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Use of Grounded Theory to Explore the Perception of Stakeholder Relationship

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Abstract

This article explores the application of grounded theory as a tool for building theory on the SME manager's perception of their company's stakeholders. Grounded theory, as an inductive research process is appropriate for situations where there is no pre-existing theory therefor using it in analyzing SME managers' opinion on stakeholder theory seems to be adequate approach. This study assumes that limited theory existed regarding the role of stakeholder analysis in facilitating small and medium sized company's performance. Theoretical propositions were induced from the findings that emphasis the relevance of stakeholder approach and usage of other soft performance indicators in SME performance management.

Keywords: Grounded theory, stakeholder theory, perception of stakeholder's

1. Introduction

The success of qualitative research is largely influenced by the methodology used in compiling the interviews, the guideline, the expert moderator properly conducting the unstructured interview and the technique for processing the collected information. Coding and analysis of qualitative data gives a fairly broad scope for subjectivity, so it is advisable to devote special attention to the context of the information during processing. (Sántha, 2011). In this aspect, grounded theory was born as a research method which is well suited for the researcher to get from individual data to the level of creation of a theory.

Although the development of grounded theory methodology is internationally referred to as a milestone in sociology, psychological research and other disciplines and widely adapted in conducting qualitative examinations, in economic areas (Geiger-Turley, 2003), particularly with respect to Hungarian management and marketing research it did not really spread. (Mitev, 2012)

In this paper we undertake to investigate the relationship of small and medium-sized enterprises with stakeholders. Small and medium-sized businesses are recognized as the main drivers of economy and their performance has a strong impact on overall economic performance. The largely intuitively managed SMEs have significant social capital, their formal and informal business relationships play an important role within the sector and also in inter-sectoral cooperation. We want to explore the nature of these relationships in the framework of a

qualitative research. To lay the foundations of the research we used stakeholder literature, while collecting data and during the encoding and analysis of the information received we used grounded theory methodology.

2. Grounded theory basics

Grounded theory (Strauss-Glaser, 1967) is a cognitive and research trend that is typically - but not exclusively - used in qualitative studies. The most important feature of this methodology is to create a bridge between theory and empirical research, its aim is to get the researcher to reach creating a theory by investigating and understanding individual cases, through an inductive approach and systematic methodological steps. (Sántha, 2011, Gelencsér, 2003, Bernschütz, 2009).

During quantitative researches, theories based on literature or secondary data and derived from previous experiences are tested in separate phases (data collection, analysis, theory creation) based on deductive logic. The key elements of quantitative research are quantifiable variables, which, according to the predominant concept, are the exclusive means of validation and verification. (Mitev, 2012). According to the qualitative point of view, on the contrary, data collection, analysis and theorizing are parallel processes in interaction. (Sánta, 2011). When applying grounded theory, the research starts with a generalized hypothesis rather than a well-defined problem, which develops, transforms, and concretizes according to research results. The grounded theory is based on the principle of constant comparison, which means continuous examination of data, information, the building of main and subcategories, the integration of categories and their contents, shaping the outline of the theory, and their concretization (Flick, 2002 quotes Sántha, 2011) until "the big picture", the theoretical framework is assembled. (Mitev, 2012).

2.1 Grounded theory development

The spreading, transformation and development of the research method led to the separation of the two founders, Glaser and Strauss, and resulted in new trends, thus, the specification of the method cannot nowadays be considered complete if we do not name the school's (Glaserian, Straussian, constructivist, etc.) views in our own research. (Geiger-Turley, 2003)

One of the pillars of grounded theory is the methodology of coding and re-coding and this is one of the areas which the founders could not agree on. The disagreement between the two theorists arises from the view if an external theoretical framework can be involved in the study during encoding. According to Glaser, if we use exterior, in vivo codes and not the ones formed from the data, revealing the internal contexts becomes impossible. (Sánta, 2011) In contrast to the Glaserian, fully-inductive approach, Strauss and his later co-author Corbin, partly recognizing the justification of deductive logic, integrate the legalities that can be defined on the basis of the literature and emphasize the need for validity and proof. (Heath-Cowley, 2004)

