STAKEHOLDERS IN SMALL BUSINESS: CRITICAL RELATIONSHIPS FOR VALUE CREATION

Annika Westrenius, BMgt, BBus(Hons)

Student number c3067119

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STATEMENT OF ORIGINALITY

The thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to the final version of my thesis being made available worldwide when deposited in the University’s Digital Repository, subject to the provisions of the Copyright Act 1968.

This project was approved by the University of Newcastle’s Human Research Ethics Committee, Approval No H-2013-0291.

Annika Westrenius, BMgt, BBus(Hons)
Ourimbah, NSW, Australia
May 2015
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This research explored stakeholder relationships in small business with a particular focus on the concept of stakeholder salience (Mitchell et al, 1997). Stakeholder salience was defined by Mitchell et al as the combined effect of the decision maker’s perception of the stakeholders’ power, legitimacy and urgency. However, definitions of these three attributes were not developed to be of effective assistance for decision makers in the process of managing competing stakeholder expectations in practice. A multiple case study approach was used to gather insights and understanding of stakeholder relationships from the perspective of nine key decision makers in small business. It was found that although the term ‘stakeholder’ was not part of the interviewees’ everyday vocabulary, a stakeholder approach was nevertheless evident in their practices. The concept of power was found to be an ‘essentially contested concept’ with no clear, all encompassing definition. Refined definitions of power and legitimacy within the concept of stakeholder salience, were developed while the existing definition of urgency was found to be appropriate. Building on Mitchell et al’s stakeholder salience, the ValuePLUS model was developed. The ValuePLUS model incorporates the three attributes of stakeholder salience, with refined definitions, and adds two new attributes: ‘value’ to reflect the centrality of value creation to most business relationships, and ‘stake’ to reflect the inherent risk involved in assigning resources to that process. The SPIR model was developed and is proposed as a means to understand the subjective perceptions of whom may be a stakeholder and a practical tool is offered to provide a means for assisting decision makers to analyse the particular stakeholder environment. It was found that a focus on the attributes of the stakeholder relationships rather than the stakeholders, may provide a better understanding of the outcomes. The continuum of stakeholder relationships was developed to provide a framework for analysing and understanding the different types of relationships. This research provides new insights as well as a basis for further research to test the proposed new theories in different settings.
CHAPTER ONE
STAKEHOLDER RELATIONSHIPS

1.1 The problem

Ongoing economic turbulence and subsequent calls for more ‘responsible management’ recently revived the debate around what this might entail. Bragues (2009) suggests that much can still be learned from Adam Smith’s classic writings. Smith’s (1976) ‘invisible hand’ has been selectively quoted to support a narrow focus on profit whilst his insistence that such activity must occur within the bounds of ethical requirements (Smith, 1966) is often disregarded. Indeed, Freeman, Wicks and Parmar (2004:364) concluded that “… truth and freedom are best served by seeing business and ethics as connected”.

Whereas capitalism and business activities have a capacity to bring wealth, the permissions to operate, compete and to innovate are granted by society, and that permission may also be changed or even withdrawn (Etzioni, 1998; Hart & Sharma, 2004; Sach & Rühli, 2011). Increasing globalisation and integration of economies add additional layers of complexity as cultural norms and perceptions of value vary and the effects of corporate failures, scandals and malpractices are no longer contained, but quickly spread globally (Letza, Kirkbride, Sun, & Smallman, 2008; Temple & Walgenbach, 2007; Wong,Ormiston, & Tetlock, 2011).

The 2007/08 global financial crisis (GFC) highlighted a need for balance in the relationship between business and society. Although there were many contributing factors, the crisis was exacerbated by a failure in risk assessment, defective mental models, and poor management at least in part motivated by the pursuit of short-term profit (Debelle, 2009; Ellis, 2009; Willett, 2012). Business pointed to the responsibility to earn a profit for shareholders – resulting in a relatively short-term focus. Society on the other hand – in return for the right to operate – expected business to also recognise
and respect the needs of other stakeholders (Sach & Rühli, 2011; Schwab, 2008; Weiss, 2003). The two positions are in apparent conflict over the short-term. However, as highlighted by Egan and Wilson (2002), the long-term survival and ongoing success of the firm is usually in the best interest of shareholders and stakeholders alike and the two views thus merge.

The relationship between capitalism as represented by the business sector, and society may be seen as either parasitic or symbiotic (Kasthuri, DeYoung, & Gordon, 2009). Against a backdrop of a ‘culture of corruption’ (Cennamo, Berrone, & Gomez-Mejia, 2009; F. Clarke, Dean, & Egan, 2014; Yankelovish, 2006), the ‘proper’ role of business within a wider context where social issues increasingly takes prominence (Drucker, 2002), is called into question, and a review of current understanding of capitalism, and the relationship between business and society has been suggested (Bower, Leonard, & Paine, 2011; Freeman, Harrison, Wicks, Parmar, & de Colle, 2010; Freeman, Martin, & Parmar, 2007; R. Martin, 2010). As business, society and policy-makers respond and adapt, capitalism itself is changing focus (Bower et al., 2011; Freeman, Martin, et al., 2007).

Attention focus now on stakeholder management as an intrinsically ethical and ‘responsible’ form of management (Bonnafo-Boucher & Porcher, 2010; Freeman, 2010; Freeman & Auster, 2011). Although the term ‘stakeholder’ is widely used in both academia and amongst professionals, there is a lack of consistency in the definition and clarity of understanding of the term (Hasnas, 2013). According to Mainarde, Alvares and Raposo (2011) there are at least 66 definitions in the literature! Also unclear was how managers perceive stakeholders – their needs and motivations – and how decisions affecting stakeholders such as the relative priority of stakeholders and stakeholder claims, are made (K. W. Gibson & Myurnighan, 2010). Following on from that is the issue of how such decision processes may be improved against the backdrop of a global and highly competitive environment. How the stakeholder model may be refined and turned into a usable model for academics and professionals to identify and understand an organisation’s stakeholder environment and support effective decision-making by management and regulators alike becomes a key issue.

In this study, Freeman’s (1984:25) widely cited and ‘plain English’ definition of the term ‘stakeholder’ as “any group or individual who can affect or be affected by the
achievement of the firms objectives” is adopted as a starting point. Attention is then drawn to Mitchell, Agle and Wood’s (1997) model of stakeholder salience as a means to identify and dynamically rank the relative importance of stakeholders; stakeholder salience being the cumulative effect of a stakeholder’s power, legitimacy and urgency as perceived by the decision maker (Mitchell et al., 1997). Such perceptions may be subjective and even biased, but appear nevertheless most likely to form the basis for decision-making, particularly in circumstances with high levels of uncertainty and turbulence where decisions must be made quickly and with incomplete information.

This study has two lines of enquiry and adopts an iterative approach between a theoretical and empirical stance. The theoretical line takes Mitchell et al’s (1997) model of stakeholder salience and considers how such a model could be developed to assist decision makers. As originally suggested by them, and more recently reiterated by Neville, Bell and Whitwell (2011), research was needed regarding the individual attributes of stakeholder salience. Fundamentally, the question was whether the proposed attributes of salience – power, legitimacy and urgency – were the most appropriate attributes to support stakeholder salience. Further, if so, how those attributes should be understood and defined within stakeholder salience, the impact of urgency and how interactions between attributes may work.

The empirical line of enquiry focuses on the practical application of stakeholder salience in context. Although Mitchell et al’s (1997) model of stakeholder salience is conceptual and non-context specific, in practice decisions are embedded in context. To understand the process and potential factors affecting decisions regarding stakeholder relationships, the context has to be identified. The empirical context of this study is small business.

Small business is typically a very personal affair, operated by an owner-manager who contributes most (if not all) of the operating capital and is intimately involved in the daily activities and decisions in the business (Australian Bureau of Statistics [ABS], 2001; Berle & Means, 1932; A. D. Clarke, 2007; Klein, Astrachan, & Smyrnios, 2005; McMahon, 2007; Storey, 1994). Small business thus typically lacks the separation between ownership and management seen in large, publicly listed corporations. Instead, several stakeholder roles, such as owner, manager, financier, employee and family member are internalised by the owner-manager. For the following reasons, the
Australian small business sector therefore provided a particularly rich context for exploring stakeholder relationships:

First, small business offers the advantage of a centralised key decision maker; reducing the impact of complexities arising from group decisions, and the number of confounding variables by providing a central data collection point and (Sekaran, 2003; Tharenou et al., 2007).

Second, the unique and very personal relationships of such key decision makers – normally the owner-manager – the business and other stakeholders offer an opportunity to explore and understand how different stakeholder demands are perceived and prioritised.

Third, small business presents a unique opportunity to explore and understand the dynamics of varying and complex stakeholder relationships. Stakeholder relationships may, for example, vary depending on the type of customer involved and whether relationships are ongoing or transactional. Stakeholder relationships may also change in response to changes in competitive factors (Porter, 1985) and levels of turbulence (Ansoff, 1988).

1.2 The research questions (RQs)

This research address the Research Problem “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?”. To that end, five research questions were developed. The first three RQs were empirical, exploring how key decision makers in small business perceive, make decisions and manage stakeholder relationships.

Given the lack of consistency of definitions of the term ‘stakeholder’ in the literature (Mainardes et al., 2011), RQ1 explored interviewees’ understanding of the concept. RQ1 asked:

How do decision makers in Australian small business define and identify stakeholders?

RQ2 explored how interviewees’ managed stakeholder relationships and make decisions affecting stakeholders. Such decisions appeared likely to be based on subjective
perceptions and subject to potential errors (Teale, Dispenza, Flynn, & Currie, 2003). RQ2 asked:

How do decision makers in Australian small business perceive stakeholder salience?

Additional research was needed regarding the attributes of stakeholder salience; whether power, legitimacy and urgency were the most appropriate attributes and if so how they should be understood and defined. Anecdotal evidence suggests that different stakeholder relationships may be based on different kinds of power and legitimacy, and that urgency may have different motivations depending on the stakeholder. RQ3 explored the interviewees’ perceptions of the three attributes and potential other attributes. RQ3 asked:

How do decision makers in Australian small business manage stakeholder relationships?

Following from the findings to the first three RQs, the remaining two RQs have a theoretical focus. Based on the findings from the first three RQs, the aim of the final two RQs is to build theory. RQ4 explores how stakeholder theory could be refined and applied to assist and understand decision makers in small business. RQ4 asked:

How may stakeholder salience be applied to assist decision makers in small business?

Thus RQ5 considers the need for refinements to the theory of stakeholder salience. It pursues whether the three attributes originally proposed are the most appropriate attributes and if so, how they should be defined in order to make the model useful in a variety of contexts. RQ5 therefore asked:

How may stakeholder salience as a theoretical model be effectively defined?

An overview of the conceptual framework is presented in Figure 1.1
Together the five research questions explore both the empirical and theoretical lines of enquiry embedded in the research problem and make significant contributions to both the practical application of stakeholder management in small business and to theory development.
1.3 The significance of the study

There were several areas of significance for this study. The first area of significance for this research lies in the management of small business. Small business stakeholder relationships are personal and direct, exposing owner-managers to personal consequences of decisions regarding ‘who counts the most’ (Mitchell et al., 1997). Yet, in many small businesses, there is a lack of analysis of the stakeholder environment and only an intuitive understanding of how to manage such relationships. A better understanding of how stakeholder salience works in the context of small business would facilitate the development of a practical instrument to assist small business owner-managers evaluating stakeholder relationships and assist effective decision-making.

A second area of significance is in respect of policy making. In June 2013 there were over 2 million registered businesses in Australia (ABS, 2014a). Of those, the vast majority (over 97%) of all businesses were small and had less than 20 employees. Most were in fact micro businesses: over 60% of all Australian businesses were non-employing, a further 27% had four or fewer employees, the owner-manager typically being one of those employees while 10% had 5-19 employees (ABS, 2014a). Small business makes a significant contribution to the Australian economy, providing over 46% of the total employment and 39% of Australia’s gross value added (Clark, Eaton, Meek, Pye, & Tuhin, 2012). Small business thus directly and indirectly affects many stakeholders and an understanding of how small business owner-managers perceive and make decisions affecting stakeholder relationships would be of benefit to stakeholders, including policy makers and regulators charged with supporting small business.

The third area of significance is in the contribution to academic theory. Clear identification and definition of the attributes of stakeholder salience will contribute to developing stakeholder theory, and in particular to develop the concept of stakeholder salience (Mitchell et al., 1997) into a workable model. An understanding of the practical challenges of stakeholder identification and management in context will also pave the way for development of theory with practical relevance for managers of small businesses and for the understanding of stakeholder relationships generally.

The fourth area of significance for this research is in the potential for further research. Findings presented here may provide opportunity for further studies, in particular large
quantitative studies involving hypothesis formulation and testing. Despite its economic and social significance, there is a dearth of research into small business stakeholder relationships. Regional areas in particular are socially and economically dependent on small business and may benefit from the findings in this enquiry and any future research resulting from it.

1.4 The study methods

This study is explorative and descriptive, aiming to extend and build on existing stakeholder theory by seeking in-depth understanding of subjective perceptions and the complex interactions that may influence decisions regarding stakeholder salience (Sekaran, 2003; Strauss & Corbin, 1998). Accordingly, rather than an external, objective reality or phenomenon, separate from the ‘knower’ and thus suitable for a positivist approach (Bloomberg & Volpe, 2012; Bryman, 2012), such perceptions are internal to the decision maker, may be highly dependent on personal attributes and vary with situational attributes. Also consistent with such pragmatism, the primary focus of this research was on achieving an understanding applicable to the practical use of stakeholder theory (Patton, 2002).

Case study design deliberately incorporates the research context and provides a strong logical connection between data collection and analysis. The purpose of case study research is not primarily to generate data that can be generalised, but in the first instance to generate data that contribute to an in-depth understanding of particular phenomena (Bryman, 2012). Instead the focus is on the unique and complex processes in context of ‘real life’. ‘User generalisation’ allows the user to use the findings in their own situation; to transplant the findings and extrapolate the results to use as a guide in practice (Merriam, 2002).

Consistent with Yin’s (2014) suggestion that six to ten cases are required to produce quality result, nine cases were purposefully selected according to the following predetermined criteria:

- Australian small business with less than 20 employees (ABS, 2014a)
- Independently operated for at least three years
- Key decision maker (interviewee) in charge of the organisation for at least two years
1.5 Definition of key terms

**Australian small business:** Business with less than 20 people (ABS, 2014a), registered in Australia. This definition incorporates micro businesses with no employees.

**Business**
A commercial enterprise engaged in continuous and repetitive activities for the purpose of profit (Ipp, Weerasooria, Nygh, & Butt, 2002).

**Decision:**
A choice or judgement leading to a course of action (Teale et al., 2003) and therefore an outcome.

**Decision maker**
Individual (or group) able to make decisions on a recurring and daily basis and exposed to the consequences of such decisions. Also responsible for decisions that are not routine and require novel approaches.

**Decision-making**
The process of making a decision. May be affected by subjectivity of perception and decision-making errors.

**Global financial crisis (GFC):** The 2007/08 credit crisis with global effects.

**Legitimacy:**
Consistent with Mitchell, Agle and Wood (1997) this enquiry initially adopted Suchman’s (1995:574) definition of legitimacy as “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

**Owner-manager:**
A common characteristic of Australian small business is that the owner is also the manager and thus directly involved and in control of the day-to-day operation of the business. This duality is an important distinction from large corporations where ownership is typically separate from management control (A. D. Clarke, 2007).

**Power:**
Consistent with Mitchell, Agle and Wood (Dahl, 1957; 1997; Weber, 1978) this enquiry initially adopted the definition of power as the ability to influence others’ perceptions, decisions and/or actions by the use of reward/punishment, force or social influence, in order to impose own will, based on previous work by Weber (1978) and Dahl (1957).

**Society**
Network of human relationships consisting of three elements. The ‘intangible ideas’ – the prevailing values
and ideology; ‘institutions’ – the formal patterns that link members, and ‘material things’ – tangible artefacts and resources (Steiner & Steiner, 2009).

**Stakeholder:**
This research adopted Freeman’s (1984:25) definition of stakeholder as “any group or individual who can affect or is affected by the achievement of the firm’s objectives”.

**Stakeholder salience:**
This research adopted Mitchell et al’s (1997:854) definition as “the degree to which managers give priority to competing stakeholder claims“. A dynamic model of stakeholder theory, based on the stakeholder’s possession of three variable attributes; power, legitimacy and urgency as perceived by the decision maker in the organisation.

**Urgency:**
This research adopted Mitchell et al’s (1997:854) definition as “… the degree to which stakeholder claims call for immediate action”

### 1.6 Outline and scope of the study

Chapter Two sets out the main features of the relevant stakeholder literature. It explores the origins of stakeholder theory and stakeholder salience and the underpinnings of Mitchell, Agle and Woods’ theory in relation to RQ1 and RQ2. It evidences the inadequacy of the literature in its explanation of the key features of power, legitimacy and urgency of stakeholder salience. These deficiencies provide the basis for the questions included in the survey of small business managers.

Chapter Three presents relevant literature on decision-making and provides an overview of different types of decisions and of the ‘anatomy’ of decision-making (Bazerman & Moore, 2009) as relevant to stakeholder management and RQ3. A discussion of the limitations of perceptions and vulnerabilities of various decision processes is also included.

Chapter Four addresses the choices relating to the research methods employed in this study. Justification for the choice of a multiple case study approach and qualitative data, are provided as is the method of collecting and analysing the data.
Chapter Five presents the individual case profiles and within-case summaries, the basis for the cross-case analysis as presented in Chapter Six.

Chapter Six outlines the cross-case comparison and patterns in responses to each of the themes corresponding to research questions RQ1, RQ2 and RQ3.

In Chapter Seven, the conclusions to the findings in relation to RQ4 and RQ5, contribution to theory, are presented and an answer to the research problem provided. Consequential areas for future enquiry are briefly outlined. Finally, the implications for a theory of a responsible (informed) management in the small business setting are outlined.
Chapter objectives

Chapter Two provides an overview of the stakeholder literature in relevance to RQ1 and RQ2. The origins of stakeholder theory and the underpinnings of Mitchell et al’s (1997) theory of stakeholder salience is first presented. It evidences the inadequacy of the literature in its explanation of the key features of power, legitimacy and urgency of stakeholder salience. These deficiencies provide the basis for the questions included in the data collection.

2.1 Stakeholder theory

Business, at a most fundamental level, depends on the existence of suppliers, customers and owners (McVea & Freeman, 2005; Porter, 1985). These and other groups interacting with business are collectively known as stakeholders (Carroll & Buchholtz, 2012). Commonly also identified as stakeholders are managers, employees, government and the community ‘at large’ (Carroll & Buchholtz, 2012; Dunham, Freeman, & Liedtka, 2006; Gadenne, Kennedy, & McKeiver, 2009; Porter, 1985). Other groups mentioned include competitors, creditors and the media (Ulmer, Sellnow, & Seeger, 2007). Depending on the size and type of the organisation, groups such as owners/shareholders investors, family, political and lobby groups, trade associations and unions may also be listed (Hill & Jones, 1992; Ihlen & Berntzen, 2007; Sen & Cowley, 2013). In fact, all those affected by or with an interest in a corporation’s activities might reasonably be regarded to have a stake in its affairs. Some of those groups may be further analysed into sub-groups. Community for example, may be further divided into community of place (geographic identity), community of interest, community of practice and virtual advocacy groups (Dunham et al., 2006). At issue is the management of relationships with such stakeholders.
2.1.1 Origins of stakeholder theory

According to Freeman (1984), the term ‘stakeholder’ was first used by the Stanford Research Institute in 1963. Stakeholders were perceived to be groups or individuals who were essential for the survival of the organisation and to whom managers must therefore pay attention. Business’ increasingly individualist approach to ethics, with a singular focus on short-term profit and self-interest, has more recently prompted various stakeholders to engage with the issue. A realisation that such relationships are interdependent has sparked a renewed interest in stakeholder relationships.

2.1.2 Relevance of stakeholder theory

Stakeholder theory acknowledges organisations as open systems engaged in a network of stakeholders able to contribute a diversity of resources and support, or hindrance, to the success of the organisation (K. W. Gibson & Myurnighan, 2010). Cohen (2010) suggest applying Rawls’ principle of justice as a normative base for stakeholder management and seeing stakeholders as ‘citizens’ with rights and interest – both direct and indirect – in any economic activity. Implied is also the ability of stakeholders to critique the organisation’s activities or withdraw engagement with the organisation and indeed, to act against the organisation. The stakeholder approach thus puts the emphasis on the relationship rather than the identity of the parties.

Placing organisations in a network of interdependent entities, stakeholder theory and the stakeholder view of the organisation undermines the separation thesis (McVea & Freeman, 2005). By removing the separation between ‘business’ and ‘ethics’ the stakeholder approach supports an ethical and sustainable, long-term approach to management as opposed to a narrow focus on short-term profit (Clifton & Amran, 2011; Vilanova, 2007). Certainly, Freeman (2007) firmly argues that long-term shareholder return is impossible without serving all stakeholders. Attention to stakeholders’ needs may therefore positively affect the ‘bottom-line’, thereby creating increased value for all stakeholders, including shareholders (Freeman et al., 2004; Galbreath, 2006; J. S. Harrison & Wicks, 2013; Sen & Cowley, 2013; Tashman & Raelin, 2013). Yet, Tse (2011) argues that the framework of stakeholder theory is still ambiguous and therefore less useful in practice.
2.2 Definitions of stakeholders

Definition of the term ‘stakeholder’ varies. Miles (2012:285) suggests that the existence of “… hundreds of different published definitions …” can be explained by understanding the stakeholder concept as an ‘essentially contested concept’ that neither can nor need to have a singular definition (Gallie, 1956). As suggested by Okoye (2009:613), there is however still “… the need for a definition of its core or common reference point …”. Most definitions of the concept of ‘stakeholder’ focused on attempts to settle the questions of who should be granted rights to make claims on business and to whom management properly owed attention (Mitchell et al., 1997). Suggestions range from the very narrow and instrumental shareholder approach to the very broad and normative stakeholder approach (Reed et al., 2009).

Early definitions were static and represented attempts to create certainty by defining ‘who counted’ and by implication also ‘who did not count’ (Carroll & Buchholtz, 2012). The central point for determining stakeholder status was whether a legitimate ‘stake’ in the organisation could be identified (Carroll & Buchholtz, 2012; Clarkson, 1995; Freeman, Harrison, et al., 2007; Kaler, 2006; Sternberg, 1997). The perspective was primarily that of management, the approach instrumental or normative and based on an assumption of rational decision-making. Table 2.1 provides an overview.

Table 2.1 Definitions of stakeholders

<table>
<thead>
<tr>
<th>Approach to definition and membership</th>
<th>Included: Suppliers, Customers and possibly Employees</th>
<th>Excluded: everyone else</th>
</tr>
</thead>
<tbody>
<tr>
<td>The production view: Relationships essential for survival of the firm (Carroll &amp; Buchholtz, 2012). The focus was inwards, on production (Ansoff, 2007). Based on legal claims, instrumental in approach.</td>
<td>Included: Owners, Suppliers, Customers, Employees and Managers</td>
<td>Excluded: Everyone else</td>
</tr>
<tr>
<td>The managerial view: Relationships essential for survival of the firm and efficient management (Carroll &amp; Buchholtz, 2012). This view puts shareholders/owners at the centre as the most important group (Freeman, Harrison, et al., 2007). Based on legal claims, normative in approach.</td>
<td>Included: Customers, Suppliers, Employees, Financiers, Communities, Government, Competitors, Managers, Owners, and any Third parties interested in firm’s activities such as consumer advocates and special-interest groups</td>
<td>Excluded: None; exact definitions depends on context</td>
</tr>
<tr>
<td>The stakeholder view: Relationships essential for the efficient operation of the firm and potential relationships initiated by stakeholders (Carroll &amp; Buchholtz, 2012; Freeman, Harrison, et al., 2007). Based on legal and moral claims, approach is convergent (Jones &amp; Wicks, 1999) and can be instrumental, normative, and/or descriptive.</td>
<td></td>
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</tbody>
</table>
Reflected in Table 2.1, is the progression from organisations being seen as ‘closed systems’ to ‘open systems’. The production view reflected a closed system and a relatively stable external environment with strong demand and interest in any products that could be manufactured, the stakeholders in that process being suppliers and customers (Carroll & Buchholtz, 2012). Rapid advancement in manufacturing processes meant new products were invented and offered into a largely receptive, ‘sellers’ market (Ansoff, 2007; Goodman & Dingli, 2013). Managers’ focused attention on internal processes to do with production, including the issue of managing employees.

As competition increased the external environment became less stable and predictable and managers’ attention had to shift to the external environment (Ansoff, 2007). Offered choices, customers would reward the ‘best’ offer and thereby drive further competition and a change to ‘buyers’ market (Ansoff, 2007; Goodman & Dingli, 2013). The focus shifted to a marketing orientation with diversification of products, and power shifted from the production to marketing departments. A growing concern regarding the social ‘side effects’ of production and commercial activity prompted governmental interventions to restrain both social and natural ‘pollution’ and to encourage social responsibility (Ansoff, 2007) resulted in a progression to the ‘managerial view’.

In the ‘stakeholder view’, organisations are established as open systems (Stacey, 2011; Wilson, 1992) They are dependent on a variety of stakeholders in ‘reciprocal interactions’ and on a web of interdependent relationships with the organisation (Drake, Gerde, & Wasielewski, 2011; Mason, 2007; Post, Preston, & Sachs, 2002). Organisations and stakeholders are at the very least engaged in a social contract (Brummer, 1991) and a feedback loop forcing ongoing change and a constant adaptation of strategies, processes and products. Power shifted to become a negotiated outcome rather than a ‘granted right’. Stakeholders were recognised as important, a fact illustrated by their common inclusion in organisations’ mission statements (Crane & Ruebottom, 2011).

Also reflected in Table 2.1 is how stakeholder status, even within a stakeholder group, changed over time. Customers, for example, are increasingly not just purchasers of goods and services, but also part of the production process; McVea and Freeman (2005) called them ‘prosumers’, representing a breakdown of the generic ‘stakeholder roles’. This signifies a fundamental change in the competitive landscape. Rather than a simple ‘race’ between suppliers of more or less similar products, competition has become
ubiquitous in that the competitive tensions are not just between suppliers of product but even between suppliers and customers. The focus is on negotiating outcomes and value creation for all involved. ‘Value’ then has to be understood as more than economic value (J. S. Harrison & Wicks, 2013). Bosse, Phillips and Harrison (2009) points out that stakeholders indeed expect more than financial gain from their engagement with the organisation with Chater and Vlaev (2011) adding that perceptions of such value may be both localised and unstable.

Freeman (1984:25), suggested defining stakeholders as “any group or individual who can affect or be affected by the achievement of the firms objectives”. The role of stakeholders can thus be as claimant or influencer, or both (Mitchell et al., 1997; Tashman & Raelin, 2013). Langry (1994:432) however, points out that definitions of ‘stakeholders’ must also be “… construed as applying to omissions as well as performances” and provides the example of a unsuccessful tenderer being a stakeholder in the firm as a result of not getting the job and thus being ‘affected’. The scope of Freeman’s (1984) definition of stakeholders means that it can be applied to a wide range of organisations and situations, involving a diverse range of stakeholders belonging to the internal or the external environments, or straddling both.

The internal and external worlds of organisations are blurring here, and the result is a break down of the ‘borders’ of individual organisations (Blair & Whitehead, 1988), which are instead becoming sub-systems of a larger system – a ‘global economic engine’. In this way everyone becomes a stakeholder (Grace & Cohen, 2005); all with something ‘at stake’ and potentially affected by the success – or the failure – of the global economy (Debelle, 2009; Ellis, 2009; Stiglitz, 2010), a fact recently illustrated by the Global Financial Crisis (GFC).

The result is a network with an escalating level of interdependence and turbulence (Mason, 2007). Volberda (1999) argued that environmental turbulence may be measured on three dimensions, each with two aspects:

- Dynamism: intensity and frequency of change in competitive forces
- Complexity: the number of factors and their interrelatedness, affecting competitive forces
- Unpredictability: whether trends are linear or cyclical; and access to reliable and available data
The more turbulent, the more uncertain the environment becomes, requiring an organisation to be agile and management to have an external focus. Stakeholder’s activities and behaviour contribute to the complexity and turbulence of the environment and to the uncertainty facing management (Kuratko, Goldsby, & Hornsby, 2004; Stacey, 2010). Stakeholders could therefore also be a valuable source of information about third party activity and general trends – essentially part of a surveillance network with multilateral benefits. In small business, such networks have been shown to support innovation (Gronum, Verreynne, & Kastelle, 2012). Organisational success is thus dependent on maintaining constructive relationships with individual stakeholders, other sub-systems as well as the overall system – a ‘focus of collective interests’ (Bonnafo-Boucher & Porcher, 2010). The challenge for decision makers then becomes how to define and identify stakeholders in context. RQ1 therefore asked “How do decision makers in Australian small business define and identify stakeholders?”. Three sub-questions were developed to answer RQ1:

**RQ1a**: What do decision makers understand by the term ‘stakeholder’?

**RQ1b**: Whom do decision makers consider stakeholders?

**RQ1c**: How do decision makers determine who is, or is not a stakeholder?

### 2.3 Classification of stakeholders

Although Harrison and Wicks (2013) warn of the risk of focussing on too few rather than too many stakeholder interests, the scope of Freeman’s definition of stakeholder (1984) puts pressure on the organisation’s resources. This results in a need for managers to prioritise which stakeholders ‘count the most’ and should receive the priority of attention at any given time (Mitchell, Agle, Chrisman, & Spence, 2011). Organisational values and norms are useful here (Maignan, Ferrell, & Ferrell, 2005). However, various approaches for ranking or classifying stakeholders in order of importance have also been suggested. Efforts to classify stakeholders for example as ‘primary’ and ‘secondary’ (Carroll & Buchholtz, 2012; Ulmer et al., 2007), attempt to provide certainty regarding whom decision makers should pay attention to. Table 2.2 provides an overview.
Table 2.2 Examples of approaches to classifying stakeholders

<table>
<thead>
<tr>
<th>Actual stakeholders</th>
<th>vs</th>
<th>Non (potential) stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clear immediate benefit or interest to the organisation. According to Clarkson (1995:106) “Persons or groups that have, or claim, ownership, rights, interests in a corporation and its activities, past, present, or future”.</td>
<td></td>
<td>No immediate benefit or interest to the organisation.</td>
</tr>
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<table>
<thead>
<tr>
<th>Able to affect</th>
<th>vs</th>
<th>Affected by</th>
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</thead>
<tbody>
<tr>
<td>Groups or individuals able to affect the success of the organisation (Freeman, 1984)</td>
<td></td>
<td>Groups or individuals affected by the success of the organisation (Freeman, 1984)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Primary stakeholders</th>
<th>vs</th>
<th>Secondary stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct relationship: definitively warrant attention (Freeman, Harrison, et al., 2007). Groups essential for the continued survival of the corporation and with high level of interdependence, such as shareholders, investors, employees, customers, suppliers (Clarkson, 1995)</td>
<td></td>
<td>Indirect relationship: may warrant some attention (Freeman, Harrison, et al., 2007). Groups able to influence or affect; or be influenced or affected by the corporation but not engaged in transactions and not essential for survival of the corporation (Clarkson, 1995)</td>
</tr>
</tbody>
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<table>
<thead>
<tr>
<th>Collaborative stakeholders; able to use power and resources to influence decision-making in a positive fashion (Blair &amp; Whitehead, 1988; Freeman, 1984)</th>
<th>vs</th>
<th>Threatening stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stakeholder able to use power and resources to influence decision-making in a negative fashion (Blair &amp; Whitehead, 1988; Freeman, 1984)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fiduciary stakeholders; groups to whom management have a fiduciary duty – shareholders (Goodpaster, 1991)</th>
<th>vs</th>
<th>Non-fiduciary stakeholders; other groups to whom management have a moral obligation (Goodpaster, 1991)</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Voluntary stakeholders</th>
<th>vs</th>
<th>Non-voluntary stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exposed to risk as a result of some form of direct investment in the organisation (Clarkson, 1995)</td>
<td></td>
<td>Exposed to risk as a result of proximity to organisation’s activities (Clarkson, 1995)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Actively involved stakeholders</th>
<th>vs</th>
<th>Passively involved stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct, legal claim on the organisation (Vos &amp; Achterkamp, 2006a)</td>
<td></td>
<td>Indirect claim on organisation, for example by claim on an active stakeholder (Vos &amp; Achterkamp, 2006a)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Core stakeholders</th>
<th>vs</th>
<th>Fringe stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditional entities such as customers, suppliers, employees, regulators, community and competitors (Hart &amp; Sharma, 2004)</td>
<td></td>
<td>Stakeholders without influence and thus often thought irrelevant. May provide valuable insights and facilitate change management (Hart &amp; Sharma, 2004)</td>
</tr>
</tbody>
</table>

Reflected in Table 2.2 are attempts to classify stakeholders with a view to determine who ‘counts the most’ and warrants attention, and who could be disregarded, or whose claims on the organisation could legitimately be rejected. Most approaches have been designed unilaterally by academics or large businesses in attempts to justify their own behaviour and to support the pursuit of the organisation’s needs, with little or no concern for stakeholders without obvious and immediate ability to affect retribution (Crane & Ruebottom, 2011). Recognised are the stakeholders who are of (immediate) value or perceived to be powerful enough to affect the organisation in the short-term.
This approach assumes that stakeholder groups are static, homogeneous and with clear boundaries between groups (McVea & Freeman, 2005). Such classifications provide little or no guidance on how to deal with stakeholder multiplicity (Neville et al., 2011) where a stakeholder may fit in more than one group – as is the case with owner-managers of small business, ‘prosumers’ and employee shareholders. Nor does it provide guidance on how to prioritise sub-groups such as different types of customers or how to identify changes in relationships with stakeholders.

Organisations as open systems must be vigilant and constantly scan the environment for changes that may represent either an opportunity or a threat originating from identified or ‘potential’ stakeholders; or new alliances between stakeholders, regardless of classification system used (Freeman, 1984; Kipley, Lewis, & Jewe, 2012). Indeed, Mason (2007) suggests that the interactions between the organisation and its stakeholder result in a constant co-creation of the external environment. Such co-creation may well result in a cascade of both intended and unintended effects.

Baron (2013) argues that business interact with stakeholders in two different environments. The market environment is distinct from the non-market environment. Yet, the two are also interdependent. According to Baron (2013:2):

> The market environment includes those interactions between firms, suppliers, and customers that are governed by markets and contracts. These interactions typically involve voluntary economic transactions and the exchange of property.

The non-market environment is the social, political and legal framework within which business operates either voluntarily or involuntarily. The two environments are interrelated and issues in one environment, for example a compliance requirement, will impact the other and concepts such as power, legitimacy and urgency, exist in both spheres. Such power and legitimacy may however be different in character between the two spheres.

Missing is a means to dynamically analyse and identify stakeholders of immediate and long-term importance. Such a model should ideally also offer a method for predicting stakeholders who may become critical over time, potential stakeholders and alliances between stakeholders. Mitchell, Agle and Wood (1997:869) proposed stakeholder salience as a starting point for addressing the problem and identify the “degree to which
managers give priority to competing stakeholder claims”. Rather than a normative approach, Mitchell et al’s (1997) approach is descriptive. Nevertheless, stakeholder salience has since become one of the main models for classifying stakeholders (Vos & Achterkamp, 2006b).

An advantage of a descriptive approach is that it assists the understanding of the environment without prescribing normative solutions regarding a response. In a hypercompetitive environment exhibiting high levels of discontinuous change, ‘standardised’, prescriptive solutions are of limited value. It is the task of managers to ‘architect a tailored solution’ to fit the organisation, its relationship with particular stakeholders, and each unique situation. The stakeholder salience model does however offer a useful starting point for a pragmatic dialogue with decision makers regarding their perceptions, process of decision-making and relationships with stakeholders. Beyond this, the model needs clarification.

### 2.4 Stakeholder salience

Mitchell, Agle and Wood (1997) defined stakeholder salience as the cumulative effect of the stakeholder’s *power, legitimacy* and *urgency* as perceived by the decision maker. The notion of stakeholder salience thus allows identification and classification of stakeholders based on whether the stakeholder is perceived to possess power, legitimacy and/or urgency at any given time, see Figure 2.1.

**Figure 2.1 Classification of stakeholders according to salience**

Illustrated in Figure 2.1 is that Mitchell et al’s (1997) model result in four broad levels of stakeholder salience depending on how many of the three attributes a stakeholder is seen as possessing. The first level consists of Latent stakeholders seen as possessing only one attribute. As illustrated in Figure 2.1, there are three types; Dormant (1) stakeholders are perceived to possess only power. Examples include the media (symbolic power) and potential customers (utilitarian power). Discretionary (2) stakeholders are seen as possessing only legitimacy, charities and non-profits for example. It has also been suggested that unskilled workers on low wages are discretionary because of their dependence on the organisation (van Buren III & Greenwood, 2011). Demanding (3) stakeholder seen as possessing only urgency, for example a lone protestor. Latent stakeholders have little direct and immediate impact on the organisation but have the potential to either seek alliances with stakeholders with power or legitimacy, or be attractive to stakeholders lacking urgency and therefore a catalyst to action.

The second level consists of Expectant stakeholders, seen as possessing two attributes and can in turn be classified into three groups depending on which of the attributes the stakeholder is perceived to possess. Dominant (4) stakeholders have power and legitimacy and therefore ‘Authority’, this is defined (Oxford Dictionaries) as:

> The power or right to give orders, make decisions, and enforce obedience; the power to influence others, especially because of one’s commanding manner or one’s recognized knowledge about something.

There is considerable agreement on this classification as it includes stakeholders elsewhere classified as ‘primary’, including shareholders, owners and investors.

Dangerous (5) stakeholders have power and urgency, but no legitimacy. They are ‘dangerous’ as they are highly motivated to act and have an illegitimate ability to do so. Illegitimate is defined (Oxford Dictionaries) as “not authorized by the law; not in accordance with accepted standards or rules”. Dangerous stakeholders may include employees engaging in sabotage. Dependent (6) stakeholders on the other hand, have legitimate ‘rights’ and are motivated by urgency but lack power – the ‘ability to act’. Rather than eliminate them as a priority, if the urgency is strong, this may instead motivate such stakeholders to actively seek support and alliances with other powerful stakeholders. Examples include people living around a polluting factory (and perhaps even the natural environment itself) seeking support from the media and regulators.
The most salient stakeholders were classified as *Definitive* (7), meaning that the decision maker perceived the stakeholder as possessing power to act, legitimacy of claim and displaying urgency in attracting management’s attention. Dominant stakeholders can become definitive by simply gaining a sense of urgency.

Finally, *non-stakeholders* (8) were seen as possessing none of the attributes of power, legitimacy or urgency. However, this is potentially a transient situation as at least one attribute can in some situations be gained relatively quickly. Urgency, for example, can be gained as a result of an individual’s perception of an injustice and therefore potentially outside the organisation and management’s ‘field of vision’. Such perceptions can be the basis for stakeholders to mobilise and organise themselves as a force on the firm and in a world connected by social media, be hard for the organisation to predict or, once started, to contain. Non-stakeholders are therefore better understood as *Potential* stakeholders (Mitchell et al., 1997).

Stakeholder salience was subsequently tested and found to be a viable method for identifying important stakeholders in large publicly owned corporations (Agle, Mitchell, & Sonnenfeld, 1999). The relationship between possession of the attributes of salience and perceived salience was confirmed by Parent and Deephouse (2007) and Boesso and Kumar (2009). Reynolds et al (2006) however pointed to the possibility that a claim by an otherwise highly salient stakeholder may on occasion still be ranked low. Mitchell et al’s position that the individual attributes are dynamic in nature has also been confirmed (Magness, 2008; Parent & Deephouse, 2007). Indeed, Magness (2008:177) found that “… definitive stakeholder status is defined by the decision maker and furthermore, that it is transient in nature”. These findings were found to be consistent in the context of Australian small business (Westrenius, 2009).

Although the original concept of stakeholder salience (Mitchell et al., 1997) has been widely accepted and often referred to – a Google search reports the article has been cited 6,622 times – there have been limited efforts to develop the model further and consider its usefulness in context (Neville et al., 2011). Individual attributes are not well defined, and circumstances under which variations may exist not well understood (Neville et al., 2011). For example, despite the existence of a large body of literature on the concept of power, the model makes no clear distinction between how different kinds of power – nor for that matter legitimacy – may operate. Nor does it provide any
guidance on which kind would command priority under various circumstances. A further complication is the choice of terminology; neither ‘power’ nor ‘legitimacy’ have stringent and widely understood definitions within stakeholder salience. Nevertheless, stakeholder salience has been cited in a large number of studies to help illuminate specific events or support discussions on stakeholder theory in general (examples include Alpaslan, 2009; Clifton & Amran, 2011; de Bussy & Kelly, 2010; McManus & Webley, 2013; Pfarrer, Decelles, Smith, & Taylor, 2008; Verbeke & Tung, 2013).

Mitchell, Agle and Wood (1997) themselves invited discussion on the appropriateness of power, legitimacy and urgency as attributes of salience. More recently, Neville, Bell and Whitwell (2011:358) suggested that:

Future research, we suggest, should focus upon reassessing the individual attributes, their antecedents, their interactions, decisional thresholds, managerial perceptions, and organizational responses to stakeholder salience.

A limited number of sources have attempted to improve various aspects of Mitchell et al’s (1997) stakeholder salience model. An overview is presented in Table 2.3.

Table 2.3 Progress on stakeholder salience since Mitchell et al (1997)

<table>
<thead>
<tr>
<th>Authors</th>
<th>Main argument/focus of article</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tashman &amp; Raelin, 2013</td>
<td>Managerial perception of stakeholder’s power, legitimacy and urgency is not enough as it is subjective. Instead, stakeholder salience should be co-determined by managers and stakeholders in dialogue.</td>
</tr>
<tr>
<td>Bundy, Shropshire &amp; Buchholtz, 2013</td>
<td>Suggests a focus on issue salience rather than stakeholder salience to understand firm responsiveness</td>
</tr>
<tr>
<td>Santana, 2012</td>
<td>There are three aspects to stakeholder legitimacy: the legitimacy of the stakeholder entity; the legitimacy of the claim; and the legitimacy of the behaviour of the stakeholder</td>
</tr>
<tr>
<td>Mitchell et al., 2011</td>
<td>Stakeholder relationships are different in family firms: power is normative rather than utilitarian; legitimacy is based on heredity instead of socially constructed; and there is a stronger link between temporality and criticality (urgency)</td>
</tr>
<tr>
<td>Kaufman &amp; Englander, 2011</td>
<td>Legitimacy rests with those who add value, assume unique risk and can incur harm. Board, supported by requirement in incorporation law (Delaware), should coordinate to protect competitive advantage</td>
</tr>
<tr>
<td>Neville et al., 2011</td>
<td>Focus on ‘moral’ rather than ‘pragmatic’ legitimacy. Urgency is irrelevant for identification of stakeholders.</td>
</tr>
<tr>
<td>Myllykangas, Kujala &amp; Lehtimäki, 2010</td>
<td>Stakeholder salience is not sufficient for understanding business value creation. Focus should be on how value is created rather than whom and what.</td>
</tr>
<tr>
<td>Boesso &amp; Kumar, 2009</td>
<td>Found that power and legitimacy are the most important attributes for prioritising competing stakeholder claims</td>
</tr>
<tr>
<td>Parent &amp; Deephouse, 2007</td>
<td>Power most important for identification of stakeholders, urgency for level of salience. Salience increased with stakeholder possessing more than one type of power – the ‘strongest’ power being utilitarian.</td>
</tr>
<tr>
<td>Eesley &amp; Lenox, 2006</td>
<td>Suggest redefining salience in terms of the firms actions in response to stakeholder requests, rather than decision maker’s perceptions</td>
</tr>
</tbody>
</table>
As can be seen from Table 2.3, limited progress has been made to further the understanding of the fundamental attributes of salience, in particular the originally proposed three attributes of power, legitimacy and urgency. As originally suggested by Mitchell et al (1997) and more recently reiterated by Neville, et al (2011), assumptions made in the original article regarding the model and definitions of the individual attributes and their antecedents need to be clarified to make the model ‘useful’. At issue is what is meant by power, legitimacy and urgency in context of stakeholder salience. RQ2 therefore asked “How do decision makers in Australian small business perceive stakeholder salience?”. Five sub-questions were developed to answer RQ2:

**RQ2a:** How do decision makers perceive the proposed attribute ‘power’?

**RQ2b:** How do decision makers perceive the proposed attribute ‘legitimacy’?

**RQ2c:** How do decision makers perceive the proposed attribute ‘urgency’?

**RQ2d:** How do decision makers perceive interactions between attributes of stakeholder salience?

**RQ2e:** What other attributes do decision makers consider part of stakeholder salience?

### 2.5 ‘Power’ as an attribute of stakeholder salience

In stakeholder salience (Mitchell et al., 1997) power is a dynamic attribute of the relationship between the decision maker and stakeholders. Mitchell et al (1997:869) defined stakeholder power as “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not have otherwise done”, a definition based on previous work by Weber (1964), Dahl (1957), and Pfeffer (1981).
According to Mitchell et al (1997), definitions of power are commonly based on Weber’s (1978:53) definition of power as “the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests”. This is consistent with Dahl’s (1957:202-203) early definition: “A has power over B to the extent that he can get B to do something that B would not otherwise do”. In this way, power is narrowly defined by the powerful, as an ability to force the less powerful to comply with their wishes. Resistance, or lack thereof, is thus an important component in defining power. By contrast, Hofstede (2013) suggested that attitudes to power, the expectation and level of acceptance that power is unequally distributed in society, vary between cultures and is better understood from the perspective of the less powerful. Such acceptance may influence the level of resistance against the exercise of power and therefore be of significance in regards to decisions on how to manage stakeholder relationships and the exercise of power.

