). Thus, a redundancy plan will not mobilize the public authorities directly, but publicity in the press and the intervention of local elected representatives will lead to the involvement of the government and the higher echelons of public administration. The employees' ability to obtain concessions from their employer has less to do with their power to influence the employer directly, than with their ability to involve other stakeholders who do have such direct power. These alliance strategies indirectly bring other actors into play within the company's stakeholder system.

It is all the more important to escape from the dyadic approach, in as much as the actors very strategy depends on a systemic perspective in order to involve the maximum number of actors. It is this complex structure of the stakeholder system, which enables the parties concerned to act strategically.

A politico-economic system centred on the director



A director enmeshed within a politico-economic system

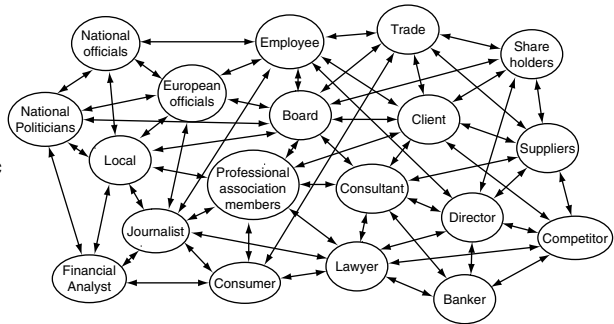


Figure 7.1 A politico-economic system centred on the director, and a director enmeshed within a politico-economic system

Source: Based on R. Mason and I. Mitroff (1981) *Challenging Strategic Planning Assumptions* (John Wiley), p. 324.

Activating the stakeholder system: from virtuality to activity

Stakeholder theory assumes that the system of actors is continuously activated, and that the focal company interacts with its stakeholders on a permanent basis. In order to construct a theoretical framework of stakeholders that is useful for understanding HRM, we will consider that the company is involved in a potential, rather than a permanent relationship with its stakeholders; the company does not deal with consumer associations, public authorities, journalists or politicians on a daily basis. The stakeholder system will only be activated by a decision or a change in the company's reality, and such circumstances will result in a realignment of alliances. The normal situation is a weak level of interaction between politico-economic actors of the system, whose interrelationships are governed by informal routines, rules or contracts which regulate the creation and distribution of value. This low level of conflict is necessary for production to proceed. Occasionally, changes

occur in the company's economic environment, and it is these changes which will incite certain stakeholders to renegotiate their contribution to the distribution of value.

There thus exists a virtual system of stakeholders concerned by the company's functioning. This virtual system is galvanized into 'reality' according to whether managerial decisions involve stakeholders' interests or not. This understanding of the stakeholder system as one which is usually passive, but potentially active when the situation demands it, has two consequences. Firstly, it enables stakeholders to behave strategically in order to involve others. One party cannot claim for itself alone the whole of the value created by a system of production. Alliances must be forged in order to access that value, and, once obtained, the value must be shared with allies. A party will probably join forces with the alliance which has both the strongest chance of obtaining the value created by the system of production, and which will redistribute a maximum share of that value.

The second consequence is that the dimension of timing must be incorporated for a proper understanding of how the stakeholder system is activated. The dynamic of activating the virtual system is gradual; as soon as the director's strategic intentions are made public, the socio-political dynamic will be set in motion, and this will oblige the director to act and react according to the involvement of new stakeholders. The idea of a company as being enmeshed in a network of stakeholders obliges the director to measure his present actions according to their systemic and temporal dimensions. His present behaviour thus contains a clue to his future behaviour, and this information can be used both by his partners and his competitors.

In the context of industrial restructuring and a redundancy plan, media publicity about company HRM practices is one of the strategic weapons employees can use in their relationship with their employer in order to obtain the highest possible compensation. This, however, supposes that management practices or their consequences are of interest to the media. In recent years, redundancy plans have become commonplace, and are no longer considered 'news'. Between 1996 and 2003, France saw an average 1,250 of redundancy plans per year. This situation leads employees and unions to resort to other ways of involving the media and other influential stakeholders. The aim for initial stakeholders is to understand the interests of other stakeholders in order to involve them directly or indirectly. Thus, the trade unions know that newspapers need 'news' to sell papers, so, in order to get media attention, the unions create 'news'. Media involvement is not an end in itself, but it is a way of