With regard to encoding mechanisms, Glaser suggests the use of substantive (initial open code marked when encoding events) and theoretical (based on substantive codes, abstract, higher-level) codes, while, in addition, axial encoding appears in straussian trend, through which revealing the relationships and connections between the previously created categories by

comparative analysis the main nodes and basic categories are drawn up, thus avoiding the proliferation of information. (Sántha 2011, Kelemen, 2014, Mitev, 2012)

The basic discussion questions of the two schools are presented in Table 1.

Table 1. Comparison of the two trends of Grounded Theory

	<i>Glaser</i>	<i>Strauss and Corbin</i>
Formation of theory	Emergence without preconceptions, theoretical saturation	Literature can be integrated, "forcing"
Encoding	Substantial, theoretical codes	Open, axial, selective codes (involving in vivo codes)
Research strategy	Inductive character	Inductive, but deductive logic is also allowed
Validation, verification	No relevance	Essential aspect
Research planning	Develops in its process	Pre-designed
Applicability	Difficult to understand, difficult to apply	Less abstract, "user-friendly"

Source by the author based on Mitev (2012), Sántha (2011), Heath-Cowley (2004)

Developing the straussian concept, the constructivist approach of grounded theory has been created (Charmaz, 2006), which strengthens the direction of abductive¹ research logic in methodology. It is inductive since the theory is the result of the set of information collected during the research and deductive because it involves literary knowledge in the research both during coding and validations of the results.

2.2 Application process of Grounded theory

Based on the summary of several authors, the basic steps of the methodology can be defined as follows: (Mitev, 2012)

- Immersion in data, fieldwork
- Simultaneous data collection and analysis
- Theoretical sampling, which means involving newer interviewees parallel to the processing of the information received until theoretical saturation level is reached (it is the point at which the involvement of a new participant does not represent any surplus information)
- Using constant comparison
- Conducting a multi-step encoding process
- Making notes
- Theoretical saturation
- Creating, refining, finalizing and presenting the theory

¹ Abduction is a process derived from the constant repetition of deduction and induction, in which we can conclude statements that explain the truth of our initial statements.

During the presentation of the research presented in the study, we consider the scientific basis of the topic to be accepted according to the guiding principles of the straussian and constructivist grounded theory, so the research results are interpreted after the short presentation of the stakeholder theory.

3. The basic concepts 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.

“Corporations have stakeholders that is, groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by corporate actions” (Freeman, 2001 pp. 41).

Part of the stakeholder concept literature focuses on accurate definition of the notion. Originally Freeman (1984, p. 55) defined 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. Aspirations to narrow the stakeholders range come from practical considerations that company executives' time and resources are limited. Subsequent studies have typically examined six stakeholders: the owners / investors, customers, employees, suppliers and local communities, all of them having reciprocal stakes in the corporation.

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 analysed enterprise and not in relation systems, networks. (Rowley, 1997)

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)

The term of stakeholder appears in relationship marketing literature in the nineties. Among the beneficiaries of relations Gronroos (1996) mentions in his definition a range of other stakeholders in addition to the customers. Other approaches define business itself as a coalition of stakeholders. (Payne et al., 2001) The concept of stakeholder relationship marketing Murphy describes as follows: „...stakeholder relationship marketing...delivering long term economic, social and environmental value to all stakeholders in order to enhance sustainable business financial performance,, (Murphy et al., 2006). Beyond the widening of business horizon in the definition long-term thinking and commitment to sustainable business model can be detected.

4. Grounded theory construction of stakeholder relationship

Examination of the relationship networks of small and medium sized company's 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, the management/owner's management approach and its lack, the incidentalness of marketing strategic approach, the lack of expertise observable in some areas and the limited market influence.