The second part of Weber’s (1978:53) definition, “…regardless of the basis on which this probability rests”, points to an unruly, unpredictable and possibly subjective aspect of power allowing for change, that often is omitted in discussions on power. This contributes to power being seen as relatively objective, stable and predictable rather than a contested and dynamic tension. ‘Demanding’ stakeholders, for example, possessing only urgency and therefore no legitimate power to ‘get the organisation to do something’, may still influence its actions by generating publicity for ‘the cause’. This may mobilise support from stakeholders able to add power or legitimacy to the claim.

Efforts have been made to define power by identifying its underlying sources, in the process presenting power as a possession that can be gained and lost: French and Raven’s (1959) often cited work on power, lists three types of position power: reward, legitimate and coercive, and two types of personal power: expert and referential. Similarly Morgan (2006) later identified 14 kinds of power in organisation, some based on possessing attributes, some relational.

Mitchell et al (1997) acknowledges French and Raven’s (1959) typology of power as being personal or positional but argue that this typology is ‘messy’ for it sometimes results in overlaps between power and legitimacy, for example in the case of legitimate power. Power and legitimacy, in stakeholder salience, are distinct attributes that can
occur separately or in combinations. Mitchell et al (1997) instead adopted Etzioni’s (1964) three types of power:

- **Coercive** power – that based on physical resources of force, violence or restraint
- **Utilitarian** power – that based on access to material of financial resources, for example money
- **Normative** power – that based on symbolic resources such as prestige, esteem, love and acceptance

Implicit is that different stakeholders may use different kinds of power depending on who they are, which kind of power they have access to, the particular circumstances and the expected efficacy (Krause & Kearney, 2006). Similarly, the organisation and management may decide between the different kinds of power to which they have access in different negotiation circumstances. The question of which power is most ‘powerful’ then becomes of interest, as it seems plausible that different stakeholders may access and use different kinds of power, and possibly even employ more than one kind of power in different situations. Parent and Deephouse (2007:16) for example, found “… utilitarian power more powerful than normative or coercive power”. Yet, the model provides little guidance on how to identify and understand the use of different kinds of power in the context of stakeholder salience.

### 2.5.1 The concept of power

There is no one universally agreed definition or understanding of the concept of ‘power’ (Krause & Kearney, 2006), but power is essentially seen as the ability to influence others and ‘get things done’ (McClelland & Burnham, 2003; Pfeffer, 2010). According to Lukes (2007:59), it is simply “the capacity to bring about outcomes”. Although such a concise definition would work to describe the power of stakeholders ex-post, it is too broad to assist managers in understanding the relative and issue specific power of a particular stakeholder ex-ante.

The literature on ‘power’ is both extensive and multi-disciplinary. Power has for example been considered at length in disciplines such as sociology, psychology, politics and aspects of business and commerce. The discussion has moved from a focus on identifying the bases or types of power, to seeing power as an aspect of developing and maintaining productive relationships. Power is thus intrinsic to management.
The following discussion on power is by no means exhaustive, such enterprise is beyond the scope of this thesis. It does however point to the fact that decision makers and stakeholders alike may aim to use different types of power in different situations. It also suggests that situational factors may constrain the use or operation of power. The issue then is how to effectively understand power in stakeholder relationships.

Approaches to understanding power have been based on the ideas that power may be a personal ‘attribute’, the ‘possession’ of instruments of power, or a ‘property’ or ability to achieve ones desired outcome (Bachrach & Baratz, 1970; Dahl, 1957; Dreyfus & Rabinow, 1983; Etzioni, 1964; French & Raven, 1959; Hönnqvist, 2010; Morgan, 2006; Weber, 1978). The discussion has in fact been highly contradictory, as Wrong (2009:65) sums it up:

Power is regarded as a form of influence, or influence as a form of power, or they are treated as entirely distinct phenomena, power is held to rest always on consent, or it must always confront and overcome resistance. Authority is a subtype of power, or power and authority are distinct and opposite. Persuasion is a form of power; it is not a form of power at all. Force is a form of power; it is not power but a sign of the breakdown or failure of power. Manipulation is or is not a form of power. Personal leadership is or is not a form of authority. Competence is a basis for persuasion and has nothing to do with power or authority, or it is the fundamental implicit ground of all legitimate authority. All power is reducible to the unequal exchange of goods and service, or the offering of benefits in return for compliance is simply one form of power.

2.5.2 The problem with power

Pursuing a precise definition distinct from related concepts such as influence, authority and control reveals ‘power’ as contested and uncovers several terms with overlapping meanings, sometimes used interchangeably; power is elusive to define with precision (Lukes, 2005; Mitchell et al., 1997; Morgan, 2006). Power may mean different things in different contexts, which may or may not have a common essence (Lukes, 2005). ‘Power’, like ‘stakeholder’ may thus also be an ‘essentially contested concept’ (Gallie, 1956) as there is no one uniformly agreed definition or usage of the term (Krause & Kearney, 2006). Nevertheless, to assist decision-making regarding stakeholder priority, power needs to be better defined.

Both Dahl (1957) and Wrong (2009:6) point out that (in English), the word ‘power’ does not have a relevant verb form and that this contributes to the confusion between
‘having power’ – a disposition; and ‘exercising power’ – an event. The verb ‘empower’, has limited use as it refers to the giving of authority or capacity to do something (Oxford Dictionaries) rather than the exercise of power itself. The verb ‘to power’, similarly has limited application in the context of stakeholder salience. The ‘problem with power’ may, at least partly be one of language and terminology – a matter of semantics. An overview is presented in Table 2.4.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition (Oxford Dictionaries)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power (noun)</strong></td>
<td>The ability or capacity to do something or act in a particular way; the capacity or ability to</td>
</tr>
<tr>
<td>Verb: none</td>
<td>direct or influence the behaviour of others or the course of events; physical strength and</td>
</tr>
<tr>
<td></td>
<td>force exerted by something or someone. Origin: Middle English, from Anglo-Norman French</td>
</tr>
<tr>
<td></td>
<td>poeir, from an alteration of Latin posse ‘be able’.</td>
</tr>
<tr>
<td><strong>Authority (noun)</strong></td>
<td>The power or right to give orders, make decisions, and enforce obedience; (often authorities)</td>
</tr>
<tr>
<td>Verb: to authorise</td>
<td>a person or organisation having power or control in a particular, typically political or</td>
</tr>
<tr>
<td></td>
<td>administrative, sphere; the power to influence others, especially because of one’s commanding</td>
</tr>
<tr>
<td></td>
<td>manner or one’s recognised knowledge about something.</td>
</tr>
<tr>
<td></td>
<td>Origin: Middle English, from Old French autorite, from Latin auctoritas, from auctor</td>
</tr>
<tr>
<td></td>
<td>‘originator, promoter’ (author).</td>
</tr>
<tr>
<td><strong>Influence (noun)</strong></td>
<td>The capacity to have an effect on the character, development, or behaviour of someone or</td>
</tr>
<tr>
<td>Verb: to influence</td>
<td>something, or the effect itself. Origin: late Middle English, from Old French, or from medieval</td>
</tr>
<tr>
<td></td>
<td>Latin influenza ‘inflow’, from Latin influere, from in- ‘into’ + fluere ‘to flow’. The word</td>
</tr>
<tr>
<td></td>
<td>originally had the general sense ‘an influx, flowing matter’, also specifically (in astrology)</td>
</tr>
<tr>
<td></td>
<td>‘the flowing in of ethereal fluid (affecting human destiny)’. The sense ‘imperceptible or indirect</td>
</tr>
<tr>
<td></td>
<td>action exerted to cause changes’ was established in Scholastic Latin by the 13th century, but</td>
</tr>
<tr>
<td></td>
<td>not recorded in English until the late 16th century.</td>
</tr>
<tr>
<td><strong>Strength (noun)</strong></td>
<td>The quality or state of being physically strong; the capacity of an object or substance to</td>
</tr>
<tr>
<td>Verb: to strengthen</td>
<td>withstand great force or pressure; a good or beneficial quality or attribute Origin: Old English</td>
</tr>
<tr>
<td></td>
<td>strengthu, from the Germanic base of strong.</td>
</tr>
<tr>
<td><strong>Compulsion (noun)</strong></td>
<td>The action or state of forcing or being forced to do something; constraint Origin: late Middle</td>
</tr>
<tr>
<td>Verb: to compel</td>
<td>English, via Old French from late Latin compulsion(n-), from compellere ‘to drive, force’ (compel).</td>
</tr>
<tr>
<td><strong>Domination (noun)</strong></td>
<td>The exercise of power or influence over someone or something, or the state of being so controlled.</td>
</tr>
<tr>
<td>Verb: to dominate</td>
<td>Origin: late Middle English, via Old French from Latin dominatio(n-), from the verb dominari</td>
</tr>
<tr>
<td></td>
<td>(dominate).</td>
</tr>
<tr>
<td><strong>Coercion (noun)</strong></td>
<td>The action or practice of persuading someone to do something by using force or threats.</td>
</tr>
<tr>
<td>Verb: to coerce</td>
<td></td>
</tr>
<tr>
<td><strong>Force (noun)</strong></td>
<td>Coercion or compulsion, especially with the use or threat of violence; mental or moral strength</td>
</tr>
<tr>
<td>Verb: to force</td>
<td>or power; make a way through or into by physical strength; break open by force; make (someone)</td>
</tr>
<tr>
<td></td>
<td>do something against their will. Origin: Middle English, from Old French force (noun), forcer</td>
</tr>
<tr>
<td></td>
<td>(verb), based on Latin fortis ‘strong’.</td>
</tr>
<tr>
<td><strong>Control (noun)</strong></td>
<td>The power to influence or direct people’s behaviour or the course of events; determine the</td>
</tr>
<tr>
<td>Verb: to control</td>
<td>behaviour or supervise the running of. Origin: late Middle English (as a verb in the sense ‘check</td>
</tr>
<tr>
<td></td>
<td>or verify accounts’, especially by referring to a duplicate register): from Anglo-Norman French</td>
</tr>
<tr>
<td></td>
<td>contreroller ‘keep a copy of a roll of accounts’, from medieval Latin contrarotulare, from</td>
</tr>
<tr>
<td></td>
<td>contrarotulus ‘copy of a roll’, from contra- ‘against’ + rotulus ‘a roll’.</td>
</tr>
</tbody>
</table>

Source: The Oxford Online Dictionary of English (www.oxforddictionaries.com/definition/english)
Table 2.4 shows that different words may be used in different situations or to otherwise provide a more comprehensive description of power. The related concepts of power, force, influence and authority can all be used in decision-making and to resolve conflict, though each may not be available to all stakeholders. Force and manipulation are non-relational means to achieve a desired outcome, while power, authority and influence are relational. Being relational, power is dependent on the attributes of the parties and the context.

Expert opinions for example, are based on expertise and therefore professional authority in a particular discipline. Such power is however limited to the context where the expertise has meaning. The intention of exercising such power is usually influence and therefore power. Depending on whether the argument is put forward with strength or force, the act can be described as domination or coercion and the effect as compulsion, resulting in the expert having control, sometimes supporting an image of being powerful. Such image and resulting reputation may however also be undermined by contradictory evidence from other sources, meaning that power is neither stable nor absolute, but relative.

Pfeffer (1981) argues that power may be based on perceptions, introducing a degree of subjectivity. Teale et al (2003) concur, commenting that perceptions of power may vary depending on who reports on the power: the ‘executer’ or the ‘subject’. For example, perceptions that an individual has expertise may result in power being afforded to that person (French & Raven, 1959). This has the potential to motivate manipulative or even deceptive behaviour, these in attempts to gain or exploit power (Kolk & Pinkse, 2006; Pfeffer, 1981), suggesting that power relationships may not be based on entirely rational evaluations. Power may also be exercised by the way power is perceived and analysed in theory.

2.5.3 Perceptions of power

Morris (2002) suggests three contexts where power is useful – a concept, a moral and an evaluative context. The ‘practical context’ refers to the need to ‘map’ our own and others power to do things in order to navigate social relations. The ‘moral context’ refers the idea that having power confers responsibility and a ‘lack of power’ may absolve responsibility. The ‘evaluative context’ refers to the distribution of power in
society and individuals’ ability to look after their own needs and wants – a ‘power to’ based on freedom of choice.

A direct causal relationship exists in both Weber’s (1978) definition and Dahl’s (1968:10-11) general definition of power as:

The subsets of relations among social units such that the behaviours of one or more units (the responsive units, R) depend in some circumstances on the behaviour of other units (the controlling units, C).

According to Dahl (1957), power is a matter of comparability between R and C on four factors, see Table 2.5.

### Table 2.5 Components of power

<table>
<thead>
<tr>
<th>Components of power</th>
<th>Examples and comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>The <em>base</em> (source/domain) of power. A passive component that has to be exploited for power to exist.</td>
<td>Power is the ability to control and distribute resources and decide how, when and who have access to those resources. Such may become depleted or redundant, changing the base of power.</td>
</tr>
<tr>
<td>The <em>means</em> (instruments) of power. To exploit the base of power, for example a promise or a threat</td>
<td>For example an agreement to provide labour in exchange for economic reward, or vice versa</td>
</tr>
<tr>
<td>The <em>amount</em> (extent) of power. Can be expressed as a probability in conjunction with the means and scope</td>
<td>The extent to which the agreement can be enforce; how ‘much’ can C get R to do and in what areas</td>
</tr>
<tr>
<td>The <em>scope</em> (range) of power. The response that C is capable of inspire from R</td>
<td>Since C is unlikely to have absolute control over R in all aspects, C’s power over R has limited range. There may be situations in which the roles are reversed.</td>
</tr>
</tbody>
</table>

Source: based on Dahl (1957)

In Table 2.5 the first two factors relate to C, while the last two relate to R. In a later writing where the focus was on political power, Dahl (1968) suggested that power have four factors:

- **Magnitude** – the ‘amount’ or measurement of C’s power over R
- **Distribution** – relative distribution of characteristics between R and C
- **Scope** – the specialist range of activities where C have power over R
- **Domain** – the individuals over which C have power; identity of R

Power is thus not strictly unidirectional but moderated by the (potential) response by R. In this way, C is ‘empowered’ or legitimised by R’s desire (motivation) for the relevant resources or skills, resulting in a level of interdependence. If there is equilibrium, there is no contest or conflict, no tension in the relationship and therefore, according to Dahl, no power. In exercising power, both parties have to bear a ‘cost’. Bachrach and Baratz (1970:21) appears to agree by pointing out that ‘power’ only exists if there is a power
struggle, a conflict that at least one party is aware of. Power is thus relational, and assumes a potential for resistance.

Bachrach and Baratz (1970) criticise Dahl’s (1957:202) analysis of a common “primitive notion” behind the concepts power, influence, control and authority, as restrictive and argue that power also has another ‘face’; the use of barriers to hinder decision-making. There are four methods:

1. Direct threat of sanctions involving intimidation or co-optation
2. Indirect citing of existing norms, rules or procedures
3. Indirect encouraging of bias that will reinforce or create barriers
4. Implicit control by a non-event; one party may abstain from engagement, estimating the likely outcome as a ‘lost cause’

Thus power may be exercised overtly in decision-making but also exist as a pervasive means of ‘covert control’ called non-decision-making (Bachrach & Baratz, 1970). Lukes (2005) however, criticises both Dahl’s and Bachrach and Baratz’ descriptions of power as inadequate and proposed three views of power, see Table 2.6 below.

<table>
<thead>
<tr>
<th>Table 2.6</th>
<th>Lukes' three views of power</th>
</tr>
</thead>
<tbody>
<tr>
<td>One-dimensional (pluralist) view, as represented for example by Weber and Dahl (cited by Lukes, 2005): Focus on observable behaviour in the decision-making regarding (key) issues where there is observable (overt) conflict of (subjective) interests</td>
<td>Assumes that power, influence etc are expressions of a common ‘primitive notion’</td>
</tr>
<tr>
<td>Two-dimensional view, as represented for example by Bachrach and Baratz (cited by Lukes, 2005): Involves a qualified critique of the behavioural focus, examines both decision-making and non-decision-making regarding potential issues where there is observable (overt or covert) conflict of (subjective) interests</td>
<td>Allows for power to be understood as political influence to control agendas</td>
</tr>
<tr>
<td>Three-dimensional view (Lukes, 2005), focus on: Critique of behavioural focus, examines decision-making and control of political agenda regarding issues and potential issues where there is observable (overt or covert), and latent conflict over subjective and real interests</td>
<td>Allows for manipulations and bias, possibly unconscious and unintended control</td>
</tr>
</tbody>
</table>

Table 2.6 shows Lukes contribution that the use of power can be covert and even unconscious, consistent with Bennett’s (2012) observation that people may underestimate their own power or even be unaware of their own use of it. One reason for this may be how power is perceived; often seen as a desirable, useful and at the same time a dangerous means to an end involving manipulation, deception and even force (Bennett, 2012; Greene, 1998). A result is that people may not perceive themselves as powerful even when they exercise power and thus misunderstand the impact they have on others (Bennett, 2012).
This is however, in apparent contradiction with Wrong (2009), who suggests defining power as a capacity to produce effects that are both intended and foreseeable. It also disregards the power embedded in the freedom of choice exercised by a customer who walks away. Such ‘ex-customer’, at that point typically has no desire or intent to ‘produce an effect’ on the supplier that has just been abandoned. Yet, the supplier may experience an effect, an indication of asymmetric dependence.

Consistent with the dictionary definition of power, Morriss (2002) argues that power is a ‘dispositional concept’ and the focus on the exercise of power is a fallacy. Although access to resources can be evidence of power, it cannot be identified with power. The idea that power is a concrete resource that can be applied to achieve an outcome, is known as the ‘vehicle fallacy’ (Morriss, 2002; Nye Jr., 2010). Nye (2010:27) instead argues that “power is a relationship whose strength and domain will vary with different contexts”. According to Morris (2002), rather than a ‘thing’ or an event, power is a capacity or ability where ability is a conditional capacity requiring a choice to activate. Morris (2002) adds that it is important to distinguish between ‘ability’ in a generic sense, and ‘ableness’; a specific ability given the actually existing conditions, that is ‘ability’ within context of reality. Nye (2010:88) argues that effective leadership requires the kind of power Morriss (2002) calls ‘ableness’:

Leaders with contextual intelligence are skilled at providing meaning or a road map by defining the problem that a group confronts. They understand the tension between the different values involved in an issue and how to balance what is desirable with what is feasible.

Such ‘ableness’ is supported by both knowledge and process power and may play a role in perceptions of an the leader’s influence as well as reputation, and affect the level of resistance (Beritelli & Laesser, 2011). The followers, whether powerful or powerless, play a role not only in empowering the leader but also in setting constraints by refusing to comply, making the relationship fluid (Nye Jr., 2010; Tilly, 2009). Nye (2010:46-47) suggests that leaders need both weak and strong ties and that they are “identity entrepreneurs who increase power by mobilising followers multiple identities”. Power then is not simply the result of having control of resources or a powerful position in an organisation or social system, but also a matter of negotiation – the skills and ability to manage ‘force relationships’ (Foucault, 1994). Power thus does not exist in a vacuum and analysis of power without context is meaningless. An important aspect of power...
relations is the relative difference in its strength, resulting in power relationships being ongoing, heterogeneous, contested and dynamic (Hörnqvist, 2010).

**Power and resistance**

The exercise of power requires that there is something or someone on which power can be exerted and the less powerful must accept to be ‘subjected’ to it (Bachrach & Baratz, 1970; Hofstede, 1980). Weick (1979), for example, points out that to be effective, orders to act must be perceived as legitimate and acceptable or at least not in violation of personal values, by the person receiving the instruction. Power is thus either resisted or accepted, and may thus be legitimised by the subject of power.

Wrong (2009) puts forward the opinion that although power can be latent, in the absence of (an anticipated) effective outcome, power cannot be said to have been exercised. This is consistent with Tilly (2009), who describes power as a relation between input and output. If B does not respond despite A’s efforts, then A has no power over B; if B complies to a point and then resists, A has circumscribed power, and finally, if B responds rapidly and keeps responding until resources run out, then A has great power over B. In stakeholder management, it is for example possible to see ‘B’ as a potential customer of ‘A’. It is also worth noting that in the event that ‘B’ later becomes a customer of ‘A’, the power balance may change.

Implicit is the idea of resistance; an ability of one actor to resist by refusing to comply (Bachrach & Baratz, 1970), meaning that power is contested. Foucault (1994) in fact argues that resistance itself a form of power, a moderating force that must be considered in terms of achieving ‘effective action’ (Parsons cited in Göhler, 2009). This tension may ebb and flow between the parties, in this case the decision maker and the stakeholder, a dynamic balance of power (Bennett, 2012), schematically illustrated in Figure 2.2.
Figure 2.2 illustrates the notion that power is unstable; that the exercise of power occurs in unbalanced and tense interactions where a superordinate has more influence than the subordinate actor (Hörnqvist, 2010; Morgan, 2006) and where both actors attempt to gain a dominant position, meaning that the inequality in power may change (Hörnqvist, 2010).

The context may however provide for the impact of other parties and power as a dichotomy between two parties may be too simplistic. What is at stake in a power struggle may not be narrowly confined but affected by the wider context; “Every power relation exists in a society and is thereby surrounded by, and potentially affected by, a range of other power relations and conflicts” (Hörnqvist, 2010:5). An alliance between two entities with power may well result from a – possibly temporary or issue specific – power equilibrium between the two, but their combined power may then be directed outwards towards a third party, such as a troublesome stakeholders that they have in common, for example a competitor.

**Types of power**

One way to understand resistance to power is as a contest between different types of ‘powers’. Göhler (2009), for example, further discusses the distinction between ‘power over’ and ‘power to’ and suggests that while ‘power over’ is relational and externally referenced, ‘power to’ is referenced internally as a potential or actual capacity to act. It therefore shares characteristics with concepts such as empowerment. Consistent with Weber’s (1978:53) definition of power, ‘Power over’ is transitive, that is, it affects another in a zero sum game resulting in loss for one party and may therefore be meet with determined resistance. ‘Power to’, on the other hand, is intransitive, meaning that it is self-referenced, productive and conducive to reciprocal and creative interactions in win-win situations (Göhler, 2009). ‘Power to’ is therefore less likely to be met with resistance.
Resistance may therefore be understood as a conflict between transitive power – used by actor A, and the intransitive power of actor B. Göhler (2009) goes on to suggest that power determines which options to act are possible and which are not, a position that is consistent with Foucault’s (Dreyfus & Rabinow, 1983) perception of power as the management of force relationships.

A key skill in managing and negotiation relationships involving varying degrees of power, is likely to be able to use the right type of ‘power’ at the right time. According to Pierro, Cocero and Raven (2008), there are two types – ‘hard’ and ‘soft’ power. ‘Hard’ power can be used to coerce or induce compliance where a subject is motivated by an extrinsic rewards and a need to ‘get along’. ‘Soft’ power on the other hand, is similar to influence. It can be used to co-opt or attract cooperation where the subject is intrinsically motivated with a desire for control, for ‘getting along’ and for self-esteem. This suggests that the person with power need to be able to use both types of power. The ability to use both effectively is called ‘smart’ power (Nye Jr., 2010).

The ontology of power is thus one of relational dynamics (Bennett, 2012) and highly relevant for stakeholder relationships. The constant testing and re-negotiation of the balance of power between an organisation and its individual stakeholders are further complicated by the relational dynamics between groups of stakeholders and the organisation, as well as between stakeholders. Understanding power in stakeholder relationships is thus more complex than it appears at first glance, for it is in a constant state of flux; influenced by both direct and indirect forces.

**Power relationships**

Power is different to social control, and can be described as ‘intended and effective influence’ in contrast to ‘unintended control’ using norms and values (Wrong, 2009). Wrong (2009) offers an overview of the classifications, see Table 2.7.
### Table 2.7 Wrong’s forms of power

<table>
<thead>
<tr>
<th>Intended influence = POWER</th>
<th>Personal (a.k.a. referent power): The subject is attracted to the power holder, emotionally motivated to comply. Similar to charisma.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Competent (a.k.a. expert power): The subject of power ‘trusts’ the power holder’s superior expertise or knowledge.</td>
</tr>
<tr>
<td></td>
<td>Legitimate (a.k.a. legitimate power): The power holder has a recognised right to command and the subject of power obligation to comply. Based on shared norms.</td>
</tr>
<tr>
<td></td>
<td>Induced (a.k.a. economic power): Positive sanctions, the subject of power complies ‘freely’ in exchange for economic reward.</td>
</tr>
<tr>
<td></td>
<td>Coercive (a.k.a. political power): Negative sanctions, the subject of power convinced that the power holder is both capable and willing to use force. Compliance often temporary.</td>
</tr>
</tbody>
</table>

**Authority**

When the subject of power complies in response to the source of the demand to act or refrain from acting.

**Persuasion**

When the subject of power complies freely based on rational choice and being convinced of the content of the message, rather than threat of penalties, rewards or obligation. Exist only in its manifest form.

**Manipulation**

When the intent to influence is concealed from the subject. Exist only in its manifest form.

**Force**

Most effective in preventing an action. Exist only in its manifest form. Compliance usually swift.

<table>
<thead>
<tr>
<th>Physical</th>
<th>Violent</th>
<th>Non-violent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Psychic</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Unintended influence**

Social control through norms and values

Source: developed for this research, based on Wrong (2009)

Table 2.7 shows Wrong’s effort to clarify the overlap between meanings of related terms to describe power. By placing the terms in a ‘hierarchy’ the distinction between intent, means and sources of power becomes clearer. The inclusion of persuasion as a form of power is unusual as it lacks the asymmetry typical of most power relations, but Wrong (2009) argues that it is nevertheless a form of power intended to produce foreseen effects on others.

Also indicated in Table 2.7 is that different types of power may be more or less likely to generate resistance: personal power, where the subject is attracted to the power holder, is for example likely to inspire much less resistance than coercion. Wrong (2009) adds that power relations have three attributes, partly consistent with Dahl’s (1968) components of power:

- **Extensiveness** of power; the number of power holders and subjects of power
- **Comprehensiveness** of power; the number of areas in which the power holder has influence over the subject(s) of power
- **Intensity** of power; the range of options (means) that the power holder have to control the subjects of power, often limited by statutes
Wrong (2009:10) also points out that while asymmetry exists in each situation where power is exercised, the overall relationship may be one of equilibrium as “… the actors continually alternate the roles of power holder and power subject in the course of their interaction”. Nye (2010) suggests that power comes from an asymmetry in dependence with the less dependent having power. Dependence, and therefore power may fluctuate with factors such as perceived legitimacy and urgency of claim.

Buchanan and Badham (2009:46) argue that “power is both an episodic and pervasive phenomenon” that can be understood as a property of individuals, the property of interpersonal relationships, or as an embedded property of the structure and framework of the organisation. Several authors (Dahl, 1968; Nye Jr., 2010:27) suggest that power is specialised; while A has power over B in one situation, B has power over A in another. Although power may be distributed unequally, it is never fully one-sided (Hörnqvist, 2010).

One of the most influential writers on power is Foucault (1994) who also identifies power as relational, an intrinsic aspect of all social relations that exists everywhere because it comes from everywhere. According to Foucault (1994:341; Hörnqvist, 2010), power is the management of possibilities to act on the possible, future or actual actions of others; a “conduct of conducts” or strategic management of force relationships (Dreyfus & Rabinow, 1983).

A general trend in understanding power in stakeholder relationships can be identified, from seeking to define power by identifying its sources – a reductionist approach, to seeking a holistic understanding of power as a ubiquitous and essential aspect of social relations. The particular expression of ‘power’ is unique to each situation. Although Mitchell et al (1997) used Etzioni’s definition of power, in a highly complex and turbulent environment, where the role of decision maker and stakeholder may alternate depending on the issue at hand (Wrong, 2009), this is too rigid. Mitchell et al (1997) also argued that power and legitimacy are separate and distinct attributes, the issue then is how to distinctly define the two attributes.

2.5.4 Defining power

Parsons (1963:237) suggested that power could be defined as the
“… generalized capacity to secure the performance of binding obligations by units in a system of collective organization when the obligations are legitimized with reference to their bearing on collective goals and where in case of recalcitrance there is a presumption of enforcement by negative situational sanctions – whatever the actual agency of that enforcement”.

However, such collective – or individual – goals can be either synergistic or antagonistic; for synergistic goals would not result in resistance and therefore perhaps not ‘qualify’ as involving power. On the other hand, if the parties have conflicting goals, the relationship would have antagonistic features; resistance would exist and power be seen as exercised. In both scenarios, influence can be identified. Influence, defined as “The capacity to have an effect on the character, development, or behaviour of someone or something, or the effect itself” (Oxford Dictionaries) is consistent with the word ‘affect’ as used by Freeman in defining stakeholders as (1984:25): “any group or individual who can affect or be affected by the achievement of the firms objectives”. An overview is presented in Table 2.8.

<table>
<thead>
<tr>
<th>Affect (verb)</th>
<th>Have an effect on; make a difference to; touch the feelings of; move emotionally</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synonyms</td>
<td>Influence, exert influence on, have an effect on, act on, work on, condition, touch, have an impact on, impact on, take hold of, attack, infect, strike, strike at, hit; change, alter, modify, transform, form, shape, control, govern, determine, decide, guide, sway, bias Upset, trouble, hit hard, overwhelm, devastate, damage, hurt, pain, grieve, sadden, distress, disturb, perturb, agitate, shake, shake up, stir; move, touch, tug at someone’s heartstrings; make an impression on</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Effect (noun)</th>
<th>Change which is a result or consequence of an action or other cause; the state of being or becoming operative; the extent to which something succeeds or is operative; impression produced in the mind of a person</th>
</tr>
</thead>
<tbody>
<tr>
<td>Synonyms</td>
<td>‘accomplish’, from ex- ‘out, thoroughly’ + facere ‘do, make’</td>
</tr>
</tbody>
</table>

Source: The Oxford Online Dictionary of English (www.oxforddictionaries.com/definition/english)

Table 2.8 implies that the approach of focusing on the outcome, the effect and the process of achieving it by affecting something or one’s actions, is consistent with the use of the word influence.

Parson’s (1963) definition is based on the existence of a presumed relationship between the ‘units’, and even collective goals and legitimacy that provides for sanctions. However, ‘power’ may also be exercised where no explicit relationship exists and sanctions therefore not available. For example the ‘power’ exercised by customers who
refuse to trade with a particular supplier. Such power serves to legitimise competition since it is based on an assumption of choice.

Within stakeholder theory, power may be understood as an expression of dependence in a relationship (Kolk & Pinkse, 2006; van Buren III & Greenwood, 2011), the more asymmetric the dependence, the more asymmetric the power. This may however vary depending on the issue at hand. Power is thus a function of limited choice, an assumption embedded in Weber’s earlier definition. It is also consistent with the use of various manipulative approaches to gain power and control by covertly limiting perceived choices. Influence rather than power may then be appropriate to ensure the survival of the overall relationship. While likely to involve more consistent effort over time, influence is also likely to inspire less resistance and therefore be more efficient.

An added advantage of using ‘influence’ is that the word, in contrast to the word ‘power’, has a wide but relatively clear definition that is consistent across several languages. The usability of the model in the wider community requires the terminology to be widely understood. In fact, building on Wrong (2009), many of the difficulties with defining power can be overcome by instead using influence and by understanding this process as a continuum, see Figure 2.3.

Illustrated in Figure 2.3 is the notion that influence can be achieved by varying overt or covert means and that different types of ‘influence’ may generate more or less resistance. Consistent with definitions of power (Bachrach & Baratz, 1970; Dahl, 1968; Foucault, 1994; Lukes, 2005; Morriss, 2002; Nye Jr., 2010; Weber, 1964; Wrong,
influence is a capacity to achieve an outcome or goal – an effect – as part of a relationship and is constrained by varying degrees of resistance. Influence is then tempered by the response from the environment, resulting in a specific ‘ableness’ (Morriss, 2002) or ability to influence. Persuasion, for example implies a ‘negotiated outcome’ based on reason and therefore likely to provoke little resistance and a more efficient outcome. Decision influence is likely to be a much less obvious use of power than the application of coercive power, likely to generate less resistance and therefore seen as more effective and efficient.

In addition, perceptions of power are subjective and may differ between the decision maker in the organisation and the stakeholder, leading to an asymmetry in power perception. Although subjective, such perceptions are nevertheless a basis for decision-making. Stakeholders perceived as powerless or at least less powerful than the organisation may be in a vulnerable relationship, dependent on the goodwill of the organisation – a trust issue (Greenwood & van Buren III, 2010). An example of such ‘powerless’ stakeholders, are unskilled workers who are dependent on the organisation for employment and therefore income, but often seen as a commodity by organisations (van Buren III & Greenwood, 2011).

Although power may be a contested concept (Gallie, 1956) and a stringent definition of power is hard to come by (Göhler, 2009). Most people would recognise power when confronted with it. Yet, paradoxically, it has also been argued that people frequently do not recognise their own power or use of power (Bennett, 2012; Mitchell et al., 1997; Tashman & Raelin, 2013). To better understand power as an attribute of stakeholder salience, a starting point may be to ask decision makers – RQ2a therefore asks: “How do decision makers perceive the proposed attribute ‘power’?

### 2.6 ‘Legitimacy’ as an attribute of stakeholder salience

Mitchell et al (1997) adopted Suchman’s (1995:574) definition of legitimacy as:

“… a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”.

Legitimacy is the overall evaluation of the pattern of behaviour of the entity as being appropriate. In both the social contract model and public power model (Brummer,
1991), corporations are legitimised by society in return for the value created. The lack of such legitimacy may negatively affect the organisation and even industry. Dobrev and Gotsopoulos (2010), for example, found that such ‘legitimacy vacuum’ results in a higher failure rate of new firms. Legitimacy is a socially constructed concept that can then be understood as the larger collective ‘endorsing’ actions of the entity in a feedback loop. Legitimacy thus supports credibility and therefore reputation and stability.

The support for the entity may be active or passive and according to Suchman (1995) there are three types. Pragmatic legitimacy typically involves the immediate stakeholders and their self-interested calculations regarding the perceived value of the entity or activity. Moral (normative) legitimacy is based on the evaluator’s perception that the activity is ‘the right thing to do’ and closely related to perceptions of ethical behaviour. Cognitive legitimacy is the generalised acceptance that the entity or its actions are appropriate.

Although Thomas and Lamm (2012) support Suchman’s (1995) three dimensions of legitimacy as being useful, the definition is broad and leaves the more precise definition of what is ‘acceptable’ open to interpretation according to the norms and characteristics of the particular social system(s). Burg (2009) points to the difficulty for managers to detect and operationalize social norms which may be relatively stable or localised and evolving, but suggest that the solution is not increased surveillance but active deliberation with stakeholders.

Suchman’s (1995) legitimacy applies to the legitimacy of the organisation, its decisions and actions, but as suggested by Mitchell et al (1997), also the stakeholders, their claims and actions in the relationship with the organisation.

### 2.6.1 The concept of legitimacy

Like power, the literature on legitimacy spans several disciplines and is discussed in the social sciences, politics and business. Sutton (1993) argued that legitimacy is part of every power relationship and that without power there is no need to debate legitimacy. By contrast Mitchell et al (1997) saw legitimacy as a concept distinct from power, two attributes that may exist concurrently or separately. Power supported by legitimacy, according to Beetham (2013) complies with recognised rules and is therefore accepted
by the subordinates. Power without legitimate support is illegitimate and although possibly effective in the short-term, therefore subject to considerable resistance and even challenge.

The fundamental legitimacy of commercial operations springs from the organisation’s ability to provide value; economic and other values such as employment, goods and services (J. S. Harrison & Wicks, 2013). This process of legitimisation supports the organisation’s very existence and its ‘right to operate’ (De Blasio, 2007; Etzioni, 1998; Hart & Sharma, 2004; Sach & Rühli, 2011). Value creation thus provides a basis for attracting support – active or passive – from society at large (De Blasio, 2007). Such values may however be conflicted, for creation of economic value may for example be at the expense of environmental concerns.

Balancing of values occurs on several levels, including societal, industry, organisational and personal. The norms guiding the decision-making may vary on all those levels and over time, creating a highly complex environment in which to navigate ‘acceptable behaviour’ and establish legitimacy. In consequence, perceptions about ‘illegitimate’ may also be different in different contexts. Legitimacy thus contributes to the dynamic qualities of stakeholder salience and supports a degree of reciprocity between the firm and stakeholders (Fassin, 2008; Pfeffer, 1998; Tangpong & Pesek, 2007).

Legitimacy based on ‘conformity to the law or rules’ by definition varies between countries and ‘values and beliefs’ between cultures, including levels of culture. Legitimacy is a culturally based construct that influences social relationships and levels of acceptance or resistance. For example, perceptions of power both by the powerful and powerless, is moderated by perceptions of legitimacy of power differences (Hofstede, 1993; Lammers & Galinsky, 2009). Both legitimate power and illegitimate powerlessness puts focus on gain and encourage negotiation, perhaps even risky behaviour. On the other hand, legitimate powerlessness and illegitimate power puts focus on potential loss and acts as an inhibitor (Lammers & Galinsky, 2009).

Suchman’s (1995:574) definition is consistent with the ‘everyday’ dictionary (Oxford Dictionaries) definition of legitimacy as “conformity to the law or to rules”. The dictionary (Oxford Dictionaries) also adds the possibility of understanding legitimacy as the “ability to be defended with logic or justification; validity”, a rational argument that
in an organisational context could be understood as ‘providing value’. Validity, legality and several related terms are set out in Table 2.9.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition from The Oxford Dictionaries (online)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legitimacy (noun)</strong> Verb: to legitimise</td>
<td>Conformity to the law or to rules; (with reference to a child) the quality of being legitimate; ability to be defended with logic or justification; validity Origin: Legitimate - late Middle English (in the sense ‘born of parents lawfully married to each other’); from medieval Latin legitimatus ‘made legal’, from the Latin legitimus ‘lawful’, from lex, leg- ‘law’</td>
</tr>
<tr>
<td><strong>Validity (noun)</strong> Verb: to validate</td>
<td>The quality of being logically or factually sound; soundness or cogency; the state of being legally or officially binding or acceptable</td>
</tr>
<tr>
<td><strong>Legality (noun)</strong> Verb: to legalise</td>
<td>The quality or state of being in accordance with the law; (legalities) obligations imposed by law Origin: late Middle English: from French légalité or medieval Latin legalitas ‘relating to the law’, from Latin legalis</td>
</tr>
<tr>
<td><strong>Conformity (noun)</strong> Verb: to conform</td>
<td>Compliance with standards, rules, or laws; behavior in accordance with socially accepted conventions or standards; British, chiefly historical compliance with the practices of the Church of England; similarity in form or type; agreement in character Origin: late Middle English: from Old French conformite or late Latin conformitas, from conformare ‘to form, fashion’</td>
</tr>
<tr>
<td><strong>Compliance (noun)</strong> Verb: to comply</td>
<td>The action or fact of complying with a wish or command; the state or fact of according with or meeting rules or standards; regulations [as modifier]; unworthy or excessive acquiescence</td>
</tr>
<tr>
<td><strong>Authority (noun)</strong> Verb: to authorise</td>
<td>The ability or capacity to do something or act in a particular way; the capacity or ability to direct or influence the behaviour of others or the course of events; physical strength and force exerted by something or someone Origin: Middle English: from Anglo-Norman French poeir, from an alteration of Latin posse ‘be able’</td>
</tr>
</tbody>
</table>

Indicated in Table 2.9 is the overlap in meanings between power and legitimacy, which further confound efforts to provide a clear understanding of stakeholder salience and its individual attributes. In order to assist decision makers, legitimacy as an attribute of stakeholder salience need clearer definition.

### 2.6.2 The problem with legitimacy

In a globally interconnected and complex environment, where stakeholder relationships frequently cross both national and cultural borders, broad definitions such as that by Suchman (1995) provide little guidance on how to manage and prioritise stakeholder claims. A stakeholder and a decision maker may have conflicting perceptions of what constitutes ‘desirable, proper and appropriate’.
Weber (1964) defined legitimacy as a normative system, supported by the actor’s confidence in its validity. This validity (Weber, 1964) may be based on:

- Rational grounds; legality or normative rules (impersonal, formal legality)
- Traditional grounds; belief in traditions and status of those exercising authority (personal loyalty to person in office)
- Charismatic grounds; devotion to person’s characteristics

However, the basis for determining acceptability is still open. One difficulty with defining legitimacy with precision is that the social system and culture on which it is based may exhibit considerable variations in norms (Parsons, 1964). Such norms may also be influenced by personality and even by organisational characteristics. Command structures and division of labour may for example be set up without legitimate power “… through acts of forcible appropriation, exclusion or subjection which take place in violation of existing rules or outside of them” (Beetham, 2013:57). The use of power, for example by establishing a command structure and division of labour to promote a particular goal that would not be seen as ‘proper’ in the wider social context, may lead to defective decision-making, particularly in stressful environments (Hassan, 2013). This may be used strategically to control the process of decision-making and outcome, and result in a ‘sub-culture’ that reinforces its own rules and belief systems regarding what is desirable and proper. For example, such as may arise by the mechanism of groupthink (Janis, 1972). Such processes may also be embedded in social structures and therefore perpetuated over time and be highly resistant to change (Giddens, 1984).

The legitimacy of an organisation extends only so far as the goals and values of the organisation fit within the relevant social system (Dowling & Pfeffer, 1975). A deficit in legitimacy may result in withdrawal of consent, and therefore power – undermining the ability to get things done (Beetham, 2013). To survive and prosper, the belief in the organisation’s legitimacy has to be widespread, at least within some larger group, if not society at large, effectively providing an informal consensus on legitimacy. The importance of generating, supporting and defending confidence in the organisation is a leadership issue (Selart, 2010). Arguably, informal religious beliefs, for example the secondary position of women in society, can drive such informal perceptions in accord with the strength of those beliefs. The potential for discrepancies in perceptions of legitimacy have a number of ethical implications, see Table 2.10 below.
Table 2.10  Legitimacy and ethics

<table>
<thead>
<tr>
<th>Ethical view</th>
<th>Legitimacy</th>
<th>Implications for stakeholder theory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Individualism</strong>: focus on self-interest. Represented by pecuniary ethics (M. Friedman, 1970) - whatever it takes to make a profit</td>
<td>Formal or informal</td>
<td>Behaviour is acceptable as long as it is legal or at least not illegal. Efforts sometimes made to manipulate the interpretation of ‘legal’. Potential for conflicting perceptions between organisation and stakeholder(s), and formal and informal definitions</td>
</tr>
<tr>
<td><strong>Utilitarianism</strong> (Selart, 2010): greatest good for greatest number of people Focus on efficiency, productivity and profitability.</td>
<td>Formal and informal</td>
<td>Behaviour acceptable as long as it considers all ‘recognised’ stakeholders or at least follows policies and procedures. Potential for manipulation: Troublesome or inconvenient stakeholders can be excluded by distinguishing between members of in-group and outsiders</td>
</tr>
<tr>
<td><strong>The Justice view</strong> (Selart, 2010): focus on equity, fairness and impartiality. Subsets include: Procedural, Distributive and Interactional justice.</td>
<td>Formal and/or informal</td>
<td>Formally often expressed in policies and procedures. Often more informally in mission statements. Potential for difference in interpretation of ‘justice’: Organisation vs stakeholders Stakeholder vs stakeholder</td>
</tr>
<tr>
<td><strong>Moral-rights or Human Rights view</strong> (Selart, 2010): focus on fundamental rights of all people.</td>
<td>Informal</td>
<td>Behaviour is acceptable if it protects and respects fundamental human rights. Expects rules to be applied universally, can be seen as ‘ethical imperialism’. Issues: Difficult to apply universally. Question to what extent individual organisations are responsible</td>
</tr>
<tr>
<td><strong>Religious</strong></td>
<td>Formal and/or informal</td>
<td>Approaches to religion vary from being seen as a private concern with little influence on business, to being an overriding force determining everything. Issues if stakeholders hold differing perceptions regarding the role of religion</td>
</tr>
</tbody>
</table>

Evident from Table 2.10 is the potential for conflict as a result of inconsistencies in ethical views. An organisation may (for example) refer to individualism to support a narrow focus on profit ‘whatever it takes’ whereas an opposing interest group may refer to a moral rights view. In this way both are ethical and both have legitimacy, defined as “…appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995:574). This has potential to create very difficult situation that may require considerable effort to overcome and resolve. In order to use legitimacy as an attribute of stakeholder salience, a better analysis and definition is required (Neville et al., 2011; Parent & Deephouse, 2007; Santana, 2012).

### 2.6.3 Perceptions of legitimacy

In business, legitimacy can be understood as ‘the right to operate’ and is therefore closely related to value creation. Businesses that become insolvent for example, and therefore present a financial risk, are no longer legitimate and as support from various stakeholders (such as investors, customers and suppliers) wanes, the prospect for the
businesses also vanish. The problem then is to identify the relevant social system and the appropriate norms and values in a global business environment.

In addition, several types of legitimacy can be identified. Neville et al (2011) identifies ‘moral’ and ‘pragmatic’ legitimacy. Parent and Deephouse (2007:16) suggest basing the analysis of legitimacy on the work by Scott (1995) and Suchman (1995), and that there may be three types of legitimacy, *regulative, normative, and cognitive*. Driscoll et al (2004) suggest that there are two types involved in stakeholder salience; pragmatic legitimacy which assumes an instrumental approach, and moral legitimacy which is based on a normative approach.

Phillips (2003) further argued that different stakeholders have different types of legitimacy, that *normative* legitimacy belongs to stakeholders to whom the organisation has a moral obligation, that is for whose benefit the organisation exists; and that *derivative* legitimacy belongs to groups who have potential to affect the organisation or the normative stakeholders. Although the terminology varies, there are similarities between the suggestions and all argue from a ‘prescriptive’ approach in trying to determine a theoretical approach to defining stakeholder legitimacy.