involving politicians via public opinion. If we consider this situation, it is clear that stakeholders affected by managerial decisions can form competitive or cooperative relationships with parties hitherto outside the system. These parties, once involved, can be used to influence the managerial decision in question. For example, when the director of Metaleurop decided to close the Noyelle-Gonault plant, the unions' aim was to obtain high compensation and retraining for those who lost their jobs. Thus their aim was not really to preserve the activity. The strategic choice to close the plant, though perfectly legitimate from a strictly rational industrial point of view, clashed totally with the interests of the 830 Metaleurop employees who would lose their income and who had little chance of redeployment in the locality. If the Metaleurop employees had been in a purely dyadic relationship with their employer, they would have been in an almost powerless situation. The company had decided to file for bankruptcy in order to avoid drawing up a redundancy plan obliging them to pay huge sums in compensation. Glencore, the main shareholder of Metaleurop, is a company situated in Switzerland in the Zoug Canton. The company was therefore largely insensitive to pressure from the French public authorities, and in any case on outside the jurisdiction of French courts and administration. In a purely dyadic relationship, the employees of Metaleurop would have had the right to just 2,000 euros of redundancy pay, with the prospect of being professionally and socially marginalized due to their low employability. In order to obtain more favourable compensation for their redundancy, the employees and the unions representing them did not situate the negotiation and conflict inside a dyadic relationship. Instead they acted within the system of actual or potential stakeholders. The employees claimed 50,000 euros in redundancy pay as well as retraining to compensate for loss of revenue and social status. It is from this point of view that the employees' action must be understood.

In order to protest, the employees threatened to pollute the local river, thus involving the local inhabitants and elected representatives. This virulent protest resulted in attention from all the main media: the affair took on national importance, obliging the Prime Minister to take a stand against 'rogue employers' and the Minister of Social Affairs to use his administration to put pressure on the company and help retrain the employees. At the same time, the football club of Lens organized a match against the factory workers. This was widely covered in the media, and reinforced public opinion in favour of the employees.

What is more, the employees and their representatives brought actions before the courts and resorted to legal and economic experts

(lawyers, and others). The company directors were accused of having used legal loopholes to transfer assets among its subsidiaries, these assets being voluntarily undervalued. The directors thus had to resort to financial experts themselves to defend the legitimacy of the selling price.

This example shows how an industrial restructuring, which *a priori* could be understood as a dyadic relationship between employer and employee, can lead to the involvement of a multitude of stakeholders (media, government, local elected representatives, courts, lawyers, chartered accountants, and so on). The involvement of these stakeholders enabled the employees to obtain on average 15,000 euros of redundancy pay, a plan to assist the unemployed to get jobs, plus a government minister's promise to build a prison in the vicinity in order to create employment.

Once the politico-economic system is activated, it remains alerted until the factor which activated it has disappeared. Furthermore, the *outplacement consultants* (BPI and Altedia, for example) which deal with redundancy plans continue to interact with the HRM which employs them, as well as with the employees, the unions, the administration and the media. Thus, in the Metaleurop example, the rate of employee redeployment is regularly mentioned in the media. This has positive or negative repercussions on the outplacement consultants, as well as on the company and local elected representatives.

Conclusion

Stakeholder theory offers a framework of analysis that is relevant to HRM in general, and in particular to industrial restructuring where management success in implementing a redundancy plan is more *a question of adept political handling of stakeholders than of the instrumental process involved in carrying out a decision procedure*. The complexity which has to be grasped is more political than instrumental. It has more to do with comprehending the nature and strategy of the stakeholders, alliances and means of action, than with the formal procedures of restructuring: complying with the obligations of the labour laws, for example, justifying and defining the redundancy plan, making a provisional forecast of the reemployment plan, redundancy plan, and so forth.

However, the theory has to be adapted and refined if it is to become a pertinent framework for HRM practices. Stakeholders are individuals linked to organizations, and these links will define their role but will not strictly determine their identity and the type of optimization they seek. Individuals have multiplex identities, which result in their getting

involved with the organization's functioning according to specific management circumstances. Stakeholders constitute a system whose interactions are determined within a context. These interactions may be indirect with the focal organization, and may depend on strategies adopted by initial stakeholders to involve others.