The basic concept of grounded theory methodology makes it unsuitable for testing hypotheses so the goal of the research was to establish a theoretical framework for SME stakeholder relations. The target system of the research focuses on three areas, such as:

- The emergence of links to the stakeholder relationship among company success factors
- Managerial perceptions of relationships
- Mapping the characteristics of stakeholder relationships

4.1 Methodology of the research

To examine this topic, in line with the research objectives, we decided on a qualitative, exploratory research, during which data collection and processing took place simultaneously in accordance with the grounded theory principles, the guideline of interviews changed in its process, has expanded also with several open questions on relationships, always keeping in mind the original objectives of the research.

Theoretical sampling

Data collection took place in several phases according to the theoretical sampling principles, first ten, later another seven interviews were made. Regarding the expected number of interviews conducted, Riley (1996) formulates a recommendation for eight people, other literature links the appropriate sample size to the theoretical saturation point. (Kelemenné, 2014) In our case, on the basis of the results, we do not exclude further interviews to refine the information.

It can be assumed that the scope of activities of enterprises also greatly influences the nature of their relationship system. In this respect, the sample is quite heterogeneous, service providers, manufacturing companies and one business operating in rural areas were included in the companies surveyed.

Coding

We started the encoding process with line-by-line data analysis of in-depth interviews. During the creation of open codes we tried to identify keywords and key phrases. The received key words were grouped according to issues or topics by axial encoding, taking into account the dynamic relationships between them. It is important to note that in the course of data analysis, axial coding was not justified for all the topics. As the last phase of the study, selective coding has resulted in core categories that can be considered as the decisive elements of the theoretical framework.

Encoding of managerial responses to the question of the reasons for success of the enterprises involved in the research is contained in Table 2.

Table 2. The schema of encoding process based on grounded theory method

	<i>Open code</i>	<i>Axial code</i>	<i>Selective code</i>
C1	"aptitude, relationship, luck"		Relationship
C2	"few partners, long-term cooperation"		Relationship
C3	"many years of successful cooperation"		Relationship
C5	"human capital, professional background"	Expertise	Special product / competence
C6	"right people in the right position"	Expertise	Special product / competence
C7	"continuous development, taking advantage of applications "		Innovation
C8	"no similar manufacturers in the market"	Unique product	Special product / competence
C9	"clientele", "employees' confidence"		Relationships
C10	"unique product",	Unique product	Special product / competence
	"innovation"		Innovation
C12	"training courses", "service"	Added service	Differentiating services
...			
C14	"personalized, flexible"	Added service	Differentiating services
...			
C16	"highly experienced staff"	Expertise	Special product / competence
	"IT, digital services"		Innovation
	"professionals related to publishing"	Strong supplier base	Relationships
C17	"specialized services ", complex solution	Added service	Differentiating services

Source by the author based on primary research

4.2 Results

Following the identification of the area of activity of the investigated companies we examined the success factors considered most important by the managers. Based on the interviews we have created five basic categories for coding (their further consolidation is still possible): special offer (unique product) / special competences (mainly including well-qualified, reliable team of professionals), differentiating services (this means mostly a flexible attitude, customization), innovation and relationships.

The significance of relationships have been spontaneously mentioned in more than half of the interviews, but innovation as one of the main indicators of competitiveness is highlighted by just two CEOs as the success factor of their business. Relationships appeared in also a negative context during the interviews, "political contacts" or lack thereof, as a factor overwriting the market mechanisms, have been mentioned by several participants.

Further interview questions were related to the relationships with individual stakeholder circles. Of the 17 managers involved, 15 are owners or part-owners of the business. Its advantages were primarily emphasized by interviewees, such as a better insight into the company's affairs, the ownership attitude prevails, the difficulty of separating strategic and operational levels has been identified as a problem by several company executives.

Customers, as an orientation point, are the origin of corporate activity in the responses but most of the relationships are market-specific, B2B relationships appear as a long-term relationship, contact with customers in the consumer market is sometimes carried out indirectly (e.g. through an agent network or an intermediary organization). Regarding the quality of the relationship, heterogeneous opinions have been formulated by business leaders, from bilateral partnership up to the one-way, vulnerable ("they exploit us") relationship.