Stakeholders may however straddle several roles with shifting levels of both power and legitimacy. Santana (2012) specifically considered legitimacy as an attribute of stakeholder salience and suggested that stakeholder legitimacy have three aspects:

- the legitimacy of the *entity*
- the legitimacy of the *claim*
- the legitimacy of *behaviour* in making the claim

Ideally all three aspects should be present over time but in reality various combinations exists, resulting in various degrees of legitimacy (Santana, 2012). The most important type is the legitimacy of the entity, which may be strong enough to, at least temporarily, overcome deficiency in legitimacy of claim and behaviour.

It has also been argued that ‘legitimacy’ does not exist as an independent phenomena, but describes the actions and languages used by people to legitimise their behaviour: “It is the act of justification or authorisation which is being described, not the phenomena, character, or principles which are invoked as part of that action.” (Barker, 2001:26). Cohen (2010) suggests thinking of stakeholders as ‘citizens’ and using Rawls’
principles of justice as a normative foundation for recognising stakeholder demands. This is consistent with the way public relations practitioners have long recognised the need to analyse the ‘publics’ that may affect or be affected by a particular event (Grunig 
& Repper, 1992). The underlying principle in both concepts is mutual dependence (Luoma-aho 
& Paloviita, 2010). Cohen (2010:565) states that:

The principles of justice articulate (at an abstract level) the rights of citizens; these rights give citizens legitimate social interests in the space of economic activity; and this show that stakeholders – as citizens – have legitimate interest in economic activities/transactions, whether or not they are directly party.

In a stable environment where decision makers and stakeholders could be identified as belonging to a particular network with a limited geographical spread, norms and values would be known, embedded in the social context and codified in the relevant legal system. The relevant social system may be defined as an industry, a market segment or a society with more or less homogeneous norms and values, meaning that legitimacy is a culturally based concept. In a globalised environment where decision makers and stakeholders are members of complex networks with a diversity of embedded norms and values, culture becomes a moderating factor. Suchman (1995) for instance, has argued that legitimacy is multifaceted and vary according to context, suggesting cultural factors may impact on perceptions of legitimacy. Understanding legitimacy may therefore require understanding and identification of the relevant cultural context.

**Culture**

Schein (2004:17) provided a comprehensive definition of culture as:

… a pattern of shared basic assumptions that was learned by a group as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems

Similarly, Hofstede (2010:6) suggest that culture is “… the collective programming of the mind that distinguishes one group or category of people from others”. Trompenaars and Hampden-Turner (2011) argue that all cultures aim to solve largely the same human problems, but have different preferences regarding the solution to each. Culture thus becomes a lens for perceiving and understanding the world and to determine ‘right’ and ‘wrong’ – that is legitimacy – and therefore manager’s perceptions of stakeholder’s salience. This adds complexity to understandings of legitimacy.
Importantly, Trompenaars and Hampden-Turner (2011), point out that ‘culture’ should not be a basis for stereotyping. Rather, culture should be understood as a ‘normal distribution’ of norms and values within a particular group, hence providing a basis for comparison to identify differences.

Culture may be high or low context (Hall, 1977; Schein, 2004). In **low context** cultures such as Australia, meaning is universal and often codified in the legal framework, providing a relatively strong link between formal and informal legitimacy. In **high context** cultures on the other hand, much more is implied and the link between attributes may operate in a different manner. Although there are other frameworks for understanding the consequences of cultural differences between nationalities, a commonly used framework is Hofstede’s (1980) dimensions of culture, see Table 2.11.

### Table 2.11 Legitimacy and culture

<table>
<thead>
<tr>
<th>Cultural dimension (Hofstede, 2013)</th>
<th>Impact on legitimacy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Distance Index (PDI)</strong></td>
<td>Attitude to hierarchy; affect both decision maker’s and stakeholders’ attitude to authority. High PDI would decrease stakeholders’ willingness to challenge decisions.</td>
</tr>
<tr>
<td>“The degree to which the less powerful members of a society accept and expect that power is distributed unequally” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td><strong>Individualism vs Collectivism (IDV)</strong></td>
<td>Attitude to legitimacy of focusing on individual or collective; would affect attitudes to collective responsibility for members of society, for example formal expectations such as taxation and informal such as supporting community events.</td>
</tr>
<tr>
<td>Individualism: “a preference for a loosely-knit social framework in which individuals are expected to take care of themselves and their immediate families only” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td>Collectivism: “a preference for a tightly-knit framework in society in which individuals can expect their relatives or members of a particular in-group to look after them in exchange for unquestioning loyalty” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td><strong>Masculinity vs Femininity (MAS)</strong></td>
<td>Attitude to legitimacy of feminine attributes such as caring for others; high level of masculinity would encourage a competitive stance while femininity would encourage a less confrontational attitude to conflict resolution.</td>
</tr>
<tr>
<td>Masculinity: “a preference in society for achievement, heroism, assertiveness and material reward for success. Society at large is more competitive” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td>Femininity: “a preference for cooperation, modesty, caring for the weak and quality of life. Society at large is more consensus-oriented” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td><strong>Uncertainty Avoidance (UAI)</strong></td>
<td>Attitude to risk taking and preference for formal rules</td>
</tr>
<tr>
<td>“The degree to which the members of a society feel uncomfortable with uncertainty and ambiguity” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td><strong>Long-term vs Short-term Orientation (LTO)</strong></td>
<td>Attitude to time, how long success may be expected to take</td>
</tr>
<tr>
<td>“Society’s search for virtue” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td>Short-term orientation: concern with establishing the absolute ‘Truth’, normative thinking, great respect for traditions, relatively small propensity to save, focus on achieving quick results (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td>Long-term orientation: ‘Truth’ is situation, context and time dependent, ability to adapt traditions to changed conditions, strong propensity to save and invest, perseverance in achieving</td>
<td></td>
</tr>
</tbody>
</table>
results (Hofstede, 2013)

<table>
<thead>
<tr>
<th>Indulgence vs Restraint (IND)</th>
<th>attitude to the ability to seek 'happiness' and expectations regarding being in control of own life and free expression of own thoughts.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indulgence: “a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun” (Hofstede, 2013)</td>
<td></td>
</tr>
<tr>
<td>Restraint: “a society that suppresses gratification of needs and regulates it by means of strict social norms” (Hofstede, 2013)</td>
<td></td>
</tr>
</tbody>
</table>

However, even within a country, sub-cultures, such as different industries or geographical areas, may express variations. Indeed, individual organisations may express variations as a result of structure, purpose or business origin. International organisations, for example, with strong cultural influences inherited from their country of origin may ‘expatriate’ such values and norms to new areas.

Variations may also exist between industries and types of organisations. Commercial enterprises are commonly acknowledged as having a legitimate focus on profit, but perceptions as to what degree such focus is acceptable may vary. At one extreme, the purpose of business has been described as exclusively that of profit (M. Friedman, 1970). Others have argued that the purpose of business is as a wealth creating community and that profit is simply a means to an end (Handy, 2002). Others again, have found that an extreme focus on profit may negatively affect reputation and result in a ‘backlash’ affecting profit (Porritt, 2005). Similarly, a perception that the organisation is experiencing ‘distress costs’ may affect stakeholders’ attitude to engaging with the firm and contribute to ensuring the expected outcome – a self-fulfilling prophecy (Cassar & Holmes, 2003). The attitude or ‘posture’ of the organisation may therefore affect its perceived legitimacy and the level of trust it enjoys from members of the greater social system (J. S. Harrison & Wicks, 2013; Ulmer et al., 2007).

An important function of management is to achieve a match between the organisation’s external adaptation and internal control. Although organisational culture is likely informed by national culture(s), organisational culture may display distinct characteristics that influence perceptions of legitimacy.

**Organisational culture**

Waisfisz and Hofstede (2015) developed a framework for understanding organisational culture. The framework comprises six autonomous dimensions and two semi-autonomous dimensions. The focus is however on identifying and understanding
differences between organisations rather than understanding perceptions of legitimacy and managing stakeholders.

Trompenaars and Hampden-Turner (2011) identified five cultural dimensions with a specific focus on business and management, to help understand differences in dealing with moral dilemmas. Each dimension is a continuum between two extremes. Table 2.12 provides an overview.

**Table 2.12 Cultural dimensions in business and management**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universalism vs particularism</td>
<td>The level of importance ascribed to rules of society, whether exceptional circumstances and personal relationships are allowed to take precedence</td>
</tr>
<tr>
<td>Communitarianism vs individualism</td>
<td>The importance of individual freedom, whether the primary objective is for the individual to themselves or to the collective</td>
</tr>
<tr>
<td>Neutral vs emotional</td>
<td>The level of acceptance and expectation that personal feelings are controlled and managed or be expressed freely</td>
</tr>
<tr>
<td>Diffuse vs specific</td>
<td>The level of involvement in each others life. Whether a relationship between two individuals permeate all situations or are situation specific (pluralistic)</td>
</tr>
<tr>
<td>Achievement vs ascription</td>
<td>Degree to which status is gained based on personal achievement or ascribed based on belonging to a group</td>
</tr>
<tr>
<td>Orientation to time</td>
<td>Time can be perceived sequentially as a series of events or synchronically which close integration between the past, present and future</td>
</tr>
<tr>
<td>Relationship with the natural environment</td>
<td>Whether the natural environment is seen as something to be controlled (inner-directed) or adjusted to (outer-directed)</td>
</tr>
</tbody>
</table>

Source: Based on Trompenaars & Hampden-Turner (2011)

Table 2.12 shows that the first five dimensions deal with how people relate to each other, the importance of rules for managing such relationships and therefore how moral dilemmas are approached. McKinney, Emerson and Neubert (2010) found a strong correlation between management behaviour towards stakeholders and the existence of ethical codes of conducts, suggesting that formally expressed organisational attitudes may influence management behaviour and in the extension also perceptions of legitimacy. Such differences in priorities may have significant consequences for perceptions of legitimacy, but also for power and urgency and therefore affect business relationships. The remaining two dimensions deal with peoples’ relationship to time and the world around them and may also influence attitude to what is acceptable and expected in business relationships.

### 2.6.4 Defining legitimacy

Santana (2012:258) suggests defining legitimacy within stakeholder salience as:
… a composite perception by the focal organization’s management of the legitimacy of the stakeholder as an entity, legitimacy of the stakeholder’s claim, and legitimacy of the stakeholder’s behavior at a certain point in time.

This definition goes some way to recognise the complexity of understanding legitimacy, but it does not provide a means for identifying the basis for such legitimacy.

From a broad perspective, legitimacy can be understood as a ‘promise’ or social contract and (similarly to a contract) identified on two levels, formal and informal. Tashman and Raelin (2013) make the distinction between explicit (formal) and implicit (informal) contracts and point out that both can be incomplete in that they may be unenforceable. Asher et al (2005) nevertheless argues that both are important for understanding stakeholder relationships and the process of value creation.

Formal, explicit legitimacy is codified in legal frameworks, and therefore ‘declared’ and relatively easy to identify and enforce (Carroll & Buchholtz, 2012). Examples affecting stakeholder relationships in business include legislation such as contract law, consumer protection law, and occupational health and safety law. Such legislation differs between jurisdictions, as there are no universal, international business norms (Windsor, 2004). Thus the level of formality varies on national fronts.

Informal, implied legitimacy is less easily identified as it is based on informal perceptions of morals and values. Such values are culturally specific and subject to social change as perceptions of what constitute legitimate stakeholder claims change over time (Santana, 2012). Informal legitimacy may also be influenced by personal characteristics such as personality and values anchored in religious beliefs. Informal legitimacy is the fundamental and deeply held belief system that binds most of society and underpins the development of formal legitimacy, see Figure 2.4.
Figure 2.4 illustrates that organisational legitimacy is based on both formal and informal legitimacy, is in turn anchored in the culturally based norms and values of society and partly interpreted in the organisational culture. Organisational culture is the result of individuals, in particular manager’s, norms, values and informal legitimacy.

Both types of legitimacy can change; formal legitimacy is slow to change but changes are declared and known, for example legislative changes. Changes to informal legitimacy may be subtle and subject to manipulation by lobby groups and by marketing efforts. Such changes may be variations to norms and values made by sub-cultures within society. Change may initially be subtle but then gain momentum, a kind of ‘drift’ in norms that may eventually force changes to the formal legitimacy. Examples include changing perceptions on passive smoking; single mothers; and cultural diversity.

Hofstede (1980:25) compared culture to personality: “Culture is to a human collective what personality is to an individual”. Personality as well as personal values and beliefs, religious convictions for example, may also affect perceptions of legitimacy. Cultural and personal characteristics may therefore both be considered part of the context in which perceptions of stakeholder salience are formed and decision made regarding the relative priority of stakeholder claims. Although pervasive and important, legitimacy, like power, is elusive to define with precision, supporting RQ3b, which asked: “How do decision makers perceive the proposed attribute ‘legitimacy’?”
2.7 ‘Urgency’ as an attribute of stakeholder salience

Mitchell et al (1997:864) defined ‘Urgency’ as “… the degree to which stakeholder claims call for immediate attention” and further identified two parts, both reside with the stakeholder:

- ‘Time sensitivity’ means that the stakeholder will not accept delay in response from management
- ‘Criticality’ is taken to mean that the stakeholder perceive the issue to be of importance

Urgency, in contrast to Power and Legitimacy is therefore as perceived by the stakeholder. This does not mean that the decision maker’s perception is irrelevant but rather that it is the stakeholder that initiates a claim based on urgency. Urgency can be seen as the catalyst for action; a point at which the stakeholder is mobilised to demand urgent attention from management and at which it becomes difficult and potentially risky for management to refuse attention. Ignoring ‘urgent’ stakeholders may simply inspire the stakeholder to search for ways to escalate the claim, for example by forming alliances with powerful or legitimate stakeholders. In that situation, the organisation, and decision maker, may lose the ability to negotiate a satisfactory outcome.

2.7.1 The concept of urgency

Of the three attributes proposed by Mitchell et al (1997), urgency is easiest to define with a degree of precision and relatively consistently understood. Table 2.13 provides an overview of related terms.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition from The Oxford Dictionaries (online)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urgency (noun)</td>
<td>The importance requiring swift action; an earnest and persistent quality; insistence</td>
</tr>
<tr>
<td>Earnest (adjective)</td>
<td>Resulting from or showing sincere and intense conviction</td>
</tr>
<tr>
<td>Insistence (noun)</td>
<td>The fact or quality of insisting that something is the case or should be done</td>
</tr>
<tr>
<td>Persistent (adjective)</td>
<td>Continuing firmly or obstinately in an opinion or course of action in spite of difficulty or opposition; continuing to exist or occur over a prolonged period; (of chemicals or radioactivity) remaining within the environment for a long time after introduction</td>
</tr>
<tr>
<td>Needfulness (adjective)</td>
<td>Formal necessary; requisite; dated needy</td>
</tr>
<tr>
<td>Importance (noun)</td>
<td>The state or fact of being of great significance or value</td>
</tr>
<tr>
<td>Haste (noun)</td>
<td>Excessive speed or urgency of movement or action; hurry</td>
</tr>
</tbody>
</table>

Source: The Oxford Online Dictionary of English (www.oxforddictionaries.com/definition/english)
Table 2.13 indicates that urgency, unlike power and legitimacy, is relatively easy to define. The ‘plain English’ definition of the term ‘urgency’ consistent with the academic understanding of the term within the context of stakeholder salience.

2.7.2 The problem with perceptions of urgency

The problem with urgency springs from the subjectivity inherent in perceptions of urgency and the difficulty of balancing conflicting needs and perceptions. It is for example entirely possible that a stakeholder perceive a demand as urgent because it is urgent in the context of finding a solution to a current problem. The decision maker of the organisation may however have other conflicting demands, of which the stakeholder is unaware or consider irrelevant.

A stakeholder’s urgency may nevertheless present a problem for the decision maker, as the stakeholder is likely to independently make decisions regarding future actions based on the response received. A significant customer may for example decide to instead purchase from a competitor, thereby representing a loss to the business.

2.7.3 Defining urgency

There appears to be little motivation for suggesting any change to Mitchell et al’s (1997:864) definition of ‘Urgency’ as “… the degree to which stakeholder claims call for immediate attention”. The stakeholder’s motivation for acting with urgency may however be based on complex subjective perceptions of power and legitimacy and influenced by context, including perceptions of risk, relationships and likelihood of achieving desired outcome. Such perceptions may all in turn be influenced by the context of decision-making.

Urgency is by definition a subjective concept that takes into account relationships and potential costs of decisions and actions, supporting RQ3c which asked: “How do decision makers perceive the proposed attribute ‘urgency’?”

2.8 Interactions between attributes of salience

Although studies (Boesso & Kumar, 2009; Parent & Deephouse, 2007) have found power to be the most important attribute for identification of stakeholder salience, legitimacy appears to have a moderating and stabilising effect on power, and potentially
also urgency. By contrast, urgency acts as a catalyst to mobilise and activate both power and legitimacy.

Although Mitchell et al (1997) argued that the three attributes of stakeholder salience should be perceived as separate, they recognised that each also affects and is affected by the presence or absence of the other attributes (Mitchell et al 1997:869-870) by stating that “Legitimacy gains rights through power and voice through urgency” and “Power gains authority through legitimacy, and it gains exercise through urgency”.

Additionally, the considerable overlap in definitions of power and legitimacy may give rise to combinations that perhaps could be considered attributes in their own right. Authority for example, may be understood as a combination of power and legitimacy.

Mitchell et al (1997:881) specifically asked “Are there models of interrelationships among the variables identified here (and possible others) that reveal more subtle, but perhaps more basic systematics?” and raised the issue of whether their suggestions would hold true in context of ‘real’ stakeholder relationships – RQ3d therefore asked: “How do decision makers perceive interactions between attributes of stakeholder salience?”

### 2.9 Potential other attributes of salience

Stakeholder salience is defined as the decision maker’s perception of stakeholder’s power, legitimacy and urgency (Mitchell et al., 1997). Although Mitchell et al’s (1997) model of stakeholder salience is non-context specific, it is a highly subjective interpretation potentially influenced by a number of dynamic variables such as organisational, personal and situational characteristics.

Mitchell et al (2011) for example, suggested that salience may be different in family firms from what it is in other environments. Organisational characteristics, such as size and ownership structure, then become a potential attribute. Such characteristics may be seen as another attribute, the ‘lens’ through which stakeholder salience is perceived. This ‘lens’, or mental model, may have different qualities depending on the observer’s beliefs, norms, values, experience and even be situational (Chermack, 2003). These characteristics may however also be considered part of the decision context and will be discussed in Chapter Three.
Verbeke and Tung (2013) suggested adding a temporal dimension to stakeholder management theory to reflect stakeholder pressure on the firm changing over time. In early stage stakeholder management, stakeholders represent a source of resources that contribute to the firm’s competitive advantage, customers for example reward innovative, augmented offerings. At a later stage management, as competition increases, such augmentation becomes expected and the relationship between the firm and stakeholder changes.

Bundy et al (2013:353) suggested that the question of salience should focus on the issue rather than the stakeholder and propose a ‘strategic cognition view’ of issue salience’, defined as “… the degree to which a stakeholder issue resonates with and is prioritized by management”. This however assumes that the decision maker always applies a strictly rational approach and is not influenced by the identity of the stakeholder, disregarding the possibility that a powerful stakeholder may enact retribution if another stakeholder’s claim is given priority.

Eesley and Lenox (2006:766) have suggested that salience be redefined as the likelihood that the firm respond to stakeholders claims. Focusing mainly on secondary stakeholders, they suggest:

… that (1) the power of the stakeholder is moderated by the power of the firm, (2) in addition to the legitimacy of the stakeholder, the legitimacy of the request being made is important, and (3) the urgency of the request is more vital than the urgency of the stakeholder group.

These suggestions are partly consistent with arguments presented in the previous discussion. Similarly, Myllykangas et al (2010) and Kaufman et al (2011) amongst others, suggest a stronger focus on value creation.

The issue of other potential attributes of stakeholder salience remained open – RQ3e therefore asked: “What other attributes do decision makers consider part of stakeholder salience?”

2.10 Beyond salience: stakeholder relationships

The considerable overlap between the three attributes of stakeholder salience as proposed by Mitchell et al – power, legitimacy and urgency, on closer analysis results in the concept being somewhat ‘hollow’ and abstract. Although most people would
recognise power when confronted with it, and managers often perceive themselves as having power, even if balanced with stakeholder’s power, few would be able to provide a comprehensive definition. Similarly, legitimacy is generally understood as a concept but often equated to legality. Attempts to reduce stakeholder salience and stakeholder relationships to measures of individual attributes result in highly abstract constructs that would be alien to many who spend their daily life in organisations. Managers would however recognise the importance of relationships and likely by able to relate to differences between different kinds of relationships. They would also be aware of the potential for relationships to change in various ways and the benefit of understanding such changes.

Business, according to Freeman et al (2007:3) “… can be understood as a set of relationships among groups that have a stake in the activities that make up the business”. Stakeholders may then be in a relationship with the business and integral to its activities (M. Reynolds & Yuthas, 2008). Melé (2012:89) argues that understanding the firm as a ‘nexus of contracts’ is insufficient and instead propose “… that the firm should be seen as a particular ‘community of persons’ oriented to providing goods and services efficiently and profitable”. Likewise, Smudde and Courtright (2011) argue that business is all about relationships and communication, making effective identification and management of stakeholders critically important and suggesting interdependence between the organisation and at least some important stakeholders (Zutshi & Sohal, 2004). Batterley (2004) however, importantly points out the relationship may also be initiated by the stakeholder. Harrison and Wicks (2013) point to the inherent interdependence between the organisation and its stakeholder in satisfying own goals in a system of value creation that may consist of both tangible and intangible goods. The total value created is a result of multiple inputs from entities participating more or less voluntarily in the process.

An implicit assumption in stakeholder theories based on ‘roles’ is that ‘stakeholder groups’ such as customers, are homogeneous (Wolfe & Putler, 2002). The approach has benefits, as it is easier to respond to – and theorise about – a ‘group average’ than individuals. Stakeholders are however not just passive in the relationship but also use a range of passive and active strategies to ensure influence in the relationship (Aaltonen & Kujala, 2010; Aaltonen, Kujala, & Tuomas, 2008; Hendry, 2005). Aaltonen and
Sivonen (2009:139) suggest organisations respond to stakeholder claims by way of one of five different strategies see Table 2.14.

### Table 2.14  Response strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adaptation</td>
<td>Comply with demands, the judgement is made that this will facilitate goal achievement</td>
</tr>
<tr>
<td>Compromising</td>
<td>Involve stakeholder in dialogue and negotiate outcome</td>
</tr>
<tr>
<td>Avoidance</td>
<td>Distancing from stakeholder and the claim, delegate issue elsewhere</td>
</tr>
<tr>
<td>Dismissal</td>
<td>Ignoring the stakeholder and claim</td>
</tr>
<tr>
<td>Influence</td>
<td>Building relationship with stakeholder to influence values and thereby influence demands</td>
</tr>
</tbody>
</table>

Table 2.14 shows that organisational responses to stakeholder demands may range from passive to active and that the organisation may use different tactics depending on the level of dependence and power symmetry. The choice of strategy may also depend on factors such as position in the network, legitimacy of claim, how the claim was presented, experience in dealing with stakeholder claims, and response from other members of the network (Aaltonen & Sivonen, 2009).

Roloff (2008) additionally points out that the organisation may not be at the centre of the web of relationships and therefore in control, but may be part of a multi-stakeholder network and have limited power and control. Organisations may then focus on their own welfare or the issue that supports the relationships (Roloff, 2008). Savage et al (2010) found that firms may engage in ‘social partnerships’ with stakeholders to solve ‘messy problems’. Such collectives may consist of parties from multiple sectors and their strength may in fact be their diversity. They are ‘social’ in that the collaboration is essential for goal achievement. This potentially creates a ‘stakeholder group’ distinctly different in character from the traditional ‘roles’ of stakeholder groups such as ‘customers’, ‘suppliers’ and ‘employees’ – a ‘stakeholder group’ that may act in unison to put pressure on a third party. Indeed, Garriga (2010:624) found that organisations respond to the “… intersection of influences from the entire stakeholder set”.

Yet individual stakeholders may have varying interests and reasons for engaging with the firm, possibly at different points in time, and the relationships may therefore also vary. This motivational heterogeneity among stakeholders may affect expectations regarding relationships (Bridoux & Stoelhorst, 2014). Schwartzkopf (2006) suggests that the way forward is to have a dialogue with stakeholders. This would enable the organisation to understand how their decisions are perceived, specifically how stakeholders perceive the risk involved in decisions made, and therefore anticipate
reactions (Schwartzkopf, 2006). Bridoux and Stoelhorst (2014) argue that while some stakeholders may be ‘reciprocators’ and care about fairness in the relationship, others may not. This has implications for management as a ‘fairness approach’ was found to be effective in attracting, retaining and motivating reciprocators, while an arms-length approach was more effective with stakeholders with high bargaining power.

‘Stakeholder multiplicity’ (Neville et al., 2011) means that stakeholders may belong to more than one group concurrently. An individual, for example, may concurrently be a shareholder, a customer and an employee. As such they entertain different goals according to the ‘hat’ they happen to be wearing; as a shareholder they desire high dividends; as a customer they want low prices – low cost, but as an employee they want high wages. The stakeholder’s bargaining power and expectations from the relationship may depend on the situation.

Batterley (2004) argues that relationships may be tactical and based on short-term convenience, possibly even be a once off transaction, or be strategic and offer long-term benefit to both parties. This leads to a level of mutual dependence. Interdependence in decisions made under uncertainty therefore also involves trust (Kramer, 2010). Such trust is affected by expectations and attitudes to reciprocity. Decision makers have to evaluate whether a stakeholder may be trusted, but according to Kramer, of equal importance is to demonstrate own ‘trustworthiness’.

Mitchell et al (1997) refer to stakeholder relationships as being personal: between the stakeholder and the manager rather than organisation. McVea and Freeman (2005) suggest stakeholder theory be updated to a ‘Names-and-Faces approach’, to better reflect the close interdependent relationship at the heart of successful value creation. This approach shifts the focus from static and generic stakeholder ‘roles’ and possession of attributes such as power, legitimacy and urgency, to “... individuals with a stake in the decision at hand...”, and thus to the relationship (McVea & Freeman, 2005:64). This is supported by Myllykangas et al (2010:70) who found that although stakeholder relationships are processes that change and evolve over time, six characteristics can be identified:

1. History of the relationship
2. Objectives of the stakeholders
3. Interaction in the relationship
4. Information sharing in the relationship
5. Trust between stakeholders
6. Potential of stakeholder to learn

Ulmer et al (2007:39) suggest that stakeholder relationships can be classified in four different ways:

- **Positive** - symmetrical relationship, mutual acknowledgement and communication
- **Negative** - antagonistic relationship, no communication
- **Ambivalent** - no true partnership, both work unilaterally on the relationship but neither listens to the other
- **Non-existent** - organisation unaware of stakeholder, no acknowledgement or communication

The ‘non-existent’ classification again takes the perspective of the organisation, as long as the organisation is unaware of the stakeholder – or at least does not acknowledge or communicate with the stakeholder – there is no relationship. The implication is that in the absence of an explicit re-classification, the situation will not change. However, the stakeholder(s) may disagree, act accordingly, and in the process create a relationship with the (reluctant) organisation. Rather than a ‘non-stakeholder’ classification, a classification of ‘potential stakeholder’ is therefore appropriate (Mitchell et al., 1997).

Research (Myllykangas et al., 2010; van Buren III & Greenwood, 2011; Westrenius, 2009) suggests that stakeholder relationships are dynamic and that the priority of stakeholders may change. For example, the challenge to survive the GFC, resulted in a change in the priority of the stakeholder group ‘employees’ (Westrenius, 2009). However, skilled workers appeared to be in a much stronger position than unskilled workers to negotiate with the employer and the GFC appeared to affect unskilled workers more negatively than skilled workers (Westrenius, 2009). Stakeholder groups thus appear to be heterogeneous rather than homogenous (Westrenius, 2009). The stakeholder group ‘customers’ for example, may include individuals, businesses or groups. The relationship may be transactional and occasional or ongoing and long-term, suggesting varying levels of interdependence and therefore salience.

Complex stakeholder relationships may have implications for how groups are prioritised. Further complicating the understanding of stakeholder relationships, the identity and range of stakeholders may vary with factors such as size and age of business, industry, and geographical location (Fassin, 2008; Storey, 1994). A focus on
the particular relationship between the firm and stakeholder may therefore provide a better understanding of how decision makers perceive and prioritise stakeholders. This however requires a practical means for identifying the stakeholders and their importance as well as their expectations (Lund Jepsen & Eskerod, 2009).

**Conclusions on Chapter Two**

Stakeholder theory recognises the potential value of all stakeholder claims and aims to understand and assist decision makers in prioritising such demands – an ethical issue (Weitzner, 2007). This decision-making process occurs in context, affected by factors such as organisational and personal characteristics. In the following, Chapter Three will consider the relevant literature on decision-making. Chapter Four will present and justify the research method, while Chapters Five and Six presents the within and cross case analysis. Finally, Chapter Seven presents the findings and conclusions resulting from this study.
Chapter objectives

Chapter Three provides an overview of the literature on decision-making in relevance to RQ3. A brief overview of the literature on perceptions and judgement is also included to provide a basis for understanding how managers perceive and make decisions regarding stakeholder relationships, and in the process co-construct those relationships. Such decision-making is based on more or less subjective perceptions and influenced by context. Chapter Three places the discussion in context of the most prevalent type of business, that of small business, more specifically Australian small business.

3.1 Stakeholder relationships and decision-making

Decisions occur in response to stimuli received from the environment, or to initiate an effect on the environment. According to Harrison (1999) decision-making is sometimes understood as problem solving but this is only one part of decision-making as decision-making is much more action focused than problem solving. Simon (1997) argues that ‘deciding’ and ‘doing’ are complementary and closely integrated activities that are both critical in management.

Freeman’s (1984:25) definition of stakeholder as “any group or individual who can affect or be affected by the achievement of the firm’s objectives” results in a need for managers to decide which stakeholder and which demands or needs should be given priority should it be necessary to choose between competing claims, at any given time. The balancing of stakeholders’ interests involve evaluating and deciding among competing expectations and claims from stakeholders (S. J. Reynolds et al., 2006). Decision-making such as this, involving a choice or selection between several potentially salient options, is an important and fundamental aspect of management that may be routine, acute or strategic in nature (Selart, 2010; Teale et al., 2003).
Chapter Three

Relatively limited efforts have been devoted to understanding the process of how managers make sense of the stakeholder environment, that is, how perceptions of stakeholder salience are formed and change (Aaltonen, 2010). Neville et al (2011:358) suggested that future research focus on “… decisional thresholds, managerial perceptions, and organizational responses to stakeholder salience”. Such research is facilitated by identifying the particular characteristics of potentially confounding factors such as organisational context and personal characteristics of the decision maker. In this study, both the organisational and the personal characteristics of participants were identified (see Interview Questions 1 and 2 in Appendix B).

Essentially, the theory needs to be understood in context and recognise that decisions may be based on imperfect perceptions and judgements that are either rational or irrational. Both occur in context, and often with strong feedback effects. RQ3 therefore asked “How do decision makers in Australian small business manage stakeholder relationships?”. Three sub-questions were developed to answer RQ3:

RQ3a: How do decision makers perceive relationships with stakeholders?

RQ3b: How do decision makers make decisions regarding stakeholders?

RQ3c: What factors may affect decision-making regarding stakeholders?

3.2 Defining decisions

Definitions of what constitutes a decision vary, but typically revolve around the idea of a choice based on selected criteria with intent to produce a result or lead to some desired action (E. F. Harrison, 1999; Teale et al., 2003). A dictionary definition suggests a decision is the reaching of a “conclusion or resolution after consideration” (Oxford Dictionaries). Such ‘consideration’ implies a level of rationality, which may not apply to every situation. Decisions may be made under less than perfect conditions, such as emotional involvement, time constraints and incomplete information. Too much information may result an inability to process and interpret information in a timely manner (Sutcliffe & Weick, 2012). Eysenck and Keane (2010) suggest that “… there is an intimate relationship between perception and action” and that the action may follow quickly, after little or no deliberation, meaning that the decision may be influenced by factors such as stress and the emotional state of the decision maker. This is supported by
Miller (2010) who comments that the term ‘decision’ is an artificial construct that cannot be separated from the process of perceiving and behaving. This may in turn raise questions about the level of ‘free will’ decision makers exercise (Wilson, 2010).

Hastie (2010:24) define decision-making as a “response in a situation”, and the “... integration of beliefs about objective events and subjective evaluations of those events ...”, a process that has three parts:

- At least two possible courses of action
- Uncertainties about events that will affect the outcomes
- Consequences, positive or negative, are contingent on the events

Other broader definitions also suggest the focus is on making a choice or selection (Selart, 2010; Teale et al., 2003). To make a choice the decision maker has to be able to perceive at least one possibility as ‘actionable’, the alternative may be a ‘non-choice’. Bachrach and Baratz (1963:632) define such non-decision as:

... the practice of limiting the scope of actual decision-making to ‘safe’ issues by manipulating the dominant community values, myths, and political institutions and procedures.

The basis for such manipulation is a form of social power, or influence, that is exercised covertly. The decision maker may be induced to perceive an alternative as unviable, unattractive, or even be unaware of possible alternatives. Such manipulation may be either irrational or rational (Dowding, 2011):

- The person is naively unaware of the lack of information or knowledge
- The information or knowledge is available but obscured, for example as a result of information overload. Such information overload may result from mismatch between information load and processing capacity, or inability to interpret information (Sutcliffe & Weick, 2012)
- The information or knowledge is available and can be identified, but is too costly to access
- The information or knowledge is not perceived as worth the investment of accessing

‘Agenda setters’ may control which options are available and therefore exercise a form of power (Spirling, 2011). Both the organisation and stakeholders may for example act to influence perceptions in order to promote their own agenda (Frooman, 1999). An
alternative to this ‘adversarial’ approach is of course to instead take a cooperative approach.

For the purpose of this study, decisions will therefore be seen as a process of interaction, sometimes comprising minor events, or ‘auxiliary decisions’. Decision-making will be defined as:

The more or less conscious process of determining how to proceed by making judgements about the perceived viability and desirability of various perceived options in context of likely outcomes and potential responses from stakeholders.

### 3.3 Decision-making

Perception may influence actions with or without involving conscious awareness (Eysenck & Keane, 2010). Making choices also implies a potential for the making of ‘wrong choices’ and therefore the potential to incur a financial loss. How the firm engages with a stakeholder may well influence the response from that stakeholder. In the case of less salient stakeholders, the sense of urgency experienced may impact decisions on whether to seek support from other, more highly ranked (powerful) stakeholders (Neville et al., 2011). For example, where a small business owner-manager has to prioritise stakeholder demands, accepting the risk that a particular stakeholder receives a too low ranking. Perceptions of risk may be influenced by perceptions of a stakeholder’s power and therefore salience and potential ability to retaliate following an unfavourable decision. The anticipated response from an aggrieved, miss-ranked stakeholder may thus affect the decision regarding how to interact with a particular stakeholder.

Although the literature is divided on the relationship between problem solving and decision-making, there is general agreement that the two overlap at least partly (Cooke & Slack, 1984; Teale et al., 2003). Cohen et al (1972:2) suggested that “Decision opportunities are fundamentally ambiguous stimuli” and that “… often the process of decision does not appear to be much concerned with making a decision” (March & Olsen, 1979:11). The ‘garbage can’ process of decision-making is typified by a disconnect between problems and choices, and is common in what Cohen et al (1972) called ‘organised anarchies’, where the preferences are unclear, participation in the
process is fluid, and the processes are not well understood by the participants. Cohen et al nevertheless suggest that the model allows choices to be made

… even when the organization is plagued with goal ambiguity and conflict, with poorly understood problems that wander in and out of the system, with a variable environment, and with decision makers who may have other things on their minds.

Although a sub-optimal approach to decision-making and problem solving, Cohen et al (1972:11) suggested that universities represent examples of such ‘organised anarchies’ and argue that “… the model has general relevance to decision-making in higher education”. The ‘garbage can’ model of decision-making is also common in many public organisations (Hodgkinson & Starbuck, 2012).

Understanding decisions as choices result in decision and choice being closely interrelated; problem solving requires decision-making, and decision-making often, but not always, requires problem solving. Bazerman and Moore (2009) suggest that the process relies on both perceptions and an ability to ‘make a judgement’. Decision-making is thus a cognitive process involving both perception and ‘thinking’. Thinking, decision-making and problem solving are all based on perceptions. It is therefore useful to briefly consider the related terms perception, judgement and thinking.

3.4 Perception, judgement and thinking

In order to function, people need to make sense of events and the behaviour of others. Such ‘sense making’ is an ongoing effort to explain and understand the world in order to maintain some predictability and control (Fishman, 2014; Heider, 1958; Hinton, 1993; Weick, 2001). Perceived ability to influence and control one’s own situations has been shown to be important (Goleman, 1996; Pfeffer, 2010) and perceptions of being powerless may prompt efforts to exert control by any, perhaps inappropriate, means (Kanter, 2010). Perceiving oneself as ‘powerful’ or ‘powerless’, affect basic cognitive processes, attitudes, social perception, and therefore behaviour (Guinote, 2011). Behaviour and actions are thus based on perceptions of reality rather than an objective knowledge, or observation of reality.
3.4.1 Perception and judgement

Perception is described as the awareness and interpretation of information resulting from stimulation of the senses (Corsini, 2002). Martin (2010:214) defines perception as the “... process by which we recognise what is represented by the information provided by our senses” and points out that the distinction between ‘sensation’ and ‘perception’ may be unclear with both being rapid, automatic and unconscious. Kahneman and Frederick (2001) argue that the boundary between perception and judgement is also unclear. A perception of danger may, for example, translate to a judgement of risk and subsequent evasive or defensive action – a kind of fast and intuitive decision-making to ensure survival. The process is rapid and unconscious and allows for ‘snap judgements’ based on patterns and behaviours, what Gladwell (2007) calls ‘thin-slicing’. According to Gladwell, thin-slicing is a surprisingly effective and reliable approach. Frame (2013) however disagrees and finds several flaws in Gladwell’s reasoning. Frame (2013) questions the validity of intuitive decision-making in preference to rational deliberation. This however, disregards the reality that the resource intensive requirements and time needed for deliberation are not always available in situation where decisions must be made. The intuitive process allows quick decisions to be made in dire circumstances. Nevertheless, whether academics agree with the process or not, it is a ‘real’ and pragmatic approach to decision-making that is in common use by managers and other people.

An interesting point, that may have implications for stakeholder relationships, is contributed by Semin (2011) who posits that stimuli originating from another human are processed differently to other kinds of stimuli from the environment. Heider (1958) earlier suggested that individuals interpret other’s acts of perceiving based on their own experience with the process. As a species, humans appear conditioned to be sensitive to the behaviour of fellow humans.

Martin (2010) also makes the distinction between perception and problem solving. Problem solving occurs in ambiguous situations that require reflection, and therefore judgement. Bazerman (2009) provides a definition of judgement, stating that it is the “… cognitive aspects of the decision-making process”. According to Gibson (1979:239), perception is the “… keeping-in-touch with the world …” and a psychosomatic process of picking up information about, and being aware of, the
environment and ourselves in it. This process of sense making is continuous, ongoing and involves the senses, memory, knowledge, expectation and meaning. It is therefore a cognitive process involving both perception and judgement.

Tashman (2013) argues that the decision maker’s perception of stakeholder’s salience may be biased and that the stakeholder’s perceptions of the business (and its owner-manager) also need to be considered. Convergence in the two perspectives would ensure that managers have a better understanding of the firm’s obligations (Tashman & Raelin, 2013). Although the approach would potentially provide a deeper understanding, considering that stakeholders may be unaware of their own power and legitimacy, it would also mean an extended timeframe for decision-making. The stakeholders may be unaware of their power and legitimacy and perhaps unwilling to engage in the process. On the other hand, a stakeholder may focus on manipulating ‘appearance’ in order to gain better salience and decision outcome.

Weick (2001) suggests that ‘reality’ in organisations is really only a metaphor used to help make sense of the experience of being part of an organisation, the “… ongoing retrospective development of plausible images that rationalize what people are doing” (Weick, Sutcliffe, & Obstfeld, 2005:409). Since understanding comes from reflection, the process of ‘sense making’ is retrospective (Weick, 1979). People who reflect and interpret events and ‘tell the story’ thus control the descriptions, labels and definitions used (Weick, 2001), affording them a form of power. Although a ‘soft’ attribute, such understandings must be considered ‘real’ in the sense that Popper and Eccles (1981) suggest – for them, real things are things that are capable of exerting influence on material things, such as a decision maker’s perception of a stakeholder’s salience, judgement regarding possible outcomes, and subsequent decisions on how to act. The process is cognitive and involves thinking.

3.4.2 Thinking

According to Hastie (2010:3), thinking is “… the creation of mental representations of what is not in the immediate environment”. It is therefore a prerequisite for logic and rational choice, but may also be the unconscious basis for intuitive decision-making. Thinking is thought to occur in two modes, known as System 1 and System 2, or what Kahneman (2013) calls ‘fast’ and ‘slow’ thinking. System 1 is intuitive while System 2
is reflective (Kahneman & Frederick, 2001). System 1 thinking is automatic, ongoing and very fast. It provides a constant stream of impressions, feelings and ideas. System 2 on the other hand, is slow, provides explicit deliberation and choice, and is activated where the ‘models’ provided by System 1 do not match input from the environment. An overview is set out in Table 3.1.

Table 3.1 Two modes of thinking

<table>
<thead>
<tr>
<th>System 1 thinking: FAST</th>
<th>System 2 thinking: SLOW</th>
</tr>
</thead>
<tbody>
<tr>
<td>“… operates automatically and quickly, with little or no effort and no sense of voluntary control” (Kahneman, 2013:20)</td>
<td>“… allocates attention to the effortful mental activities that demand it, including complex computations … often associated with the subjective experience of agency, choice and concentration” (Kahneman, 2013:21)</td>
</tr>
<tr>
<td>Supresses ambiguity</td>
<td>Able to concurrently maintain incompatible possibilities</td>
</tr>
<tr>
<td>Prone to biases</td>
<td>Capacity for critical thinking</td>
</tr>
<tr>
<td>Impulsive and intuitive</td>
<td>Capable of reasoning but cautious and sometimes ‘lazy’</td>
</tr>
<tr>
<td>Low effort, constantly active, cannot be turned off</td>
<td>Intense effort, only active when required</td>
</tr>
</tbody>
</table>

Table 3.1 indicates that decision-making may be supported by both systems but that there are several opportunities for errors to occur. The process may be described as iterative, with a tendency for bias in the fast System 1, but with an intrinsic mechanism for correction in System 2. According to Kahneman (2013:25) “the division of labour between System 1 and System 2 is highly efficient: it minimizes effort and optimizes performance”. It is however not fail-safe, although not yet completely understood, the process is complex and various heuristics have been suggested to explain the ‘shortcuts’ applied.

3.4.3 Heuristics of perception and judgement

In a diverse and uncertain environment where decisions have to be made on incomplete information and under time constraints, the complexity of the process escalates, and there is a need to use ‘shortcuts’ or heuristics (Bazerman & Moore, 2009). Heuristics help simplify the process of evaluating probabilities and reduce the complexity of decision-making (Tversky & Kahneman, 1974). There are several commonly used heuristics in forming opinions and making judgements about alternative courses of action and the trustworthiness of others.

Attribution theory was developed to explain the tendency to attribute behaviour to perceived internal (dispositional) or external (contextual) causes (Burton, Westen, & Kowalski, 2015; Griggs, 2014; Hart, in Heath, 2013; Weiner, 1989). Internal causes
are attributed to the person and include attributes such as intelligence and personality, behaviour such as level of effort, and temporary states such as level of stress. External causes are attributed to the context, the situation or environment, rules or restrictions, and even chance. The process starts with observed behaviour and an attempt by the observer to explain the cause of the behaviour with a view to be able to anticipate future behaviour (Hart, in Heath, 2013). Importantly, such causality is ascribed by the perceiver and therefore subject to various perception errors (Weiner, 1989). This judgement is based on three types of information (Burton et al., 2015; Griggs, 2014):

- Consensus – do other people behave similarly in such situations?
- Consistency – does this person always behave like this in such situations?
- Distinctiveness – how does the person behave in other situations?

This information is typically subjective rather than based on extensive research. Consensus relies on representative heuristics and consistency relies on availability heuristics (Hardman, 2009; Tversky & Kahneman, 1974). Representative heuristics means that the event is perceived as representative of a larger population and that conclusions regarding causality of behaviour may be assumed to be similar (Tversky & Kahneman, 1999). This is similar to criticism that has frequently been raised against case study research and is discussed in Chapter Four. Availability heuristics means that the probability of an event is estimated based on the ease with which similar events can be recalled or imagined (Tversky & Kahneman, 1999). Judgements about consensus and consistency are therefore open to errors of perception and bias known as false consensus effect and false uniqueness effect.

More recently, Eberly et al (2011) suggested that causality may also be attributed to the interaction between individuals and in this way be attributed to the relationship rather than to internal or external causes. For example, when communication fails in international business relationships and it is impossible to attribute the cause internally or externally. Instead, the failure may be relational and a result of deficiencies on both sides and a mismatch between the skills and abilities of the two parties.

