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The effect of stakeholder categories on the creation of a firm's competitive advantage

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***ABSTRACT**: The struggle to gain competitive advantage in markets that grow fiercely has radically altered the complexion of many businesses. A firm creates value when the price its customers are willing to pay for its offerings exceeds the firm's opportunity cost. In order for managers to make well-informed decisions regarding actions that will create more value, they need to understand what shapes customers' willingness to pay and what affects the firm's opportunity costs. This understanding is based on knowledge of customers' welfare and the welfare of all other stakeholders of the firm. The need to develop this level of understanding about stakeholders provides a primary motivation for stakeholder theory. Stakeholders' welfare refers to the well-being of stakeholders and is often conceptualized by a utility function. Utility function of a stakeholder specifies that the stakeholder's preferences for different combinations of tangible and intangible outcomes resulting from actions taken by the firm.*

***KEYWORDS:**Internal stakeholders, External stakeholders, stakeholder capitalism*

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I. INTRODUCTION

Today's firms face threats and opportunities arising from a variety of stakeholders, including shareholders, employees, customers, suppliers, regulatory agencies, communities, governments andlabour unions. Stakeholder management involves implementing organizational policies and practices that take into account the goals and concerns of relevant stakeholders, in a manner that is consistent with the firm's enterprise-level strategy and profitmaking purpose.A firm's survival in emerging economies is often related to having access to valuable resources that are in stakeholders' hands

II. METHODOLOGY

The data that was collected to investigate the research topic; was classified into secondary and primary data. The secondary data required for this study were available from GCB Bank and Fidelity Bank in Ghana. The primary data was however collected directly through the use of questionnaires also in Ghana.

The survey sample size was 390 persons. Thirteen responses out of this number were discarded during the data cleaning process. Twenty-one persons declined to participate while sixteen persons did not respond. 340 respondents out of the total disbursed questionnaires were therefore regarded as valid respondents, giving an overall valid respondents' rate of 87.2 percent. The breakdown of responses for the various stakeholder types is shown in the table below.

Total and Valid Respondents

Stakeholder		**Valid response**		**Discarded**		**Declined**		**No response**	
		Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Internal stakeholders	Employee	60	17.6		0.0		0.0		0
	Manager	18	5.3		0.0		0.0		0
	Shareholder	101	29.7	3	23.1	5	23.8	8	50
	Total	**179**	**52.6**	**3**	**23.1**	**5**	**23.8**	**8**	**50**
External stakeholders	Customer	120	35.3	10	76.9	16	76.2	8	50
	Regulator	3	0.9		0.0		0.0		0
	Supplier	19	5.6		0.0		0.0		0
	Banker	19	5.6		0.0		0.0		0
	Total	161	47.4	10	76.9	16	76.2	8	50
	Grand Total	**340**	**100.0**	**13**	**100.0**	**21**	**100.0**	**16**	**100**

Due to the ordinal outcome of the endogenous variable-sources of competitive Advantage and the fact that the data is significantly non-normal, nonparametric technique of ordered logit analysis was performed to analyse the effects of stakeholder management on creation of competitive advantage whilst controlling for individual level determinants such as gender and age group of stakeholder. In terms of role played over creation of competitive edge, employees, managers and shareholders all had significantly higher impact in the creation of competitive edge than suppliers and other external stakeholders. Comparatively, the most significant impact on creation of competitive edge was obtained among managers ($p<0.01$), followed by shareholders ($p<0.01$) and employees ($p<0.05$) respectively.

Also, in terms of the magnitude/strength of the role played over creation of competitive edge, employees, managers and shareholders all had significantly higher impact in the creation of competitive edge than suppliers and other external stakeholders. Comparatively, the strongest role on creation of competitive edge was obtained among shareholders ($p<0.01$), followed by managers ($p<0.05$) and employees ($p<0.05$) respectively.

The effects of gender and age group on creation of competitive edge in the firm were not statistically significant. 62.3% indicated that they had played a role over how competition was created in the firm. Twenty one percent (21.1%) of the respondents neither agreed nor disagreed to that assertion whereas the rest (16.6%) of the respondents disagreed. There is a significant relationship between stakeholder category and whether or not they had played a role over how competition was created ($\chi^2 = 39.5$, $p<0.01$). Specifically, internal stakeholders (81.3%) were more likely to have played a role over how competition was created than external stakeholders (41.2%).

About forty eight per cent (47.6%) of respondents indicated that they played strong or very strong roles over how competition was created in the firm. Thirty five percent (35.3%) of the respondents neither agreed nor disagreed to that assertion whereas the rest (17.1%) of the respondents disagreed. There is a significant relationship between stakeholder category and the strength of role played over how competition was created ($\chi^2 = 39.5$, $p<0.01$). Specifically, internal stakeholders (70.1%) were more likely to have played stronger roles over how competition was created than external stakeholders (22.7%). According to all the respondents, the strongest role over how competition was created was played by managers of the bank. This is followed by shareholders, employees, regulators, customers, bankers association and suppliers in descending order of importance. The internal stakeholders also viewed managers as the most important in terms of role played over how competition was created, closely followed by shareholders, employees, regulators, customers, bankers association and suppliers in descending order of importance.

Similarly, the external stakeholders viewed managers as the most important in terms of role played over how competition was created, closely followed by shareholders, employees, regulators, bankers association, customers and suppliers in descending order of importance.

