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Usage of Stakeholders' Contribution and Satisfaction Approach in SMEs - Results of a Qualitative Research

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Abstract

Soft performance indicators have increasing role in performance management, this is not any more argued in management literature. This paper discusses the possible use of performance prism concept in small and medium sized companies practices, assuming that spontaneous use of special indicators has impact on companies' performance. After giving a short overview of soft performance measures, especially the concept of performance prism that is a second generation performance measurement framework involving the satisfaction and contribution of companies' stakeholders, the study presents the findings of a qualitative research on the practice of performance measurement among small and medium sized organization in Hungary.

Keywords: soft performance indicators, performance prims, stakeholder management

1. Introduction

The small and medium enterprises are acknowledged as important drivers of economy, their performance has a strong effect on overall economic performance. Researchers and economic agents are equally concerned by the question how the success of these companies could be enhanced, In the case of SMEs that have often been established based on an idea, perhaps on a family tradition, often forced to set up SMEs marketing orientation, the ability to innovate is questionable, however, we can meet a lot of success stories. In this study we examine the significance of stakeholders relationships, organized spontaneously and sometimes constructed deliberately in the practice of Hungarian small and medium-sized companies. In the presented research after the exploration of success factors perceived by the managers we explore the importance of each stakeholder and its contribution to corporate success based on the opinion of business leaders participating in this research.

The realization that internal stakeholders (company owners, investors, managers and subordinate employees) and external groups involved (customers, suppliers, partners, state agencies, etc.) impact the success of the company is not new. The question arises, however, how the role and contribution of these groups are recognized and how deliberately they are handled by the business executives of small and medium sized enterprises.

We specified performance prism concept as the theoretical base of the research. Performance prism is the second generation system of performance measurement and performance management, which draws attention to the importance of soft indicators, a measurement model that builds on a wide range of stakeholders. (Neely et. al, 2004) The starting points of the performance prism are stakeholder satisfaction and stakeholder contribution to corporate success. Based on the model to achieve it the coordination of different, logically related aspects of performance (facet) is necessary, such as coordination of strategy, abilities and processes. The model makers point out that long-term operation of organizations can only be achieved if the firms after mapping their stakeholders implement operation in line with their needs and expectations nurturing long-term, mutual relationship.

Our aim could obviously not be to find an example of conscious application of the presented system in small and medium-sized business practice. It can be assumed, however, that the spontaneous - arising from the nature of the activity, the manager / owner's aptitude, habit or from operating specifics of SMEs - application of stakeholder relations can be traced in the practice of eleven examined companies.

2. Short Overview of Stakeholder Theory

Stakeholder approach recently celebrated its thirtieth anniversary. Edward Freeman (1984) put it in the eighties that one of the keys to business success is the knowledge of those involved in the environment of the company. Freeman introduced the notion of stakeholder management, which he defined as conscious, action-oriented networking and management task of the organization. The practice in this area as well was decades ahead of theory - according to Preston (1990) General Electric Company identified its stakeholders even in the early 1930s and according to the wording of the management the shareholders of the company benefited from the fulfillment of customers, employees and the community (general public) expectations.

One of the main directions of stakeholder researches focuses on accurate definition of stakeholders. Mitchell et al (1997) collected stakeholder definitions previously published and reviewed the trends of development in an overall, comprehensive synthesis. „, a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of an organizations' objectives” (Freeman, 1984 pp 46). In his original work Freeman (1984, p. 55) defines twelve stakeholders in a large corporate example, emphasizing that the number and composition of stakeholders may be varied depending on the company size, its geographical position and industry specifics. Subsequent studies have typically examined six stakeholders: the owners / investors, customers, employees, suppliers and local communities. One of the most common categorization of stakeholders is the separation of primary and secondary stakeholders group (Carroll, 1989) as well as the definition of external and internal stakeholders (Freeman, 1984). The common feature of these classifications is thinking in bilateral relations of a stakeholder and the analyzed enterprise and not in relation systems, networks. (Rowley, 1997)

Some researchers narrow the range of stakeholders on the basis of their role in the company's core business activities and its survival. (Bowie, 1988). According to Cornell and Shapiro (1987) those can be considered as stakeholders who assume a role in contractual exchange relations in the company's operation but in the nineties the concept of ethical claims

also appear in the literature (Wicks et al., 1994), which suggests the completion of sustainability and social engagement in the stakeholder literature.