Two related common errors of perception include fundamental attribution error and self-serving bias. The tendency to underestimate the influence of external situational factors and to overestimate the influence of internal dispositional factors in the
behaviour of others is known as a fundamental attribution error (Gilbert & Malone, 1995; Griggs, 2014). Conversely, the tendency to attribute one’s own success to internal factors while own failures are attributed to external factors is known as self-serving bias (Shepperd, Malone, & Sweeney, 2008). A manager may for example underestimate the influence of external factors as a cause of poor performance in an employee – a fundamental attribution error, while overestimating internal factors in explaining their own success – a self-serving bias. Since attribution represents an attempt by the individual to identify the ‘cause’ of an event or situation with a view to regain a perception of control, Fishman (2014) argues that the perceived control of the attribution process (PCAP) itself may be important and that the strategies used depend on the individual. The process may therefore be affected by both personal and cultural factors (Sheperd et al., 2008). The tendency to attribute behaviour to internal or external factors may for example depend on cultural variables such as individualism (Hofstede, 1980; Trompenaars & Hampden-Turner, 2011). Shepperd et al (2008) argue that this is a product of the individual’s need to support a perceptions of self-worth and identity and point to research that show differences in how such is ‘measured’ between Western and Eastern cultures. There are also other common errors of perception that may affect the processing of making sense of perceptions (Colman, 2009:50). An overview is presented in Table 3.2.

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
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<tbody>
<tr>
<td><strong>Fundamental attribution error</strong></td>
<td>To overestimate the influence of internal factors and underestimate the influence of external factors in explaining the behaviour of others (Gilbert &amp; Malone, 1995)</td>
</tr>
<tr>
<td><strong>Self-serving bias</strong></td>
<td>To overestimate the influence of internal factors and underestimate the influence of external factors in explaining own successes, so as to support a favourable self-image (Griggs, 2014; Shepperd et al., 2008)</td>
</tr>
<tr>
<td><strong>Actor-observer bias</strong></td>
<td>Tendency to attribute own failings to situational factors but others failings to dispositional factors (Griggs, 2014)</td>
</tr>
<tr>
<td><strong>Selective perception</strong></td>
<td>People selectively interpret what they see on the basis of their interest, background, experience, and attitudes (Robbins, Judge, Millett, &amp; Boyle, 2011)</td>
</tr>
<tr>
<td><strong>Halo effect</strong></td>
<td>Forming a general impression about an individual on the basis of a single characteristic (Colman, 2009)</td>
</tr>
<tr>
<td><strong>Contrast effect</strong></td>
<td>Evaluations of a person’s characteristics that are affected by comparisons with other people recently encountered who rank higher or lower on the same characteristics (Robbins et al., 2011)</td>
</tr>
<tr>
<td><strong>Stereotyping</strong></td>
<td>Judging someone on the basis of one’s perception of the group to which that person belongs (Burton et al., 2015; Colman, 2009)</td>
</tr>
<tr>
<td><strong>Projection</strong></td>
<td>Attributing one’s own characteristics to other people, a defence mechanism to cope with unacceptable feelings by projecting them onto others and thereby externalise them (Burton et al., 2015)</td>
</tr>
</tbody>
</table>
Table 3.2 illustrates the significant opportunity for errors of perception and judgement to occur. Decision makers are frequently unaware of their own errors of perception and judgement and therefore perceive their decision-making as competent and correct. Awareness of potential for errors may assist the individual to address the problem and lead to better decision-making. However, in order to understand the process or ‘anatomy’ of a decision (Bazerman & Moore, 2009), it is necessary to also consider the purpose or expected outcome of the decision.

### 3.5 Decision utility and prospect theory

Decisions are made for a reason and usually with a purpose of achieving an outcome (Lindblom, 1954). Two approaches to understanding how outcome influence decision-making are **utility** and **prospect** theories. Both will be briefly discussed.

_Utility_ is the “… psychological value of outcomes …” (Kahneman, 2013:273). The utility of a choice is the perception of which choice will maximise a personal preference (E. F. Harrison, 1999). This perception is sometimes argued to be objective and sometimes understood as always being subjective (Fischhoff, 2012). The model and its variations, are based on the assumption that such choices are rational. _Expected utility_ theory assumes that choices are based on four axioms relating to assumptions about well-defined and consistent preferences, as well as consistency and continuity in choosing (Kahneman, 2013). The theory is normative, focused on economic decisions and relies on System 2 thinking and rational choice (Hastie & Dawes, 2010; Kahneman, 2013). The model is however overly optimistic regarding the rationality of decision makers and fails to account for the ‘reference dependence’ of perceptions of utility.

Prospect theory suggests that attitudes to risk is context dependent and vary depending on whether the expected utility is a potential to gain or lose in relation to the current situation – the reference point (de Jong, 2012; Kahneman, 2013). The aversion to loss is typically stronger than the attraction of a possible gain (Kahneman, 2013). Gains and losses can thus be understood as relative and qualitative perceptions rather than absolute and quantitative concepts, and are therefore sensitive to comparisons to previous states, expectations and other circumstances. Chater and Vlaev (2011) argue that rather than value based, outcomes are evaluated by comparing available options. In interdependent relationships, decisions may also be affected by the perceived desirability of the outcome in terms of pro-social goals and symmetric interactions (Halevy & Chou,
This means that the consistency of preference and choice that form part of the underlying assumptions do not hold in all types of decisions.

The key to such differences may be in the definition of utility. A decision maker may for example decide to engage with a stakeholder despite a negative ‘rational value’, such as an economic outcome. Adams, Licht and Sagiv (2011) for example, found that high-level managers rely on their own personal values to guide their behaviour and strategic decision-making regarding whether to maximise shareholder value, or support a stakeholder approach.

Management decisions are typically made with an intention to be implemented. However, decisions may also be ‘symbolic’ in that there exists no intention to implement the decision. Instead, the decision may be understood as a ‘statement’ and “… designed to gain legitimacy …” (Selart, 2010:142) by expressing a position. Such decisions may be made to support the informal management network.

### 3.6 Types of decisions

Cook and Slack (1984) suggested that managers make two types of decisions; strategic and operational decisions. Strategic decisions are designed to consider fundamental changes in the direction of the organisation (Teale et al., 2003). They are characterised by novelty, complexity and open-endedness (Mintzberg & Westley, 2010). Operational decisions on the other hand involve dealing with day-to-day decisions in running the organisation (Teale et al., 2003) and are characterised by the mundane and routine nature of the process. The distinction between the two is however becoming less useful as environmental turbulence and the rate of change increase. A more useful distinction may be made between *structured* and *unstructured* decisions.

Structured decisions are unambiguous and relatively easily defined, often routine decisions or processes where the possible actions are well defined, the uncertainty about events relatively low and contingent consequences predictable. Unstructured decisions on the other hand are the opposite.

Lindblom (1954) coined the term ‘muddling through’ to describe the incremental process of decision-making under uncertainty. The model has been criticised for lacking logic and analysis and for being “… susceptible to unintended consequences” (Scott,
2010:6). Ehin (2010) however, argues that ‘muddling through’ is a highly effective means of getting things done, and the approach may therefore contribute to both productivity and innovation. According to Ehin, effective and productive ‘muddling through’ occurs when three separate systems successfully overlap and synchronise:

- The formal systems, processes, technology and management processes
- The informal management network
- The informal worker network

Perrow (1986) argues that individuals make decisions based on incomplete information, using perceived similarities with past events to make ‘routine’ decision based on experience, subjective perceptions, prejudices and stereotypes. Simon (1960) called such decisions *programmed* as distinct from *non-programmed* decisions. Even when past decisions cannot be used as a template, a limited search for alternatives is used until a ‘satisfactory’ model is found (Perrow, 1986; Simon, 1997). Table 3.3 provides an overview of some commonly identified types of decisions in organisations.

**Table 3.3 Types of decisions**

<table>
<thead>
<tr>
<th>Type of decision</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structured</td>
<td>“Clear and unambiguous and easily defined” (Teale et al., 2003:7)</td>
</tr>
<tr>
<td>Unstructured</td>
<td>“Unclear, ambiguous and difficult to define” (Teale et al., 2003:7)</td>
</tr>
<tr>
<td>Programmed or routine</td>
<td>Follows predetermined, routine procedure (Teale et al., 2003), also known as Category I decisions (E. F. Harrison, 1999)</td>
</tr>
<tr>
<td>Non-programmed or non-routine</td>
<td>No predetermined, routine procedure exists (Teale et al., 2003), also known as Category II decisions (E. F. Harrison, 1999)</td>
</tr>
</tbody>
</table>

Table 3.3 lists four types of decisions commonly discussed in the literature in addition to operational and strategic decisions. At first sight there appear to be similarities between some types of decisions. An operational decision may for example share features with a structured and programmed decision. Similarly, a strategic decision may be thought of as an unstructured decision that shares features with a non-programmed decision. This is however a simplification that ignores some important differences. A strategic decision may for example be structured in that there is a procedure that is followed and yet be non-programmed in that the purpose is to respond to a novel situation where little information exists about possible options.

The literature on decision-making suggests that managers’ approach to decision-making vary depending on the individual, the decision at hand and the context. Simon (1987) identified three variations based on the approach to problem solving:
• Rational decisions, based on analysis and logic
• Non-rational decisions, based on intuition and judgement
• Irrational decisions, based on emotions and non-rational logic, for example stress

### 3.6.1 Rational decisions

A decision-making process advocated in many text-books on management suggests taking a rational approach (Bazerman & Moore, 2009). Although the number of steps and the descriptions may vary, this ‘thinking first’ approach essentially progress in the four broad steps, to define, diagnose, design and decide (Mintzberg & Westley, 2010:74). The same process in more detail would proceed as follows (Bazerman & Moore, 2009; Fischhoff, 2012):

- Define the problem
- Identify selection criteria
- Evaluate criteria
- Generate possible alternative solutions
- Evaluate and rate each alternative against the criteria
- Identify the optimal alternative and make decision

Rational decision-making assumes that the decision maker has access and exhaustive knowledge about all available alternatives, risks, consequences and a sound basis for identifying the most desirable alternative (March, 1994; Ostrom, 2003). Even if possible, such process is however resource intensive and may require significant time. The process therefore assumes a relatively stable environment and the ability to predict outcomes with some certainty (March, 1999).

Mintzberg (1989) argued that available formal information is often limited, too general, too late or unreliable. Both the individual and the organisational processing of information may cause problems as there is a cognitive limitation on the ability to successfully process large amounts of information (Gerrig & Zimbardo, 2005). The act of selecting which information to include and which to exclude, may also be a source of bias (Windschitl, Scherer, Smith, & Rose, 2013). Such selection may also be introduced by culture, effectively a cultural constraint on rationality (Rojot, 2008). Once introduced, such bias may be amplified by the tendency to seek confirmatory
information, known as ‘selective exposure’ (Fischer et al., 2011). Regret aversion has also been shown to affect the level of ‘care’ in decision-making (Reb, 2008).

Decision-making is therefore ‘bound’ by the cognitive ability of the decision body, whether an individual or group (Cooke & Slack, 1984). Simon (1960) coined the term ‘bounded rationality’ but the general concept has since evolved. Evans (1996) suggested that ‘rationality’ may be divided into a personal and an impersonal rationality. Bazerman and Moore (2009) considered this ‘boundedness’ and provided an overview of developments such as ‘bounded willpower’, ‘bounded self-interest’, ‘bounded awareness’ and ‘bounded ethicality’. More recently, de Jong (2012) argued that ‘rationality’ in fact have three components:

- Instrumentality – Capacity to choose the right resources
- Agency – Capacity to allocate resources to maximise utility
- Self-regard – Motivation to attend to own well-being

It turns out that people’s awareness of the world around them and ability to perceive and make decisions are ‘bound’ in a number of ways, making decision-making less rational than originally thought. Manning (2006) argues that many decisions, particularly in large organisations, are subject to ‘contested rationalities’, meaning that the rational choice of the individual decision maker may diverge from the ‘front-stage’, public rationality and multiple competing ‘back-stage’ rationalities of the organisation. Computer technology facilitates the capture of a vast amount of data, which when analysed and codified, can be used as ‘idealised models’ for risk analysis and decision-making, thereby adding complexity.

Anthony (1986) makes the distinction between the ‘official’ theory of management that is rational, purposive and typically focused on economic goals, and the ‘real’ theory of management which describes what actually happens in real life management where behaviour is both social and political in nature, and frequently affected by intuition, emotions and tacit knowledge (Sayegh, Anthony, & Perrewé, 2004). Rather than focus on a rational value, the decision maker may for example focus on an emotional or social value. A decision by a small business owner-manager to support the fundraising efforts of a local school or football team, although common, is rarely rational in a ‘business’ sense as the likelihood of a tangible business benefit is low. The benefit is typically
perceived to exist in the satisfaction of being able to contribute to the social fabric of the local community and therefore ‘make a difference’.

### 3.6.2 Non-rational decisions

The rational decision-making process involving several steps of data collection, evaluation and contemplation is not always possible in the real world. Constrained by lack of information and cognitive capacity, decision makers may be left to rely on experience and expertise to make decisions under time pressure, resulting in ‘satisficing’ (Simon, 1997).

An alternative and typically much quicker method of decision-making is by intuition (Bazerman & Moore, 2009). Dane and Pratt (2007:40), define intuition as the “…affectively charged judgments that arise through rapid, nonconscious, and holistic associations”. According to Wertz et al (2011:246), it is “the direct perception of knowledge”. Intuitive decision-making works in situations where there may be time constraints, lack of information regarding ideal or possible outcomes and (or) available alternatives and their advantages and disadvantages. It is quick, effortless and emotional but also much more prone to errors and biases (Bazerman & Moore, 2009).

Intuition, in particular domain based expert intuition, plays a significant role in decision-making (Dane, Rockmann, & Pratt, 2012; Salas, Rosen, & DiazGranados, 2010). Such intuition relies on knowledge based learning over time, is processed without conscious awareness and is therefore not part of the rational process – it is System 1 thinking (Dane & Pratt, 2007; Gladwell, 2007). The end result is a ‘feeling’ on which a decision may be made (Eysenck & Keane, 2010; Salas et al., 2010).

Mintzberg and Westley (2010:74) argue that intuitive, or ‘seeing first’ decision-making progress in four steps as suggested by Wallas in the 1920s:

- Preparation – knowledge is developed
- Incubation – the issue is being processed by the unconscious mind
- Illumination – insight!
- Verification – the insight is verified in a ‘rational’ process of reasoning

March (1994:12-14) suggested that decision makers apply ‘shortcuts’, or methods of simplifying the process of making a decision. According to March (1994), four
fundamental approaches are used to reduce the cognitive load: editing, decomposition, heuristics, and framing.

**Editing**

Editing involves simplifying complex problems. The search for information may for example be simplified and some information discarded or weighted as less relevant.

**Decomposition**

Decomposition involves reducing complexity by dividing the decision or problem into smaller, more manageable parts. This is a reductionist approach that is similar in logic to reductionism.

**Heuristics**

Heuristics are shortcuts or ‘rules of thumb’ for decision-making. The use of heuristics in decision-making provides a quicker means of decision-making but may also be a source of bias and errors. Such heuristics may be chosen based on fit with the requirement to reduce the cognitive burden of analysis and speed up the process of decision-making. The perceived legitimacy of the shortcut, or fit, with both personal and social perceptions of ‘appropriateness’ is also important. Thus legitimacy is not just an attribute of stakeholder salience but intrinsic to the decision-making process (Thomas & Lamm, 2012). An overview of some common heuristics is presented in Table 3.4.

<table>
<thead>
<tr>
<th>Heuristic</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability</td>
<td>The tendency to form judgements on information that is readily available, for example by being recent or emotive and therefore easy to recall (Bazerman &amp; Moore, 2009; Burton et al., 2015; Griggs, 2014; Tversky &amp; Kahneman, 1974)</td>
</tr>
<tr>
<td>Representative</td>
<td>The tendency to judge individual based on how they match existing stereotypes (Bazerman &amp; Moore, 2009; Burton et al., 2015; Griggs, 2014; Tversky &amp; Kahneman, 1974)</td>
</tr>
<tr>
<td>Positive hypothesis testing</td>
<td>The tendency to accept a given statement as true in the absence of clear contra-indications. May result in several types of biases (Bazerman &amp; Moore, 2009; Griggs, 2014; Tversky &amp; Kahneman, 1974):</td>
</tr>
<tr>
<td>Confirmation bias</td>
<td>The tendency to seek out information that confirms past choices and preconceptions – similar to selective perception</td>
</tr>
<tr>
<td>Anchoring bias</td>
<td>The tendency to ‘anchor’ a judgement on initial information. Used where persuasion skills are important, for example in advertising and negotiations</td>
</tr>
<tr>
<td>Overconfidence bias</td>
<td>The tendency to be optimistic regarding the reliability of our own judgement. The bias is strongest when intellectual and interpersonal skills are low. May be influenced by decision maker’s power (Fast, Sivanathan, Mayer, &amp; Galinsky, 2012)</td>
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</tr>
<tr>
<td><strong>Hindsight bias</strong></td>
<td>The tendency to overestimate the accuracy of predictions – after the fact</td>
</tr>
<tr>
<td><strong>Affect</strong></td>
<td>The tendency to make judgements that are based on emotional evaluations without cognitive involvement (Bazerman &amp; Moore, 2009)</td>
</tr>
<tr>
<td><strong>Escalation of commitment</strong></td>
<td>The tendency to stay with a decision despite subsequent negative information indicating that the decision was wrong (Bazerman &amp; Moore, 2009; Drummond &amp; Hodgson, 2011)</td>
</tr>
<tr>
<td><strong>Randomness error</strong></td>
<td>The tendency to believe that ‘chance’ can be predicted. An example is superstition (Bazerman &amp; Moore, 2009)</td>
</tr>
<tr>
<td><strong>Risk aversion</strong></td>
<td>The tendency to prefer certainty over risk even if the ‘rational’ return is higher where risk is involved (Bazerman &amp; Moore, 2009)</td>
</tr>
</tbody>
</table>

Table 3.4 illustrates the subjectivity and the potential for errors introduced by heuristics. Decision makers may fail to recognise both the use of heuristics and the consequences of such use. Instead, the decisions may appear rational, adding another layer of error. Heuristics, the ‘doing first’ approach (Mintzberg & Westley, 2010:74), nevertheless allows decision-making under uncertainty and time pressure, where the alternative would perhaps be a failure to act, a situation that could potentially be more devastating than making a wrong decision. With repetitive use, heuristics may over time be refined to successful strategies for fast decision-making (Ostrom, 2003).

**Framing effects**

Decisions are framed by the decision maker’s mental models (Chermack, 2003). Such mental models are resistant to change. The exact same reality may be presented to a decision maker as a gain or a loss, yet the perception of the choices may be very different and therefore affect the actual decision (Bazerman & Moore, 2009). These effects may result from emotional involvement, even ‘mild incidental emotions’ (Andrade & Airely, 2009). Attitudes to risk and the sequence of decision-making may also affect the decision. Exploitation of such cognitive barriers may also be used to gain a favourable outcome in negotiations and advertising (Malhotra & Bazerman, 2008).

### 3.6.3 Irrational decisions

Irrational decisions may result from stress and inappropriate reward systems in the organisation (Simon, 1987). Perceptions, judgements and decision-making are influenced by various factors that contribute to subjectivity and potential errors. Such factors may belong with the perceiver, the perceived or with the context. The judgment of the perceiver may for example be affected by emotional involvement in the decision. Such emotional involvement may be based on perceptions of risk, yet be mitigated by
perceptions of a stakeholder’s trustworthiness, leading to a judgement regarding a likely outcome and therefore relative desirability of an option, and a basis for decision-making. This cognitive process involving knowledge and memory is known as apperception and defined as “… the process of comprehending a perception by integrating it with similar or related perceptions or previously acquired knowledge” (Colman, 2009:50). The perceived, a stakeholder, may consciously attempt to influence the decision maker’s, the perceiver’s, perception, for example by manipulating how they or their situation appears to the decision maker and thereby perhaps gain more favourable attention. The context may provide for time constraints, limitations of available information and expertise. Yet, despite such difficulties and uncertainty, decision-making remains a necessary activity.

Understanding a decision as a choice or conclusion implies that it is an event, which may be investigated separate from its context. This is not necessarily the case for the context may in fact determine the eventual outcome of the decision (Garvin & Roberto, 2011). That point is important for the ability to recognise the context – a common characteristic of leaders who make ‘good’ decisions – results in decisions being understood as a process (Garvin & Roberto, 2011). Context is also important for decisions regarding trust (Wicks & Berman, 2004).

3.7 Context of decision

Decisions happen in context and identified as “the best solution that is available under the circumstances” (Simon, 1997:5). Decisions are compromises achieved under imperfect conditions and often negotiated between several parties with different or even opposing goals. Decisions may therefore be affected by a range of both long-term strategic and short-term tactical objectives, and may be further constrained by the circumstances surrounding an individual decision (Nutt, 2010).

Decisions regarding the salience of a particular stakeholder claim may be framed narrowly and bound by a single decision, or widely ‘across decisions’ (S. J. Reynolds et al., 2006; Venkatraman, Aloysius, & Davis, 2006). Surrounded by stakeholders in the internal and external environment, in the market and nonmarket environment (Baron, 2013), where the organisation may engage voluntarily or involuntarily, decisions are
generally taken on several levels; individual, group, organisation, and meta-organisation (E. F. Harrison, 1999).

The context of such decisions can also be understood to exist on several levels; external context, organisational context, individual context, and situational context. Characteristics of the individual decision maker and situational attributes such as time limits may also influence the outcome. For example, it has been found that time pressure may increase risk seeking in decision-making (Young, Goodie, Hall, & Wu, 2012). In addition, each situation that requires a decision may also have uniquely different characteristics and be bound by the issue at hand. Each level constrains the decision maker by limiting the available options. The levels are illustrated in Figure 3.1

Figure 3.1 Context of decision

![Figure 3.1 Context of decision](image)

Figure 3.1 illustrates that decisions happen in the context of several overlapping levels. The external environment consists of the environment in which the organisation operates, it is the sum of the conditions and forces affecting the organisation, but that are beyond its control (Grunig & Repper, 1992). This may be defined as narrow or broad. Reactions from stakeholders may impact the organisation and the decision maker. Organisations that for example operate only locally, in contrast to organisations that operate globally, experience an external environment that is relatively homogeneous in terms of culture and regulatory framework. The reactions from stakeholders are therefore relatively predictable. Also part of the external environment is the specific industry in which the organisation operates. Industry practices may transverse national borders and impose their own requirements and expectations regarding process. The organisational context is also influenced by the size of the
organisation, as this in turn is likely to affect the organisation’s access to resources and the firm’s competitive situation. Size may also affect relationships between the organisation and its stakeholders and relationships may vary according to the level of dependence asymmetry. Contrast, for example, a large business being the dominating employer in a small community with a small business competing globally. It is therefore important to understand the various levels of context for decision-making; each will be discussed in turn.

3.7.1 External context of organisational decision-making

The advent of globalisation represents a ‘phase transition’ rendering some competitive and economic assumptions obsolete (Ohmae, 2005). The global economy is different from traditional national economies in both scope and nature; the flat hierarchy and interconnectedness between individual parts – even between producer and individual consumer – and the immediacy of communication means that regulators are lagging behind. The frequency and magnitude of change is extreme; reinforced by multiple feedback loops and interactions – a turbulent environment (Stacey, 2010).

Organisational survival in such environments depends on successfully managing complicated interactions with multiple partners and layers of the external context – an environment that is increasingly unpredictable as the interdependence between different parts increase (J. Miller & Page, 2007). An event in one part of the system, for example a bank failure in one country, quickly spreads to other parts of the system introducing feedback loops that may push the system into collapse (Kotler & Caslione, 2009).

Organisations are increasingly part of a borderless global network with political, economic and cultural aspects where resources, production processes and consumers interact with the system resulting in multi-directional communication and inputs (T. Friedman, 2000; Ohmae, 2005; Werhane, 2011). Efforts to remain competitive result in further heterogenic input and feedback, serving to escalate the complexity (J. Miller & Page, 2007). The global interdependence between economies and therefore the flow of resources, products and services has reduced ‘orderly competition’. Change is ongoing, rapid, and occurs at multiple levels and aspects (Mason, 2007; Ohmae, 2005).

Business organisations as open systems are in close and constant interaction with the environment (Stacey, 2011). Environmental turbulence leads to uncertainty, short
decision windows and high risk of obsolescence (Mason, 2007). Increased speed and magnitude of change has become the new ‘normal’ (Kotler & Caslione, 2009). Managers find themselves continuously in a state of transformation; needing to balance the organisation between stability and chaos (Burnes, 2005). Too much stability leads to inertia and obsolescence whereas too much change may stretch resources and potentially overwhelm the organisation – both extremes maybe fatal!

Ansoff (1988) earlier described turbulence as the result of a high degree of complexity, interconnectedness, and high level change, both in intensity and frequency. Miller (2007), drawing similarities to computational modelling and biological systems, suggested that the emerging field of complex adaptive system (CAS) may provide at least some answers for understanding the complex interactions facing decision makers. Characteristics of complex systems include high level of heterogeneity, ongoing adaptation, local interactions, feedback, and externalities (J. Miller & Page, 2007). This puts considerable pressure on decision makers who have to analyse and make judgements very quickly and under considerable uncertainty. The emphasis then has to be on making satisfactory decisions quickly, an ad-hoc approach relying on mental models (Gary & Wood, 2011; Teale et al., 2003).

Such decisions are made based on imperfect information, under time pressure and with cognitive limitations (Certo, Connelly, & Tihanyi, 2008; March, 1999; March & Simon, 1993; Simon, 1979). Decisions to prioritise between stakeholders of similar or different salience, for example, may be ill defined and knowledge rich, based on a series of trials and errors, intuition, past experiences, and affected by sunk costs and loss aversion (Eysenck & Keane, 2010). The decision itself and reactions from stakeholders may have dramatic consequences on the organisation and the decision maker’s approach. Such consequences may be more or less anticipated by the decision maker, potentially influencing the decision made. The decision may therefore be different depending on the organisational context and the personal characteristics of the decision maker.

Perceptions about what is real and the norms for how to interpret such reality are deeply rooted in culture (Hofstede, 1980; Schein, 2004; Trompenaars & Hampden-Turner, 2011). For example, perceptions about reality and truth; time; human nature and relationships vary between national cultures. Even styles of decision-making and the focus of rationality may vary between cultures (Schramm-Nielsen, 2001). This flows
through to organisations. Perceptions and beliefs about the legitimacy of reciprocity, reputation and trust may for example vary between cultures (Ostrom, 2003). As Weick (1979) points out, such interpretations, or informal frameworks of legitimacy, are collectively constructed over time, based on subjective perceptions, guesses, incomplete information, expected procedures and outcomes.

### 3.8 The decision body

Decision-making is best analysed and understood in context and understanding of the process is further enhanced when the ‘decision body’ is known (Cooke & Slack, 1984; S. J. Reynolds et al., 2006; Teale et al., 2003). A decision body is the specific individual or group making the relevant decision (Cooke & Slack, 1984). Definitions of ‘right’ decisions follow from the norms and values of the decision body (Hamilton & Gio, 2010). The distinction between individual and group decisions is not sharp but a matter of degrees of influence (Cooke & Slack, 1984). Even decision made by individuals, are typically influenced by other people. The critical issue then is the amount of influence (Cooke & Slack, 1984). This study therefore explore decisions made by a central single decision maker such as is typical in small business, thereby also delineating the organisational context and allowing a simpler hierarchy with only three levels.

#### 3.8.1 Organisational context, small business

Small business is a pervasive global phenomenon, the ‘driver of the free enterprise system’ (Hatten, 2006) and widely recognised as important for social and economic strength by creating employment, innovation, research and development (ASIA Foundation, 2003; Asia-Pacific Economic Cooperation [APEC], 2002; European Commission [EU], 2012; The Organisation for Economic Co-operation and Development [OECD], 2004; United Nations [UN], 2012). According to OECD (2004:17) “… in all societies the independent owner managed small business is the organisational norm for economic activity”. Globally the small business sector make a significant contribution to employment, Table 3.5 provides an overview.
Table 3.5  Global importance of Small Business

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage of businesses</th>
<th>Percentage of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (EU) (European Commission, 2005)</td>
<td>99%</td>
<td>67%</td>
</tr>
<tr>
<td>Asia (Asia-Pacific Economic Cooperation, 2002, 2012)</td>
<td>90-98%</td>
<td>30% of total employment (60% of private sector)</td>
</tr>
<tr>
<td>United States of America (U.S. Small Business Administration [SBA], 2012a)</td>
<td>40% have &lt;5 employees (incl. owner) (Dunkelberg, Scott, &amp; Dennis, 2003)</td>
<td>44%</td>
</tr>
<tr>
<td>South and Latin America (ECLAC, 2012)</td>
<td>&gt; 93%</td>
<td>&gt; 40%</td>
</tr>
</tbody>
</table>

Table 3.5 illustrates the global prevalence of small business and the sector’s impact on employment. Small business also makes an important contribution to the social structure by creating opportunities for minority groups to enter the mainstream economy (Hodgetts & Kuratko, 2002). In Europe, self-employed entrepreneurs were found to be more resilient to the effects of economic downturns than employees working for somebody else (Mettler & Williams, 2011). Although contested, small business also claims an important role in innovation; much experimentation and innovation results from the effort of small business (Hodgetts & Kuratko, 2002).

Busenitz and Barney (1997) argued that entrepreneurs not only use heuristics to make decisions in uncertain environments, but that the susceptibility to use such heuristics is a defining characteristics of people who become entrepreneurs and therefore an intrinsic willingness to ‘try new things’. Parker (2014), supports this argument and suggest that some people are not only better at identifying opportunities, but also have the required high levels of productivity and willingness to take risks.

**Defining small business**

Despite the economic importance of the small business sector, there is no international agreement on how to define small business (OECD, 2004). Approaches to define small business tend to focus on number of employees or qualitative characteristics that make small business different from large business (Schaper, Volery, Weber, & Gibson, 2014). The most common definition of small business is in fact based on number of employees. Table 3.6 provides an overview.
Table 3.6  National variations in definitions of Small Business

<table>
<thead>
<tr>
<th>Region</th>
<th>Statistical classification by employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union (EU)</td>
<td>&lt; 250 employees (European Commission, 2005)</td>
</tr>
<tr>
<td></td>
<td>Average size: &lt;10 employees (European Commission, 2012)</td>
</tr>
<tr>
<td>Asia</td>
<td>1-100 employees (APEC, 2002, 2012)</td>
</tr>
<tr>
<td>United States of America (USA)</td>
<td>Maximum number of employees varies between 500–1500 depending on industry (SBA, 2012a). Only ‘Small’ if not dominating its field (SBA, 2012b)</td>
</tr>
<tr>
<td>South and Latin America</td>
<td>Classified as small and medium enterprises, but excluding micro enterprises (ECLAC, 2012)</td>
</tr>
</tbody>
</table>

Table 3.6 shows the wide variety of definitions between regions. Globally, most businesses are ‘small’, most in fact have less than 10 employees, typically only 0-4 employees. In addition, most small businesses are not dominant in their field of operation. This is sometimes used as an additional defining characteristic (United States Small Business Administration, 2012b). Individually, small businesses therefore have low negotiation power and despite the significant contribution to the economy, little political influence (Sen & Cowley, 2013). On the other hand, among the unique characteristics of small businesses are their dependence on the local area and community of stakeholders and often the benefit of high visibility and awareness in the local community (Russo & Perrini, 2010; Sen & Cowley, 2013).

The level of detail and consistency in quality of information about small business also varies between areas. For example, despite the fact that in low-income countries in Asia-Pacific and Africa, the number people who are self-employed outnumber people who are employed (United Nations Economic and Social Commission for Asia and the Pacific [ESCAP], 2011), self-employed (also known as non-employing or own-account businesses) are not always included in classifications or statistics on business (International Labour Organization Department of Statistics, 2011). Definitions may also vary between entities within nations. In Australia for example, the Corporations Act, the Australian Tax Office (ATO) and the Australian Bureau of Statistics (ABS) use different definitions.

**Characteristics of small business**

Small business is not just a small version of ‘business’ but has characteristics that are uniquely different from large business (Department of Trade and Industry, 1971; Storey, 1994). The motivating force in small business is typically not profit maximisation but closely linked to the aspirations of the owner-manager and may involve family-centred non-economic goals (Chrisman, Chua, Pearson, & Barnett,
2012; Sen & Cowley, 2013). An owner-manager typically provides the central driving force and is the primary decision maker in the business (Schaper et al., 2014). In contrast to large business, the owner-manager actively works in the business, is in control of the day-to-day running of the business, and typically contributes most, if not all, of the operating capital (Schaper et al., 2014).

This duality of the owner-manager is a unique feature of small business that creates a direct and strong link between the personal characteristics of the owner and the goals and identity of the business. Perceptions of stakeholder salience and decision-making regarding prioritising stakeholder claims are therefore also impacted by the owner-manager’s attitudes and belief systems. Schaper et al (2014:79) suggest that these unique features provides a means for a general definition of ‘small business’ as “A small-scale, independent firm usually managed, funded and operated by its owners, and whose staff size, financial resources and assets are comparatively limited in scale”.

**Decision-making in small business**

The closeness between small businesses and their stakeholders mean that the decision maker is directly and keenly aware of the consequences of decisions on stakeholders and in turn on the business – they are part of a ‘system’ or ‘ecology’, see Figure 3.2.

**Figure 3.2 Decision-making cycle**

![Decision-making cycle diagram]

Figure 3.2 illustrates that decision-making in small business is a truly relational activity. The original decision as well as any response to it may be influenced by perceptions of salience, risk and values. Those factors may therefore be influenced by perceptions of power, legitimacy and/or urgency. Another important factor is the speed with which the cycle moves and the strength of any response. In this way, the decision environment is
constantly re-created (Mason, 2007). This re-creation, even from a small business, may cause changes in the larger external environment that effectively spreads like ‘rings on water’ in a ripple effect to other sub-systems and contributing to the overall environmental dynamics and turbulence (Mason, 2007).

This research focused on single organisational decision makers, each with a close personal involvement in the day-to-day running of their business and therefore with considerable individual influence on the decision process and the outcomes (ABS, 2001; McMahon, 2007).

**Australian Small Business**

Consistent with small business internationally, in Australia, small business is defined by ABS (2012) as a business with less than 20 employees, most with 0-4 employees. The sector makes a significant contribution to economic growth, employment, and the social fabric of society in terms of providing goods and services. Table 3.7 provides an overview.

<table>
<thead>
<tr>
<th>Small business contribution</th>
<th>% of businesses</th>
<th>% of GDP</th>
<th>% of employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total contribution by small business</td>
<td>95.6%</td>
<td>35.3%</td>
<td>47.2%</td>
</tr>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>97.8</td>
<td>82.9</td>
<td>85.7</td>
</tr>
<tr>
<td>Mining</td>
<td>90.9</td>
<td>9.1</td>
<td>13.9</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>88.3</td>
<td>19.1</td>
<td>30.2</td>
</tr>
<tr>
<td>Services</td>
<td>95.7</td>
<td>40.0</td>
<td>47.6</td>
</tr>
</tbody>
</table>

Source: based on ABS (2011; 2012), Clark, Eaton, Lind, Pie, & Bateman (2011)

Table 3.7 shows that over 95% of all registered Australian businesses are ‘small’, yet have significant impact of small business on the Australian economy. Although the small business sector experience considerable ‘churn’, the overall proportion of small businesses remain stable at around 95%, or around two million businesses (ABS, 2014a). Despite this, small business is poorly understood and underappreciated. Increasing efforts by the small business sector to be recognised as a collective economic force, is reflected in the Australian campaign ‘Too Big to Ignore’ (Australian Chamber of Commerce and Industry [ACCI], 2013).
Operationally, small business differs from large organisations internally as well as in relationships with the external environment. Small business managers often experience competitive vulnerability in relationships with larger, more powerful stakeholders. Yet, a competitive advantage of small business is often the ability of owner-managers to be highly flexible and innovative (Byrd & Megginson, 2013). The structure of small business is relatively simple and flat, management decision-making centralised with one individual, typically the owner-manager (Sen & Cowley, 2013). Centralised power in combination with centralised decision-making and goal setting means that the business is totally dependent on the owner-manager as the central driving force (Stokes, 2002). This is a distinguishing feature of small business, yet owner-managers are a heterogeneous group of individuals with different goals and skills (Russo & Perrini, 2010; Stokes, 2002).

The dependence on the owner-manager and personal resources or perceived ability to support borrowings, is often an underlying reason for small business resource poverty, in particular lack of capital, and is a significant constraining factor on growth and profit (Mazzarol & Reboud, 2011; Niskanen & Niskanen, 2010; Sen & Cowley, 2013). Other related issues may include lack of expertise, which may also spring from lack of financial resources. The central role of the owner-manager means that personal characteristics may impact perceptions of stakeholder salience; power, legitimacy and urgency, and therefore decision-making.

### 3.8.2 Individual context, the decision maker

Being a small business owner-manager appears to be an individual decision; a matter of preference and choice, consistent with Alderfer’s theory of existence-relatedness-growth (in Furnham, 1992); a desire for financial gain coupled with commitment to values that can be expressed through the business (Aronoff, 2004; Atkinson, 2011; Berle & Means, 1932; McKeown, Connelly, & Gallagher, 2008; Smyrnios & Dana, 2006). The impetus of the small business is thus depicted as reflecting the owner’s personality, ambitions, competencies, intentions, motivation, confidence and beliefs (Morrison, Breen, & Ali, 2003).

Small business owner-managers can be described as highly individualistic and with a high tolerance for uncertainty (Hofstede, 2013). Typically also with a strong need for
achievement and power (McClelland & Burnham, 2003). The locus of control is internal and there is a strong belief in own ability to ‘make things work’, that is perception of self-efficacy (Bandura, 1997; Furnham, 1992; McKeown et al., 2008; Schaper et al., 2014; Stanworth & Curran, 1989; Stokes, 2002; Wadick, 2005). A strong internal locus of control is associated with a willingness to accept responsibility for outcomes of behaviour and therefore important for ethical management (Street & Street, 2006).

The owner-manager has considerable relative power in the business. Such power is typically direct, face-to-face, often coercive and normative (Berle & Means, 1932; Carson, Cromie, McGowan, & Hill, 1995; A. D. Clarke, 2007). The power distance (Hofstede, 1980) may be high or low depending on the individual owner-manager, industry and situation. This means that the power of the owner-manager of a small business is different and much less constrained than the power typically held by managers in large business. This allows the owner-manager, in contrast to managers of large corporations, to respond to stakeholders in a more direct and ‘tailored’ fashion. It also presents constructive and positive opportunity to align personal goals with business goals and those of the stakeholder – a win-win approach based on common values (Cennamo et al., 2009; Hartman, 2011).

Attitudes to conflict, for example how to deal with a difficult customer or underperforming employee, may vary according to the owner-manager’s values and belief systems and act as a threshold. Such a threshold may act to reduce minor conflict, but also contains the potential that conflict becomes harder to resolve once escalated. Power is however constrained by a close, direct and personal accountability; as a result of being dependent on stakeholders, the typical owner-manager is both a leader and follower (Nye Jr., 2010). Small business owner-managers thus have to use ‘smart power’; the combination of hard and soft power (Nye Jr., 2010), while personal power can provide quick and decisive adaptation to changing circumstances and emerging opportunities (Barkus & Glassman, 2008; Carson et al., 1995; Latham, 2009; Meredith, 1993; Sen & Cowley, 2013).

Moral commitments in small business are often ill-defined and diffused but open-ended and strong (Etzioni, 1988). Decisions are made for a reason and with an outcome in
mind but are also, particularly in the case of small business, a personal statement reflecting values and beliefs. Bandura (1997:450) makes the point:

Since they have to live with themselves, they tend to choose courses of action that bring them self-satisfaction and a sense of self-worth and reject those that are self-devaluing.

Perceptions of stakeholders and decisions regarding the salience of each stakeholder may therefore be directly affected by the decision maker’s personal attributes and be informed by personal belief systems. Family, for example, is often ignored in management research, yet in small business, family is often an important stakeholder (Dyer, 2003). In small business where decision-making is typically centralised with one person the impact of such personal attributes is focussed and decisions only minimally impacted by conflicting influence by other members of the decision-making body.

**Conclusion on Chapter Three**

This study focuses on decision-making in stakeholder relationships in business, specifically in the most prevalent sector, the small business sector. Decisions regarding stakeholder relationships may be influenced by several factors that belong with the decision maker, the stakeholder, or the context. Knowledge about such factors are perceived and therefore subject to various biases. The decision itself may also be affected by factors such as time constraints and lack of information and therefore potentially also affected by errors. Nevertheless, decisions are made and relationships between businesses and their stakeholders result in utility, economic and otherwise. The question is how the process occurs and could be improved.

In the following, Chapter Four will present and justify the research method used to address the research questions (RQs) and Research Problem. Chapters Five and Six presents the within and cross case analysis respectively. Finally, Chapter Seven presents the findings and conclusions resulting from this study. An overview of the RQs is presented in Table 3.8
Table 3.8  Overview of RQs and sub-questions

RP: “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?”

Profile of participants
- What is the profile of the decision maker (the interviewee)?
- What is the profile of the small business?

RQ1: “How do decision makers in Australian small business define and identify stakeholders?”
There were three sub-questions:
- RQ1a: What do decision makers understand by the term ‘stakeholder’?
- RQ1b: Whom do decision makers consider stakeholders?
- RQ1c: How do decision makers determine who is, or is not a stakeholder?

RQ2: “How do decision makers in Australian small business perceive stakeholder salience?”
There were five sub-questions:
- RQ2a: How do decision makers perceive the proposed attribute ‘power’?
- RQ2b: How do decision makers perceive the proposed attribute ‘legitimacy’?
- RQ2c: How do decision makers perceive the proposed attribute ‘urgency’?
- RQ2d: How do decision makers perceive interactions between attributes of stakeholder salience?
- RQ2e: What other attributes do decision makers consider part of stakeholder salience?

RQ3: “How do decision makers in Australian small business manage stakeholder relationships?”
There were three sub-questions:
- RQ3a: How do decision makers perceive relationships with stakeholders?
- RQ3b: How do decision makers make decisions regarding stakeholders?
- RQ3c: What factors may affect decision-making regarding stakeholders?

RQ4: “How may stakeholder salience be applied to assist decision makers in small business?”

RQ5: “How may stakeholder salience as a theoretical model be effectively defined?”
Chapter objectives

The broad objective of this chapter is to present and justify the methods used to address the primary research problem (RP) “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?”. The ontology and epistemology that underpins this study is first presented. The justification for using a multiple case study design is then put forward. Also discussed are the data sources, method of data collection, process of data analysis, limitations and ethical considerations.

4.1 Justification of research methodology

The present research builds on existing theory – the stakeholder salience model proposed by Mitchell et al. (1997) and, consistent with Kuhn’s (2012) explanation of the progress of science, aims to refine and develop knowledge. Rather than deductive testing of theoretical hypotheses, this research engages in inductive theory building.

The nature of this research was explorative and descriptive, aiming to extend and provide an in-depth understanding of subjective perceptions and complex interactions that may influence decisions regarding stakeholder salience. The overall research approach was pragmatic; the focus on the issue of understanding how perceptions of stakeholder salience are formed and decisions made in context, rather than on a particular method (Creswell, 2007; Patton, 2002; Robson, 2011).

Fundamental to the decision regarding how to perform the research is the philosophical question regarding the nature of reality (Alvesson & Sköldberg, 2009). Ontology refers to the overall attitude to the nature of reality; a paradigm or way of thinking about how
the world works and therefore the types of knowledge sought (Creswell, 2007; Kuhn, 2012; Neuman, 2006). There are at least two ontologies, or stances. The question is whether an objective, external reality can be said to exist separate from human perception, or perhaps reality is a social and subjective construct of humans. Attitudes to reality also affect the understanding of knowledge, that is, the epistemology. There are a number of approaches to understanding knowledge. These range from positivism – the idea that knowledge and truth can be found by properly designed observations, to nominalism – the idea that there is no pre-existing reality or objective truth. In nominalism, social life is paradoxical and a social construct. The terminology varies over time and there are overlaps between the various concepts, Table 4.1 provides an overview of the main ontologies and epistemologies commonly associated with each.

Table 4.1 Overview of main ontologies

<table>
<thead>
<tr>
<th>Ontology (understanding of reality)</th>
<th>Epistemology (understanding of knowledge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nomothetic (Objectivist): Reality exist externally and independently from the observer (Farquhar, 2012)</td>
<td>Positivism (Easterby-Smith, Thorpe, &amp; Jackson, 2012; Lincoln, Lynham, &amp; Guba, 2011; Robson, 2011): Knowledge is found by observation of phenomena and truth can be inferred by testing propositions. Variation: Postpositivism (Lincoln et al., 2011), Qualitative Neo-postivism (Duberley, Johnson, &amp; Cassell, 2012)</td>
</tr>
<tr>
<td>Focus: explaining phenomena (Bryman, 2012)</td>
<td>Realism (Bryman, 2012; Easterby-Smith et al., 2012; Robson, 2011): Knowledge and truth can be discovered using proper methods, knowledge is a product of history and social relationships Variation: empirical/naïve realism, critical realism (Bryman, 2012; Easterby-Smith et al., 2012), analytical realism (Altheide &amp; Johnson, 2011)</td>
</tr>
<tr>
<td>Structured (mixed): There are different levels of reality, some are nomothetic and some ideographic (Easterby-Smith et al., 2012)</td>
<td>Critical theory (Duberley et al., 2012; Easterby-Smith et al., 2012; Lincoln et al., 2011): reality is constructed but may be constructed on external, independent factors, causing a ‘false consciousness’ (Habermas, cited in Easterby-Smith, 2012)</td>
</tr>
<tr>
<td>Focus: understanding and explaining complex relationships</td>
<td>Pragmatism (Easterby-Smith et al., 2012; Maxcy, 2003; Robson, 2011): knowledge comes from balancing the abstract and concrete by reflection on internal processes and observation of external phenomena. Variation: Neo-pragmatism</td>
</tr>
<tr>
<td>Ideographic (interpretivist): Reality is socially constructed and depend on the participants (Farquhar, 2012)</td>
<td>Social constructionism (interpretivenism) (Bryman, 2012; Easterby-Smith et al., 2012): Social phenomena are produced and interpreted by social actors. Variation (Easterby-Smith et al., 2012): strong constructionism</td>
</tr>
<tr>
<td>Focus: understanding phenomena (Bryman, 2012)</td>
<td>Hermeneutics (Duberley et al., 2012; Easterby-Smith et al., 2012): focus is on interpreting written texts and understand the meaning in context</td>
</tr>
<tr>
<td></td>
<td>Relativism (Easterby-Smith et al., 2012): reality in social science is created by people and there are many truths</td>
</tr>
<tr>
<td></td>
<td>Feminism (Easterby-Smith et al., 2012): external knowledge is impossible, human behaviour must be understood from within; power dynamics must be considered</td>
</tr>
</tbody>
</table>
**Postmodernism** (Duberley et al., 2012; Easterby-Smith et al., 2012): criticises science itself and its use as a means to control perceptions of reality. Possible variation: Post structuralism (Duberley et al., 2012)

**Nominalism** (Easterby-Smith et al., 2012): there is no pre-existing reality, instead social life is paradoxical and indeterminate, people invent structures to make sense of the world

Indicated in Table 4.1 is the fundamentally different attitude to reality and understanding of knowledge that lies between the nomothetic and ideographic ontologies. Although there are overlaps, for the purpose of this research the main ontologies will be examined in more detail below.

