International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 7 Issue 6 Ver. III || Jun. 2018 || PP—32-34

Influence of Stakeholder Management on Appropriation of Competitive Advantage

Abigail Asalu[1], Emmanuel Asamoah, Phd[2]
(Allotey Business school/Accra Institute of Technology, Ghana)[1]
(University of Professional studies, Accra)[2]
Corresponding Author: Abigail Asalu

ABSTRACT*: Among the large number of studies on competitive advantage, there are distinctive research streams based on different units of analysis which thus display various emphases. Although scholars have distinctive views on the concept of competitive advantage, which are seemingly diverse and confusing, there exists common ground for the three major research streams of Activity position view; Resourced based view and Relational view. Research on competitive advantage can be summarized as having three common issues:*

- *How value is created (source)*
- *How value is protected (durability)*
- *How value is captured (appropriation)*

The three issues are quite similar to the three streams of competitive advantage. However, using the notion of value has several advantages instead of discussing competitive advantage directly. First, value is a clearer term than competitive advantage and is, thereby, a solution to the problem of vagueness. Second, value is related to the source, durability and appropriation. Third, value can be a foundation that integrates different research streams.

KEYWORDS*-Appropriation, competitive advantage, durability, stakeholder management, value*

Date of Submission: 22-06-2018 Date of acceptance: 70-07-2018

I. INTRODUCTION

Competitive advantage is often confused with pricing, cost, return on investment, margins, innovation, sustainability, brand and reputation. In other words, businesses tend to call anything they consider good to be a competitive advantage.

This is a cause and effect mix up. For example, reputation is not a competitive advantage. It is the effect of competitive advantage. If you do something very well you may obtain a strong reputation. You cannot map it the other way; you cannot say that you have a strong reputation so you do things very well.

According to Coff, (2003)[1], a full picture of competitive advantage should comprise three aspects

1. Sources - the sources of competitive advantage
2. Durability - the factors that sustain a competitive advantage
3. Appropriation - the appropriation of the benefits that are generated by a competitive advantage.

The three aspects are interrelated and each is important on its own. For instance, studies on sources of competitive advantage are frequently concerned with its durability while durability of competitive advantage may be influenced by its appropriation by different stakeholders. Most studies on competitive advantage focus on the sources. Comparatively, studies on its durability are relatively fewer in number than those on its sources. Among these, appropriation of competitive advantage is a relatively under-researched area.

Stakeholder management is the process of managing the expectation of anyone that has an interest in a project or will be effected by its deliverables or outputs. Stakeholder management is critical to the success or failure of a project or programme. Effective stakeholder management creates positive relationship with stakeholders through the appropriate management of their expectations and agreed objectives. To manage effectively, a firm must take its stakeholders into account in a systematic function. [2]

2. Appropriation of competitive advantage

The role of stakeholder theory in explaining the way value is appropriated among stakeholders once it is created cannot be over emphasized. [3][4]. If high value is created by a firm but that value is routinely distributed to non-shareholder stakeholders such as managers and employees, or if it is extracted from the firm by strong customers, suppliers or unions, then it will be hard to detect using traditional performance measures such as return on investment or shareholder returns. A stakeholder perspective is useful not only in examining how value is created, but in understanding how that value is allocated to stakeholders.

The phenomena of creating and appropriating value are two aspects of an integral structure, and they are not separable. Managers exercise at least some discretion with regard to how firm value is distributed. In firms that create a large amount of value, this discretion is increased. For this discussion, it is important to disassociate the value that a firm creates from its bottom-line profitability. A firm with low profitability may create a lot of value but allocate most of it to stakeholders such as customers, suppliers or employees during the normal course of business . Alternatively, a firm with high profitability may either have a lot of value to distribute, or may be under-allocating value to particular stakeholders, a situation that could lead the organization to lose opportunities for future value creation. Value appropriation is influenced by the power of particular stakeholders, by moral/ethical considerations and/or as a result of strategic choice.

Stakeholder power can be defined as "the ability to use resources to make an event actually happen". Several authors have identified characteristics that give stakeholders power. Freeman (1984)[5] divides stakeholder power into three broad types: formal power, economic power and political power. Coff (1999)[4], in turn, outlined four primary determinants of bargaining power, based on the negotiation and bargaining literatures [6].

Stakeholders have power if they;

- Have the ability to act in a unified manner
- Have access to superior information
- Are difficult or impossible to replace
- Face low costs if they decide to move to another firm.

Power also plays a prominent role in stakeholder typology. The salience of stakeholders to managers is a function of urgency, power and legitimacy. Value distribution decisions also involve moral considerations of justice and fairness that can affect the behavior of stakeholders in future periods[7][8][9][10].

Stakeholder power and moral considerations of justice and fairness influence, but do not completely determine, the way a firm allocates the value it creates. Managers can make a strategic decision to allocate more time, effort and other organizational resources to a particular stakeholder as a part of a deliberate strategy to understand better that stakeholder's utility function, as a prelude to finding new ways to create value[11].