Although Freeman emphasizes in all his manifestations that ethical, sustainable operation and profitability are not mutually exclusive strategic approaches, ethical operation yet assumes company-wide change of attitude. The essence of the new paradigm is that instead of stakeholder management, previously applied in order only to survive and also to enforce economic interests, a company operation of systematic approach achieving a balance between the interests of players is to be realized in the market environment. (Mitchell et al. 1997)

Donaldson and Preston (1995) call the attention to three nested aspects of stakeholder theory.

According to the authors the center of stakeholder approach is the normative research direction starting from theoretical basics, describing and examining moral functioning and sustainable approach. Instrumental approach uses stakeholder theory to examine the relationship between corporate practices and outputs (eg. performance) or the lack of connection, while descriptive approach uses it to present analyzed companies, to map relationships.

Generic stakeholder approach can not be applied in full to SME practice. Because of the peculiarities of market impact some authors narrow the range of stakeholders involved in the analysis: they indicate family/family members, employees, local competitors, suppliers, the local community and customers as the subject of their researches. They underline that contacts developed in such systems are typically informal, the participants often value it either as a comradely (camaraderie) relationship or as a friendship. (Spence, 2014)

3. Stakeholder Analysis and Evaluation methods

Identification, analysis and evaluation of stakeholders has a growing importance due to the multidirectional interconnection of environmental players. It is more and more evident that behind the processes, performances researchers should search, examine coherent systemic relations. (Bryson, 2003) In the literature we can find two directions of analytical frameworks: methodologies used to analyze general economic phenomena and analytical models for specific projects / problems - verification of their general applicability requires further tests. Freeman (1984) defines the identification, evaluation of stakeholders as one of the starting points for corporate strategy development. He mapped the identified stakeholders along interests (it can be property, economic relation and other effects) as well as power (formal, economic, political). Compiling stakeholder maps, as well as outlining stakeholder matrixes have become a typical methodology both in literature and in practice of recent years.

In process-oriented approach the methods of analysis can be divided into three groups (Reed et al., 2009) such as:

- models assisting in the identification of stakeholders
- groups of methodologies for the distinction, categorization of stakeholders
- and groups of tools to support exploration of relationships between stakeholders.

Several researchers have undertaken empirical studying of applicability of each analysis tool.

In our further analysis this grouping system of aspects has been used in a slightly modified way (by adding a plus category and merging two categories) to compare some of the models found in the literature. (Table. 1)

Table 1.: Comparism of stakeholder analysis methods

Modell	Reference	The role of the modell in analysing process			Possible fields of application	
		Stakeholder identification	Stakeholder categorization, relationship exploration	Involving stakeholders	General	Specific - Project management
Stake/Power grid	<i>Freeman (1984)</i>	x	x		x	
Relative Threthaning Potencial/Relative Cooperative Potential matrix	<i>Freeman (1984), Savage et al. (1991)</i>	x	x	x	x	
Power/Interest grid	<i>Eden-Ackermann (1998)</i>	x	x	x	x	x
Importance/Influence grid	<i>Newcombe (2003)</i>	x	x			x
Stakeholder Saliance Modell	<i>Mitchell et al. (1997)</i>	x	x	x	x	x
Stakeholder Cycle Modell	<i>Bourne-Walker (2005)</i>	X	x			x
Rainbow diagramm (Affecting/Affected)	<i>Chevalier-Buckles (2008)</i>	X	x		x	x

Source: by the author

This paper does not aim to use the existing models. In our empirical research we explore the nature of spontaneous stakeholder relations and examine the applicability of a possible new stakeholder analysis model in small and medium-sized corporate practice. Stakeholder contribution and satisfaction displayed on the performance prism (Neely et al, 2008) provides the basis of our model. Accordingly, during the research, based on the SME executives' value judgments on each of the stakeholders we strive to test the applicability of a contribution / satisfaction grid.

4. Presentation of Empirical Research

Researchers examining the competitiveness of SMEs (not surprisingly) have not so far found a clear recipe for success. Examination of the relationship systems is getting a higher value in this sector, which is justified by several specificities in operation of businesses. These specificities include, but are not limited to: the scarcity of financial and human resources, the potential financial pressure arising from this and from other factors, the management / owner's management approach and its lack, the incidentalness of marketing strategic approach, the lack of

expertise observable in some areas and limited market influence, which increases the company vulnerability. Based on the descriptive approach of stakeholder theory in this paper we examine the participating executives' perceptions concerning cooperation, their relations with stakeholders.