### 4.1.1 Theoretical underpinnings – the objective stance

In a nomothetic, or objectivist ontology, reality is understood as existing externally. It is separate and independent from the observer’s perceptions (Bryman, 2012; Farquhar, 2012). An objective *axiology* means that reality – the ‘real truth’ – is detached from the observer and exists independently, ‘out there’ (Farquhar, 2012). Yet, truth and reality may be discovered with the senses, and phenomena measured objectively (Bryman, 2012; Neuman, 2006). A problem may be how to identify and measure phenomena that are unobservable by direct methods, such as seeing, thinking, perceiving and deciding, thus a *reductionist* approach is sometimes used to deduce causal relationships (Carson, Gilmore, Perry, & Gronhaug, 2002). Such a reductionist approach assumes that the ‘whole’ can be explained by investigating the constituents, that is, its underlying parts (Carson et al., 2002). However, this approach may paradoxically introduce biases and errors. The researcher unilaterally determines identification and definition of constituent parts and their meanings where the object of the research is unable to explain the underlying rationale for observed events. A value statement is thereby introduced (Lincoln & Guba, 1985). The researcher is limited to disprove – or not – the presented hypotheses. Findings are therefore significantly constrained by the framing of the research and the questions asked – or not asked (Andrews, 2003).

The positivist and various realist *epistemologies* accept the objective axiology and the objectivist ontology (Easterby-Smith et al., 2012). This approach is suitable and often necessary in the natural sciences where data typically have been collected by observation as there is no, or at least only limited scope for direct interactions to explore internal processes, for example through interviews. The research is monologic as the
researcher observes rather than interacts with the research subject (Easterby-Smith et al., 2012; Farquhar, 2012). In positivism the role of theory is to generate hypotheses for testing with a view to explain theory – a deductive approach that relies on previous knowledge (Bryman, 2012). Progress is made in iterative steps as researchers gradually pose new questions to build on previous theory. The research ideally is narrowly framed and purposefully separated from potentially confounding or interfering contextual influences. The scope for new ‘surprising’ findings to emerge is limited.

The present study however, involves a highly heterogenic cohort of cognisant and rational human beings who ‘construct’ their own reality based on perceptions, values and reasoning to make independent decisions. Such processes are internal, based on highly subjective perceptions and beliefs, and do not lend themselves to discovery by observation and testing of hypotheses. An objective ontology and epistemology was therefore not appropriate.

4.1.2 Theoretical underpinnings – the subjective stance

The interpretivist (sometimes called hermeneutics) epistemology typically follows an ideographic ontology and accepts the subjective axiology. Ideographic ontology, or constructionism, understands reality as being socially constructed and based on perceptions, and thus allows for the subjective perceptions of stakeholder’s salience as a basis for decision-making (Bryman, 2012; Farquhar, 2012). The underlying premise is that humans have no direct knowledge of reality as reality always has to be interpreted and expressed in symbols, such as language (Denzin, 2010). As such, it requires the researcher to recognise and identify that the meaning of social action is constructed and dependent on the perceptions of those involved (Bryman, 2012; Carson et al., 2002; Neuman, 2006). Although rather than attempting to eliminate bias, the subjective axiology accepts bias as a natural and intrinsic part of the research process, such subjectivity or bias needs to be explained and accounted for (Creswell, 2007; Farquhar, 2012).

The interpretivist epistemology is suitable in the social sciences where human beings construct their reality and draw upon subjective perceptions of the world around them (Farquhar, 2012). Rather than an external, objective reality or phenomena separate from the ‘knower’ and thus suitable for a positivist approach (Bryman, 2012), such
perceptions are internal to the decision maker, may be highly dependent on personal attributes and vary with situational attributes.

The reality under investigation: decision makers’ perceptions of stakeholders’ salience, is not an external, objective truth, but an internal, subjective construct that forms a basis for decisions and actions (Carson et al., 2002). Kvale (1996:15) argues that interviews in particular permits the researcher and participant – the ‘knowers’ – to produce knowledge – ‘the known’ – in a process of alternation “… between the constructors of knowledge and the knowledge constructed”. This research, framed within the context of small business stakeholder relationships and the perceptions of key decision makers, provides scope for new ‘surprising’ findings to emerge during the discussion between the researcher and interviewee.

Owner-managers are independent rational human beings who are able to ‘construct’ their own reality based on perceptions, values and reasoning to make their decisions, and are able to explain and discuss such processes in dialogue with the researcher (Easterby-Smith et al., 2012). An ideographic rather than a nomothetic ontology therefore seems more appropriate (Carson et al., 2002; Farquhar, 2012).

4.1.3 Theoretical underpinnings – the structured (mixed) stance

It is the subjectivity of perceptions as a basis for decision-making, that is the focus of this study. To understand how owner-managers perceive stakeholder’s salience – an internal process – and how decisions are made regarding the priority of stakeholders, also an internal process – entail an ideographic ontology and subjective axiology. However, such perceptions and decisions and any subsequent actions, happen in context and may be framed by external realities such as legislation, geographical distances and (anticipated) reactions from stakeholders, and in this sense is consistent with a nomothetic ontology. It is the “intercourse of a living being with its physical and social environment” (Dewey, 1970:7). To understand the process it is therefore necessary to recognise the context (Flyvbjerg, 2001; Tharenou, Donohue, & Cooper, 2007).

To understand how such perceptions come about requires an understanding of both the internal and external reality, and a structured ontology is therefore needed. Researching human perceptions and internal decision processes requires the researcher to engage with the phenomena in context, introducing a further layer of subjective interpretations,
which have to be acknowledged and addressed – a multi-layered reality requiring a structured ontology. However, it also opens the possibility for the researcher and participant(s) to co-create knowledge in an iterative dialogue and therefore the possibility of gaining greater depth of understanding.

The structured stance is therefore the most appropriate for this study, aiming to understand decision makers’ perceptions of stakeholders and process of stakeholder management in the narrow context of Australian small business and wider context of an increasingly complex and competitive global environment.

4.1.4 Research paradigm

Research has traditionally be divided into two broad types based on the kind of data collected (Denzin, 2011). Quantitative data refer to data that are identified and measured in numbers while qualitative data refer to data expressed as words (Bryman, 2012). Quantitative data are often associated with a nomothetic ontology, an objective axiology and typically used in positivist research. Qualitative data on the other hand, purposefully seek to understand the subjective aspects of life as lived by ‘real’ people (Bryman, 2012). Rather than data as measured in numbers, qualitative data comprise words with subjective meanings requiring the researcher and the participant to engage in dialogue (J. Miller & Glassner, 2011).

The quantitative approach has long been considered the ‘correct’ scientific approach, leaving qualitative research a less credible approach seen as based on ‘soft’ evidence (Carson et al., 2002; Cuppen, 2012; Marschan-Piekkari & Welch, 2004). However, a growing realisation that the positivist approach alone may provide only limited insights to the lived experience of humans and efforts to manage the inherent subjectivity of the qualitative approach have led to a more balanced view (Bryman, 2012; Carson et al., 2002; Lincoln et al., 2011; Wertz et al., 2011). As researchers increasingly collects more than one type of data, the distinction between quantitative and qualitative research is blurring and becoming less useful (Alvesson & Sköldberg, 2009; Creswell, 2011). The two approaches are no longer seen as incompatible but complimentary, and may be used together in a structured ontology using mixed methods, a pragmatic approach (Carson et al., 2002; Creswell, 2011; Lincoln et al., 2011).
Qualitative research features prominently in the social sciences, to gather understanding of the inner workings of humans and their interactions. Several authors attempt to create classification systems. Marshall and Rossman (2011) for example, identify three major and several specialised genres. The major genres being ethnography – how culture is formed and maintained; phenomenology – how the individual experience; and socio-communication studies – communicative behaviour. Merriam (2009) on the other hand, identifies six approaches partly overlapping with Marshall and Rossman (2011): basic qualitative research; phenomenology; ethnography; grounded theory; narrative analysis and critical research. Cresswell (2007) lists five approaches to qualitative inquiry: narrative research; phenomenology; grounded theory; ethnography and case studies. Case studies are relatively common in management research (Easterby-Smith et al., 2012) and were also used in this study.

4.1.5 The pragmatic approach

The aim here is to understand how relationships between the decision maker, the ‘knower’, and stakeholders, ‘the known’, work. The overall research paradigm is therefore pragmatic, with a strong link between theory and practice (Dewey, 1970; Robson, 2011). Early pragmatists such as Charles Peirce, William James, John Dewey, Herbert Mead and Arthur Bentley questioned the idea that ‘reality’ could be accessed and understood by just relying on scientific methods such as positivism (Maxcy, 2003). Later, influenced by neo-pragmatists such as Richard Rorty, Hilary Putnam and Nicolas Rescher, pragmatism as a research methodology have come to mean a mixed method approach with a focus on achieving an effective outcome (Maxcy, 2003). A pragmatic approach thus allows the flexibility to focus on the outcome rather than the process. It also facilitates the exploring and even challenging of established theory (Alvesson & Sandberg, 2013), such as the meaning of stakeholder relationships. Consistent with a pragmatic approach, understanding of the relationship, ‘the knowledge’, is intrinsic to the situation and participants (Robson, 2011).

Also consistent with pragmatism, the primary focus of this research was to discover knowledge that could be applied in the practical application of stakeholder theory (Patton, 2002). The possibility of serendipitous findings to assist with a revised framework relevant to practitioners was explicitly sought (M. B. Miles, Huberman, & Saldaña, 2014). This is consistent with a considerable amount of management research,
which traditionally employs various approaches borrowed from the natural or social sciences. However, Easterby-Smith (2012:13) argues that there are three important differences:

1. Managers draw on knowledge from a variety of different disciplines and work across technical, cultural and functional boundaries
2. Managers understand the value of research and may contribute actively and jointly with the researcher to produce knowledge
3. Managers expect that research will lead to practical outcomes

Small business owner-managers are no exceptions, for often they are constrained by limited internal resources for extensive formal research and perceive themselves as ‘forgotten’ by policy makers. Having experienced the issue being investigated, many welcome the opportunity to participate and benefit as a collective from the anticipated knowledge outcome (Ghauri, 2004). Some may also see an opportunity for the sector to gain prominence and recognition.

Although the method of finding knowledge was secondary to the knowledge found and there was no commitment to a particular paradigm, qualitative data were considered most likely to generate important and valuable insights (Robson, 2011). To understand the basis for decision-making from the perspective of small business owner-managers – the research participants – a pragmatic approach was considered likely to produce rich descriptions of internal processes. This would assist getting beyond initial theoretical conceptions of perceptions regarding stakeholder’s power, legitimacy and urgency (M. B. Miles et al., 2014; Mitchell et al., 1997). Yin (2011) points out that qualitative research allows the study of people’s experiences and perspectives of life in context, and may therefore assist with understanding emerging concepts such as owner-manager’s dynamic perceptions of stakeholder salience.

4.2 Research design

Whereas the terminology varies between authors, the terms ‘research strategy’, ‘research design’, ‘research approach’ and ‘research method’ are used to describe both identical and different concepts (Simons, 2009). A logical approach consistent with a ‘plain English’ understanding of the terms, is used by Bryman (2012:45) who suggests that ‘design’ refers to the overall ‘premeditated’ structure of the process for collecting
and analysing the data, while ‘method’ refers to the specific way(s) data are collected. At least six prominent designs can be identified from the literature, see Table 4.2.

<table>
<thead>
<tr>
<th>Dominant epistemology</th>
<th>Research design</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positivist</strong></td>
<td>Experimental</td>
<td>Involves manipulation of situation to determine whether one (independent) variable influence another (dependent) variable (Bryman, 2012)</td>
</tr>
<tr>
<td>Nomothetic ontology</td>
<td>Cross-sectional (surveys)</td>
<td>Use of large scale surveys to discover patterns to build or confirm theory (Bryman, 2012)</td>
</tr>
<tr>
<td></td>
<td>Longitudinal</td>
<td>Survey extended over time (Bryman, 2012)</td>
</tr>
<tr>
<td><strong>Interpretivism</strong></td>
<td>Single case</td>
<td>Intensive analysis of a single case (Stake, 1995)</td>
</tr>
<tr>
<td>Ideographic ontology</td>
<td>Comparative cases</td>
<td>Intensive analysis of two cases for the purpose of comparison (Bryman, 2012)</td>
</tr>
<tr>
<td></td>
<td>Multiple cases</td>
<td>Intensive study of particular phenomenon in multiple cases (Yin, 2014)</td>
</tr>
</tbody>
</table>

Table 4.2 shows that designs have different epistemological and ontological implications. The design must therefore ‘fit’ the purpose of the research. The use of a case study approach fits well with the structured ontology and pragmatic epistemology as it allows the recognition of both internal and external processes. For example research seeking in-depth understanding of complex human relationships in real life context (Yin, 2011), such as decision makers’ perceptions of stakeholder salience.

### 4.2.1 Case study research

Following from the previous discussion, the term ‘case study’ is defined differently in different contexts and disciplines (Platt, 2007; Stake, 1995; Yin, 2014). Ghauri (2004) for example points out that the term may refer to both a process and an outcome of research. Eisenhardt (1989) defines case study as “a research strategy which focuses on understanding the dynamics present within single settings”. Merriam (2009:40) defines case study as “an in-depth description and analysis of a bounded system”. Whilst Yin (2014:16), an influential writer on the topic, defines ‘case study’ as:

… an empirical inquiry that investigates a contemporary phenomenon (the ‘case’) in depth and within its real-world context, especially when the boundaries between phenomenon and context may not be clearly evident.

Within the disciplines of business and management, Tharenou (2007:73) succinctly defines case study as “an empirical inquiry into a social or human problem”. Dul and Hak (2008:4) offers a more comprehensive definition:
… a study in which (a) one case (single case study) or a small number of cases (comparative case study) in their real life context are selected, and (b) scores obtained from these cases are analysed in a qualitative manner.

Common to these definition is that case study design deliberately incorporates the research context, provides a strong logical connection between data collection and analysis and is useful where the phenomena and context are closely intertwined (Yin, 2014), such as in small business stakeholder relationships.

4.2.2 Criticism of case study research

Critics of case study research commonly lists the following perceived flaws, objections and misconceptions (Bryman, 2012; Flyvbjerg, 2011):

- Qualitative data are too subjective and therefore less valuable
- The process lacks transparency and case studies tend to confirm researchers perceptions and are therefore biased
- Case studies are only useful as a first stage; to generate hypotheses
- Case studies do no lead to generalizable knowledge and therefore not to scientific advancement
- Case studies are difficult to replicate
- It is difficult to develop theory from case studies

It is however, precisely the subjectivity of the lived experience that is the focus of case study research (Pauwels & Matthyssens, 2004). The purpose of case study research is not primarily to generate data that can be generalised, but in the first instance to generate data that will contribute to an in-depth understanding of particular phenomena (Bryman, 2012) – the uniqueness and complexities of processes in context of ‘real life’. It is about developing an evidence based understanding of a particular bounded and contextualised ‘case’ (Altheide & Johnson, 2011). Such data may indeed by useful as a basis for developing hypotheses, but may also provide insights of value in their own right.

The world of business is not a ‘one size fits all’ phenomenon and the value of generalisation may be over stated. Indeed, innovation and competition is based on offering something unique and different from the norm. The focus of a good case study is the particular, the unique, and often a complex “instance in action” (Simons, 2009:4). Certainly, findings from case studies may be hard to replicate and theory difficult to
develop, but that does not necessarily mean that the findings are irrelevant. By contributing to improved practices in the business and management sector outside academia, case study research may provide direct and practical benefit to managers and business owners.

The concerns regarding validity, reliability and generalizability, the criteria considered ‘Gold Standard’ in quantitative research, do not automatically apply in the same way in qualitative research (Marshall & Rossman, 2011). To the extent that such concerns are relevant, they can be overcome. Pauwels and MatthysSENS (2004), for example, suggest a framework involving ‘four pillars and a roof’ to provide a rigorous framework for multiple case study research. Each concern will be addressed in more detail below.

4.2.3 Reliability of case study research

Striving to eliminate subjective elements and thereby reflect the ‘real’ or ‘external’, reality rather than subjective impressions of it, the quantitative research has been considered more reliable and valid. Qualitative research, including case study research, has been criticised for lack of reliability and validity and as a result often seen as ‘poor’ research. However, efforts to eliminate subjectivity may also eliminate depth and richness of understanding, particularly regarding the human experience. In many ways, life as experienced by individuals, rather than an objective phenomenon is highly subjective and ‘messy’ – and therefore suitable for a case study approach (Pauwels & MatthysSENS, 2004). Efforts to understand how such subjectivity occurs and impacts on decisions may provide valuable insights to behaviour and outcomes and thereby provide a basis for improvement (Pauwels & MatthysSENS, 2004).

The close interaction between the researcher and the research participant may contribute to the usefulness of case study research to engage several levels of mental processing in both the participant and the researcher and therefore contribute to understanding of complex and perhaps unconscious mental processes (Woodside, 2010). Through dialogue, a case study design will support the researcher and participant to explore such processes and thereby facilitate a deeper understanding. According to Woodside (2010), Level 1 thinking – verbalised thoughts, is easiest to access and often targeted for marketing research. Level 2 thinking is the conscious editing of thoughts through internal and external process facilitated in dialogues. Level 3 thinking is the automatic
process of moving between conscious and unconscious levels of processing. Level 4 thinking is the unconscious nonverbal communication between at least two people. Finally, Level 5 thinking is the completion of automatic processing within the unconscious that may not reach conscious thinking and therefore be a source of errors and affect validity. In this instance, decision makers’ were invited to partner with the researcher to reflect on lower level thinking by bringing it ‘to the surface’ for examination.

Although the concepts of reliability, validity and generalizability (external validity) have mainly been developed in context of quantitative research, similar concerns are also important in qualitative research (Bryman, 2012). However, as Guba and Lincoln (2008) argue, the criteria may need adjusting. They suggest the label ‘trustworthiness’ may be employed to identify credibility (internal validity); transferability (external validity); and dependability (reliability). Similarly, Yin (2014) suggests judging the quality of case study research on four criteria: construct validity, internal validity, external validity and reliability.

### 4.2.4 Validity and credibility

An issue of primary importance is the validity of research. Validity refers to the integrity of the conclusions reached in a study – the ‘truth in findings’ (Bryman, 2012). However, validity also refers to the truthful or honest reporting of circumstances around the data collection, such as faithfully reporting participant’s answers and the facts pertaining to the event (Yin, 2011). Credibility, which is similar to validity, refers to rigor in both the method and the data interpretation – the process (Guba & Lincoln, 2008).

Pauwels and MatthysSENSs (2004) argue that validation is critical at every stage of the research process, not just at the end, and calls it ‘the roof’. This ‘roof’ is effectively a kind of ongoing ‘quality control’ and must be supported throughout the research process by the four pillars; theoretical sampling, triangulation, pattern matching and analytical generalisation.

According to Yin (2014) construct validity – ensuring correct operational measures – is addressed mainly during the data collection process; internal validity – concerned with correctly identifying causal effects – during the data analysis; external validity –
identifying to which domain the findings can be generalised – during the research design; and reliability – ensuring that the same results can be obtained with same approach in subsequent studies – during the data collection.

Measures to ensure validity/credibility in this research were based on Maxwell’s (2009) seven strategies:

- Rich data were collected in face-to-face, semi-structured interviews
- Respondent validation: active listening during interviews allowed the researcher to verify meanings and answers during the interview process. Participants was also offered opportunity to validate transcripts of interviews
- Rival or alternative explanations were ‘tested’ against the findings. ‘Discrepant’ evidence was consciously sought and used to identify the ‘boundaries’ of definitions and concepts
- Converging evidence was collected and tested via triangulation
- ‘Quasi-statistics’ (Becker, cited in Maxwell, 2009) was used in some interview questions to facilitate analysis
- Findings from different cases was compared in a cross case analysis and then compared to theory

Maxwell (2009) also suggests long-term involvement between the researcher and participants. However, all data was collected during a relatively short period of time and this was not a longitudinal study.

**Triangulation**

Triangulation, the second ‘pillar’ of multiple case study research (Pauwels & MatthysSENS, 2004), refers to the use of different measures or perspectives to increase confidence that observations and findings are correct and therefore seen to strengthen validity (Easterby-Smith et al., 2012). Triangulation entails collecting confirming data from several sources and (in the interpretivist ontology) ensuring that multiple perspectives are captured (Easterby-Smith et al., 2012). Audio recording of interviews, the researcher’s observations at the time of the interview and archival data may all be used to confirm findings (Woodside, 2010; Yin, 2011). Interviewee’s self-reported attitude to customers, for example, confirmed – or questioned – by considering publicly available communication material, such as marketing material. Pauwels and MatthysSENS (2004:130) suggest that in practice there are several approaches:
• Synchronic primary data source triangulation (several respondents on same issue)
• Diachronic primary data source triangulation (revisiting same issue in different ways with same respondent)
• Collecting both primary and secondary data
• Analytical triangulation (between method or within method)

In this study, triangulation was achieved by collecting both primary and secondary data; by asking multiple questions; by observation during interviews and collection of archival data, such as marketing material and other communication in the public domain. The cross-case analysis also provided a further opportunity to confirm data through reflection on differences and similarities between cases.

4.2.5 Reliability and dependability

Reliability refers to the consistency of measurements; that the same or similar results will be achieved in another (but) similar situation (Easterby-Smith et al., 2012). Reliability as a concept has considerable merit in quantitative research as it supports validity. In case study research, such concerns are still relevant but by necessity different. Consistency of measurement for example, is irrelevant in a case study where the focus is on understanding one unique or exceptional instance.

Lincoln and Guba (1985) suggest dependability as a concept more relevant in qualitative studies. Dependability means that the research has merit in terms of trustworthiness and this can be achieved through a process of ‘auditing’; meaning the keeping of extensive records and checking by second researcher (Bryman, 2012). Pauwels and Matthysens (2004) ‘third pillar’, or principle of rigor for multiple case study research, is pattern-matching logic. This means that it must be possible to ‘fit’ events with other elements within case and cross case, thereby also facilitating the analytical generalisation, the ‘fourth pillar’ (Pauwels & Matthysens, 2004). The final aspect of Lincoln and Guba’s (1985) ‘trustworthiness’ is confirmability; ensuring that the researcher’s own opinion has not inappropriately influenced the outcome.

Interview audit

An interview audit was performed to test for interviewer bias (Lincoln & Guba, 1985; Meredith & Cunneen, 2008). The interview audit entailed another researcher attending
one of the interviews as an observer to evaluate the process and check for researcher bias. The attendance by the second researcher was by prior agreement with the interviewee. The auditing researcher was required to answer specific questions regarding the process, as set out in Appendix C.

The auditor researcher confirmed that the free and informed consent to participate in the research was given by the participant. The auditing researcher was also able to confirm that the interviewee gave appropriate responses and thereby confirmed that the questions had been understood. The auditor concluded that no researcher bias or ethical concerns could be observed.

4.2.6 Generalizability and transferability

Generalizability, also known as external validity, refers to the question whether the result from the research can be applied in ‘general’, that is, converted into a ‘rule’ (Bryman, 2012). Research that can be generalised is typically considered to be the more valuable. However, Dul and Hak (2008) points out that the common perception that case study research lacks generalizability is a misconception as case study by definition makes no claim to describe the general, just the particular.

Opinions vary regarding whether case study research should aim to produce results that can be generalised. For example, while Stake (2006) and Yin (2014) have similar views on the important contribution of case study research, Stake (2006) argues that the primary focus of case study research is the case itself; the particular of each case. Yin (2014), on the other hand argues that multiple cases should be representative of a population where a particular phenomena to be studied occurs. These differences have implications for how the data are analysed and therefore how the research is designed. Pauwels and Matthyssens’ (2004) ‘fourth pillar’, is analytical generalisation, that is testing the findings against the theoretical framework to find predictable matches or discrepancies.

Guba and Lincoln (2008) suggest that in qualitative research, rather than generalizability, a better term would be ‘transferability’ – the ability to use the findings constructively in another setting. This is similar to what Merriam (2002) termed ‘user generalisation’. User generalisation means the user is able to use the findings in their own situation and to transplant the findings and extrapolate the results to use as a guide.
in practice (Merriam, 2002). Such transplantation requires the context to be described richly and in considerable detail and may be helpful to small business owner-managers and other stakeholders. Yin (2014) further suggests that rather than the statistical generalisation typical of quantitative studies, a multiple case study approach offers a way of analytical generalisation based on replication logic.

### 4.2.7 Multiple case study design

Several sources in the literature present more than one type of case study. Dul and Hak (2008) distinguish between the single case study – the study of only one single issue or event and the comparative case study – the comparison of data gleaned from two or more cases. Stake (1995) identifies three types of case study: an ‘intrinsic’ case study – investigating only one intrinsically interesting case; an ‘instrumental’ case study – where the case is incidental to the object of study and ‘collective’ case study – the instrumental case study with several ‘sites’. Merriam (2009:49) also identifies the single case study as different from the use of several cases, known variously as collective case studies; cross-case; multi-case or multi-site studies or comparative case studies. The individual cases in the ‘collective’ then share some features of interest and by considering more than one case, the validity of the study increases. Yin (2014) also distinguishes between the single- and multiple-case study designs and adds that each case may involve several levels of embedded analysis of sub-units. Both Stake (1995) and Yin (2014) argue for the value of several cases under a common ‘umbrella’ to increase validity, reliability and to provide a more comprehensive understanding of the object or phenomenon under study. Such cases must be carefully selected based on a clear definition of the relevant ‘case’ being studied. Simons (2009) suggest identifying a case as a ‘bounded system’; a single unit of analysis but with sub-elements.

### 4.2.8 Defining ‘the case’ – the unit of analysis

An important but difficult part in undertaking case study research is to clearly define ‘the case’ or unit of analysis. Stake (2006) talks about the ‘quintain’; the object, phenomenon or condition to be studied. Yin (2014) also suggests ‘bounding the case’, by determining what data are to be considered part of the case – the unit of analysis, and what data are to be considered part of the context. Gilham (2000a:1) suggest that a ‘case’ may be an individual, a group, an institution or a community with a focus on:
“a unit of human activity embedded in the real world; which can only be studied or understood in context; which exists in the here and now; that merges in with its context so that precise boundaries are difficult to draw”

In this present study, the ‘human activity’ is the owner-manager’s decision regarding stakeholders’ relative salience. The ‘context’ are the stakeholder relationships, ‘the real world here and now’ is the dynamic environment in which the decisions have to be made, such that the boundaries between the relationships and the decisions are difficult to discern.

4.3 Data sources

Small business offers a suitable context for researching changes in stakeholder relationships as the unique characteristics of small business result in a reduced number of confounding variables (Sekaran, 2003; Tharenou et al., 2007). Small business offers the advantage of a centralised decision maker; reducing the impact of complexities arising from group decisions and providing a central data collection point.

4.3.1 Number of cases and replication logic

Since generalisation is not the main focus of case study research, purposeful ‘sampling’ rather than representative sampling is relevant. The ‘purpose’ here being to identify information rich cases with particular attributes, likely to yield deep insights (Merriam, 2009). Stake (1995:4) in fact argues that “case study research is not sampling research”. Instead of sampling attributes, cases should be selected to achieve a balance and variety in perspectives; relevance and opportunity to learn about the phenomena being studied (Stake, 2006). Theoretical sampling, the ‘first pillar’ of multiple case study design, requires the selection of cases based on theoretical frameworks to identify both ideal cases and atypical cases (Pauwels & Matthyssens, 2004; Yin, 2014). Stake (2006) suggest that to benefit from the inclusion of more than one case, ideally at least four cases are required, but that more than 10 cases carries a risk of the study becoming too complex. Stake does however also recognise that there are exceptions where less than four or more than 15 cases are successfully used. Yin (2014) suggests 6-10 cases to achieve literal or theoretical replication. Given the diversity of small business, this study used nine cases to ensure a balance of perspectives from different industries and owner-managers with different personal characteristics.
Yin’s (2014) replication logic is similar to performing multiple experiments to confirm finding by repeating the exact same experiment or to modify some aspects of the experiment to test an explanatory hypothesis. In performing multiple case study research, cases should be selected to achieve either literal replication – similar outcomes; or theoretical replication – different outcomes but for predicted reasons (Yin, 2014). Yin (2014) suggest that 2-3 cases be selected for literal replication and another 4-6 cases for different kinds of theoretical replication. The combined total of 6-10 cases would, according to Yin (2014), provide robustness of process and compelling findings. Each individual case has to be defined as a unit of analysis and the rational for inclusion identified (Ghauri, 2004).

However, the highly heterogenic nature of the small business sector means that there are no ‘ideal’ cases that can be holistically identified for literal replication. Instead cases may be selected based on particular characteristics, a logic, that may contribute insights to the overall understanding of the phenomena of stakeholder relationships in small business. Table 4.3 presents an overview of the specific cases in this study.

### Table 4.3  Case selection and replication logic

<table>
<thead>
<tr>
<th>Case</th>
<th>Logic</th>
<th>Rational for inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Literal</td>
<td>Likely to confirm or add knowledge regarding identity and relationships with most generic stakeholders</td>
</tr>
<tr>
<td>2</td>
<td>Theoretical</td>
<td>Likely to deviate from the traditional ‘employee paradigm’ and add insights regarding relationships with workers on contract for service</td>
</tr>
<tr>
<td>3</td>
<td>Literal/Theoretical</td>
<td>Very specialist business run by a highly qualified owner-manager and therefore likely to confirm most theoretical expectations with stakeholders such as customers and suppliers. The nature of the business and the proprietor’s special knowledge means that the decision maker is likely to add insight regarding relationships with non-market stakeholders, such as regulators (at several levels).</td>
</tr>
<tr>
<td>4</td>
<td>Theoretical</td>
<td>The key decision maker has no ownership in the business, therefore unlikely to conform with theoretical expectations regarding the decision maker's relationships to the business</td>
</tr>
<tr>
<td>5</td>
<td>Literal</td>
<td>Well established business still operating in ‘traditional’ ways and likely to confirm most theoretical expectations regarding stakeholder relationships</td>
</tr>
<tr>
<td>6</td>
<td>Theoretical</td>
<td>Very small business with unusual structure involving manufacturing, wholesale and direct sales at several different retail outlets and farmers markets, and therefore likely to have complex relationships with stakeholders</td>
</tr>
<tr>
<td>7</td>
<td>Theoretical</td>
<td>Business with very long history, legal structure based on sole trader but primary decision maker a semi-employed family member with limited business training, and likely to contradict some theoretical expectations regarding stakeholder relationships</td>
</tr>
<tr>
<td>8</td>
<td>Literal</td>
<td>Established small family business run by a CEO with management training, and therefore expected to confirm most theoretical expectations regarding stakeholder relationships</td>
</tr>
<tr>
<td>9</td>
<td>Theoretical</td>
<td>A very small business operating in a niche industry and likely to have close dependence on a small number of stakeholders in relationships with the business. Therefore likely to add insights regarding how such relationships are managed</td>
</tr>
</tbody>
</table>
Table 4.3 shows that the cases were selected so that both literal and theoretical replication logic could be employed to explore the boundaries of stakeholder identity and relationships (Yin, 2014). At least in one case, Case 3, potential existed for both literal and theoretical replication to occur but on different topics. This is likely a function of the characteristics of small business and in itself potentially a finding. The semi-structured approach to interviewing provided the required flexibility to explore such findings (Sach & Rühli, 2011).

4.3.2 Identifying the cases

The first selection criterion was a requirement that the business was a small business. Here, the Australian Bureau of Statistics definition of a small business as an entity with less than 20 employees (ABS, 2014a) was used.

The second selection criterion was that the interviewee was the owner-manager of an independent small business. However, to facilitate both literal and theoretical replication, two exceptions to this rule were included:

- Case 4: the interviewee was the primary decision maker at the very top of the organisational hierarchy but not an owner as the organisation was a community based incorporated association
- Case 7: the interviewee was the primary decision maker for both day-to-day and strategic administrative decisions but not the owner. The business was formally registered as a sole trader, being the elderly father of the interviewee who was still involved with some practical work in the business.

The duality of the owner-manager’s position as significant owner and primary decision maker in the business gives them control. Formally, the owner-manager may own more or less than 50% of the business but have control based on expertise, experience, and/or consent from co-owners, typically other family members who themselves lack such expertise. Owner-managers of small business essentially ‘are the business’.

Industry performance statistics published by ABS (2013) are based on 18 industry divisions from the Australian and New Zealand Standard Industrial Classification (ANZSIC) (Trewin & Pink, 2006). Notably, small business is not included in the statistics for ANZSIC classification Financial and Insurance Services (Clark et al.,
2012). Table 4.4 places the nine cases in this study in the ANZSIC classifications framework.

Table 4.4 ANZIC classification and small business prominence

<table>
<thead>
<tr>
<th>ANZSIC Division (Trewin &amp; Pink, 2006)</th>
<th>Small business employment ('000) (ABS, 2013)</th>
<th>Cases in this study</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Agriculture Forestry and Fishing</td>
<td>418</td>
<td></td>
</tr>
<tr>
<td>B Mining</td>
<td>27</td>
<td></td>
</tr>
<tr>
<td>C Manufacturing</td>
<td>274</td>
<td>Case 5 (class 2141)</td>
</tr>
<tr>
<td>D Electricity, gas, water and waste Services</td>
<td>*) 17</td>
<td>Case 6 (class 1131)</td>
</tr>
<tr>
<td>E Construction</td>
<td>650</td>
<td>Case 2 (class 3020)</td>
</tr>
<tr>
<td>F Wholesale Trade</td>
<td>213</td>
<td>Case 8 (class 3609)</td>
</tr>
<tr>
<td>G Retail Trade</td>
<td>473</td>
<td></td>
</tr>
<tr>
<td>H Accommodation and Food Services</td>
<td>422</td>
<td></td>
</tr>
<tr>
<td>I Transport, Postal and Warehousing</td>
<td>218</td>
<td></td>
</tr>
<tr>
<td>J Information Media and Telecommunications</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>K Financial and Insurance Services</td>
<td>**)</td>
<td></td>
</tr>
<tr>
<td>L Rental, Hiring and Real Estate Services</td>
<td>304</td>
<td></td>
</tr>
<tr>
<td>M Professional, Scientific and Technical Services</td>
<td>520</td>
<td>Case 3 (class 6921)</td>
</tr>
<tr>
<td>N Administrative and Support Services</td>
<td>230</td>
<td>Case 4 (class 6931)</td>
</tr>
<tr>
<td>O Public Administration and Safety (Private)</td>
<td>*) 26</td>
<td>Case 9 (class 6962)</td>
</tr>
<tr>
<td>P Education and Training (Private)</td>
<td>*) 115</td>
<td></td>
</tr>
<tr>
<td>Q Health Care and Social Assistance (Private)</td>
<td>321</td>
<td>Case 1 (class 8534)</td>
</tr>
<tr>
<td>R Arts and Recreation Services</td>
<td>*) 78</td>
<td>Case 7 (class 9129)</td>
</tr>
<tr>
<td>S Other Services</td>
<td>304</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>4649</td>
<td></td>
</tr>
</tbody>
</table>

*) standard error between 10-25%
**) no statistics published

Table 4.4 shows that this study draws from the classifications with the most as well as the less prominent small business representation. The largest classification represented was Construction with some 650,000 employees in the small businesses sector. The smallest classification included in this research was Arts and Recreation Services, with some 78,000 employees in small business. Some participants would potentially fit in more than one category. Case 6 for example, is also involved in retail trade as the business sells direct to the public at the premises and at farmers markets. Participants were sought independently by the researcher but also with the assistance of the New South Wales Business Chamber.
4.3.3 Selection criteria

To ensure quality and relevance to the research, three selection criteria were pre-determined. The particular attributes required for participation were:

- Australian small business with less than 20 employees (ABS, 2014a)
- Independently owned and operated for at least three years
- Key decision maker (interviewee) in charge of the organisation for at least two years

Importantly, the selection of cases were not based on the participants being ‘typical’ but rather as examples of owner-managers in different sectors able to assist the researcher to explore, understand and co-create understanding of stakeholder relationships and issues in those sectors.

4.4 Data collection

The primary method of data collection was by way of face-to-face interviews with the primary decision maker of nine Australian small businesses. To ensure consistency, interviews were conducted by the researcher and followed an interview protocol (Appendix A) and a semi-structured interview instrument (Appendix B). Data were also collected from publicly available sources about each of the businesses, for example from websites and advertising material.

A pilot study was conducted to test interviewees’ understanding and validity of interview instrument and data collection process. It was discovered that some questions required clarification in order to be understood. It was also discovered that some questions were best left open-ended as the interviewee was able to volunteer answers with considerable depth without follow-up questioning. Such information was unanticipated and ‘surprising’ but considered valuable.

The decision was made for the researcher to be observant and flexible in insisting on following the structure of the interview instrument and asking sub-questions, to instead encourage the interviewee to freely expand on their thinking. During the data collection process, this proved a good approach as several interviewees clearly thought about their answer: pausing to think and sometimes spontaneously revising their initial answer, or changing the direction of their thinking as they grappled with the concepts and reflected
on their own practices. The interviews became conversations in which the interviewees engaged in open communication with the researcher and both gained knowledge (Holstein & Gubrium, 2011; Sach & Rühli, 2011). Several interviewees commented that the process had ‘made them think’ and had been valuable to them.

4.4.1 Case study protocol

A case study protocol sets out the procedures followed in undertaking the study, especially during data collection process (Yin, 2014). The multiple case study approach and replication logic relies on consistency in approach and process across several interviews and a case study protocol is therefore particularly important (Yin, 2014). The case study protocol for this study is attached in Appendix A.

4.4.2 Interview instrument

To empirically answer the contextual component of the Research Problem “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?”, a semi-structured interview instrument (Appendix B) was developed around four themes:

- Perceptions of stakeholders (RQ1)
- Perceptions of stakeholder salience (RQ2)
- Perceptions of stakeholder relationships (RQ3)
- Perceptions of challenges of being a key decision maker (RQ4)

As indicated above, each theme relates to one of the RQs: the first three themes seek to answer RQ1 – RQ3 while the fourth theme lays a foundation for answering RQ4. As with RQ5, RQ4 was essentially a theoretical question, but with practical implications.

Rather than seeking independent data, the purpose of the interview questions (IQs) was to assist the researcher and interviewee to explore each theme. The interview instrument was designed to provide structure but with considerable flexibility (Gillham, 2000b; Sach & Rühli, 2011). As such, not all sub-questions were required to be asked of every interviewee. The relationships between the IQs and the RQs, as well as indication of section discussing the relevant theories, are presented in Table 4.5.
Table 4.5  Interview Questions (IQs) and Research Questions (RQs)

<table>
<thead>
<tr>
<th>IQ</th>
<th>Research Question(s)</th>
<th>Relevant section(s) in Chapter Two (Stakeholder Theory)</th>
<th>Relevant section(s) in Chapter Three (Decision-making)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>RQ1, RQ3</td>
<td>Sections 2.2 / 2.3 / 2.4</td>
<td>Sections 3.1 / 3.2 / 3.3 / 3.7 / 3.8</td>
</tr>
<tr>
<td>2</td>
<td>RQ3</td>
<td>Section 2.9</td>
<td>Sections 3.1 / 3.2 / 3.7 / 3.8</td>
</tr>
<tr>
<td>3</td>
<td>RQ1, RQ3, RQ5</td>
<td>Sections 2.1 / 2.2 / 2.3</td>
<td>Sections 3.4 / 3.5 / 3.6</td>
</tr>
<tr>
<td>4</td>
<td>RQ3, RQ4, RQ5</td>
<td>Sections 3.4</td>
<td>Sections 2.4 / 2.9 / 2.10</td>
</tr>
<tr>
<td>5</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.4 / 2.10</td>
<td>Sections 3.3 / 3.4</td>
</tr>
<tr>
<td>6</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.5 / 2.6 / 2.7 / 2.10</td>
<td>Sections 3.2 / 3.3 / 3.4 / 3.5</td>
</tr>
<tr>
<td>7</td>
<td>RQ2, RQ3, RQ5</td>
<td>Section 2.5</td>
<td>Section 3.4</td>
</tr>
<tr>
<td>8</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.6 / 2.8</td>
<td>Section 3.4</td>
</tr>
<tr>
<td>9</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.7 / 2.8</td>
<td>Section 3.4</td>
</tr>
<tr>
<td>10</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.4 / 2.8 / 2.9 / 2.10</td>
<td>Sections 3.5 / 3.7</td>
</tr>
<tr>
<td>11</td>
<td>RQ2, RQ3, RQ5</td>
<td>Sections 2.1 / 2.10</td>
<td>Section 3.7</td>
</tr>
<tr>
<td>12</td>
<td>RQ4, RQ5</td>
<td>Sections 2.5 / 2.6 / 2.7 / 2.10</td>
<td>Sections 3.7 / 3.8</td>
</tr>
<tr>
<td>13</td>
<td>RQ4, RQ5</td>
<td>Sections 2.1 / 2.8 / 2.9 / 2.10</td>
<td>Section 3.7</td>
</tr>
<tr>
<td>14</td>
<td>RQ3, RQ4</td>
<td>Sections 2.1 / 2.10</td>
<td>Section 3.8</td>
</tr>
<tr>
<td>15</td>
<td>RQ4, RQ5</td>
<td>Sections 2.5 / 2.6 / 2.7 / 2.8 / 2.9 / 2.10</td>
<td>Sections 3.4 / 3.5 / 3.6 / 3.7 / 3.8</td>
</tr>
<tr>
<td>16</td>
<td>RQ4, RQ5</td>
<td>Sections 2.1 / 2.5 / 2.6 / 2.7 / 2.8 / 2.10</td>
<td>Sections 3.4 / 3.6 / 3.8</td>
</tr>
<tr>
<td>17</td>
<td>Open-ended invitation to interviewee to add any comments at all</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.5 shows that most interview questions relate to multiple research questions and have relevance to several sections in the literature. A more detailed discussion is provided in the following sections.

**Interview Question One (IQ1): About the owner-manager (the interviewee)**

IQ1 collects basic demographic information about the interviewee. The purpose was to confirm that the interviewee complied with the relevant Selection Criteria (Section 4.3.3), and to gain a basic demographic profile to understand the interviewee and perceptions and attitudes to managing stakeholder relationships. Cooke & Slack (1984) argue that to understand decisions made, it is necessary to know the decision maker. Soane and Nicholson (2008) suggest that individual differences such as age, gender and ability may also affect the process. Table 4.6 provides an overview.

Table 4.6  Sub-questions to IQ1

<table>
<thead>
<tr>
<th>IQ1 Sub-questions</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous management experience</td>
<td>Y / N</td>
<td>May affect perceptions and attitudes</td>
</tr>
<tr>
<td>Age</td>
<td>18-29 / 30-39 / 40-49 / 50-59 / over 60</td>
<td>May affect perceptions and attitudes</td>
</tr>
<tr>
<td>Time in this role</td>
<td>Year</td>
<td>Relates to Selection Criteria</td>
</tr>
<tr>
<td>Level of formal qualification</td>
<td>Open-ended</td>
<td>May affect perceptions and attitudes</td>
</tr>
<tr>
<td>Percentage ownership (50%+ or majority)</td>
<td>More or less than 50%</td>
<td>Relates to Selection Criteria, may affect perceptions of stakeholders, particularly ‘owners’ and ‘family’</td>
</tr>
<tr>
<td>Gender</td>
<td>M / F</td>
<td>May affect perceptions and attitudes</td>
</tr>
</tbody>
</table>
The first sub-question asks the interviewee to simply indicate yes or no on the issue of whether he/she has previous experience in management. Previous experience may influence both perceptions and attitude to stakeholders and researchers. Participants are also asked to indicate their age. To minimise embarrassment, participants are asked to indicate their age in brackets: 18-29, 30-39, 40-49, 50-59 or over 60. Similar to previous experience, age may affect perceptions and attitudes to stakeholders. How long the interviewee has been in the position as owner-manager of the relevant business and level of formal education may also influence perceptions of stakeholders and process of decision-making. The level of ownership is likely to affect the level of power and influence in the business. Formal legitimacy and direct power may be based on significant ownership or being the licensee of the business.

**Interview Question Two (IQ2): About the business**

IQ2 collects demographic information about the business and industry to confirm that the business complies with the relevant Selection Criteria (Section 4.3.3). Teale et al (2003) argue that decisions happen in context and that it is therefore important to understand the organisational context to identify constraining factors such as limited resources resulting from size or location of business. Start-up businesses may be run differently from well-established businesses and this may therefore influence decision-making and level of organisational knowledge. Practices may also vary between industries. Table 4.7 provides an overview.