Given the dynamic nature of a firm's stakeholder network – with continuous changes in the relative bargaining power of stakeholders and even changes affecting network membership – a potential source of sustainable competitive advantage is having the capability to continuously develop strong stakeholder relationships. Sustaining a firm's competitive advantage requires management to continuously adjust and renew the firm's unique bundle of resources as time, competition and change erode their value. These relationships, in turn, provide the firm with continuously updated superior knowledge of stakeholders' utility functions.

A comparison of costs and benefits is useful at both the individual stakeholder and the network level. The costs of managing for stakeholders include allocations of managerial time spent in communicating and managing relationships with stakeholders as well as the direct allocation of financial and other firm resources to them. The key to managing for stakeholders in such a way as to enhance organizational performance is to determine which stakeholders to include and how much to invest in those stakeholders, from a utility function perspective. Two variables however also help to determine the amount of investment. They are the cost of acquiring knowledge about the stakeholder's utility function and the frequency with which that utility function is expected to change. Change in a utility function may represent either a new opportunity to create value or a threat to existing operations. Consequently, if a stakeholder's utility function is expected to change frequently, the firm may invest to develop a capability to continuously update the firm's knowledge of this stakeholder's evolving utility function so it can take actions that reduce the likelihood of that stakeholder adversely affecting the firm's performance or increase the likelihood of that stakeholder positively affecting the firm's performance. At the intersection of stakeholder theory and competitive advantage is a stakeholder's utility function, defined as the stakeholder's preferences for different combinations of tangible and intangible outcomes resulting from actions taken by the firm. Differences in individual stakeholders' utility functions create market imperfections which, in turn, give rise to value creation opportunities.

The stakeholder perspective envisions a firm at the center of a network of stakeholders, a complex system for exchanging goods, services, information, technology, talent, influence, money and other resources[5]. The firm itself can be envisioned as a nexus of formal and social contracts with its stakeholders [12]. Freeman (1984)[5] and the authors of subsequent developments in stakeholder theory build their logic from an assumption of an efficient market and prioritize the welfare of the firm. In an efficient market, firms that serve stakeholders purely for altruistic purposes are not likely to survive. Stakeholder theory argues that firm value is created when the firm meets the needs of the firm's important stakeholders in a win-win fashion[7][13]. Specific types of stakeholder-based resources (e.g., knowledge of stakeholders' utility functions, a reputation for respecting shareholders) and capabilities (e.g., continuously forming updated value propositions for stakeholders) enable the firm to create and appropriate value. There are conditions under which stakeholder-based value creating processes should lead to short- and long-term competitive advantage.

II. CONCLUSION

In general, a firm should invest in relationships with stakeholders that have high power, to whom the firm has a moral obligation, or with whom the firm sees potential for new value creation (strategic choice). Managing for stakeholders also increases the probability that a firm will understand a broader group of stakeholders' utility functions, which increases the firm's ability to discover new ways to create value. A firm 'managing for stakeholders' allocates more resources to them than would be necessary for normal operations, resulting in more stock options, better customer service, or shared cost savings. It is important to bear that even though research suggests investing to keep stakeholders happy may help the bottom line, it is difficult to justify extra effort or resources without knowing the benefits.

REFERENCES

[1]. Coff, R. (2003). The emergent knowledge-based theory of competitive advantage;an evolutionary approach to integrating economics and management an integrated conceptual framework. Managerial and Decision Economics , 24, 245-51

[2]. Freeman, E., Harrison, J., & Wicks, A. (2007). managing for stakeholders:survival,reputation and success. Yale: Yale university press.

[3]. Blyer, M., &Coff, R. (2003). Dynamic capabilities, social capital and rent appropriation: Ties that split pies. Strategic Management Journal , 677-686.

[4]. Coff, R. (1999). When competitive advantage doesn't lead to performance: The resource-based view and stakeholder bargaining power.OrganisationScience , 10, 119-133.

[5]. Freeman, R. (1984). Strategic management: a stakeholder approach. Boston: Pitman.

[6]. Porter, M. (1980).*Competitive Strategy*. New York: Free Press.

[7]. Donaldson, T., & Preston, L. (1995). The stakeholder theory of the corporation: concepts, evidence and implications. Academy of Management Review , 65-91.

[8]. Jones, T., & Wicks, A. (1999).Convergent stakeholder theory. Academy of Management Review , 206-221.

[9]. Mitchell, R., Agle, B., & Wood, D. (1997). Toward a theory of stakeholder identification and salience: Defining the principle of who and what really counts. Academy of Management , 853-886.

[10]. Post, J., Preston, L., & Sachs, S. (2002). redefining the corporation,stakeholder management and organisational wealth. stanford university press.

[11]. Barney, J. (1991). Firm resources and sustained competitive advantage. Journal of management , 99-120.

[12]. Jensen, M., &Meckling, W. (1976). Theory of a firm: Managerial behaviour agency costs and ownership structure. Journal of Financial Economics , 305-360.

[13]. Jones, T. (1995). Instrumental stakeholder theory: A synthesis of ethics and economics. Academy of Management Review , 404-437.

Abigail Asalu"Influence of Stakeholder Management on Appropriation of Competitive Advantage." International Journal of Business and Management Invention (IJBMI) , vol. 07, no. 06, 2018, pp. 32-34.