III. DISCUSSION

There are several scholars who maintain that stakeholder management contributes to value creation which is the source of competitive advantage. Freeman and his colleagues emphasize that the essence of stakeholder management is to view the relationships between a firm and its stakeholders as a network for creating value (Wheeler et al., 2003). The notion of stakeholder management involves two important issues: first, the purpose of a firm's existence is to create wealth for benefiting all of its stakeholders; second, stake managers should perform their role so as to offer the greatest benefit to each stakeholder involved (Boatright, 2006; Freeman, Wicks &Parmar, 2004). In line with this thinking, stakeholder management is compatible with the concept of gaining competitive advantage, and addressing the issue of how to maximize value creation.

Per study results there is a significant relationship between stakeholder category and whether or not they had played a role over how competition was created ($\chi^2 = 39.5$, $p<0.01$). Specifically, internal stakeholders (81.3%) were more likely to have played a role over how competition was created than external stakeholders (41.2%).

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The internal stakeholders also viewed managers as the most important in terms of role played over how competition was created, closely followed by shareholders, employees, regulators, customers, bankers association and suppliers in descending order of importance. Similarly, the external stakeholders viewed managers as the most important in terms of role played over how competition was created, closely followed by shareholders, employees, regulators, bankers association, customers and suppliers in descending order of importance. Managers are responsible for the day to day running of the organization and employees take instructions from them to be passed on to customers and suppliers alike. This is why most stakeholders are of the view that managers are the most important role players in the creation of competitive advantage.

There is a significant relationship between stakeholder category and whether or not they had played a role over how competition was created (39.5, $p<0.01$). Specifically, internal stakeholders (81.3%) were more likely to have played a role over how competition was created than external stakeholders (41.2%). Majority of the respondents (62.3%) indicated that they had played a role over how competition was created in the firm. There is a significant relationship between stakeholder category and the strength of role played over how competition was created ($\chi^2 = 39.5$, $p<0.01$). Specifically, internal stakeholders (70.1%) were more likely to have played stronger roles over how competition was created than external stakeholders (22.7%). Sources of competitive advantage are not only the key issue of competitive advantage but also the main theme discussed in the stakeholder management literature. For example, Freeman and Liedtka (1997) suggest a new perspective of the firm as creating value for stakeholders, termed stakeholder capitalism. As sources of competitive advantage are manifold, a firm can be regarded as a value-based network and can enhance its capacity to generate value by formulating a set of good and reliable relationships with its multiple stakeholders, through valued resources as well as activity drivers. In brief, stakeholder management is quite compatible with competitive advantage in relation to value creation.

The strategic management literature often implicitly assumes information about stakeholder preferences regarding cost, time and quality is common knowledge. This assumption is related to the notion that prices convey all relevant information about all economic actors' utility functions and that information about prices is common knowledge. While this logic has been helpful in developing theory regarding the efficiency of the price system, it is unhelpful for building theory about value creation because it ignores the fact that value creation opportunities are, by definition, uncertain and connected to the possession of unique information or resources Differences in individual stakeholders' utility functions give rise to market imperfections which, in turn, give rise to value creation opportunities. The fields of bargaining and conflict resolution offer helpful language for explaining how stakeholder theory contributes to our understanding of value creation. Like integrative bargaining theory, stakeholder theory assigns the less tangible concerns about self-image, fairness, process, precedents, or relationships the same analytic standing as the "harder" or "objective" interests such as cost, time, and quality (Sebenius, 1992). This treatment is consistent with the concept of utility functions that specify the relative impact on stakeholder welfare from actions taken by the firm. Theories that seek to explain value creation (beyond arbitrage) must allow for the situation where some information about stakeholders' utility functions is excluded from the market price (Rumelt, 1987).

The first step to creating value with a stakeholder is to probe deeply for interests, distinguish them from issues and positions, and to carefully assess tradeoffs (Sebenius, 1992). This is what we mean by seeking to understand stakeholders' utility functions. When a firm seeks to understand a broader set of stakeholders' utility functions, it increases the likelihood that it will be able to use unexpected events, such as changes in technology, changes in relative prices, changes in consumer tastes, and changes in law, tax, and regulation, to create value. Building on this type of knowledge, managers can envision potential resource combinations that will exploit the potential to create value. Firms that manage for stakeholders exhibit cooperative behavior such as openly sharing information, communicating clearly, spurring creativity, emphasizing joint problem solving, and channeling hostilities productively. When both parties take an integrative approach their joint problem becomes inventing alternative agreements that increase their utility. This often requires the firm to share its own utility function – the relevant tradeoffs that would increase and decrease its welfare – with its stakeholders.

IV. CONCLUSION

When a firm shares its own underlying interests with stakeholders it helps facilitate trust that many stakeholders seek before revealing potentially sensitive details of their own utility functions.

The process of inventing alternative agreements that increase utility is a creative envisioning process that requires entrepreneurial intuition and imagination. The process itself entails analyzing the similarities and differences between the firm's utility function and the focal stakeholder's utility function. For example, value can be created in exchanges when firms identify differences in factor values or market access that suggest greater potential gains from trade, complementary technical capabilities that can be profitably combined, differences in risk tolerance that suggest contingent agreements, or differences in time preference that suggest altering schedules of payments (Sebenius, 1992). This type of knowledge about stakeholders also makes it possible to envision other outcomes such as new products or services, new product or factor markets, new ways of producing or delivering, and new ways of obtaining resources. Firms use this process for creating value with stakeholder groups (e.g., a labor union) and individual stakeholders (e.g., a key customer). Firms that create value tend to identify and understand how the welfare of their stakeholders is affected by their actions. Separating this discussion from a discussion of value distribution is difficult because the firm's behavior during the discovery phase (when seeking to understand their utility functions) can send strong signals about how it will behave during the value distribution phase.

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