<table>
<thead>
<tr>
<th>IQ2 Sub-questions</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Type of business</td>
<td>Open-ended</td>
<td>Operational constraints may vary between different types of businesses and affect perceptions and attitudes</td>
</tr>
<tr>
<td>(manufacturing/services)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry (-ies)</td>
<td>Open-ended</td>
<td>Operational constraints may vary between different industries and affect perceptions and attitudes</td>
</tr>
<tr>
<td>Suburb</td>
<td>Open-ended</td>
<td>Operational constraints may vary between geographical locations</td>
</tr>
<tr>
<td>Years in operation</td>
<td>Open-ended</td>
<td>Relates to Selection Criteria. Years in operation may affect operational constraints</td>
</tr>
<tr>
<td>Number of employees</td>
<td>Open-ended</td>
<td>Relates to Selection Criteria</td>
</tr>
</tbody>
</table>

Although all businesses in this study were small businesses, the businesses were purposefully selected to provide a cross section from different industries, years of operation and number of employees.


**Interview Question Three (IQ3): About the stakeholders of the business**

As suggested by Mainardes et al (2011), IQ3 collects information about the stakeholders of the business and their needs, as perceived by the interviewee. Although the literature suggest generic and commonly listed stakeholder groups (see extensive discussion in Chapter Two), a previous study (Westrenius, 2009) indicated that small business may have additional and unique stakeholders of critical importance; a small surf-ware manufacturer, for example, reported that the athletes they sponsored to promote their products were a critical stakeholder with significant effect on sales. In contrast to large and public organisations as well as much academic literature, Family was also indicated as a prominent stakeholder in small business (Westrenius, 2009). In order to understand how owner-managers perceive stakeholders, manage the relationships and make decisions regarding which stakeholder demand to priorities, it is therefore prudent to first identify whom they perceive as stakeholders and on what basis. Table 4.8 provides an overview.

*Table 4.8  Sub-questions to IQ3*

<table>
<thead>
<tr>
<th>IQ3 Sub-questions</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.1 What do you understand by the term ‘stakeholder’ – what does it mean to you?</td>
<td>Open-ended</td>
<td>The term ‘stakeholder’ may not be universally understood by owner-managers as defined by the academic literature</td>
</tr>
<tr>
<td>3.2 How do you determine who is a stakeholder (on what basis)?</td>
<td>Open-ended</td>
<td>The interviewees may approach the identification of stakeholders in ways that differ from those described in the literature.</td>
</tr>
<tr>
<td>3.3 Who are the stakeholders of this business?</td>
<td>Open-ended</td>
<td>A previous study (Westrenius, 2009) suggested that owner-managers’ perception of who is a stakeholder vary between businesses and industries</td>
</tr>
<tr>
<td>3.4 How would you determine who is NOT a stakeholder?</td>
<td>Open-ended</td>
<td>This question provides an alternative way of identifying the boundaries of who are considered stakeholders</td>
</tr>
<tr>
<td>3.5 Which stakeholders can affect the success of this business and what is your level of dependence on them (Low/Med/High)?</td>
<td>Open-ended</td>
<td>Freeman (1984) defined stakeholders as individuals or groups who can affect the success of the business. This ability may lead to dependence and therefore be another way of identifying stakeholders</td>
</tr>
<tr>
<td>3.6 Which stakeholders may be affected by the success or failure of this business and what is their level of dependence on you (Low/Med/High)?</td>
<td>Open-ended</td>
<td>Freeman (1984) also defined stakeholders as individuals or groups who can be affected by the business. This may lead to a reverse dependence and legal, moral or ethical obligations on the business</td>
</tr>
</tbody>
</table>

The main purpose of IQs 3.1 – 3.6 was to establish whom the stakeholders of the business were – as perceived by the interviewee.
Interview Question Four (IQ4): Relationships with stakeholders

As suggested by Mainardes et al (2011), stakeholder relationships are ‘constructed’ and IQ4 explores the relationship with stakeholders, as perceived by the interviewee. A previous study indicated that there are variations with individual stakeholders within each stakeholder group (Westrenius, 2009). All customers are for example not the same, and relationship with the owner-manager not necessarily the same. A similar situation exists with suppliers. Perceptions about the relationships, such as commitment, ease or difficulty with replacing a stakeholder for example a supplier or customer, and significance of any exit costs should the need arise to end the relationship, may provide an alternative way to understand stakeholder relationships as an aspect of dependence.

Table 4.9 provides an overview of the sub-questions designed to explore relationships with stakeholders while Table 4.9a presents the follow-up.

<table>
<thead>
<tr>
<th>IQ4 Sub-questions</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1 How similar/different is your relationship with individual stakeholders within groups of stakeholders (homogeneous in membership). For example the stakeholder group ‘customers’, is your relationship with all customers the same?</td>
<td>Open-ended</td>
<td>A previous study (Westrenius, 2009) indicated that stakeholder relationships vary between individual members of a stakeholder group</td>
</tr>
<tr>
<td>4.2 For each stakeholder, please classify the relationship in terms of your level of Commitment (long-/short-term), Replaceability (how difficult would it be to replace the stakeholder/group?), and Exit costs (costs involved in ending the relationship).</td>
<td>Open-ended and Table 4.9a</td>
<td>Exploratory question seeking input on whether commitment, replaceability and exit cost are important. May provide an alternative method of identifying stakeholders.</td>
</tr>
<tr>
<td>4.3 Apart from Dependence, Commitment, Replaceability and Exit Cost, what other factor(s) may influence your relationship with stakeholders?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on what other factors may be important</td>
</tr>
<tr>
<td>4.4 Overall, how would you describe the relationships with your stakeholders?</td>
<td>Open-ended</td>
<td>Invites the interviewee to reflect on the overall relationships with stakeholders</td>
</tr>
</tbody>
</table>

Table 4.9a Answer rubric for IQ4.2

<table>
<thead>
<tr>
<th>Your commitment to stakeholder</th>
<th>Replaceability of stakeholder</th>
<th>Exit costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term</td>
<td>Long-term</td>
<td>Difficult</td>
</tr>
<tr>
<td>Medium term</td>
<td>Medium term</td>
<td>Possible</td>
</tr>
<tr>
<td>Short-term</td>
<td>Short-term</td>
<td>Easy</td>
</tr>
</tbody>
</table>

IQ4 is essentially an open-ended question. Table 4.9a was included to provide some structure and guidance to a question that may be too broad for an audience with limited insight into academic theory. The suggested constructs serves as a starting point for the discussion rather than a means of collecting quantitative data.
Interview Questions Five and Six (IQ5 and IQ6 respectively): Priority of stakeholders

IQ5 and IQ6 explore how owner-managers decide which stakeholder demand and which stakeholder will be given priority at any given time. Definitions of ‘decision-making’ revolve around the idea of making choices (E. F. Harrison, 1999; Selart, 2010; Teale et al., 2003). A central issue in stakeholder management is the issue of prioritising or making choices, and therefore decisions, regarding which stakeholder demand to pay attention to at any given time (Agle et al., 1999; Mitchell et al., 1997). Decision-making requires making judgements and is therefore a cognitive process that happens in context, are bounded by the decision maker’s prior knowledge and ability to process information, and often under time pressure (Bazerman & Moore, 2009; Simon, 1997). The unique situation of owner-managers, being the primary decision maker with most at stake in each decision and with limited access to advice, may affect how the decision-making process happens (see extended discussion in Chapter Three). IQ5 and IQ6 aim to explore the owner-manager’s perception of the process, see Table 4.10.

Table 4.10 Interview Questions IQ5 and IQ6

<table>
<thead>
<tr>
<th>Interview Question (IQ)</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. Do you sometimes find that you have to prioritise one stakeholder or stakeholder group above another? Please give examples.</td>
<td>Open-ended</td>
<td>Exploratory question setting the scene for IQ6</td>
</tr>
<tr>
<td>6. Thinking about instances when you have to decide to give priority to one stakeholder above another; 6.1 What factors influence your decision? 6.2 What is the process of making that decision?</td>
<td>Open-ended</td>
<td>Exploratory question regarding interviewee’s perception of the process of decision-making involved in prioritising competing demands</td>
</tr>
</tbody>
</table>

IQ5 and IQ6 also paves the way for IQ7, IQ8 and IQ9 by inviting interviewees to consider and reflect on how these decisions are made.

Interview Question Seven (IQ7): Power in the relationships with stakeholders

IQ7 asks about the concept of power, one of the three attributes of stakeholder salience (Mitchell et al., 1997). The concept of power is highly disputed in the academic literature with many and conflicting definitions and approaches put forward to understand power (Wrong, 2009), see extensive discussion in Chapter Two. In addition there is no guidance on what happens in situations where both the owner-manager and stakeholder have power, essentially a contest of power. Despite this, small business owner-managers exercise power in relationships with various stakeholders on a daily
basis. A reasonable and pragmatic approach to further the understanding of the concept of power as an attribute in stakeholder salience (Mitchell et al., 1997), and in particular in stakeholder relationships in Australian small business, is therefore to ask the practitioners. IQ7 explores the interviewees’ perception and understanding of power in stakeholder relationships. Table 4.11 provides an overview.

Table 4.11 Sub-questions to IQ7 – Power in the relationship with stakeholders

<table>
<thead>
<tr>
<th>IQ7 Sub-question</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1 What do you understand by the word ‘power’ – what does it mean to you?</td>
<td>Open-ended</td>
<td>An exploratory question seeking to explore interviewees understanding and perception of power in relationships with stakeholders</td>
</tr>
<tr>
<td>7.2 Do you, as the owner-manager of this business, have power in the relationships with various stakeholders?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on what other factors may be important</td>
</tr>
<tr>
<td>7.3 What gives you that power (type/basis of power)?</td>
<td>Open-ended</td>
<td>The literature is divided on the basis of power. This question seeks the interviewees’ input on the issue</td>
</tr>
<tr>
<td>7.4 Is your level of power always the same?</td>
<td>Open-ended</td>
<td>Stakeholder relationships in small business may be asymmetrical and the level of power may vary depending on the relationship and even issue at hand</td>
</tr>
<tr>
<td>7.5 Is power the same in relationships with different stakeholders or do you have, or use different kinds of power with different stakeholders?</td>
<td>Open-ended</td>
<td>A follow-on question from IQ7.4</td>
</tr>
<tr>
<td>7.6 How/when do you typically use power in relationships with stakeholders?</td>
<td>Open-ended</td>
<td>A follow-on question from IQ7.3, IQ7.4 and IQ7.5</td>
</tr>
<tr>
<td>7.7 Does the stakeholders also have power, if so on what basis and how is it used in the relationship with you and your business?</td>
<td>Open-ended</td>
<td>An exploratory question seeking to explore interviewees understanding and perception of stakeholders’ power and ability to resist and use power in the relationship</td>
</tr>
<tr>
<td>7.8 If both you and the stakeholder have power, who ‘wins’?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on the potential for different kinds of power to have varying levels of ‘potency’</td>
</tr>
</tbody>
</table>

The sub-questions for IQ7 are designed to assist the interviewee in reflecting on their own power and perceptions of stakeholders’ power. Rather than a rigid schedule of questions designed to allow an itemised comparison across cases, the emphasis of IQ7 is to invite the interviewee to freely reflect on power in their particular relationships with various stakeholders. The sub-questions are simply tools to achieve this.

**Interview Question Eight (IQ8): Legitimacy in the relationships with stakeholders**

IQ7 asks about the concept of legitimacy, the second of the three attributes of stakeholder salience (Mitchell et al., 1997). Mitchell et al (1997) adopted Suchman’s (1995:574) definition of legitimacy as “a generalised perception or assumption that the
actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. However, this definition is broad and of limited practical application in Australian small business as it refers to ‘a generalised perception or assumption’ rather than the perception of a particular decision maker in a specific small business. Likewise, the reference to ‘some socially constructed system of norms, values, beliefs and definitions’ is wide enough to be almost meaningless in a practical situation. In addition, there may be more than one type of legitimacy, see extensive discussion in Chapter Two. Despite this, Australian small business owner-managers makes decisions and determinations of what is considered ‘desirable, proper, or appropriate’ in relationships with stakeholders on a daily basis. As with power, a reasonable and pragmatic approach to further the understanding of the concept of legitimacy as an attribute in stakeholder salience (Mitchell et al., 1997), and in particular in stakeholder relationships in Australian small business, is therefore to ask the practitioners. IQ8 explores the interviewees’ perceptions and understanding of legitimacy in stakeholder relationships, see Table 4.12 provides an overview.

**Table 4.12 Sub-questions to IQ8**

<table>
<thead>
<tr>
<th>IQ8 Sub-question</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>8.1 What do you understand by the term ‘legitimacy’ – what does it mean to you?</td>
<td>Open-ended</td>
<td>Exploratory question seeking to explore interviewees’ understanding and perception of legitimacy</td>
</tr>
<tr>
<td>8.2 Which stakeholders can legitimately demand your attention?</td>
<td>Open-ended</td>
<td>Exploratory question seeking interviewees input on what other factors may be important</td>
</tr>
<tr>
<td>8.3 What kind of event or circumstance would you consider a legitimate reason for you to divert attention away from your ordinary duties to address a stakeholder’s demand?</td>
<td>Open-ended</td>
<td>Invites the interviewee to reflect on events that would be seen as legitimate exceptions to normal routines</td>
</tr>
<tr>
<td>8.4 On what basis would you consider a stakeholder’s demand on your attention as the owner-manager to be legitimate: 8.4.1 The claim is based on a legal requirement (e.g. OH&amp;S): 8.4.2 The claim is considered industry standard (standard praxis) 8.4.3 On basis of the identity of the stakeholder, if the demand comes from an ‘important’ stakeholder (e.g. a celebrity) 8.4.4 It is generally accepted in the society(ies) in which we operate (culturally based) 8.4.5 It is consistent with my own moral values/beliefs/ethics 8.4.6 On what other basis would you pay</td>
<td>Likert scales and open-ended</td>
<td>The term legitimacy may not be intuitively and widely understood among small business owner-managers. This question aims to assist the interview process by inviting response to specific situations.</td>
</tr>
</tbody>
</table>
attention to a stakeholder?

8.5 What kind of claims from stakeholders would you consider not legitimate:
   8.5.1 The claim is not based on a legal requirement
   8.5.2 The claim is not considered industry standard
   8.5.3 On basis of the identity of the stakeholder, if the demand comes from a stakeholder without influence
   8.5.4 It is not generally accepted in the society in which we operate
   8.5.5 It is not consistent with my own moral values/beliefs/ethics

8.6 Do you think power is affected by formal/informal legitimacy, if so, how?

| IQ8 recognise that legitimacy may mean different things in different personal and organisational settings and explores the owner-manager’s personal beliefs about what is legitimate in the particular business and relationships with stakeholders in the business. |

**Interview Question Nine (IQ9): Urgency in the relationships with stakeholders**

Unlike power and legitimacy, urgency is relatively easy to define. Mitchell et al (1997:864) defined urgency as “… the degree to which stakeholder claims call for immediate attention”. ‘Urgency’ has two parts; both reside with the stakeholder: ‘Time sensitivity’ means that the stakeholder will not accept delay in response from management; and ‘Criticality’ is taken to mean that the stakeholder perceive the issue to be of importance, see extensive discussion in Chapter Two.

However, the stakeholder’s motivation for acting with urgency may be based on subjective perceptions of power and legitimacy and influenced by context, including perceptions of risk and likelihood of desired outcome, see extensive discussion in Chapter Three. Likewise, the decision maker’s response to such behaviour may be influenced by perceptions of risk and prior history with the stakeholder, for example a perception that the stakeholder is always in a state of urgency. Table 4.13 provides an overview of IQ9 and sub-questions.
Table 4.13  Sub-questions to IQ9

<table>
<thead>
<tr>
<th>IQ9 Sub-question</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.1 What do you understand by the term 'urgency' – what does it mean to you?</td>
<td>Open-ended</td>
<td>An exploratory question seeking to explore interviewees understanding and perception of urgency in relationships with stakeholders</td>
</tr>
<tr>
<td>9.2 Do stakeholders sometimes behave with some urgency in demanding your attention? Please provide examples</td>
<td>Open-ended</td>
<td>Mitchell et al (1997) argue that stakeholders may behave with urgency to attract the managers attention</td>
</tr>
<tr>
<td>9.3 If so, what factors will convince you to pay attention to them?</td>
<td>Open-ended</td>
<td>An exploratory question inviting interviewee’s input on urgency; the salient factors</td>
</tr>
<tr>
<td>9.4 In what circumstances would you ignore a stakeholder who behaves with some urgency? Please provide examples</td>
<td>Open-ended</td>
<td>A follow-up question to IQ9.3 to help identify the boundary</td>
</tr>
<tr>
<td>9.5 Do you see a relationship between a stakeholder’s Power, Legitimacy and Urgency? Please provide examples</td>
<td>Open-ended</td>
<td>This question seeks the interviewee’s input on whether an overlap between attributes exists</td>
</tr>
</tbody>
</table>

IQ9 recognise that ‘urgency’ may mean different things in different contexts, for example in different industries, at different points of time and with different kinds of stakeholders. It may also mean different things to different owner-managers and may in fact be relative, meaning that urgency is not an objective measurement but depends on perceptions of the relative urgency of other simultaneous stakeholder demands.

**Interview Question Ten and Eleven (IQ10 and IQ11): Other factors that may impact on the decision-making regarding priority of stakeholders**

IQ10 and IQ11 recognise the knowledge symmetry between the interviewee and researcher and invite the interviewee to add to current knowledge, for example by suggesting alternative factors or attributes that may be part of stakeholder salience (Mitchell et al., 1997; Neville et al., 2011). Suggestions of alternative attributes in the literature are fragmented and not cohesive, see extensive discussion in Chapter Two. A reasonable initial approach is to ask decision makers for their perspective. These two interview questions also go towards the ethical and moral stance of the interviewee. Table 4.14 provides an overview.

Table 4.14  Sub-questions IQ10 and IQ11

<table>
<thead>
<tr>
<th>Interview Question</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>10. We have talked about power, legitimacy and urgency: what other factors would impact on your perception and decisions regarding the importance of a particular stakeholder?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on what other factors may be important.</td>
</tr>
<tr>
<td>11. When making decisions, to what extent do you consider the possible impact of your decision on various stakeholders?</td>
<td>Open-ended</td>
<td>It has been argued that the stakeholder approach is an inherently ethical approach to management. This explores interviewees stance towards stakeholders by inviting them to reflect on the stakeholder perspective</td>
</tr>
</tbody>
</table>
IQ10 and IQ11, comes towards the end of the interview, where the interviewee has become familiar with the main terminology and concepts such as ‘stakeholder’, ‘power’, ‘legitimacy’ and ‘urgency’. The purpose is to invite the interviewee to expand on their ‘thinking’ about stakeholder relationships.

**Interview Question 12 to 16: The role of the owner-manager, motivation and challenges**

IQ12-IQ16 were open-ended questions inviting the interviewees to talk about their experience and role as owner-managers and how they think of stakeholders in the business and the relationships formed. The questions were designed to allow the interviewee to provide their perspective freely and provide insights, perhaps even ‘surprising’ insights, regarding aspects of their situation and role that may be particularly challenging, or that they find motivational. These questions also provided opportunity for the interviewee to indicate what they would like to see improved. Table 4.15 provides an overview.

<table>
<thead>
<tr>
<th>Interview Question</th>
<th>Type</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>12. What would you consider the biggest challenge of being an owner-manager? Please elaborate.</td>
<td>Open-ended</td>
<td>Exploratory question seeking interviewees input on what other factors may be important</td>
</tr>
<tr>
<td>13. What would be the one most significant thing that would improve your role as an owner-manager?</td>
<td>Open-ended</td>
<td>Seeking interviewees input on what may be improved, thus also an additional way of asking what may be important</td>
</tr>
<tr>
<td>14. What would you consider the biggest motivator for you as an owner-manager?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on what factors may be important</td>
</tr>
<tr>
<td>15. What is your biggest advantage in dealing with stakeholders?</td>
<td>Open-ended</td>
<td>Inviting the interviewee to position themselves in the relationship with stakeholders: may be more or less symmetrical and interdependent</td>
</tr>
<tr>
<td>16. What is your biggest difficulty in dealing with stakeholders?</td>
<td>Open-ended</td>
<td>A follow-up question to IQ15 to establish the boundaries of the interviewee’s influence in the relationships</td>
</tr>
<tr>
<td>17. Is there any other comment you would like to make?</td>
<td>Open-ended</td>
<td>An exploratory question seeking interviewees input on what other factors may be important</td>
</tr>
</tbody>
</table>

The rationale for this last section of the interview was to give the interviewee opportunity to add to the conversation outside of the structure provided above and to offer opportunity for the researcher to address any concerns that the interviewee may have, either with the process or content of the interview, or any other issues.
4.4.3 Case study database

The case study database contains all the data used in the study, including interview instruments, transcripts, field notes and other material (Yin, 2014). The purpose of the database is to collect information to corroborate information provided in the interviews, and is thus important for triangulation purposes. The database for this study is stored at the University of Newcastle for a period of five years and in keeping with the requirements of the ethics approval, the information has been codified to ensure protection of interviewees’ and stakeholders’ privacy.

4.4.4 Chain of evidence

A clear chain of evidence strengthens the reliability of the research by linking the context and purpose of the research with the research approach, design and method (Kayrooz & Trevitt, 2005). This allows the logic of the research to be followed in either direction from start to finish (Yin, 2014). Importantly, the research problem has to be connected to the research questions, which in turn have to connect and support the interview questions. Figure 4.1 illustrates the two-way chain of evidence between the research problem, research questions and interview questions at the heart of this study.

**Figure 4.1 Chain of evidence**

![Chain of evidence diagram](image)

Figure 4.1 Illustrates the connection between the research problem (RP) and interview questions (IQs), via the research questions (RQs).

4.4.5 Case study report

With the permission of the interviewees, the interviews were recorded and later transcribed by the researcher. This facilitated the researcher observing the interviewee and engaging in active listening during the interview. It allowed the researcher to make
reflective notes on the interview instrument regarding salient points. It also provided opportunity for reflective analysis during transcription.

4.5 Data analysis

Data collected from interviews was transcribed and analysed in four steps using a process of data reduction: First, the context of each case was examined to provide an understanding of each individual organisation’s attributes and competitive situation (Kayrooz & Trevitt, 2005; Yin, 2011). Second, the researcher took a reflective stance during the interview to ask follow-up questions and respond appropriately to the interviewee’s efforts to make sense of their own understanding of stakeholder relationships (Alvesson & Sköldberg, 2009). The third stage involved transcribing and analysing each interview separately to construct a within-case description, or ‘case profile’ for each (Alvesson, 2011; Richards, 2006). This process also allowed the researcher to identify themes (Rapley, 2011). Finally, data was analysed across the cases to compare and contrast findings and to explore trends and patterns within each theme. According to Stake (2006) this creates a tension between a focus on the particular and the general and requires the researcher to balance the need for understanding not only how the phenomena work, or do not work, in general but also how they work in particular situations, the cases (Stake, 2006). Findings were then compared with the appropriate theory (Stake, 2006; Yin, 2014).

The process was not entirely linear. To strengthen validity, a process of ‘juxtaposition and iteration’ was used – part of Pauwels and Matthyssens’ (2004) ‘roof’ of multiple case study research. In this way, the data analysis and comparison to theory was initiated already during the data collection process. This allowed commonalities and differences to be identified and followed up in subsequent interviews, thereby gradually achieving a deeper understanding of processes and phenomena.

4.5.1 Within-case data analysis

The within-case analysis is similar to a single case study approach in that it aims to provide an understanding of each discrete case in ‘its own right’ (Stake, 2006). This involves a holistic analysis of all data pertaining to each case to build a ‘case description’ by building the data from the ground up in an inductive approach (Yin,
Pauwels and Matthyssens (2004) suggest looking for themes, causes/explanations, relationships and emergent constructs. Thus, as Merriam (2009) suggest, starting the ‘open coding’ of the data already during the data collection phase by looking for the themes, patterns and findings that can be codified into categories. Such coding can either be linked to an existing theoretical concept or used to construct new theory (Yin, 2014).

To gain an understanding of the particular case, it is important that the case is ‘embraceable’; that it can be understood holistically (Stake, 2006). This requires the researcher to understand the case both internally and externally, see extensive discussion in Chapter Three. To understand the impact of the context, the context itself needs to be understood (Stake, 2006). The aim is to generate an understanding of how the phenomenon, the ‘quintain’ being studied is expressed in each individual case (Stake, 2006).

In this study, a holistic understanding of how decision makers perceive stakeholders’ saliences and prioritise stakeholder demands, is facilitated by a focus on one central data collection point within each particular case; the owner-manager as the primary decision maker, and further assisted by all data being collected and analysed by the same researcher.

4.5.2 Cross-case data analysis

Cross-case analysis treats all cases as individual studies but identifies characteristics from each case for comparison across several cases. In this way cases can be ordered into groups that replicate or contrast with general ‘types’ of cases (Yin, 2014). The process thus facilitates the possibility of comparison with ‘expected’ findings that confirm or disconfirm previous theory or research (Pauwels & Matthyssens, 2004; Yin, 2014).

Although both Stake (2006) and Yin (2014) discuss cross case analysis and agree on its usefulness, there are also difference between their views. For Stake (2006), the primary goal is to understand a site-specific ‘case’ in all its complexity while the understanding of the broader phenomenon, the ‘quintain’, is of secondary importance. Yin (2014) on the other hand, considers the understanding of the phenomenon of primary importance and the individual, site-specific cases as instrumental in pursuit of that goal. The
difference lies between category and case centred research (Riessman, 2011). The focus of this study is the phenomena of prioritising stakeholder demands and in this respect therefore follows closer to Yin’s approach.

Cross-case analysis is facilitated by use of the same data collection method across all cases (Stake, 2006), thereby creating a basis for comparison of cases within ‘themes’. Yin (2014) suggests following the original theoretical propositions, here stakeholder salience and decision-making, to understand and explain findings. Yin (2014) also suggests intentionally looking for alternative explanations to findings. This means not only being aware of potential biases and threats to validity but also considering what Yin (2014:141) calls “real-world rivals”, such as the phenomenon being explicable by another event or intervention; that is by being explained by confounding factors such as subjective perceptions and decision errors discussed in Chapter Three.

Another technique is what Yin (2014) calls ‘explanation building’ – the iterative process of analysing in several steps: first by comparing one case against the initial theoretical concept; then adjusting the proposition and re-evaluating the case against the new proposition. Next, to compare the findings to several other cases, and finally to repeat the process as needed. This process requires considerable insight, both theoretical and case based and is subject to an increased risk of bias and even that the discussion drifts off topic (Yin, 2014). However, there is also considerable scope for valuable insight and theory building.

4.5.3 Pattern matching

Pattern matching, the third ‘pillar’ of multiple case study design (Pauwels & Matthyssens, 2004) means comparing empirical findings with theoretically predicted findings (Yin, 2014). In this study such comparison was performed as part of both the in within-case and cross-case analysis (Pauwels & Matthyssens, 2004). The juxtaposition of emerging theory with existing confirming and competing theory – analytical generalisation – allows an evaluation of the added value and viability of new theory (Pauwels & Matthyssens, 2004). The outcomes from this study are presented in the following chapters.


4.6 Limitations

This research is limited in geographical scope; this study was performed in Australia and although there are many similarities within the small business sector across the globe, specific findings regarding stakeholder salience may vary in different cultural settings, between industries and indeed between individual businesses. Small business is typically very adaptive in response to external influences and findings may also be different, for example under different economic conditions. This study was cross sectional in nature. A longitudinal study may provide insights regarding changes over time. Although findings from this study can be extrapolated to stakeholder theory in general, further research is required to test the stability of such findings in organisations of different size and type, for example, in large business or ‘not for profit’ entities.

4.7 Ethical considerations

This study complies with the ambitions and sentiments set out in the National Statement on Ethical Conduct in Human Research 2007 (The National Health and Medical Research Council, The Australian Research Council, & The Australian Vice-Chancellors’ Committee, 2013) and was granted ethics approval from the Human Research Ethics Committee at the University of Newcastle, approval number H-2013-0291 (Appendix F). Ethics in research is important for several reasons and can be addressed by considering the stakeholders that can affect or be affected by the research, in this case primarily the participants, the University of Newcastle and its representatives, including the researcher and her supervisors; and the overall reputation of research activities within the community at large.

4.8 Conclusions on Chapter Four

In conclusion, a multiple case study design was found to be appropriate to explore the concept of stakeholder salience as a cumulative effect of the stakeholders’ power, legitimacy and urgency as perceived by the decision maker, in this case the owner-managers of Australian small business. The data collection approach was semi-structured interviews with the key decision maker of nine Australian small business, purposefully selected from a variety of industries with small business prominence. The data were then analysed in three steps: first within case to provide an insight and
understanding of the uniqueness of each particular owner-manager and small business. A cross-case comparison and analysis was then performed to identify similarities and differences that may indicate a larger pattern in stakeholder salience and relationships. Finally, a comparison to theory was performed to identify areas of literal replication, the consistency with existing theory, and theoretical consistency, the expected divergence from theory, as well as new insights.

The following chapters present the data analysis, both within-case (Chapter Five) and cross-case (Chapter Six). Chapter Seven concludes by presenting findings, contributions to theory and implications.
Chapter objectives

The broad objective of this chapter is to provide an insight into each of the cases in their own right, the within-case analyses. Presented here are the individual case profiles, which includes an outline of each interview site. These were developed to provide contextual insight and a basis for the cross-case analysis presented in Chapter Six.

5.1 Introduction to data analysis

Five RQs were developed to address the research problem (RP): “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?” Data was collected in semi-structured, face-to-face interviews with the key decision maker of nine Australian small businesses over a period of approximately six months. The data analysis progressed in several stages. The first stage was to identify basic contextual data about the region, the individual businesses: information such as industry, competitive situation and how long the business had been in operation, and basic details about the interviewee as such information may affect relationships and processes for dealing with stakeholders.

The second stage of the analysis was a reflective stage concurrent with the interview: the researcher observing, interacting and responding to the flow and responses to questions. This involved observing interviewee’s non-verbal communication, clarifying questions, asking follow-up questions and reflecting on the interviewee’s level of spontaneity and authenticity during the interview.

The third stage entailed transcribing each interview. This process also involved the researcher reflecting on the progress of each interview. Listening back without simultaneously interacting and asking follow-up with questions, allowed the researcher
to again listen for meaning and intent in the responses. It also allowed the researcher to consider whether the interviewee’s position changed during the interview process, for example as a result of gaining a deeper understanding of the concept of stakeholders.

The final stage of the analysis involved data reduction: data from the interview transcripts were analysed against each of the four themes in the interview instrument to provide an overview and basis for cross-case comparison. This within-case analysis, were each case was considered as a study in its own right with the aim to understand the uniqueness of each case separately, produced an understanding of each business and the challenges faced, and therefore put the responses in context. The process also contributed to rigour by looking for internal inconsistencies in responses, with a view to be able to identify both the unique and common themes across the nine cases.

5.2 Overview of cases

The cases were located on the Central Coast of New South Wales (NSW), a region located just north of Sydney, Australia. Total population for the region in 2012 was 325,295 persons (ABS, 2014b). The median age was 41.1 years, compared to the national average of 37.3 years (ABS, 2014b). The Central Coast is characterised by a high proportion of people over the age of 65 – 18.6% compared to the state average of 14.5%. (Department of Education Employment and Workplace Relations [DEEWR], 2013),

Compared to the NSW average, the Central Coast region also has a higher than average level of overall unemployment – 6.2% compared to the NSW average of 5.2% (DEEWR, 2013). Around 25% of the Central Coast workforce commutes to work outside the region, mainly to Sydney or Newcastle (New South Wales Government Department of Planning, 2008). Most businesses in the region are small, the majority are in fact non-employing, see Table 5.1.

Table 5.1 Business in the Central Coast region

<table>
<thead>
<tr>
<th></th>
<th>Non-employing</th>
<th>1-4 employees</th>
<th>5 or more employees</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of businesses in 2012 (ABS, 2014b)</td>
<td>12,245</td>
<td>6,204</td>
<td>3,328</td>
<td>21,777</td>
</tr>
<tr>
<td>Percentage</td>
<td>56.2%</td>
<td>28.5%</td>
<td>15.3%</td>
<td>100%</td>
</tr>
</tbody>
</table>
As indicated in Table 5.1, with very few large employers, the region is dominated by small business: almost 85% of businesses on the Central Coast have no or less than five employees (ABS, 2014b). The region therefore provides a relevant context for research on stakeholder relationships in small business.

Table 5.2 presents an overview of the demographic details about the interviewees, collected in Interview Question 1 (IQ1), while Table 5.3 presents similar data about the respective businesses, collected in IQ2. This is followed by the individual within-case analyses. This, in preparation for the cross-case comparison, designed to identify patterns and themes that can then be compared to theory, presented in Chapter Six.

**Table 5.2  Overview of interviewees (owner-managers)**

<table>
<thead>
<tr>
<th>Case</th>
<th>Previous management experience</th>
<th>Age</th>
<th>M/F</th>
<th>Highest level of formal education</th>
<th>Years in control of business</th>
<th>Main source or basis for being in control of the organisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>No</td>
<td>40-49</td>
<td>M</td>
<td>Post Graduate</td>
<td>21 years</td>
<td>&gt; 50% ownership, expertise</td>
</tr>
<tr>
<td>2</td>
<td>Yes</td>
<td>Over 60</td>
<td>M</td>
<td>TAFE</td>
<td>14 years</td>
<td>50% ownership (partnership), expertise</td>
</tr>
<tr>
<td>3</td>
<td>Yes</td>
<td>Over 60</td>
<td>F</td>
<td>PhD</td>
<td>16 years</td>
<td>&gt; 50% ownership, expertise</td>
</tr>
<tr>
<td>4</td>
<td>Yes</td>
<td>50-59</td>
<td>F</td>
<td>Graduate Diploma</td>
<td>5 years</td>
<td>Licensee, expertise</td>
</tr>
<tr>
<td>5</td>
<td>No</td>
<td>50-59</td>
<td>M</td>
<td>Advanced Diploma</td>
<td>7.5 years</td>
<td>50% ownership (indirect through Trust), expertise</td>
</tr>
<tr>
<td>6</td>
<td>No</td>
<td>40-49</td>
<td>M</td>
<td>Year 11</td>
<td>4 years</td>
<td>16% ownership, sole director</td>
</tr>
<tr>
<td>7</td>
<td>Yes</td>
<td>40-49</td>
<td>F</td>
<td>Year 9</td>
<td>10 years</td>
<td>Delegated from the Sole Trader</td>
</tr>
<tr>
<td>8</td>
<td>Yes</td>
<td>40-49</td>
<td>M</td>
<td>Bachelor Degree</td>
<td>10 years</td>
<td>30% ownership, General Manager</td>
</tr>
<tr>
<td>9</td>
<td>Yes</td>
<td>40-49</td>
<td>F</td>
<td>Masters Degree</td>
<td>3 years</td>
<td>50% ownership, expertise</td>
</tr>
</tbody>
</table>

As evident from Table 5.2, the interviewees were diverse in their level of previous management experience and level of formal qualification, ranging from having completed Year 9 to a Doctorate. With four of the nine interviewees being females there was an even mix of gender represented. Consistent with demographic information about small business owner-managers, all interviewees were over the age of 40. All interviewees were in control of the organisation they represented: five interviewees had majority ownership, two had less than 50% ownership but formal positions that afford decision-making power and significant influence. Two interviewees, due to the ownership structure of the organisations, were not owners at all: Case 7 was structured around the founder of the business, a sole trader who was the interviewee’s father. The other interviewee without ownership, Case 4, was a manager and current holder of the
legally required Practicing Certificate – effectively a licence to provide legal services without which the organisation could not function. The interviewee in Case 4 therefore also had decision-making power and significant influence in the business.

In day-to-day operations, owner-managers do not necessarily operate on the formal divide between a ‘contract of service’ – where the organisation has significant control over the employees’ activities, and a ‘contract for service’ – where the individual is engaged on a contractor arrangement and retain control of their own activities (van der Waarden, 2014). A person in close relationship and on-going dependence with the business and the owner-manager is considered part of the business regardless of whether the formal arrangement is that of a ‘contract of’ or ‘contract for’ service. The formal ‘contract for service’ merely seen as means for dealing with an inflexible regulatory framework, as explained by Interviewee 2:

… we’ve got a couple of sub-contract foremen, they work for us all the time. We gave them a choice when about 5/6 years ago when this deeming, what was deemed to be employed came in and the government said if anyone derives more than 80% of their income from any one source in a year they can’t be classified as contractor, they have to be classified as a wage earner. So we went to all our ‘subbies’, our foremen, and said, this is the regulation, you’ll either have to come and work for us as a wage earner or you have to form a company and they both decided to form companies.

This also affected the ongoing relationship and who carried risk, Interviewee 2 again:

… with the big manufacturers we buy … most of our stuff we let the sub-contractor buy all the items, that way it is his responsibility. Some companies will buy all the stuff, like all the toilet fittings, themselves and then give it to the contractor, and all he’s doing is supplying labour to install them. And the reason they do that is that on all those items they’ll put a margin, usually about 10% margin. So the builder is cutting out that margin but then if something goes wrong with it, he has to hunt around for the right part. We don’t do it, we let the sub-contractor look after that; he has to source it, store it and look after all that.

IQ2 collected demographic information about the business and industry. Table 5.3 provides an overview of the type of businesses and industries represented as well as particulars about size and years in operation.
Table 5.3 Overview of businesses

<table>
<thead>
<tr>
<th>Case</th>
<th>Type of business</th>
<th>ANZSIC (Industry) Classification (Australian Bureau of Statistics &amp; Statistics New Zealand, 2013)</th>
<th>Years in operation</th>
<th>Number of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Chiropractic services</td>
<td>Division Q – HEALTH CARE AND SOCIAL ASSISTANCE, Class 8534 Chiropractic and Osteopathic Services</td>
<td>21</td>
<td>6</td>
</tr>
<tr>
<td>2</td>
<td>Commercial Building &amp; Construction</td>
<td>Division E – CONSTRUCTION, Class 3020 Non-Residential Building Construction</td>
<td>14</td>
<td>5</td>
</tr>
<tr>
<td>3</td>
<td>Consulting on Town planning, Land Development and Subdivision</td>
<td>Division M – PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES, Class 6921 Architectural Services</td>
<td>16</td>
<td>1</td>
</tr>
<tr>
<td>4</td>
<td>Legal Services</td>
<td>Division M – PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES, Class 6931 Legal Services</td>
<td>18</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>Non-Ferrous Metal Casting</td>
<td>Division C – MANUFACTURING, Class 2141 Non-Ferrous Metal Casting</td>
<td>65</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Cheese Manufacturing and Retail</td>
<td>Division C – MANUFACTURING, Class 1133 Cheese and Other Dairy Product Manufacturing</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td>Racehorse Training</td>
<td>Division R – ARTS AND RECREATION SERVICES, Class 9129 Other Horse and Dog Racing Activities</td>
<td>&gt; 60</td>
<td>8</td>
</tr>
<tr>
<td>8</td>
<td>Grocery Wholesaling</td>
<td>Division F – WHOLESALE TRADE, Class 3609 Other Grocery Wholesaling</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>9</td>
<td>Management Advice</td>
<td>Division M – PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES, Class 6962 Management Advice and Related Consulting Services</td>
<td>3</td>
<td>None (working directors)</td>
</tr>
</tbody>
</table>

Table 5.3 shows that all were small businesses with fewer than 20 employees as defined by ABS (2014a). The participants represented a wide range of businesses in six industries. One business, Case 6 operated in more than one industry. Case 6 was also involved in retail trade of the cheese manufactured. The time in operation varied from three years to over 60 years. All were located within a relatively small geographical area: the Central Coast of New South Wales in Australia, a region strongly reliant on small business.
5.3 Individual, within-case analysis

The individual case study analysis provides an introduction and within-case profile of each case. This is followed by a case profile organised around four broad themes that relate directly to each of the research questions (RQs):

- Perceptions of *stakeholders* (RQ1)
- Perceptions of *stakeholder salience* (RQ2)
- Perceptions of stakeholder *relationships* (RQ3)
- Perceptions of *challenges* of being an owner-manager (RQ4)

Following are the nine individual within-case analyses:

Case Study 1 ................................................................. page 137
Case Study 2 ................................................................. page 144
Case Study 3 ................................................................. page 152
Case Study 4 ................................................................. page 163
Case Study 5 ................................................................. page 172
Case Study 6 ................................................................. page 185
Case Study 7 ................................................................. page 193
Case Study 8 ................................................................. page 202
Case Study 9 ................................................................. page 214
Case Study 1

Introduction of case

Case study 1 was a small business providing chiropractor services. The owner-manager, the interviewee, was the main practitioner. Although the clinic served clients with both acute and chronic conditions, there was a focus on assisting clients to develop and maintain long-term health by better living and preventative means. Examples of this focus included annual free check-ups for new clients and seminars and workshops on healthy eating and exercise. Such events were held several times a year and acted as a means to build relationships with new and existing customers.

A Google search suggested that the business is exposed to both direct and indirect competition. There were at least another five similar businesses within the immediate area. In addition, another 18 are listed in the same council area and a further 26 in the region. Most were small businesses but there were also similar businesses that appeared affiliated with organisations such as fitness centres or other wellness businesses.

Case Study 1: stakeholders

Interviewee 1 confessed to not knowing what a ‘stakeholder’ was but thought the word suggested “somebody who holds a stake in something, somebody who holds an interest or investment or understanding and is influenced by the outcome of something” to do with the situation described. On the issue of how to determine who is a stakeholder, interviewee 1 stated: “I guess you have to consider everybody to a more or less degree depending on what the decision is”. The decision at hand then determines which stakeholders the interviewee will consider at any given time. Although the determination of whom to consider in a particular decision is intuitive and based on perceived level of influence the outcome of the decision will have on a stakeholder, the stakeholder’s potential impact on the business is also taken into account.

When asked about whom the stakeholders in the business were, some were listed spontaneously while some were added – emphatically – when prompted. Other stakeholders were implied during the interview. Table 5.4 provides an overview.
Table 5.4  Case 1: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients</td>
</tr>
<tr>
<td>“Certainly my clients would be number one”</td>
</tr>
<tr>
<td>Financiers/Banks</td>
</tr>
<tr>
<td>“Financial company, banks, leasing company or whoever you are using to</td>
</tr>
<tr>
<td>give you access to what you want to develop the business with”</td>
</tr>
<tr>
<td>Landlord/councils</td>
</tr>
<tr>
<td>“If you have a landlord situation, what you are allowed to do with the</td>
</tr>
<tr>
<td>property. So from that perspective, it could also be councils as far as</td>
</tr>
<tr>
<td>approvals … if you want to change the structure of the property or how</td>
</tr>
<tr>
<td>you operate”</td>
</tr>
<tr>
<td>Insurance companies</td>
</tr>
<tr>
<td>Seen as necessary, but much lower prominence as a stakeholder</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders identified when prompted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
</tr>
<tr>
<td>“Certainly stakeholders!”</td>
</tr>
<tr>
<td>Family</td>
</tr>
<tr>
<td>“Yes certainly family, it is a big decision how much time you are</td>
</tr>
<tr>
<td>spending away from the family”</td>
</tr>
<tr>
<td>Employees</td>
</tr>
<tr>
<td>“You know you think about expanding or contracting your business, how</td>
</tr>
<tr>
<td>it is going to impact on their hours … coping with more or less hours</td>
</tr>
<tr>
<td>and then as far as pay; pay them more or less”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders implied during the discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
</tr>
<tr>
<td>The business supports several community projects</td>
</tr>
<tr>
<td>Referrers</td>
</tr>
<tr>
<td>Customer referrals were highly valued</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rejected as stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
</tr>
</tbody>
</table>

When asked about the business’ level of dependence on each of these stakeholders, interviewee 1 responded:

> On a daily thing … well if you bring it back it would be a high dependence but on a daily basis it’s a low thing. I suppose you always think of your clients. That would always be to the high end. But the others to a lesser amount, unless you are approaching change in some way.

Regarding the issue of who ‘can affect’ or ‘be affected’ by the business interviewee 1 stated: “Both. It’s quite… fairly two way street”.

**Case Study 1: stakeholder salience**

**Power** was understood as “The ability to enforce change, or not change [something]”.

Banks were seen as having a lot of power over the business but then again this could be negotiated: “So sometimes when you think there is absolute power, that’s not necessarily how it is”. Clients have significant power in the business although it is moderated by the power of the practitioner:

> Patients have the power to come and go and make that decision and obviously my power is to try to influence that decision in what I think is best for them … most times what is best for them is best for my business. I do not mean that if a see them more times I earn more money because that is not necessarily going to bring me more referrals. It is about them being satisfied, the more satisfied they are the more that is going to
benefit my business. It is my discretion what I advice, but they have the power to say yeay or nay at any time and there is no commitment to that, I do not have a pre-arranged price that they commit to.

Employees also have power but it is moderated by the power of the owner-manager to hire and fire. Staff members have to act on the owner-manager’s direction and although there may be some negotiation and flexibility, in the end the owner-manager makes the decision.

I have power to say… then I have to weigh up … well if something is not changing and I want it to, then it comes to the point of how I manage that and how important it is to me, or is it important to start saying ‘well if you don’t change then I need to replace you’. But you know, at what cost is that, is it worth it, I mean they certainly have a degree of negotiation power in all that. So I guess there is power from both sides in that. I make a lot of decisions but they also make decisions or suggestions and we do have power to change how we do things.