The suppliers' connections got less emphasis than expected from the answers. Dependence on suppliers only appeared in one of the companies in the sample.

Good team of employees as a success factor already appeared at the beginning of the interview with several company executives. Although more managers mentioned labor shortage as one of the main barriers to business success, they are not prepared with real action plans to eliminate the problem. In terms of motivation, primarily financial motivation appeared in the responses.

The influence of local communities and other stakeholders is minimal. In the first round strong environmental embeddedness was perceived in the case of one enterprise and the resulting sensitivity to the problems of the immediate community and the environment. In the second round another company manager reported on socially responsible operations.

5. Summary

Based on the results of the grounded theory principles, the theoretical framework in Figure 1 can be defined for SME stakeholder relations. Each of the topics covered by the research interacts with each other, the arrows indicate possible directions and suggestions for connection.

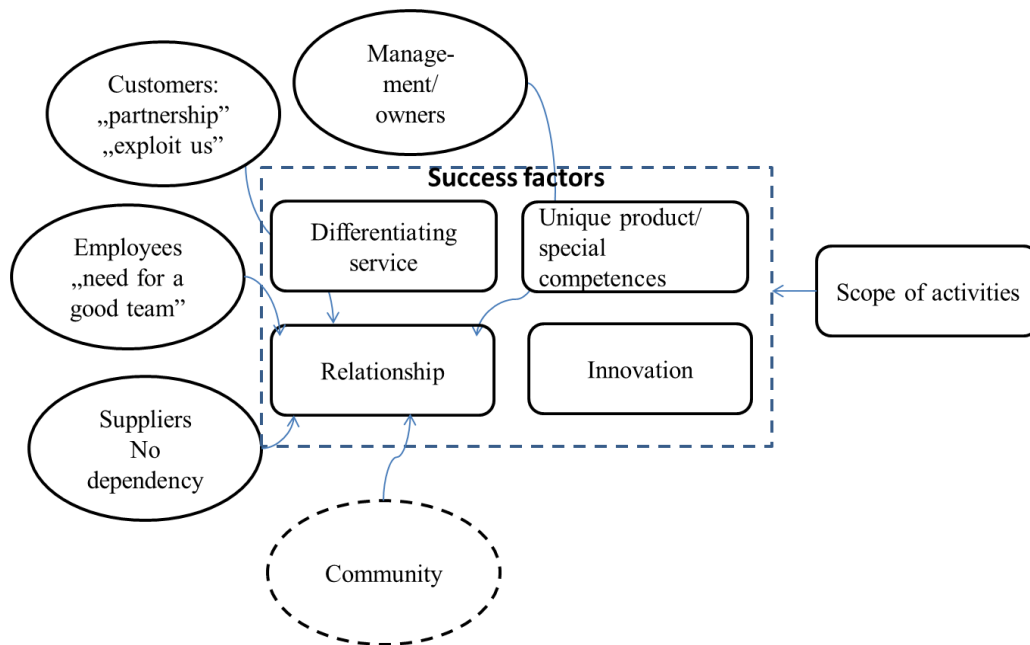


Figure 1: Relationship among success factors
Source: by the author

Referring back to the assumptions previously made in the research it can be concluded that relationships play an important role in the success factors of SMEs based on the opinion of the small and medium-sized entrepreneurs surveyed,

Based on the opinion of small and medium-sized entrepreneurs surveyed, relations play an important role in the success factors of SMEs. Business leaders are aware that building and maintaining long-term mutual relationships is a pledge of survival and can be a competitive advantage for all market players.

It is important to emphasize the limitations of the research and to identify further possible guidelines. This research is an exploratory, qualitative research that cannot be used to make general statements. The encoding process, the analysis were performed by a single researcher, which is unfortunate because of excessive subjectivity. The sample is small, so it was felt in a number of questions that further interviews would be needed for theoretical saturation.

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