It is assumed that the role of relationships, their contribution to corporate success comes to light/gets manifested in the introductory issues, even before we reveal the purpose of the investigations to research participants.

In the rest of the research we discuss the examining of stakeholders contribution. Based on the incidentalness of the appearance of the already mentioned marketing strategy it is expected that the interviewed company executives do not derive business performance primarily from the contribution of customers.

It is also assumed that as the output of research a stakeholder contributions / satisfaction matrix can be sketched, applicability of which may be the base for subsequent investigations.

4.1 Methodology of the research

Although countless studies inquire the performance of small and medium enterprises, by reason of the new approach to the issue we decided to use the exploratory, qualitative method. In the specialized international literature there are some case studies and publications built on quantitative research regarding stakeholder assessment, even so, the preliminary exploratory research seems to be justified.

During the research eleven in-depth interviews were carried out in June 2016. The only consideration for businesses involved (Table 2) in the study was the number of employees over 10 people and less than 250. Although in the first half of the research the interviewees did not know the base theory, before the questions in the second half of the research interviewers described the essence of stakeholder theory.

Table 2: Composition of the companies involved

	Number of employees	Fields of activity	Revenue growth (last year)	Assesment of company performance
C1	10	Information technologie	4-8%	avg.
C2	25	Agriculture	20%	good
C3	14	Commercial services Accomodation, food	2-4%	avg.
C4	10	services	n.a	avg.
C5	70	Administration	n.a	avg.
C6	15	Commercial services	decrease	avg.
C7	14	Industry	5-10%	avg.
C8	14	Industry	8%	very good
C9	29	Industry	20%	very good
C10	n.a	Transportation services	-	poor
C11	62	Information technologie	10%	avg.

Source: by the author, based on primery research

4.2 Findings

The first questions in the interview guide investigated the key to the success of the companies. Two dominant categories have become distinct from success factors mentioned by the business leaders interviewed: elements arising from the uniqueness /specificity of activity and success factors underlining the importance of relationships. (Table 3)

Table 3: The factors of corporate success and failure

Specific/unique competence/field of activity	Both	Relevance of Relationships
"Professional background, conscious development" (C11)	"Low expenses, high productivity" (C2); "Relationships that started not today" (C2);	"Long term relationships, well established partnership" (C3)
"Unique, complex service" (C6)	We consider to be very family like" (C4)	"Trust of customers and employees" (C9)
"Not too much companies of this type" (C8)	"Long term successful partnership" (C7); "Continues development" (C7)	"Relationships, attitude, luck" (C1)
"Unique service, innovation, customer focus" (C10)		
"Human capital" (C5)		

Source: by the author, based on primary research

More than half of the interviewees spontaneously mentioned relationships as a primary success factor for their business. It is important to point out that in some cases it ment relationships not exclusively to customers but also to partners, employees. It is striking that innovation considered to be a key indicator of competitiveness has only been among success factors in the case of two companies. From the responses to specific questions on innovation it revealed that three companies are not planning any development, some places are thinking about purchasing tools primarily from tender sources, some companies are planning smaller developments relying solely on their own resources.

Three categories have been outlined from the responses regarding the greatest deficiencies of the companies:

- Problems arising from company size: decision-making processes, information flow (these types of problems have emerged in both medium-sized companies), vulnerability
- Lack of resources
 - o Labour shortages (problem occurring especially in businesses of labor-intensive sectors)
 - o Lack of capital, financial constraints
- Sector-specific issues: natural environmental conditions, quality assurance

The results of the examination of relationships to stakeholders

Further questions of the interview concerned relationships to individual stakeholder groups. Among the participating eleven company leaders, nine are also the owners or part-owners of the business. The interviewees emphasized primarily its advantages, such as the better view of the company affairs, ownership attitude becomes effective.

"...the farmer's eyes fattening the cattle..." (C6)

The freedom of decision appeared in the answers in a single case. The interviewees seem to consider the lack of profit expectations pressure and flexibility to be natural, it is likely they have always or for a long time worked within a framework like this.

The respondents evaluated ownership contribution, partly interpreted as their own performance, relatively high. In the interview we asked the participants to share 100 points according to the degree of contribution of individual stakeholder groups (owners / investors, customers, suppliers, employees, communities / authorities) to the success of their business. The owner's contribution got the evaluation of 50 points or over in three cases and it was observed only in three cases that the score of the owner's contribution was lower than those allocated to the buyers.