Suppliers are mostly in a transactional relationship with the business and are relatively easy to replace: it is for example not hard to find another supplier of stationery. The exception is the supplier of the x-ray equipment. Although they could be replaced if needed, this would be “disappointing”. As stated by the interviewee:

They really look after us and want to retain us and I generate referrals, which I have. I have been a good referrer for them and probably influenced a number of similar businesses to go with them. So that would be the only one. We occasionally get the carpets cleaned and do other things but it would be relatively easy to replace them.

Legitimacy, the second attribute of stakeholder salience, was understood as meaning: “… formally accepted, authentic, I suppose”. Table 5.5 provides an overview of what claims were considered legitimate.
Table 5.5  Case 1: Basis for legitimacy

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework</td>
<td>The formal legitimacy was seen as an important determinant for legitimacy that ‘always’ applies</td>
</tr>
<tr>
<td>Industry standard</td>
<td>The industry standard only ranked as ‘sometimes’ as there are contention between academic beliefs and what happens in reality</td>
</tr>
<tr>
<td>Referent power</td>
<td>The identity or status (referent power) of the stakeholder was less important: “Rarely; only if they can hold me to account”, suggesting that power affect the level of legitimacy of a claim</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>Culturally based claims and the level of general acceptance of a claim in society sometimes influence decisions on what is seen as legitimate: “Sometimes; for example dressing up in a Santa suit or board shorts at work”</td>
</tr>
<tr>
<td>Own moral values /beliefs/</td>
<td>Own moral values/beliefs/ethics also influence perceptions of legitimacy: “Mostly; important to maintain professional respect”</td>
</tr>
<tr>
<td>ethics</td>
<td></td>
</tr>
</tbody>
</table>

On the question whether all stakeholders have legitimacy and whether to the same level, the interviewee stated: “Patients, financiers, well patients and staff, family are all kind the top ones. But then for example the suppliers are much lesser down, for example people who print our pamphlets do not have high legitimacy at all”.

On the question whether there is overlap between power and legitimacy: “Well… yes that is how I associate them. The guy who comes to clean your windows are a minor stakeholder and don’t really have legitimacy – not that he is illegitimate. If he came and wanted to charge twice as much, I would say: see you later”.

Finally on the difference between being legal and being legitimate:

There was a situation where it was legal but probably not the intention of the law. I stepped away from it, a lot of people were doing it and I eventually did it, reassured by other stakeholders. Was in it for a while and then I stepped away. A couple of reasons, two things: it was the kind of thing that could come back and bite me, and it wasn’t really used as intended. I did it for my patients. I thought it would benefit them. I did walk away. It was legal but not legitimate.

The decision to walk away was based on a combination of personal values and pragmatic concerns about the consequences: “… I thought it would change anyway and I just didn’t feel I wanted to be involved in it”.

**Urgency** was seen as meaning different things to different people: “Urgency is in the eye of the beholder”. Interviewee 1 elaborated with an example:

I had an urgent call for after hours emergency. I would think that means, to call me at home on the weekend, that really – and I have had a couple of situations where it was more of a convenience than urgent, I would not
define it as urgent – so there is an example of what I mean; the person cannot get here during the week. Whereas my definition would be intractable pain where you really have great difficulty to wait another day to have it attended to. So urgency basically means that something has to be done or there’re going to be greater consequences for it not being done; the consequences of not doing it far outweigh the consequences of acting upon it.

Staff members may act with urgency, for example to resist a change in their routine. There was also recognition of the need to pay bills on time but that some stakeholder may have a genuine ‘urgent’ need to be paid as a priority:

There is urgency to pay bills on time and from time to time you get caught and you make the decision that you are going to have to be a little late on that one and how late can I push that. That is on the basis of running priorities and ramifications. There can be a trade off between which stakeholder gets priority.

Such decisions are affected by the stakeholder’s perceived power. Being late on a repayment to the bank may for example affect future lending. However, there is also consideration for stakeholders who are vulnerable and such stakeholders may get priority: “… it could be based on the power, it could be based on concern. I may for example think that the lawn mower guy is going to find it harder to go without his pay cheque than the phone company”. Suggesting some empathy for other owner-managers: “In some ways I may favour the small business a little over the large corporations in prioritising”

On the question whether there are overlaps between power, legitimacy and urgency, interviewee 1 responded:

There may be something that I highly value the ethos of and it has great legitimacy but not power. They still have influence. Well, you might have … I guess it is in accordance with my belief system, I may have an aligned belief system with something so the belief system is … well that is the way I want to work and it is an ethical… that is where my ethics are and my ethos is and so that may have great legitimacy. If I fail something there may be people in that organisation who may never know that I am not doing that or if they did, there is nothing they can do about it. And so they only have power because I let them have power. The influence is just in me working in accordance to me.

Owner-manager 1 suggested ‘anonymity’ as an additional factor that affect the value of stakeholder relationships: “There is a little bit anonymity as well, as in a company who has done something for you and you have a relationship as opposed to you are just using
them, for example as with the phone company or electricity company where you talk to a different person every time”.

Case Study 1: stakeholder relationships

Relationships with individual stakeholders within generic groups, for example the stakeholder group ‘customers’ are treated the same but different: “… whilst there are variations, with clients, you treat them similarly but at different times”. With individual clients, the interviewee described a gradual development of the relationship from when a client first enters the business to when the relationship is well developed. There is a change in where the initiative for further treatments comes from; in the beginning the practitioner guides the client by making suggestions and recommendations. Later, the client takes charge and decides the frequency of visits and whether there is an ongoing plan or a casual relationship. The exception would be where a third party is involved, for example where the treatment is part of an insurance claim such as WorkCover or Department of Veterans Affairs (DVA).

Similarly, there are differences within the stakeholder group ‘employees’. The office manager for example has a different level of responsibility and makes different kinds of decisions to other staff members. The business’ level of dependence on the office manager is significant, it is a staff member that would be very hard to replace.

The aim of the business and interviewee is to build long-term relationships with stakeholders: “… our ideal is certainly to encourage a long-term relationship but it is not necessarily so”. Clients in particular make their own unilateral decisions regarding how long the relationship lasts. The relationship starts out with an attitude of “here is our short-term commitment’ with an option of a longer term commitment.” Clients may perceive the service as a once off solution to acute pain and have no desire to return once they feel better. Others may initiate an ongoing relationship to maintain or improve wellbeing over time. The business puts strong emphasis on developing positive and long-term relationships. A process is in place where a series of initial visits is followed by a survey and discussion about progress so far. This allows the practitioner to suggest changes or illuminate areas that have or may be improved but that the client have not necessarily recognised as resulting from the treatment: “… for example they may be here for back pain but may have also had a change in their asthma or bowel
function or something else”. A kind of back-wards ‘up-selling’, that rather than increase the size of the sale provides a basis for building trust and long-term relationships.

Exit costs for ending relationships with stakeholders vary: “certainly there is a cost in ending a relationship with a patient, especially a regular patient”. Regarding employees, the cost is mostly related to the cost involved in training a new employee. This included direct cost of running double shifts to train them and the fact that new employees are initially less effective. In summing up the relationships with stakeholders the interviewee stated: “I would not say it is a burden but it is a commitment”.

To prioritise between conflicting stakeholder demands can be difficult and involve personal sacrifice. The recent need to reduce the number of (administrative) staff hours as a result of the loss of one practitioner was difficult: “All three staff members had a little loss in hours and I shared that loss as fairly as I could”. The aim was to consolidate the business and ensure it was on a sound footing “I had already cut back my own personal income on that basis, which I felt I could not do any lower. So there really was not any other way to go about it”. Prioritising stakeholder demands was sometimes seen as difficult due to the different perceptions of what constitutes ‘urgent’.

**Case Study 1: on being an owner-manager**

The biggest motivator to being an owner-manager: “I like having my own thing, I like having my own identity in my role”. Closely related was the relationship with various stakeholders: “… generally I feel I have a nice relationship. It is one of the things I enjoy with my work, it makes life easier so if I can have almost like a friendship with a lot of my patients. Take an interest in their life, also in what is happening in their life outside of their health issue. That is one of the nice things about the work”.

The main challenge with the role of being an owner-manager was the difficulty with finding time and opportunity to work ‘on’ the business rather than just ‘in’ the business, the challenge of being a technical expert as well as a management expert: “I would like a bit more of an objective look at my business principles and things like that, that is why I am thinking to have a business coach. I don’t have a great strength in some of that and I fly by the seat of my pants”.

↓↓↓
Case Study 2

Case study 2 was a small business involved in commercial construction. The business was a partnership with both partners working in the business. In addition to the four employees, comprising two partners, a leading hand foreman and a receptionist, there are also two foremen who, although not employees but contractors to the business, are engaged on a regular basis and seen as essential to the business.

Competitors are both local and further away as there is intense competition: “Business at the moment, we have not made any decent money for probably four years, the building industry has been pretty flat and nobody is really busy”. The industry operates on several levels of tenders and quotes with project managers being obliged to get three quotes. To the annoyance of the interviewee, the selection process is often simply a matter of price and the cheapest quote generally wins: “… unfortunately now, most clients, and it has been like this for about 10 years, they don’t really care about your reputation or how good you were on the last job, all they care about is the figure down the bottom of the page, your pricing”. In a competitive environment where there is too few jobs going, this results in a bidding war where operators desperate for a job to stay in business will put forward bids that are close to cost:

Some people… some philosophies in some businesses is, if they are not making any money, they will try to get more work but at a low margin. You still have to make money at the end of the day, they do more work at a lower margin and all that does is that it drives their overdraft up and there is always a day of reckoning. They think they will get this magical job where they will get all this money and pay down all their debt but unfortunately it only gets bigger and bigger until one day it all falls over. And then they take… not necessarily the contractor that is working for them, but his suppliers and his wages and his petrol account and all the rest of it, all fall into a big heap. Unfortunately there is a lot of people out there who don’t care about that and they screw sub-contractors.

It also means that competitors are willing to travel from outside the region to keep themselves in business, increasing competition beyond the scope of local builders: “It is not only the Coast unfortunately. People come in from Sydney. What happens, and this is a real bug-bear for us; we will drive down to Sydney to do a job and a bloke will be driving from Sydney; we can wave to each other on the freeway”.

Case Study 2: stakeholders

Although the term stakeholder was not part of the interviewee’s everyday vocabulary: “Well, I think ‘stakeholder’ is a bit of a funny word”, the meaning was understood as 'having an interest in something’. Based on this definition, the interviewee listed three stakeholders in the business: himself, his partner and his partner’s wife. The term ‘stakeholder’ thus defined very narrowly by the interviewee. Table 5.6 provides an overview.

Table 5.6  Case 2: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>“I believe a stakeholder in this firm is anyone who has a direct interest in it, and that is the owners”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders identified when prompted</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-contractors</td>
<td>“We use sub-contractors all the time because that’s how the building industry runs. So I guess from a sub-contractors perspective, it’s in their best interest to make sure they work for a company that’s going to pay them at the end of the job. So their interest in our business is to make sure that we are going alright, I guess, and performing alright and to do that, they have to give us a realistic price, because at the end of the day if we don’t make any money we’ll not be in business for very long.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders implied during the discussion</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Clients</td>
<td>Direct interaction with end user is limited</td>
</tr>
<tr>
<td>Government</td>
<td>Affect the business by changes to the building codes</td>
</tr>
<tr>
<td>Architects</td>
<td>Promoters of NatSpec – a specification standard that applies to all buildings</td>
</tr>
<tr>
<td>Solicitors</td>
<td>Responsible for contracts and seen as being ‘one-sided’ in their approach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rejected as stakeholders</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>All others</td>
<td></td>
</tr>
</tbody>
</table>

A level of inter-dependence thus exists between the business and groups such as sub-contractors; “it’s a two way street”. The interviewee also commented:

I am not sure, stakeholder and sub-contractor just doesn’t seem – what do you think – like correct terminology … The problem you’ve got with all that terminology is that you’ve got academics coming up with terminology but unfortunately the building industry’s got a lot of people that are not academics. A ‘stake’ is a piece of meat or it is a stick you bang in the ground.

When asked about clients, a group commonly considered as stakeholders in business, the interviewee indicated that the relationship was different to that with sub-contractors:

… we are a little fussy with who we price jobs for. We don’t like working for developers, they want everything done on the very … ‘cost effective’ … as meaning ‘cheap’. We try not to do that, we try and pick our clients and we have not had very many bad ditches in the 14 years we have been in business and we haven’t had any bad reports about projects that we have done.
The business purchase goods such as stoves but generally has no firm commitment to particular manufacturer, instead often letting the sub-contractors carry the risk: “

… with the big manufacturers we buy … most of our stuff we let the sub-contractor buy all the items, that way it is his responsibility. Some companies will buy all the stuff, like all the toilet fittings, themselves and then give it to the contractor, and all he’s doing is supplying labour to install them. And the reason they do that is that on all those items they’ll put a margin, usually about 10% margin. So the builder is cutting out that margin but then if something goes wrong with it, he has to hunt around for the right part. We don’t do it, we let the sub-contractor look after that; he has to source it, store it and look after all that.

Regarding whether government could be considered a stakeholder, the interviewee stated that “we’ve worked for government and we did … did not enjoy it”. Government contracts require third party accreditation and although the interviewee did not see any problems in getting such accreditation: “we have enough work without subjecting ourselves to all their requirements”. However, government at various levels is also a regulator and in that role a powerful influence:

Ahh, yes there are silly things that come out. Dare I say, disability, unfortunately we do not know who makes the decisions, but stuff like disability; they change the regulations but they don’t consult with architects or end users. Or they may consult with the end user, that’s somebody with a disability, but never with the people who are doing the design and the people who are constructing the stuff. It just turns up one day; this is the new rule.

Architects and solicitors also have a role to play but again, were not seen as continuous stakeholders in the business. A source of frustration was the NatSpec: “The National Specification, which is what the building industry all use. It is up to 260 pages of crap”. The NatSpec forms part of each contract and is supported by architects and solicitors. By modifying relevant sections, it allows standardised specification of any building:

… it describes every component in a building but not necessarily the building you are doing. So we like a job specific specification, which only specifies the stuff that’s in the actual job – your project. But the NatSpec is just a national specification and it’s got every component in any building.

The benefits of standardisation may however be undermined by the size of the document and the very standardisation it aims to achieve:

We send that to the sub-contractor, he flicks it into the corner and says ‘oh, I’ve seen that’, but every now and then there’s a change in there and
unfortunately because they’ve seen so many of them and so sick to … and sceptical view of it, they don’t bother reading it.

Unions are seen as having a place but did not play a big role in this business: “… we try to do the right thing; we pay above the award and run a pretty good safety record on our jobs”. Referring to Freeman’s (1984) definition of stakeholders, the interviewee was asked who could affect or be affected by the business:

Well I suppose when you look at it from that point of view, the decisions we make in the business can adversely affect the sub-contractors because we might get three prices to put a roof on a job and obviously we can only give the job to one person.

However, the interviewee put forward the opinion that for the industry, Freeman’s (1984) definition was too broad. On the issue of who depends on the business, again the focus was on sub-contractors: “Well I guess the contractors who depend on us for work”. The owner-manager and his partner, although seen as the main stakeholders in the business was not seen as dependent in the same way:

We are not loosing money but we are not making much, just keeping it afloat. Otherwise we would not be here. We made a decision as soon as we started that we would not feed money into the business, if the business was not performing, we would pull the roller-shutter down. Because we can afford to.

Although the interviewee expressed a very narrow definition of the term ‘stakeholder’, attitudes to contractors and the concern for their welfare and sustainability never-the-less indicated a stakeholder approach to such relationships. It is however, a commercial agreement: “You sign an individual agreement for each project. You’re not obliged”.

**Case Study 2: stakeholder salience**

**Power** was not a concept that the interviewee spent much time thinking about. When asked what it meant, the interviewee offered: “I would say ‘what runs those lights’ probably! I have never really thought about it … the ability to hire and fire people”. The interviewee agreed with the suggestion that he never-the-less exercised power in the business: “Yep, for sure. For sure. We don’t sit down and say ‘I’m the big boss and I’m going to grind you into the dirt. It just goes along with everyday decision-making about how you run things”. Power was then seen as an ability to make those decisions. On the question whether such power was a motivator for being a small business owner-manager: “It was not a great motivator for me…. I just wanted to do my own thing. So,
I guess yes, I wanted to make my own decisions about where I ended up at. I guess so”.
The interviewee readily admitted that sub-contractors also have such power but that such power was limited by the available work.

**Legitimacy** was a word that was not readily used and understood: “Legitimacy, well, I am not quite sure what that means in this context. I’m not sure who makes all this up”.
The interviewee did however go on to explain legitimacy in the business as having several aspects: “Well if you said to me ‘legitimacy’, I’d say well that company have given us a price so are they a properly registered organisation or are they just a fly-by-nighter. We don’t like dealing with fly-by-nighters”. Legitimacy in this way is a formal legitimacy that relates to the issue of being ‘legal’: “… do the right thing by their employees and with taxation and all the rest of it”.

**Table 5.7 Case 2: Basis for legitimacy**

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal framework</strong></td>
<td>The legal framework and industry standards were seen as a definite basis for determining legitimacy and would not be negotiated: claims based on a legal requirement was seen as always legitimate, claims without a legal basis were not.</td>
</tr>
<tr>
<td><strong>Industry standard</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Referent power</strong></td>
<td>Being a powerful of famous person has no traction with the interviewee and would not result in favours or preferential treatment: “I don’t get sucked in by crap! … No, no, we don’t listen to that crap. See unfortunately in this building industry, I can be sitting in my office, how legislation goes now; we are doing a job in [name of place] and if a roofer falls of the roof and gets killed – it’s my fault.”</td>
</tr>
<tr>
<td><strong>Cultural/social acceptance</strong></td>
<td>Informal legitimacy such as behaviour that is commonly accepted in society (or industry) acted in only one direction: behaviour seen as unacceptable by society was also unacceptable in the business but being acceptable in the wider society did not mean it was acceptable in this business: “… we’re very conservative and do everything by the book”.</td>
</tr>
<tr>
<td><strong>Own moral values/beliefs/ethics</strong></td>
<td>Personal values and beliefs about morals and ethics were important and would guide a decision on how to act. Informal legitimacy was also important as it affected the reputation of the business and the owner-manager: “You know, we will go to a job site and they will do nothing but swear the whole time and, you know, dress in inappropriate clothes. Yes, at the end of the day, those people on your site is a reflection on your business, they’re basically representing you even though they are working for a sub-contractor, you’ve still let them on your jobsite.”</td>
</tr>
</tbody>
</table>

According to the interviewee, the commercial construction industry is now more controlled with stricter rules and processes such as written manuals, and such behaviour is less common but still exists in the housing construction industry and particularly on owner-builder sites.
Urgency was understood as meaning “Do it now, it puts pressure on you and unfortunately if you urgently need to do something, if it is safety related, you’ve got to do it”. Urgency also relates to sub-contractors: “Well if one of them was in strife on a job. It is in our best interest to get them working again”. Urgency does however not mean the same thing all the time and may also come at a cost:

But if it is just urgency for someone’s… because they want it done by the end of the week or something, it’s not so important and then the other thing is between urgency and quality of workmanship. You know, you rush something: you are not necessarily always going to get it right.

Sub-contractors may also act with urgency to be paid on time and even in advance. Such request are considered and decided individually: “Well, yes we listen to them. We just treat individual cases, I suppose on merit, I guess”.

The issue of dealing with conflicting demands can often be dealt with by good planning in the early stages:

What we find ourselves in, and that goes right back to the sub-contractor before you give him a job, you have a look and see what ever other commitments he has got, to make sure he can commit the right personnel and the right number of personnel to get your job finished on time. If he’s got a lot of work on, he’ll only give you two blokes instead of five blokes.

This approach depends on honesty on the part of the sub-contractor and therefore a level of awareness and perhaps trust between the parties: “You always know what’s going on, we talk to other people and we know what other builders are working where because when we price… when you put a tender in there may be six people tendering and then we always know who won the job. So we know where the other builders are at”.

The interviewee felt there was a overlap between stakeholder’s power and urgency as power on the side of one party, gives the other party the option of making conditional demands: “Well yes, what you can do is to say ‘I’ll give you this job if you can get it finished by tomorrow night’ so there is a link there, and of course they all lie and say ‘yes we can’ but then take twice as long”.

The concept of stakeholders was narrowly defined and did not seem to fit well with the business and industry. The interviewee had no suggestions for other factors that may impact on the perception or decisions impacting on relationships with stakeholders.
Case Study 2: stakeholder relationships

In contrast to procedures reported as common in the industry, the interviewee and his partner put emphasis on looking after their contractors, and in this way build strong and relationships:

We feel a bit of an obligation. We are using second and third generation ‘subbies’, I have been in the building industry for a long time. The painters we use, that’s third generation, the gyprockers are second generation, and some of those sub-contractors, I have worked with them for thirty-five or forty years and that is because everybody knows the foreman has been there all the time and everybody knows how the other bloke thinks and it just makes it much better on site. Everybody gets on and you get your job done much smoother and quicker. Obviously if you get off site quick, it means you make more money.

Most sub-contractors are other small businesses and may not even have an office as such: “Mostly, the sub-contractors are not big businesses and for most of them, some of them have offices but the owner works on site, so it is pretty personal”. An aspect seen as important in this regard was to make sure that contractors get paid in a timely manner:

We make sure we keep a certain amount of cash money so that if we do mess up a payment or a progress payment gets held up, or a client’s late paying it for whatever reason, we can fulfil our obligation to our sub-contractors because they obviously have obligations as well. You know, it’s like a big domino thing, if this guy goes broke, they can affect a multitude of different people.

This attitude was based on previous personal experience and a strong aversion to the prospect of having contractors chasing them for payment, a position that appeared supported by personal values. The strong reliance on contractors rather than employees was reported as typical for the industry and a result of the regulatory framework: “Because of liabilities and tax regulations and deemings of people being employees, all our subcontractors have to be a Pty Ltd and they have to supply us with public liability and workers comp or we don’t pay them”.

The relationship with government as regulator of the industry was seen as one-directional and autocratic. The government’s lack of timely consultation with industry has a significant effect and in the end, it is the client who ends up paying a higher price:

As far as we know, wheelchairs haven’t got any wider, we used to be able to use the 820mm door, now you’ve got to put a 920mm door. Unfortunately your manufacturers have not caught up. To get a 920mm
door is still classified as out of the ordinary so you pay a lot more for it and the other thing is door handle clearances.

Changes to rules regarding door handle clearances was an example of how draconian implementation of change and a disregard for commercial realities can have unintended consequences:

The manufacturers are carrying stocks galore, nobody consulted and said this is going to be phased in over 10 years to give you blokes a chance to run your stock down. It was just, ‘this is the new rule’. To get around it, some of them started to screw a piece of plastic on the back of the door, they must think handicapped people have skinnier fingers, they have made the gap smaller.

Government may also affect the availability of ‘good’ sub-contractors as this fluctuate with demand:

In today’s climate it is easy to find somebody because nobody is busy. It was difficult when the BER [Building Education Revolution] was on because everybody was busy and all that does is that drives the price up. When we got BER, we knew that would happen so we locked in the sub-contractors straight away. All the builders told the government but they do not listen.

Regarding the need to prioritise between stakeholders, most commonly between which sub-contractor gets the job: “Well, that becomes a little bit difficult because if there is not enough work to go around people ring us up with a sob story”. In periods when there is not enough work for everyone, the competition intensifies and price is often the determining factor: “… at the moment there is just not much work around. There is work around if you want to do it for nothing but we don’t want to do it for nothing”. The industry in the region is small enough that tenders are well known and even who is bidding for a tender is widely known, allowing interested trades to put forward unsolicited quotes. Such quotes are however met with scepticism, especially if the quote is below the norm as the quality of workmanship and reliability is unknown and therefore representing a potential risk to the project. Instead, there was a preference to use sub-contractors who were known and with a long-standing relationship with the business and owner-manager: “We feel a bit obligated to try our outmost to try and get a job to keep our regular sub-contractors busy”. Although price is a significant factor in allocating jobs to contractors, it is not the only consideration as the overall cost over the lifetime of the project is also important: “… we do not chose on price alone, we look at
how much work they’ve got on, how they performed on the last job that they did for you”.

**Case Study 2: on being an owner-manager**

The main challenge of being an owner-manager of a small business was considered to be to make money:

> Being happy with what you are doing, being satisfied with what you are doing. Which, that takes into everything; you’ve got to make money, you’ve got to be helping your stakeholders earn a reasonable living and it gives you great satisfaction to look at the completed product. If your client’s happy, your subcontractor is happy, every body is happy, and if you make money that is a bonus.

The main challenge with managing sub-contractors was reported as being that they do not turn up on time and do not always deliver the level of man power promised to complete on time; a case of over promising and under delivering. Such issues can have significant effects on the profitability of the build as builders can be charged ‘liquidated damages’ if not completing on time. Delays in completion also affect the direct cost of the build as a foreman for example has to spend extra time beyond what was budgeted and is therefore potentially unfunded for part of the build. The reverse arrangement is rare; builders are not commonly rewarded for completing early, a situation affected by solicitors who draft the contracts.

**Case Study 3**

Case study 3 was a micro-business providing advice on town planning and land development. The owner-manager works with one employee and with specialist contractors on projects. A Google search suggests that the business has competition from several similar businesses in the region but that there is a degree of specialisation. A search for similar services using the Yellow Pages returns 26 listings in the region. Several indicate narrow specialisation for example on legal aspects of town planning or surveying. Several similar businesses from outside the region also advertised into the area.
Case Study 3: stakeholders

When asked what the term stakeholder means the interviewee responded:

Stakeholders are really in concentric rings around an organisation. And they are of different types so the closer they are to the organisation, within concentric rings, the more mutual impact there is, particular from the outside in, from the stakeholders onto the business. The further out they are there is less impact and therefore there are consequences for operations arising from that. So a stakeholder is really somebody who has a direct or indirect interest in the business.

<table>
<thead>
<tr>
<th>Table 5.8</th>
<th>Case 3: Stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Spontaneously listed stakeholders</strong></td>
<td></td>
</tr>
<tr>
<td>Customers</td>
<td>Seen as being in a mutual relationship: … my customers are in a close ring…</td>
</tr>
<tr>
<td>Regular suppliers</td>
<td>“… my REGULAR suppliers, who are contractors of a type, and they vary in a spectrum from being self-employed – and I’m one of their customers – through to being more dependent on me …”</td>
</tr>
<tr>
<td>Specialist contractors</td>
<td>Rarely used but important to have a relationship with</td>
</tr>
<tr>
<td>Local councils</td>
<td>“… they rely on my good quality work”</td>
</tr>
<tr>
<td>Bank</td>
<td></td>
</tr>
<tr>
<td>Book keeper</td>
<td>Seen as generic and in a mutual relationship with the business but relatively easy to replace should the need arise.</td>
</tr>
<tr>
<td>Accountant</td>
<td></td>
</tr>
<tr>
<td>Lawyers</td>
<td></td>
</tr>
<tr>
<td>ATO</td>
<td>Seen as on the very periphery of the concentric rings</td>
</tr>
<tr>
<td>Referrers</td>
<td>Important to support the reputation of the business</td>
</tr>
<tr>
<td>Macro environment</td>
<td>“… I feel an obligation to the economic, social and physical environment – the natural environment that I work in…”</td>
</tr>
<tr>
<td><strong>Stakeholders identified when prompted</strong></td>
<td></td>
</tr>
<tr>
<td>Owner</td>
<td>Seen as a key stakeholder although not the first to come to mind</td>
</tr>
<tr>
<td><strong>Stakeholders implied during the discussion</strong></td>
<td></td>
</tr>
<tr>
<td>Employee</td>
<td>Not in a permanent arrangement but would be a stakeholder</td>
</tr>
<tr>
<td><strong>Rejected as stakeholders</strong></td>
<td></td>
</tr>
<tr>
<td>Family</td>
<td>No dependence exists as the children are grown up</td>
</tr>
</tbody>
</table>

A factor that may help determine who is a stakeholder was whether the interest was one directional or mutual:

I don’t know, like if you think about say the ATO [Australian Tax Office], who’s interest in the business is really to reap the taxes from it that are due and to make sure for example that super is paid to the employees and those other things that ATO is responsible for, but in my operations, they will be way on the outside because it is a pretty one way interest, meaning they want what they want but they don’t really offer me anything directly.

Customers and regular suppliers are important stakeholders:

I would say that for example, and in every way: professionally, financially and so on.
The full list of suppliers is long and includes rarely used specialists, for example to deal with contamination, but the list of regular suppliers is relatively short: “… I work regularly with some of them because they work like I do; they understand what I do, they are responsive, they are professional, etc”.

Not having any employee is a conscious decision: “My contractors are stakeholders of a type, but I’ve tried to make sure that it is not a make or break relationship for them. Which is why I don’t have employees”. Family was not seen as a stakeholder other than very indirectly: the children are independent adults and are not directly affected by the business but will eventually inherit any financial benefits.

Councils are stakeholders in that “… they rely on my good quality work to be able to assess it and determine the application, if that is what it is, or respond to objection …”. Other generic stakeholders, almost in the background, were the bank, the book keeper, the accountant, a variety of lawyers, and ATO (Australian Tax Office).

The interviewee pointed to some perceived limitations of the term ‘stakeholder’:

In other ways there are things… it’s almost like … they may not be defined as stakeholders, but for example the environment. So that is in a sense ‘reverse stakeholding’, by me to that environment, that encircling environment, and in a sense that is almost like a platform for everything I do. I think in a sense ‘stakeholder’ is perhaps not quite the right word because it infers a person, not just an entity or a ‘thing’ but I am very strongly driven by my sense of the natural environment in particular, but also the society and the economy in which I work and that is quite amorphous.

Such ‘stakeholding’ and involvement with ‘non-entity stakeholders’ was central to how the business is run, “people say my business is who I am”, and underpinned by a strong sense that such relationships could have far reaching secondary consequences as society at large may disapprove of decisions made and actions taken and react in a negative manner which may in turn affect the business.

On reflection the interviewee also wanted to mention another important stakeholder group: ‘referrers’. Referrers are businesses or individuals who recommend the services or refer clients to the business. Such referrers receive no consideration for their services and are often not in a direct relationship with the interviewee or business but a valuable source of business. Occasionally the referrals flow the other way. The motivation is in
some ways selfish: for the referrer it is an opportunity to serve their own clients by providing a recommendation, thereby augmenting their own service. The client can have confidence as it is a professional recommendation and reputations are at stake: “There’s a valid assumption as to credibility and business-like behaviour before the client starts with any one of us. That matters too”. The practice was reported as common and may therefore be described as a type of informal network based on reputation between professional services. Referrers, although not prominent in the stakeholder literature, fits with Freeman’s (1984) definition of stakeholder as somebody who can affect or be affected by the business.

Also fitting with Freeman’s (1984) definition and usually thought of as a central and important stakeholder, is the owner. The interviewee almost forgot her own role but eventually stated: “I guess there is also me as a person, who’s in here as, in a sense the most key stakeholder”.

**Case Study 3: stakeholder salience**

**Power** was seen as being part of stakeholder relationships. The interviewee was able to relate back to her own studies about power through ownership, and in the case of a non-profit organisation, through ‘funding succession’ and dissipation of funding sources. Power then means different things in different organisations.

Power, so councils, in my case department of planning, they have the power to make the decision. So I make clear again in my contract with my clients, I am bound to give you competent advise but I do not have the power to make the decision.

The move to private certification is shifting that power. Certifiers are seen as being closer to the customer, where councils and state are not close to the customers. So the power relationship is more equal between the certifier and the client, which may be us as a consultancy.

This shift means that rather than council being the primary decision maker, certifiers will decide up to 80% of development applications and proposals. While this is likely to relieve some pressure on councils, it may also have other unintended consequences:

In that if the certifier wants to get paid, he/she is less likely to give a negative report, so again they need to be negotiating the ‘shades of grey’ if there is a problem, whereas the council will simply throw the book at you.

How power is exercised is affected by context, a cultural influence:
It’s interesting not being in the metro area. In a metro area I’d be concerned that, [paus] … you don’t have the closeness of the relationship and everybody’s under the hammer, so the commuting, the road rage, the rent, the blah, blah, blah, all this background business stuff. Up here, we are all here for nice reasons and we are generally nice people and the property, you know the environment industry more than the property industry... attracts sort of nicer people, who are cruisy. So a lot of the businesses that I deal with, the suppliers are very amenable to work together and the thought of power being exercised is off the radar basically. If we were all in Sydney and I’d gone to them because they were going to charge $1000 less than the competitor who they knew would charge $1000 more, you know, that’s a power relationship. We don’t have that here. It is a different environment I would suggest, compared to a metro area and it is one of the reasons it is nice to do business here.

So yes, power is real but I don’t see it being exercised very often amongst most of my stakeholders.

If power has to be used, it was important to ensure that the process was done ‘right’, with appropriate warnings: “So, sometimes in power relationships, and this comes back to the communication aspect of the exercise of power; if you’re flagging to somebody that you don’t like what they are doing, and then you sever that relationship, that should be ok”. Good communication skills are important as it allows the interviewee to use influence rather than power: “Absolutely! Yes, that’s right”. However, the client is also able to exercise power in the relationship: “And they may choose not to pay me, so that’s an exercise of power by them, which is really unpleasant and very difficult to deal with – time consuming as well”.

Another type of power not commonly mentioned is the power to walk away, the ‘do nothing option’:

So, that is sort of front of mind, in running the business, if I’m not getting paid, stopping work is absolutely what I must do, I must stop the expenditure and then I come onto the front foot and tell them, we’ve stopped work, you need to pay, you’re going to the debt collector. So withdrawing is powerful.

The interviewee saw her own power as being based on both her expertise (expert power) and legitimacy (legitimate power), always with the legal framework in the background but preferring to use ‘softer’ means such as persuasion in the first instance:

Hopefully I’ll never get to the legal, statutory, hard edge, stuff, but they know it’s sitting there and that’s what frustrates the hell out of them …
I work them gently in the inter-personal space and I alert them to what is coming, but I manage that. They never get hit with the bad stuff. The contract is what I fall back to in terms of power but I’m generally in the softer area for a long time before I say: … [interviewee paused and slammed the desk with her fist].

Legitimacy was thought to be very important, the formal legitimacy in particular featured strongly in the business and industry.

### Table 5.9 Case 3: Basis for legitimacy

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework</td>
<td>Claims based on legal requirements are “Absolutely always” considered legitimate, but claims that are not supported by law may also be considered legitimate: “Sometimes, just because it is not in law does not mean it does not apply”.</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Industry standard is a strong guiding influence: “Industry standard is where I have to be. If it is not industry standard, I’m not obliged. In my field there is so much research and law; if it’s not industry standard, it’s probably been considered and discarded. So ‘rarely’ or even ‘never’.”</td>
</tr>
<tr>
<td>Referent power</td>
<td>Rarely. I mean, let’s say it is the Mayor of the council I’m dealing with so they wear a couple of hats; they have legitimacy as well as being a special person, but if it was just, you know ‘I’m the greatest person’ it would be very low. A person without ‘celebrity’ can still be right, their perspective may still have legitimacy. I have no problem with an unknown person telling me how it is”.</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>Cultural influences and what is generally accepted behaviour in society may sometimes make a claim legitimate. On rare occasions, something could still be legitimate even if not generally accepted in society.</td>
</tr>
<tr>
<td>Own moral values/beliefs/ethics</td>
<td>“If it is completely contradictory to my own personal beliefs, then I would be unlikely to give it legitimacy; probably a ‘mostly’. But I am a professional and have to be objective so then it may be a ‘sometimes’ – my own beliefs should not intrude on the legality of something and the code of ethics is a higher level than my own. So maybe it is actually a ‘sometimes’.”</td>
</tr>
<tr>
<td>Other</td>
<td>When asked what other factor(s) may influence perceptions of legitimacy, the interviewee indicated that she was bound by a code of ethics from a professional institute: “So something like a contract or policy. I do argue against people’s policies. In fact I had a major win against council in December where we essentially broke the back of their policy based on site specific information that we presented and I had developed it all. Wasn’t my profession but I developed it and I was really proud of that – a once in career moment!”</td>
</tr>
</tbody>
</table>

Urgency was a constant. When asked to explain her understanding of the term urgency, interviewee 3 laughingly responded: “I’m in small business!!!!”. Perceptions of what is urgent varies and clients sometimes behave with urgency to get the job done but then shows less urgency in paying bills. Yet, a client’s urgency often affects how the interviewee responds to their claim for attention: “Yes, it does. And I would say that there are times when I hose down their urgency, so I would say ‘sometimes’ but for customer service it would often be ‘always’.” Then again, there are circumstances where the interviewee may disregard a stakeholder’s urgency: “If there was no
consequences or I disagreed with the basis for their urgency. If for example, they’re not under contract, and won’t enter one. Yes, those sorts of things”.

Perceptions of power, legitimacy and urgency often differ between individuals and can be affected by emotional involvement: “Sometimes people come and it is incredibly powerful, legitimate and urgent from their perspective, but you look at it and think ‘there is no… this is not worth arguing about, so I’ll work with you but I won’t give you power, legitimacy and urgency within my organisation”. Emotional involvement is a strong motivator and may push the argument beyond what is rational:

… the ‘not in my backyard’ is a very typical example of that. Where on a scale of things, and particular where people are imagining; and say ‘well if they get this, then they are going to do all these other things that is going to have a huge impact on me’. Well, none of that has been declared, it is possible now that might have that, but they haven’t – what they’ve done is this bit here, that’s what they are proposing and that’s all we can argue about. So, you know, that’s what I call imagining; going beyond.

Emotional involvement may therefore be a potential influence either directly or indirectly by way of affecting the response: “You can’t entertain that – you can only fight what is right there. That’s why it is legalistic thinking, you can only fight what’s there, but people want you to fight on the emotion. You know, they overturned your garbage bin three years ago…”.

The interviewee referred to the organisational boundary as a concept to help her manage such situations.

So I’m responding, I try to have that strong organisational boundary where I’m judging how I’m going to deal with them and it might include pricing, but it particularly includes urgency for my response, and whether I put my junior on to it or not, and potentially the tactics as well, my tactics, so that’s within my boundary.

That’s all within my boundary, irrespective of what they are throwing at me from outside.

**Case Study 3: stakeholder relationships**

Stakeholder relationships were seen as underpinned by a level of mutuality; relationships with stakeholders in the ‘inner circle’ being more mutual than relationships with those in the outer circles. The relationship with the bank was considered particularly important to keep stable: “But with your banker, you need to have a confident, a mutually confident relationship with your bank. There are
alternatives but chances are, the move is going to cost you money and you may be on some special deal now, or whatever”.

A close mutual relationship may also pose a risk:

I am also aware that the loss of a key supplier could be a risk issue for the business so I network quite heavily and make sure that I know who is around and we know enough about each other, we’ve got each others details, that I have choices. That is a risk management thing from my perspective.

The level of commitment to the relationship varies between stakeholders, some are short-term while others are much more long-term. Contractors may also come in with varying levels of experience and require varying levels of supervision:

So I have contractors ranging from the people who are working for me part-time on a regular basis but as contractors, through to those who are self-employed and who I call ‘suppliers’. You know, they are on a contract but they are suppliers more, so they also have all their quirks and foibles and from dependent at one end through to very independent – they just do their thing – at the other end. So, yes, there is a lot of variation.

Commitment may also be indirect: “If a surveyor worked on a property that I am now pulled into by a new owner, I would go back to the previous surveyor in almost every instance; who did the work before, because there is a history there and therefore there is an economy for the client, in me working with that person”.

Commitment may even vary within stakeholder relationships:

The councils are obviously long-term relationships but the individuals within the councils; some are there in the same job for far too long, and with some of them there are churn.
The nature of the relationship and the dealings, in a cultural sense are changing and the individuals may be same or may change and they also, the once who have been there a long time, may also be struggling with the cultural change that is occurring around them. So that’s the councils.

Dependence was not seen as necessary for a stakeholder relationship to exist, but as a factor in setting the tone of each relationship:

Then the relationship of the business with its stakeholders is going to be very different, depending on who the principals are and the slogan of the business, the underpinning message of the business and the way they conduct their business and whether they adhere to code of ethics and all that sort of stuff, how that all relates.
There were also differences between clients, some requiring more time and involvement than others. Some clients prefer lots of interactions, meetings and drafts while interaction with other clients, after the first meeting on site, is frequently limited to phone calls and email exchanges:

So that is pretty much a one way thing in that they give me their objectives at the beginning but I then, I’m basically running it. I have had clients that I have never met, they just basically say; ‘just get me the approval, I’ll pay your bills, we’re done’. No mutual influence at all! It is a straight transaction, might be 6-12 months, but it is a transaction.

The setting up of a website has affected the relationships with clients, especially new clients, and turned out to be more effective than paper based marketing. The website essentially allows the clients to self-sort:

So when somebody… an enquiry, comes from the website, it’s really high quality. It’s in a sense easier to sell to, because they know what they are getting. They have already an idea of what we do, how we do it, who we can put them in touch with, our success rate, our recent projects, our current projects, all that is in there. So they can then infer things about charging, speed, the customer service aspect if you like. So that is setting it up, from my perspective, in a general way. When they come, I am in a much more, if you like single minded, or single channel communication with them. In a sense, I influence them more because the already know what I am going to offer them and that I am competent.

Sometimes there are insurmountable problems and it is important to be clear with clients what can and cannot be done:

My philosophy is to identify the biggest problems at the beginning of the job and the smaller once will all fall away. If I cannot get over those big hurdles at the beginning, we are out of there, I’ll just tell them: ‘we can’t do it’. Or I massage the brief, so I’ll say ‘I can’t get you four but I can get you three’, so it is very clear. And people come with me, I don’t have many argumentative clients. The argumentative clients tend to be the ones who don’t want to pay or who argue about bills or what ever.

Maintaining positive relationships with stakeholders was seen as important and even a sensible business decision, but takes a conscious effort:

It is very infrequent, with my stakeholders, that I would have a threat of falling out, or a falling out.

You just negotiate it, you anticipate that it’s coming and you negotiate it. You don’t fall out and then have to withdraw and spend all that time to re-establishing a new professional relationship of some sort.
Prioritising stakeholder demands, once it gets to a ‘flashpoint’ is difficult and so the interviewee seeks to avoid such situation by careful planning and good communication:

So what I’m trying to do is generally not get to the point where there is a straight flashpoint of conflicting interests. What I’m trying to do is to, I guess ‘massage’ them all over time so that people know: ‘I said I’d do it by Wednesday but I can’t do it till Thursday’ and I’ll let them know that by Monday.

Good communication is seen as critical for building a strong and positive relationship where issues can be resolved, the interviewee becomes almost a translator for the clients to assist them to understand formal requirements and what is and is not possible:

That’s why I use common English a lot when I first meet people, somewhat to their surprise, and I talk about high maintenance people and they all laugh, so already you are building a relationship through laughter and by meeting them on their property that they have paid all this money for, you are meeting them on their ground, literally, at the beginning. So to me that is part of the relationship building.

Prioritising may also mean assisting clients to prioritise their own demands and expectations:

I will say at the beginning, and my contract also says ‘if it is required, it is required’, I am not arguing the toss on that. I will be saying to the client ‘black is black’. However, shades of grey, we may be able to do this or you might be able to consider your objective here and we’ll do something else. So that’s the massaging.

In a sense, because the law and the case law and sense should prevail. So when I give speeches I say: ‘well common sense does not prevail, there are laws, there is policy, there is court cases, there is a whole lot of other things that will prevail, and common sense is actually not that much part of it’. This is a professional world, this is not about people’s opinion. So again that is the sieving of, if you like, priorities of what is possible and what is not possible.

Conflict may arise from within a stakeholder set, for example a family where individual members have different levels of influence, yet also different perceptions of what ought to happen. Despite the interviewee having training in conflict resolution, such conflicts may be resolved by the interviewee insisting on communicating with a nominated (formally or informally) spokes person but may on rare occasions become unmanageable to the point where the interviewee walks away.

Prioritising between clients may be, to some degree, done by way of financial mechanisms:
I do talk about high and low maintenance clients, because it affects their charging, because my charging is time based. So if they hound me, I’m charging them, as per the contract, for the time that I spend responding to the emails, phone calls, whatever. So that’s a way also of pushing back a little bit in that mutual way.

So occasionally I’ll have a client that will think that by hounding me to finish their work, they’re going to get a better... a quicker result, and I try really hard not to say ‘there is other work ahead of yours’.

A similar situation exists with various suppliers who want to become ‘regular’ and get more work from the interviewee. Such relationships are however critical for the reputation and success of the business and there is a reluctance to engage suppliers, such as a contractor, that is unknown. The potential cost to the business in reputational loss is significant.

**Case Study 3: on being an owner-manager**

The interviewee laughed when asked about the challenges of being an owner-manager, and stated “Well, the trite one is hours in the day, but you can hear that that does not really bother me”. Instead, the main challenge comes from things that are not within the control of the interviewee: “A hard thing is managing volatility in the volume of business. That’s pretty big picture, its not week to week deadlines, it’s the big picture”.

Being a micro-business had both advantages and disadvantages as it could be isolating:

> Some people would say that it is a lonely place to be, being an owner-manager. I don’t find that ‘cause I have had a lot of experience now and worked with a lot of other business people that I’m careful to make sure that I have enough social contact through my business; chambers of commerce, networking and all that stuff. I don’t feel lonely in that sense. I just like having good relationships I guess! It makes life a lot easier.

I don’t know what the greatest challenge is. I went to a Sydney uni business school thing, as an alumni, and I was really shocked by how trite the answer to that question was from business women. You know; glass ceiling, and blah, blah, blah, and you think ‘Oh, for heavens sake!’

The biggest motivator for the interviewee in being an owner-manager was: “Flexibility! Of time. But it is also power”. Defining flexibility in terms of time meant being able to take time off every year, occasionally take long weekends or afternoons off – essentially being able to “… simply step out of the business when I choose to …”. The interviewee also recognised the other side of this: “… also the inflexibility sometimes when you
have to burn the midnight oil”. There were also other trade offs “Because being in your own business, you don’t have a secure income, and I choose not to”.