The fact that interactions within the system are not strictly determined opens perspectives for strategic management of the company stakeholders. Depending on the context, directors will find themselves anticipating the involvement of stakeholder interests, they will be obliged to forge alliances and handle resistance to change, in order to formulate and carry out their management choices.

Notes

- 1 The average cost for Danone of closing the LU plant was 60,000 euros per employee, whereas the strict application of legal requirements would have limited compensation to about 4,000 euros per employee.
- 2 Mouvement des Entreprises de France.
- 3 Confédération Générale du Travail, Confédération Française Du Travail.
- 4 A French airline company.
- 5 Solidaires, Unitaires, Démocratiques.
- 6 Union pour un Mouvement Populaire.
- 7 For the sake of clarity, the typology does not contain social roles (parent, member of a sports association, member of a church, and so on).

Bibliography

- Abbott, A. (2003) 'Ecologies liées: a propos du système des professions', in P.-M. Menger (ed.), *Les professions et leurs sociologies* (Paris: Presses Universitaires de France) pp. 29–50.
- Assemblée Nationale (2003) *Rapport no. 906 sur les causes économiques et financières de la disparition d'Air Lib* (Paris).
- Boltanski, L. and Thévenot, L. (1991) *De la justification. Les économies de la grandeur* (Paris: Gallimard).
- Brabet, J. (1993) *Repenser la GRH?* (Paris: Economica).
- Breiger, R. (1974) 'The Duality of Persons and Groups', *Social Forces*, no. 53, pp. 181–9.
- Carroll, A. (1979) 'A Three-dimensional Conceptual Model of Corporate Performance', *Academy of Management Review*, no. 4, pp. 497–505.
- Clarkson, M. (1995) 'A Stakeholder Framework for Analyzing and Evaluating Corporate Social Performance', *Academy of Management Review*, no. 20, pp. 92–117.
- Coriat, B. and Weinstein, O. (1995) *Les nouvelles théories de l'entreprise* (Paris: Livre de Poche).
- Donaldson, T. and Preston, L. (1995) 'The Stakeholder Theory of the Corporation: Concepts, Evidence and Implications', *Academy of Management Review*, vol. 20, no. 1, pp. 65–91.

- Durkheim, E. (1930) *De la division du travail social* (Paris: Presses Universitaires de France).
- Freeman, R.E. (1984) *Strategic Management: A Stakeholder Approach* (Boston: Pitman).
- Freeman, R.E. and Evan, W.M. (1990) 'Corporate Governance: A Stakeholder Interpretation', *Journal of Behavioural Economics*, vol. 19, no. 4.
- Frooman, J. (1999) 'Stakeholder Influence Strategies', *Academy of Management Review*, no. 24, pp. 191–205.
- Goodpaster, K. (1991) 'Business and Stakeholder Analysis', *Business Ethics Quarterly*, no. 1, pp. 53–74.
- Manson, R. and Mitroff, I. (1981) *Challenging Strategic Planning Assumptions* (New York: John Wiley).
- Mitchell, R., Agle, B. and Wood, D. (1997) 'Toward a Theory of Stakeholder Identification and Salience: Defining the Principle of Who and What Really Counts', *Academy of Management Review*, vol. 22, no. 4, pp. 853–86.
- Mitroff, I. (1983) *Stakeholders of the Organizational Mind* (New York: Jossey-Bass).
- Moldoveanu, M. and Rowley, T. (2003) 'When Will Stakeholder Groups Act? An Interest and Identity-Based Model of Stakeholder Group Mobilization', *Academy of Management Review*, vol. 28, no. 2, pp. 204–19.
- Rowley, T. (1997) 'Moving Beyond Dyadic Ties: A Network Theory of Stakeholder Influences', *Academy of Management Review*, vol. 22, pp. 887–910.
- Savage, G., Nix, T., Whitehead, C. and Blair, J. (1991) 'Strategies for Assessing and Managing Stakeholders', *Academy of Management Review*, vol. 5, no. 2, pp. 61–75.
- Svendsen, A. (1998) *The Stakeholder Strategy: Profiting from Collaborative Business Relationships* (San Francisco: Berrett-Koehler Publisher).
- Tichy, A., Tushman, M.L. and Fombrun, M.V. (1979) 'Social Network Analysis for Organizations', *Academy of Management Review*, vol. 4, no. 4, pp. 507–20.
- Weber, M. (1971) *Le savant et le politique* (Paris: Edition Plon).