Business leaders are, of course, aware of the importance of customer relationships but in some cases it seems to be detected only at the level of phrases. Heterogeneous opinions were born regarding the role of customers. There are businesses where customer satisfaction measurement system is operated, other companies make efforts to achieve greater customer satisfaction for key customers, however, roughly half of the executives said that it would be difficult for their customers to replace their business in case of termination of the relationship, thus it seems that the relationships can largely be considered reciprocal. Only three business leaders rated customers' contribution to success the highest score and five respondents thought that the roles of the owners and customers have the same weight among success factors.

Based on the responses supplier relationships got less than expected stress. Dependence on suppliers is almost not at all typical in the circle of companies in the sample, although in one case they remarked "it is hard to find a good supplier". Suppliers contribution to success is believed to be industry / business specific, the allocated scores were between 4 and 20, most managers assessed the added value of suppliers 10 points.

The employees, the third in terms of importance, joined the group of owners and customers. Responsibility felt for employees has been mentioned in several cases during the interviews. Although several managers mentioned labor shortage as one of the most typical hindering factor for business success it is these leaders who pay minimal attention to the involvement of employees. In respect of motivation financial remuneration appeared primarily in the responses but the operation of performance rating systems or other forms of reward: corporate events, team building have also been said. Employee contribution received the highest score for a single enterprise (C9) but in the majority of cases it took the third place behind the owner and customer groups.

The influence of local communities and other stakeholders appeared also as industry / activity specific. It is obvious that for the manager whose business has been set up to serve local needs (C4) local communities were given high priority, for the local building contractor (C9) a good relationship formed with the authorities, local organizations is also important but this group of stakeholders was not interpretable, irrelevant to the majority of entrepreneurs involved in the research.

The testing of new stakeholder analysis model defined as one the objectives of the research has been implemented. The above analysis clearly shows that the concept of

stakeholders contribution can be interpreted well by company managers and can be measured with some limitations (although it is not the primary goal in the case of a qualitative research). A number of problems raised during the research as regards an other dimension, defined by the performance prism (stakeholder satisfaction), of the model. The managers cited lack of information as regards stakeholder satisfaction, although the concept was obviously interpreted by them. 'You should ask them!' In case of other stakeholders (eg. local communities, for some interviewees suppliers) the question was thought to be irrelevant. Several people have mentioned, however, in their replies that reciprocity is the basis of good relations, since long-term cooperation can only be realized this way.

5. Summary

Referring to the assumptions pre-formulated in the course of the research it can be concluded based on the surveyed small and medium-sized entrepreneurs' opinion that relationships take an important place among SME success factors. The business leaders are well aware that establishing and maintaining of long-term, mutual relations are the pledge of survival, they can be an important competitive advantage for all market participants.

The stakeholder attitude can be detected only trace amounts even implicitly in business philosophy of SME-s investigated. Philosophy stressing mutual prosperity and the common interests of the community and the stakeholders has been formulated in a single enterprise, and in the case of the named company (C4) embeddedness in environment, informal, close relations system also prevailed as it had been projected on the basis of literature by Spencer. In other interviewees' case commitment to an individual stakeholder group (activity- specific, arising from the leader's own preference) has been observable.

It can be stated that the interviewees attribute an extremely important role to three stakeholder groups: the owners (who are usually also the the managers themselves), customers and employees. Respondents value the contributions of these stakeholder groups especially high, in their opinion contribution of these groups induces corporate success at a rate of 70-80%.

For the new stakeholder analysis model we wanted to test it seems to be confirmed that the model can be refined by clarifying original dimensions, their transformation, by incorporating reciprocity rather than satisfaction but its practical applicability requires further investigations.

It is important to emphasize research limitation and define further possible orientations. Recent research is an exploratory, qualitative research, based on which general statements we cannot/should not formulate. Encoding process and analysis were performed by one researcher, which is unfortunate by reason of excessive subjectivity. The sample was small, so in case of some questions it could be felt that for theoretical saturation additional interviews would be required.

Limitations at the same time determine also the possible research directions. We consider it expedient to involve more companies in the research. Based on the feedbacks we consider it to be important to explore interpretational differences for each term, so, a more detailed examination of aspects of terms contribution, mutuality. We believe that based on these concepts,

by refining our model, further quantitative researches are necessary for testing its practical application.

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