The interviewee admitted to sometimes being a ‘control freak’ but thought that had helped her build a successful business: “So maybe being able to be a control freak, get away with it and make money out of it – it's good!”

Case Study 4

Case study 4 was a non-profit community legal centre and part of a network of over 200 such centres throughout Australia. The main funding body was the Commonwealth/State Community Legal Services Funding Program. Although not a small business in the sense of being profit focused, with only 10 employees Case Study 4 still complies with the definition of small business (ABS, 2014a). As with owner-managed small businesses, the there was a central decision maker (the interviewee) in charge of day-to-day decision-making. The interviewee’s influence in the organisation was based on expertise and being the registered holder of the legally required Practicing Certificate – effectively a licence to provide legal services in the state of New South Wales without which the organisation could not function.

The centre has been in operation for around 18 years. The organisation has three main areas of focus:

There’s sort of three main things that we do; one is to provide free legal advice and assistance, and another is to provide community legal education and then there’s … it’s kind of the third arm, which is law reform. So if we see in our clients, or in the community, that there is a common issue that lots of people are coming with, rather than dealing with it one-by-one over and over and over, we try to write to whatever government department or company.

Each centre serves a defined geographical area and most are incorporated organisations with members from the community. The interviewee reports to the management committee, which is elected from the membership pool.
Case Study 4: stakeholders

Although admitting that she had not “… really thought about a very precise definition” for the term ‘stakeholder’, the interviewee was familiar with the concept as it is commonly used in the community sector and understood as being “… a person who has an interest in our service, one way or another. So either we provide a service to them, or we work together with them to provide a service, or they fund us and we have to be accountable to them”. When asked who the stakeholders for this centre were, the interviewee spontaneously stated that “It’d be a very long list!”, and that “I guess because we are publicly funded, everybody could be a stakeholder”. On reflection, it was however possible to identify some significant groups, Table 5.10 provides an overview.

Table 5.10  Case 4: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
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<tbody>
<tr>
<td>Other community service providers</td>
<td>Such partnerships could be formal: “So some we are funded to work with specifically, like the Family Relationships Centre.” Other partnerships were more informal, based on a recognition that they ‘share clients’.”</td>
</tr>
<tr>
<td>Bodies with shared client base</td>
<td>“Some we are not funded to work with, but we work with them because we have clients in common, so, like the Domestic Violence Court Advocacy Service.”</td>
</tr>
<tr>
<td>The Local Courts</td>
<td>“… because we go down there and do a clinic there and provide advice one day a week. The court is allowing us to run this clinic, it helps them but we’ve just got some money to evaluate the clinic, so we are doing that now. It is just part of our operation.”</td>
</tr>
<tr>
<td>Local private practice</td>
<td>“The private practice is a stakeholder in that they sometimes provide pro-bono work for us. So we’d like to keep a relationship with the private practice.”</td>
</tr>
<tr>
<td>Area Health Services</td>
<td>“… because we provide a service at the Mental Health unit at the [name] hospital.”</td>
</tr>
<tr>
<td>Legal Aid</td>
<td>“… another stakeholder in several different ways…” Examples include the centre providing legal education to people that work with mental health patients, and Legal Aid providing the centre’s program manager for the community legal sector</td>
</tr>
<tr>
<td>Funding bodies</td>
<td>The Commonwealth Attorney General’s Department, The Public Purpose Fund, which is a trust funded by interest earned on private solicitor’s trust funds</td>
</tr>
<tr>
<td>Clients</td>
<td>People who receive legal advice from the service</td>
</tr>
<tr>
<td>Staff</td>
<td>Mainly solicitors and paralegals</td>
</tr>
<tr>
<td>Management committee</td>
<td>The interviewee answers to a community based management committee of the incorporated association. &quot;A lot of our management committee are employed by other community services, so there’s cross-over.”</td>
</tr>
<tr>
<td>Central Coast Volunteering</td>
<td>Source of volunteers</td>
</tr>
<tr>
<td>The University</td>
<td>“… we get a lot of our legal volunteers through the university; the law schools, so they would be stakeholders up to a point.”</td>
</tr>
<tr>
<td>Suppliers/Referrers</td>
<td>“Suppliers in terms of, well we get a lot of our clients referred from other community services, so I consider people that refer clients to us stakeholders. They’re the other community services generally”. Such referrals could be formal: “There is very formal arrangement that we have with...”</td>
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</table>
the FRC, the Family Relationship Centre – ‘cause we were funded under the previous government to work specifically with them, and the aim of that program is to try to resolve family law disputes outside the courts. So we have set up a more formal referral system where they refer to us in writing and we can refer clients back to them, and that works in an informal way with other service providers.”

<table>
<thead>
<tr>
<th>Stakeholders identified when prompted</th>
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<tbody>
<tr>
<td>Unions</td>
<td>“They are a source of information mainly. They would like people to join but people don’t want to spend the money.”</td>
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</table>

<table>
<thead>
<tr>
<th>Stakeholders implied during the discussion</th>
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<tbody>
<tr>
<td>The Ombudsman</td>
<td>“Organisations like the ombudsman, part of their job is to review new, like any legislation to do with the police.” As part of such reviews, the legal centre will be invited to comment: “So it’s actually part of our regular work, if we have time, we will respond and if we have come across issues with that particular legislation we will write and tell them.”</td>
</tr>
<tr>
<td>Government Departments</td>
<td>Legal centres such as this, often put in submissions to various departments to suggest changes to policies or parts of the legal system where they see issues affecting the community</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Rejected stakeholder</th>
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</table>
| Family                                   | Although the centre have several family friendly programs, such as being a flexible workplace and employee assistance program, family is not considered a stakeholder:

“I wouldn’t consider family as stakeholders. Indirectly, we try to provide a flexible workplace and support our staff as far as their family life goes. So we have an employee assistance program that staff members can use free of charge and anonymously to discuss anything at all, including matters outside the workplace. We have a flexible working hour system, but I guess family members of staff are not really stakeholders! In fact we are about to formalise a policy on not having family members of staff working at the centre or volunteering at the centre, just because of the conflict of interest that could arise.” |

The definition of stakeholder as someone who can affect or be affected by the organisation (Freeman, 1984) was seen as relevant for the organisation:

Yes, so that’s where our clients come in I guess, in terms of people who might complain about us if they don’t like our service or feel they are being treated unfairly by us or something, or another service provider could complain about us I guess, if they felt we were not acting correctly. Staff is affected by the continuation of the business. Our funding bodies fund us, so we have to answer to them. I don’t know how much effect we have – we do write lots of letters and law reform submissions to government departments, but we get invited to write them as well. It is an interesting time at the moment because we are funded by the Attorney General federally. This centre doesn’t have much state government funding, but the previous state Attorney General did try to introduce new rules attached to our funding, which would prevent us from lobbying and acting for groups of people rather than just individuals.

Clients are often referred to the centre from other community services or members of parliament. Some such arrangements, for example with the Family Relationships Centre, are formal and funded: “… the aim of that program is to try to resolve family law disputes outside the courts”. Such referrals may also come as a result of a client
having additional, specific legal concerns that the primary solicitor is unable to deal
with at the time:

    The aim is just to assist the client. If you cannot assist – you refer them
somewhere they might get assistance. A lot of that is Members of
Parliament, who would send us clients who are writing to them about
problems that they have, so they would refer them here.

The process sometimes also works in the other direction and the centre sometimes acts
as the referrer:

    Definitely! This is our referral base [interviewee points to a large stack of
files], and we, because we have four full time solicitors and a lot of my
time is taken up with admin sort of work, and we can only work in areas
that we have skills in and we’re not allowed to work in certain areas that
we are not insured for. So that means there are a lot of legal areas that we
refer people out for. So we refer them off to other community legal
centres, because there is a network of specialist legal centres that deal
with very specialist legal areas, so we use them a lot.

Relationships with other legal centres appear strong and mutual while relationships with
other stakeholders such as clients may be less permanent.

Case Study 4: stakeholder salience

Power was defined as being able to force the centre to do or stop doing something:

    I suppose that if the Attorney General told us that we were no longer
allowed to do something that we currently do and that we see as our core
activity, he has the power, economic power and financial power, to cut
our funding so that would really affect us. That would be a very serious
decision to make about whether you would continue to do law reform
work if those rules came in that say you couldn’t. So definitely, there is
the financial power that could try to dictate what we could do. Although
technically, what we do, should be determined by the community and our
resources. The management committee has a certain amount of power, as
technically our employer of our employees. If an individual employee did
the wrong thing they could be sacked, that has happened.

When asked whether she herself had power in this organisation, the interviewee
responded: “Yes, I do! I have power over the day-to-day operation; a lot of my time is
taken making decisions about things like that. But it’s based on my authority as the
principal. It is my practicing certificate that keeps the centre open”.

Such power is based on her position as the most senior practitioner with the broadest
range of experience and therefore a combination of position and expert power. Practical
experience in the centre was seen as important: “It is a different kind of legal practice in community legal centres, there is a fair bit of value in having someone who knows how the sector works”. Power however, varies between relationships:

I mean some stakeholders have much more power than me: the court, the attorney general, the Public Purpose Fund, and the clients to a certain extent. We don’t have much power but we have to be very careful to be very ethical in our relationships with our clients and that is governed by legislation. And with the others, the employees, we have a lot of policies around our relationship and there is a lot of legislation as well about work places.

Legitimacy was seen as a combination of position power, expertise and reputation:

I suppose some of it is to do with your position in the organisation, some of it is to do with your qualification in this role and years of experience, how experienced you are. Some of it is based on word of mouth, reputation is very important in the legal sector and that usually spreads by word of mouth.

An overview of the interviewee’s perception on legitimacy is presented in Table 5.11.

Table 5.11  Case 4: Basis for legitimacy

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
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<tbody>
<tr>
<td>Legal framework</td>
<td>The legal system provided a firm basis for legitimacy: stakeholder demands based on legal requirement are “Nearly always” seen as legitimate but a claim could still have legitimacy even if not based on a legal requirement</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Industry standards was important in that demands not considered industry praxis was rarely legitimate but on the other hand the standard was not always ‘good enough’: &quot;Mostly-Sometimes; it depends. In the legal field because we don’t use same standard as a private practice – we try to be a bit better, by providing a holistic service&quot;.</td>
</tr>
<tr>
<td>Referent power</td>
<td>Although the position power of identities such as the Attorney General also provides legitimacy, there are situations where this would not automatically be accepted: &quot;Always-Mostly – depends on who it is. If it is the attorney general it would be ‘always’ … but something like telling us to not do law reform work, we might not agree&quot;. Regarding clients: most have very little power but this does not necessarily mean that their claim lacks legitimacy.</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>A demand does not need to be generally supported in society to have legitimacy: &quot;I'm thinking the opposite situation, there are some clients society might say don't deserve to get free legal service but we would still provide them. We would not turn people away because they have a record or things like that&quot;.</td>
</tr>
<tr>
<td>Own moral values/beliefs/ethics</td>
<td>The interviewee’s own personal values, beliefs and ethics appear to form a foundation for decision-making but was not always allowed to influence decisions made: &quot;I do rely on my own moral values, so if it does not match, I guess I would consult with somebody. I would try to keep my own personal views out of it. I have to ignore them. The reason I work in the community legal centre is that it is something that I feel is important and want to do so most of what I do here accords with my own moral views. So it does not often happen. The only thing I can think of is if stakeholders make demands on me, or the centre, that create conflict of interest. Some legal centres want to have the rules changed so that we can take on clients where there might be a conflict of interest.&quot;</td>
</tr>
</tbody>
</table>
**Urgency** was understood in legal terms: the legal process may require urgency or a client’s need may make the matter urgent and such urgency may affect several stakeholders:

Legal processes sometimes, or legal precedence might define urgency. With a family law matter, like a baby, a three day old baby being taken away from the mother by someone. Getting the court to give an order for that baby to come back – definitely urgent and in the case I’m thinking of, the court stayed open late on a Friday night and we stayed open late on a Friday night to make sure the paper work got done and the court listed it very quickly.

Urgency may affect decisions, for example to stay open late to make sure an urgent matter is filed. The basis for such decisions does however not rest with the client:

So we would make the decision how urgent it is based on our understanding of the system, a lot of our clients think their matter is a very urgent matter but the court is not going to see it that way, the law doesn’t see it that way.

Legitimate forms of urgency could involve requests for information from highly salient stakeholders such as the Attorney General or deadlines such as for funding applications:

… with other stakeholders, with funding bodies and opportunities to make submissions to law reform bodies, these often come with short term deadlines so we might respond and devote a lot of energy in a very short timeframe because we see it as important to. Either something we have a lot of experience in, so we can make a positive contribution or we see that it is important because there is a decision about funding that’s about to be made so we need to supply information very quickly.

A link was seen to exist between power, legitimacy and urgency. Subjectivity was put forward as a possible other attribute that may influence perceptions and decisions regarding stakeholders:

I suppose for us, sometimes it can be a very subjective thing, just that we think the issue is important or the client’s matter is important and they’re not going to be able to get assistance elsewhere in the time frame that they need. Not necessarily an urgent thing, or assisting them to get assistance elsewhere is going to take longer than us just doing it ourselves for them – that’s happened.

There’re a lot of subjective things that come into it; how we respond to stakeholders’ demands. I mean we try to keep some things very formal, like our intake procedures, and try to make it fair. In some ways those things operate as a bit of a gatekeeper as well, because the demand’s always more that the supply. So then after all those things are over, there’re still subjective decisions that get made.
Case Study 4: stakeholder relationships

Efforts are made to treat all clients the same and this starts right from the initial contact:

We try to keep the relationship with clients the same I suppose. We try to apply the same intake procedure to everyone, so that more or less everyone has the same chance of getting in to talk to a lawyer, but then as for as what we will do for that individual and how much work will get done for that individual depends on a lot of factors.

Most clients that receive ongoing work that goes beyond one-off advice are on very low income and often disadvantaged in other ways as well, for example with reduced cognitive ability resulting from brain injury or intellectual disability, homelessness or language difficulties:

But mostly here [place name], those people, even though they may be very disadvantaged, I guess, there are a lot of clients who fall through the gaps, and that’s what we are here for. So Legal Aid has very strict policy and they are getting stricter all the time, about whom they will work for. We will work for people Legal Aid won’t necessarily work for. In criminal law for example, they’ve limited their assistance now only to people who are going to go to jail or who are facing a custodial sentence… they apply very strict merit test as well as income and asset tests. We don’t have to do that.

Neither clients nor staff, were seen as strongly dependent on the centre:

Not really. Well, staff could go and find work elsewhere. Clients could go and find free legal advice elsewhere, we are not the only free legal service. A lot of clients know that too, they do try every available option around. They will say that they can’t get it anywhere else, so there is a lot of pressure; clients try to pressure us to do things that we cannot do, for all sorts of reasons.

The relationships with funding bodies used to be based on three year cycles, with some supplementary funding lasting only 12 months but has recently changed so that all funding is only 12 months. There have been cuts in funding from both the Federal Government and the Public Purposes Fund. This affects the level and quantity of service the centre can provide to clients and also affect staff as hours of employment is reduced. The possibility of finding other sources of funding is limited:

We have applied to various private philanthropic trusts and we have not been successful yet, but we’ve got them on our … we have a big funding folder and we did a big fundraiser last year. Well for us it was, we hadn’t done it before, we had a trivia night. And we have started to ask clients to send us donations when we finish their matters.
Another relatively new possibility is crowd funding, an approach that has worked in at least one case involving the protection of the Great Barrier Reef. Crowd funding probably requires that the ‘cause’ has wide appeal: “You know, if it was an idea that appealed to enough people – I can see how defending the Great Barrier Reef would appeal to a lot of people, and lots of people sending small amounts of money added up to enough for them to file this and they have a couple of cases going on up there”.

The relationship with funding bodies can sometimes also become a political issue:

> It is an interesting time at the moment because we are funded by the Attorney General federally. This centre doesn’t have much state government funding, but the State Attorney General did try to introduce new rules attached to our funding, which would prevent us from lobbying and acting for groups of people rather than just individuals. So far he hasn’t been successful in introducing that because there are centres like ours that get most of our funding, or part of our funding from the Federal Government.

Since this interview, both Attorney Generals have used their powers to introduce rules to preventing funding being used for lobbying and law reform, thus constraining the work of the centre.

Relationships with stakeholders was generally seen as ‘business as usual’: “I just think it’s just part of our work, it’s maintaining those relationships, the centre wouldn’t be able to operate very well if we didn’t”. Prioritising between multiple conflicting stakeholder expectations and demands were sometimes a challenge:

> … it’s always a bit of a balancing act, how much of our resources do we put into telephone advice or outreach going out into the community providing legal advice outside our centre and then how much time to we spend on these law reform submissions that we could do or community legal education. We also do a lot of clinical legal education, we supervise law students and graduates here as well. Its always a bit of a balancing act how much time and resources we put into each of those things. Some of that’s determined by our management committee and the strategic plans that we make, but a lot of it is just determined in practice by the staff and what their areas of expertise are. Just the timing of when things come to us.

Regarding how stakeholders were prioritised if there were conflicting demands on the centre: “I don’t know, it just depends on what’s happening at the time and what resources we’ve got available”. Regarding factors that may influence such decisions:
Probably urgency, if it came down to a client with a genuinely urgent matter, that would take precedence over sending letters to somebody or committee member wanting us to do something for somebody.

We would want to know the facts so that we could make a judgement ourselves about how urgent something is.

The centre appears to have considerable flexibility in how resources are allocated:

We don’t have strict rules about how much advice or how many matters clients can come to us with, and it is a bit of a subjective measure how much work we will do for a client. It depends on a lot of things; the client’s disadvantage – you know, level of disadvantage, what resources we have available at the time, whether it is something we can assist them with or something that we need to find somebody else – so there’s a lot of things.

Resources are however limited and not everyone can be assisted every time, and priority is generally based on the centre’s perception of the need:

We are a very small service, we will provide free, one-off advice and maybe a letter, to just about anybody that comes in with a matter that we can assist in. But if we’re going to take on a matter and do ongoing work, more than one-off assistance, that will be for somebody who we feel won’t get that assistance anywhere else or that it’s something that we can take on.

Occasionally clients referred from another service may have priority: “So sometimes, you know, other organisations want to jump the queue, and sometimes there are good reasons; there is urgency – and we would do that, but it can get a bit tricky balancing those relationships, let’s put it that way”. However, such relationships are also valuable as the centre sometimes needs to refer clients away to other centres, and an effort is usually made to assist if possible. Conflict of interest is a real risk that has to be managed, with clients, staff and funding bodies:

The difficulty comes when there might be a bit of conflict of interest, that’s probably arisen because people don’t … sometimes people don’t actually understand when a conflict of interest has arisen, and I don’t know why, but there seem to be people who just can’t understand that. Some people get it straight away, some people don’t, so that’s the only time it’s a problem.

Such issues may be resolved by finding somebody else to provide the service. The profession is bound by both legislation and professional rules such as under what circumstances a client agreement can be ended. Overall the quality of the relationships with stakeholders depended on personal contact:
Well, I think the important thing with stakeholders is, apart from the client group, but other stakeholders, is having a good personal relationship with them – you couldn’t have good relationships with your stakeholders if you just sat in your office all the time. So that is also one of the most difficult things: going out and devoting enough time to keeping up with everybody. Yes, I think good relationships depend on personal contact, not just emails and telephone calls and that does take a lot of time. But it works.

**Case Study 4: on being a manager**

A challenge of the interviewee’s role was managing human resources: “Yes, dealing with people that you work with”. This was seen as a particular area where improvements could be made: “I need more training on that side of things, general management. I did have some training but it’s a long time since I had it and I probably could do with an update on that”. On the other hand the contact with people was also a motivator for being in the job:

> I do like the personal contact with clients. I like client-work. I like supervising students; I like the clinical legal education, training the new professionals coming through. I like community legal education, I just like a lot of things that legal centres do and – even though each one is an individual community organisation … I like that aspect of it too, that in theory it could be run by the community. But it is also part of the state wide and national association.

An area where the organisation differs from most small businesses is in the measure of success. As a non-profit organisation, success is measured in satisfaction rather than monetary terms:

> Well I guess this is a different organisation to a for profit organisation because we measure our success, I suppose… it is actually quite difficult to measure whether what we are doing is working, but our biggest source of referral is previous clients and their family and friends, so that’s an indication that people are saying ‘well ring this place, they helped me’ – so subjectively they think we have helped them, client satisfaction is one way we measure success. I feel like objectively we have assisted people. We are formally evaluating one of our programmes at the moment and that is another way to measure success, we don’t have a bottom line that tells us that we are successfully selling lots of goods and services.
Case Study 5

Case study 5 was a small, well-established manufacturing business in a niche industry. Interviewee 5 had worked in the business prior to taking over the business and stepping into the role as owner-manager. With limited academic qualification, his knowledge was acquired over many years working in the business and closely tied to the specific and very specialised equipment:

I have not done any metallurgy in my life but if you were to do a university degree, metallurgy would be the thing you would do. The boss, who used to work here before I did, was a metallurgist, so there’s some technical ability, which I’ve just picked up over the years; you know, how to make that material, etc. So there’s certainly technical ability, there is also plain equipment, machinery, spinners in our case, because we spin the metal. To do that you need a spinner of that size so there’s … other companies don’t have that sort of equipment, not of that size. Definitely not high tech, it’s been thrown together by a mad engineer, you can tell by the place, who started it in 1949. Some of the gear he made, is still working out there and going quite well but look at it and it looks like nothing, really, but it does stuff that nowhere else in Australia do. So it’s stuff that goes into the Snowy Mountain Hydro scheme, it is highly certified. Someone told me once that ‘if this breaks, thirty-five people will drown’ or something, because it seals … I didn’t want to know that. But I understood that they wanted every certificate that they could get their hands on. So it’s the uniqueness of what we do and it is also knowledge built up since 1949 of what we do and passed on to me and that I pass that on to my guys. Yes, that’s what makes this particular business what it is.

Customers are typically in industries such as mining, shipping and power generation and the need is often in response to a breakdown in equipment, requiring one or two specialised pieces made to precise specifications. The business has limited competition in Australia:

To source our product would be fairly difficult; if you’re selling nuts and bolts, there would be no problem going to the next nuts and bolt man. But our product’s not … it is quite a niche. Our process is a fairly unique process in terms of the size that we can do, we can do big stuff, like nearly two meters, and the way it is produced, there’s probably no one else in Australia that can do that. When you get down to smaller stuff, there may be two or three in Australia that can do it, and so my assumption was on this particular job – it was a graded metal that you can’t just go and buy off the shelf.
Case Study 5: stakeholders

The term stakeholder was understood to mean: “someone who has a direct interest in the business or a relationship with the business, I suppose”, and essentially someone who can influence the outcome of the business.

Table 5.12 Case 5: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
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<tbody>
<tr>
<td>Customers</td>
<td>“So if you have a bad supplier or a customer, they all have some sort of influence over the business’ outcome, whether successful or not.”</td>
</tr>
<tr>
<td>Suppliers</td>
<td>“… which is my wife”</td>
</tr>
<tr>
<td>Shareholder</td>
<td>“Other stakeholders could be people who benefit from the business, obviously employees benefit hopefully from the business.”</td>
</tr>
<tr>
<td>Employees</td>
<td>“We donate money to overseas aid, stuff like that. So I suppose there are those sorts of stakeholders. Local charities perhaps to a lesser degree, they would certainly benefit in some way and we would benefit as well.”</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders identified when prompted</th>
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<tbody>
<tr>
<td>Family</td>
<td>“Yes, family is a stakeholder. I mean, I’ve got the business or premises and the business is owned by a family trust so the family trust is a stakeholder. So when I said my wife and I own 50%, that is true but the actual business was bought by a trust and the property here is owned by the trust as well and that is called the [name], so my family, I’ve got four grown up children, they are at some point stakeholders.”</td>
</tr>
<tr>
<td>Industry organisations</td>
<td>“I’m in Australian Business Chamber, so they’re an employer representative who’s a stakeholder. They give us support and help when we require it.”</td>
</tr>
<tr>
<td>Government</td>
<td>“The government, do they help us? I’m not sure. I guess, I pay taxes obviously, but I don’t think Australia will go broke if I don’t pay tax! Yes, they… I suppose they… I find it really hard to find any positive comments to make – not that government is bad – it’s just that there is nothing tangible that I can point to, to say that government is a positive stakeholder in the business.”</td>
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<table>
<thead>
<tr>
<th>Stakeholders implied during the discussion</th>
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<tbody>
<tr>
<td>The owner-manager himself</td>
<td>Seen as an important stakeholder in the business, possessing power, legitimacy and maybe urgency: “I don’t like to think of myself as power but obviously I have several employees who rely on me, so if that’s power, I have power. Yes, I have legitimacy as well. Urgency, I am not sure about urgency. That’s the one I am struggling to fit in a little bit, in my application to myself…. But as the person who pays the boys and pays the suppliers and I can say ‘no I’m not going to pay you this week’, or I can say to my suppliers ‘you’re going to have to wait another month for your money’, I’m exerting power doing that – not that I’d do that, but I could. So I certainly have power, I have legitimacy, just not sure about urgency”</td>
</tr>
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</table>

| Rejected as stakeholders | None |

When asked who could affect or be affected by the business, one group came to mind as being of primary importance: “Obviously customers affect it”. However, other stakeholders, such as employees and suppliers were also seen as very important. Although family is a stakeholder, family does not really affect the business:

No, not really. I mean, they really don’t. I’ve got a young son who works with me, my youngest. He’s just finished his apprenticeship, he’s an employee as well as a son, so he has that situation. So he’s got two
feathers in his cap I suppose. The family certainly is a part of it but they are not really… apart from the son who works with me, and my wife works with me also a couple a days a week, so there is that relationship with the family. But they don’t affect the business necessarily because I can get somebody else to do the accounts and I can get somebody else to do what my son does. But they would I guess be beneficiaries at some point if I ‘cark it’, they’ll get my debts as well I suppose.

A level of dependence existed with some stakeholders, particularly customers and suppliers. The product was described as quite specialised and unique, creating a level of dependence among customers:

… some customers will be very dependent on this business. I’m not so dependent on them because I have quite a – well, some of them obviously; if it was my best customers it would be upsetting, but I would continue on.

I guess there are some particular customers, not so much the suppliers, but some customers who – wouldn’t go out of business because we’d not be here – but really struggle to find our product.

The company relies on a small number of suppliers, most located in Australia, although the majority imported metal from overseas. With suppliers the dependence was reversed:

Well, I’m dependent on, say the raw material supplier – we’ve got to make our castings from raw material at some point. So obviously if that wasn’t around I’d be in trouble, we wouldn’t be able to make our product. So I’ve got a range, probably four people I can choose from depending on what I’m looking for, like quality I mean. So yes, I am very dependent on those people. I guess that would be more me dependent on them than them on me. They obviously affect my business but they would survive, where as if they all went bust … if one or two of them went bust, I would be struggling.

Government departments and politicians influence on business was recognised as a necessary but not very positive thing:

Oh yes, red tape, the amount of information we need to give them. But in saying that, I understand that, and we’ve got pretty good systems here, so we’ve simplified it best we can, so it is not a huge thing to put our BAS statements in every quarter and things like that.

Conversely, I don’t see them as a great support for the business either. Many politicians don’t understand it. Just things like electricity prices for me is a huge thing, we’ve got a furnace that drains all our power. You see the power bill, … since we started have gone up, ahh …[interviewee looks for a power bill] … probably $5,000 a month. That’s what I pay. I don’t see how that’s helping me. Yes, so they’re a stakeholder, both
negative and I suppose there are positives – I just can’t think what at the moment!

However, on reflection, the government does make some positive contributions: “you know, they help me with my apprentices and that’s a good thing. They pay some money for me to help employ apprentices. So yes, when I think about it there are some positive things! There are some positive things that encourage me more to take on an apprentice. That’s a very good thing”.

**Case Study 5: stakeholder salience**

**Power** was seen as influencing decision-making but was also a term that the interviewee found somewhat uncomfortable to use, suggesting that power can be very destructive both in business and personal life:

I don’t think … personally in my whole life I’m very aware of illegitimate power and how it can be fairly destructive. Like you talk about normal relationships with husband and wife, or a child, usually they’re fairly destructive relationships when one’s possessing power over the other. See, power can be destructive. It is the same in business.

The interviewee’s perception and attitude to power was anchored in personal values and provide an example of the closeness between owner-managers’ personal and business life. In order to make sense of power, the interviewee reflected back on how he decided to prioritise between two customers (see above):

I was thinking about this decision that I made. It probably is a sense of power in it, because the customer that I’ve said ‘yes, I’ll prioritise’ have the power to take his business somewhere else and leave me. So there is power in that sense and that would have influenced my decision.

In this situation, power could also be seen as a level of dependence:

Yes, it probably is with this particular customer, yes. He has options to get my product – not many – he’s got one other option who he uses. Where as for me, to find another customer with that value and that consistency, would be probably difficult, so he would have more power than me, I guess. See I don’t really see the customer-supplier relationship as power, a power relationship. I’d like to think of it more … it may be, underlying, but I’d like to think of it as a more positive relationship.

When asked how he preferred to see the relationship if power was not part of it, the interviewee responded:
A ‘mutually beneficial relationship’, rather than someone having power over someone else. Like you talk about normal relationships with husband and wife, or a child, usually they’re fairly destructive relationships when one’s possessing power over the other. See, power can be destructive. It is the same in business. I tend to run the business a bit more … try to anyway … a bit more like my personal life, I don’t necessarily compartmentalise; my business over here and my life over there. I am the same person at home as I am here, that’s how I view life in general. The power thing, whilst it may be there, and customers certainly try to influence their power over me by saying do this or we’ll go to someone else, it’s not something I really enjoy. I’d rather a much more positive sort of feedback and relationship.

Rather than the term power, the interviewee preferred to think of it as ‘influence’:

… so stakeholders and good customers have influence over my business if they disappear, my business will not be as profitable and I will suffer. If you look at that as power, I suppose they have the power to take their business somewhere else”.

I don’t see it as power. Yeah, just my philosophy in life; the world is not going to end, if my best customer walks away tomorrow; we’ll there is not much I can do about it. They may think of it as power, but to me its, ‘well, I’ll find another customer’. So I don’t get into a power struggle.

Regarding the interviewee’s own power, or influence, in the business:

If I have power, yeah. My power is in the nature of my product. If you use the word ‘power’, yes.

I don’t know whether it’s power or... you know, yeah, I suppose I feel a sense of power when you know, like somebody comes in and they want a job straight away. It’s urgent, for a machine … we did a job for a company in Western Australia, there was a boat somewhere up the north coast of [place name] that had died, like it stopped, and they needed my bronze to get it going again. That’s a sense of power. I know it was some strange specification of material, that I knew nobody else would have a go at except us. I knew probably no one else would do it in the time frame, so that’s a sense of power.

If that is the word [power], but I’m still not sure that’s the word. So in that situation, I can charge more than I would normally. Surely that’s all, that’s all the power you’ve got anyway. But I guess you’ve got that knowledge that they’re really relying on you to come through on this. So we airfreight the stuff over, it cost me $5,000 just in airfreight to get it there. So that … there is a sense of power in that.

Legitimacy was initially understood as meaning dependability or trustworthiness. Stakeholders were generally seen as having legitimacy but at different levels: I suppose they do. Yes, suppliers and customers … it would be different. Employees would have,
I guess different levels, sort of, depending on probably how content, or not content, they are in what they are doing here. Yes… legitimacy… yes… what’s legitimate… hm…”.

The interviewee was however able to provide an example to make sense of what legitimacy may mean in the context of his relationship with one stakeholder: a customer had a breakdown in equipment and needed a replacement item to be produced and airfreighted urgently. The customer then queried the cost of the airfreight after the fact and wanted to see the freight company’s invoice to the interviewee. He refused:

I told him that I don’t think that’s commercially correct, cause I’ve got other information on that tax invoice that I perhaps don’t want him to see or … what I’ve charged is what I’ve charged, you agreed to it. You know, I didn’t quite put it like that…

So that was something that I didn’t think was legitimate, from a customer. Normally, you’d say the customer is always right, well I thought on this occasion he wasn’t right. Because of the relationship I’ve got with him, I was able to say that, I think that was fine.

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
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<tbody>
<tr>
<td>Legal framework</td>
<td>A claim based on a legal rule was considered to always be legitimate although a claim that was not based on a legal rule could still be legitimate</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Claims consistent with industry standards would be highly likely to be considered and highly legitimate but not being industry standard does not necessarily rule out the possibility of the claim being legitimate</td>
</tr>
<tr>
<td>Referent power</td>
<td>Status and celebrity of the person making the claim did not matter: &quot;Wouldn’t matter … No, I wouldn’t look at that as particularly important&quot;</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>Whether the claim was considered generally accepted in society or not may be considered mostly irrelevant for decision-making in the business: “Not really, I mean it is hard to relate that to my position but no I’m probably a bit of a maverick on that sort of stuff so I’ll say no. I make my own decisions. I probably conform very much to society but I don’t necessarily think it is important. I do it because of my own beliefs and standards”.</td>
</tr>
<tr>
<td>Own moral values/beliefs/ethics</td>
<td>Own moral values and beliefs or ethics was considered very important: “That would probably be more useful, which would hopefully tell you something! I mean, I’d probably lean towards my own beliefs first rather than what society thinks. Yes, that’s fairly strong for me but I’m not perfect so I’ll say mostly. I do my best!”</td>
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The interviewee considered that there were overlaps between power and legitimacy, again based on a relatively negative perception of the concept of power:

Yes, I think so. The more power, the more illegitimate the relationship becomes because once power comes into it … the power I’m thinking of anyway. The trust side of the relationships tends to go down, it becomes generally more … doesn’t become mutual anyway. It becomes a bit one
sided, the one with power is the one in control. So in that sense probably not healthy.

Urgency was related to the situation with customers and at a basic level understood as meaning “I want my stuff … I think of urgency as being a ‘time thing’. The shorter the time, the more urgent”. The interviewee also recognised that urgency may mean different things to different people: “Depends on who you’re speaking to I suppose. Expediency I suppose, doing your civic duty or duty of care I suppose, to make sure they get the right thing. But they probably wanted it in a hurry as well”.

The interviewee went on to explain:

It’s like the world is going to end if we don’t get our bit of bronze. Obviously, that’s why I was saying that our product is important to people, it must be because they can’t live without it. They can’t live a week without it. So it’s obviously going into something that’s very important to them; a bit of gear, a bit of mining gear, a shift … I don’t know. I wish I knew sometimes where it went! So it’s all about urgency with us and that’s probably what sets our business apart from some of the others who might be doing what we are doing; that we can respond, we’ve got systems in place. Yes, so we are set up for urgency. Urgency is something we understand and we respond to all the time.

Factors that influence the interviewee’s response, particularly with customers may be whether the claim comes from an existing client or not; one-off customers may get charged overtime and be asked for pre-payment. Refusal to pre-pay is sometimes seen as an indication that the job is less urgent than originally put forward – a lack of commitment: “They are saying it with their mouth but they are not committed. If it’s somebody I’ve never heard of, I just don’t respond”. The decision to respond to urgency may also depend on the application:

You know, if he tells me ‘we’ve got a big mining gear that’s shut down, or we’ve got a boat that’s floating around without a rudder’, that’ll influence me and I’ll think ‘oh yeah, that’s urgent, isn’t it’. So if I know the details, and I don’t often get that, often it is just ‘urgent’ and it’s not really urgent. So there’s urgent and there’s urgent! So I try to decipher which is really urgent and which is just the bloke putting pressure on me. So I ask questions. Some people just want it there, on their own workshop floor, so they want to get it a few weeks before they’re going to touch it. Is that urgent? So if I can decipher which one is urgent, particularly if I’ve got to prioritise urgent jobs. I try to look into the customer’s mind to see what he’s thinking, what urgent means to him. ‘Urgent’ means different things to different people.
Integrity was suggested as another important attribute: “Integrity is one … I think business runs better if the owner has some integrity. That goes with being trustworthy and those sorts of things. There is no use in saying things and doing other things. Try to do what you say, that’s how I interpret integrity”.

**Case Study 5: stakeholder relationships**

Being a niche business with limited competition, where each product is unique and made to the particular customer’s specification results in a level of dependence on behalf of customers:

> It’s hard to find other people to do it; it’s not that simple or easy. I guess that’s why it’s such a thing, relationships are a bit more important in this business. If you’re selling nuts and bolts and you’ve got thousands and thousands of customers coming to buy nuts and bolts, it’s different. I might have customers who only buy from me once or twice a year.

Interestingly some customers were also suppliers, strengthening but possibly also adding a level of complexity to the relationship and contradicting the traditional theoretical view of stakeholders as belonging in distinct and discrete groups. To maintain good working relationships with stakeholders was seen as important and a two-way effort that benefit both parties:

> I guess I see most of our relationships with stakeholders as two-way. Hopefully with our employees, I can look after them and in return they do a fair days work. So I suppose it’s sort of … communication and going both ways, and I see that with customers as well. Hopefully customers will benefit from what I give them and I’ll benefit obviously from them. Without them I haven’t got a business, and suppliers the same way. It’s very much a two-way relationship, not so much one-way.

Relationships with customers were not all the same and the interviewee speculated that this may be due to industry or manner of communication. It may also be influenced by how well the interviewee and the customer knew each other:

> I think there are certain relationships that are different, with different customers. I’m not sure whether that’s just a personal communication thing rather than industry. Yes, so obviously there are some customers who I know and who know me, so there is a good positive feedback. There are customers like me, who are small business owners so there is that relationship. There are customers who … where the people I’m dealing with are very removed from the business; purchasing people … so that’s a different relationship. Different sort of way we deal with those sorts of customers. Doesn’t mean you are not friendly and you are not friends with them, it’s just a different vibe of how you deal with them.
Communication with customers who were other small business ‘men’ was perceived as easier, a rapport was easily established and problems could be solved together. Purchasing officers of large companies tended to dictate what they wanted and was not always willing to listen to advice.

Yes, there is certainly... yes, there are ... I have different sorts of customers, do different things at different levels; the people I deal with are at different levels of the organisation. Some people I deal with are general managers – like me, they do what I do. They’re small businesses so they are involved in a lot of stuff.

… you speak to a purchasing officer, it’s very rigid; ‘this is what I need’; ‘but, you’re sure you need that, don’t you… in my experience…’, ‘No, this is what I need’. And you know very well that’s not what he needs because there is no scope, there is no understanding or education. Where if you could just speak to some other bloke – or girl – who is more hands on, they’d just say; ‘oh, yes, I see what you mean’

A mutual commitment, based on trust and respect existed between the interviewee and the most important stakeholders, particularly customers:

Yes, that’s right, a reciprocal commitment. I try to build with most of our … with stakeholders … I talk about building relationships with people, I think that is an important word; it is all about building relationships with people. I just feel if you can do that, the rest of it – well, it won’t necessarily look after itself, because price is important and things like that, but if you can build up trust and a relationship with someone that’s a good start. So that’s when I think about it, basically my priority with stakeholders, that includes employees as well. Suppliers, some people treat their suppliers as a bit of a stain, but I think they are important as well, so I try to treat them with respect as well.

The industry is however not one where ‘nice relationships’ are a high priority and some customers and suppliers do not put much value on the personal relationship building:

Yes, I guess, it is not a ‘touchy feely’ thing running a business like mine; people need the product and they come to me. I just try to build in that relationship as well if I can, sometimes you can’t, they have that one enquiry and just want to do the business. It is the same on the supplier side … you have some suppliers you have very good understandings with and others not so good.

Customers who buy volume or products with higher mark-up were particularly valuable and hard to find:

So if you find one, particularly someone who buys on a regular basis – might have a contract with a mining company who does repairs and maintenance, you’ve really got to hold on to them. Not that they have too many options, but they have options to go somewhere else other than me.
That’s why I try to really look after them and commit to them, hopefully they’re committed to me as well.

Although decisions may be intuitive rather than rational, the interviewee was conscious of and considered the impact his decisions could have on other stakeholders: “Yes, probably a reasonably conscious process. Most decisions are not make in isolation. I mean, they are made in isolation but they don’t necessarily affect you, most decisions affect somebody somewhere, no matter what you do. So that’s a bit scary. So I’m reasonably aware of it”.

Priority was given to the most valuable customers, the once who buy profitable products and buy regularly:

Yes, on the customer side that is definitely true. I tend to look at it as top 20 customers …

I know if they ring up, I go ‘OK, I need to respond to these people because they are my customer’ so I’ll treat them differently to Joe Blow who ring up from the Yellow pages and want a piece of bronze up here. They’ll get the same service, but I’ll sort of prioritise the top 20 customers in front of them if I have to.

Other factors that may influence the priority given to a stakeholder was the importance of the product: “… so if it is somebody who are selling me overalls compared to somebody who is selling me metal”.

Occasionally there will be real conflict between competing demands from stakeholders and the interviewee offers a recent example with two different customers “ … who want their bits of bronze – it’s amazing how the world will fall apart if they don’t get their bit of bronze! – at the same time. Now, we can’t do both at the same time, so I’ll have to prioritise. So it’s a question my 2IC will ask this afternoon; ‘which one do you want?’.

So I’ll have to make that decision. How do I make that decision, it’s a good question!

The quality of the relationships with both customers was an important factor to make the decision. The interviewee considered which of the customers would be most likely to accept a delay, where he thought a little bit of flexibility would be possible without damage to the relationship: “I know the guy, I know he’s not going to scream my head off”. He also considered the competitive situation, one was a long-standing customer and the relationship seen as stable. The other customer was also long-standing but regularly turned to a competitor, The interviewee indicating that there may be some
other, unknown connection between the customers and competitor. The situation was seen as an opportunity to compete; to strengthen the relationship with this customer:

So I continually niggle away on that, trying to get their loyalty. So this is a part of just trying to get further with that, ‘cause I know the opposition can’t to what I do in how quick they want us to respond. That’s our strong point; we can respond very quickly, our quality is really good and price is good. So we cover all those bases. So the reason I made that decision, to cut a long story short, I think – not that I knew in my head until I started thinking about it – was to build loyalty and trust further to what I’ve already got, I’ve already got a fair few in the bank with them now. So that’s why. Whereas the other one whom I’m going to leave another day, later, I’ve already got fairly much the loyalty and trust there already.

The interviewee’s sense making and self-reflection on his own decision-making process, during the interview process provided a good example and insight to how experience and tacit knowledge often form the basis for intuitive decision-making by small business owner-managers:

Well I didn’t realise – you know how you do things instinctively. I did that decision without thinking about it, I just knew, somehow. It may not be the right thing to do; I may ring this other guy up and he’ll scream at me ‘you said we were going to get it tomorrow’.

This also reflects owner-managers’ high level of self-efficacy and confidence in their own ability to make decisions and cope with risk and uncertainty, despite not having the opportunity, given the urgency of the demands, to rationally collect and evaluate all information and come to a rational decision:

No, its intuitive, just experience. I’ve been doing it for a while, and I know both people, I’ve sat across the desk and spoken to them both. This company … the reason I’m constantly trying to … you know, I don’t give up on customers. Even though we get a lot of work from them, I probably couldn’t cope with the amount of work if we got all their business, but I know I’m missing out because of this other relationship, and it just annoys me, but that’s how it works. It’s not based on merit, it’s based on some bloke knowing somebody. But that’s relationships for you, isn’t it?

**Case Study 5: on being an owner-manager**

The biggest challenge of being an owner-manager was to find and keep good staff, and to get rid of staff when necessary. The challenge of finding and keeping staff was probably due to the work place: “It is not an easy place to work, there’s heat and the conditions are not bad but we are in the bush and things. But it can be difficult, it’s a
factory and things, so it can be difficult to work here, from that point of view. The other conditions, of pay and the relationships are very good”.

When asked to identify one thing that would improve his situation as an owner-manager, the interviewee responded: “

Ok, give me a new factory, one that is all one level. The other thing would be one more staff, one more employee that would stay the long term. We were very slow and had to put two guys off, probably 12 months ago, and there has been a slight pick-up. We only needed a slight pick-up really, probably one person probably, but I have not gone and advertised because it is such a hard process for me personally. It is just hard to find good staff, the whole interview process is very laborious. It’s one of the hard things, I find.

The main motivation for the interviewee to be an owner-manager of a small business was control:

I spent most of my life as an employee, so I know that side of things. It is more just taking the opportunity. There was an opportunity that presented itself and without giving it too much thought, I took it. It wasn’t really a lot of thought to go in to it. But I guess it is … it is about control, really. I’m not under someone else, I can call the shots, I have power and control. Probably power, yes.

The interviewee saw his main advantage in dealing with stakeholders as being:

My personal strength, probably that I don’t get flustered, a fairly even temperament, which I think is important, and pretty good systems. I’m a systems person, I like spread sheets and databases and things. I’ve got the place running – what I think, compared to the way it used to run, because of my playing with systems – reasonably well.

I’m a fairly even temperament, in terms of personality. I’m calm, no screaming and shouting.

The biggest difficulties were seen as safety and motivation:

Occupational Health and Safety. OH&S is always an issue. Obviously that’s important. In any business, you don’t what anyone being hurt. So I suppose that is a risk that is always on my mind I suppose. That’s just manufacturing. Other risks, probably government policy and world conditions. You know, competition from China, that would probably be the biggest risks.

To be motivated to continue to build the business at my age, that would be it for me. Probably management succession is another issue and difficulty. In terms of the viability of the business it is important that I think about the future. Being a small businessman, a lot relies on me to reduce that liability. So that’s a risk. Yes, management succession, for when I’m out of the equation, which is what I’m working on at the
moment a bit. But those risks are long-term, the sustainability of the business. If I cark it or decide to go home and play golf or something, we need somebody else here.

A final comment was about the interview process: “It’s got me thinking about a few things. Often you don’t … like I say, you just do things, and it is good to actually sort to talk about why you do things sometimes”.

Case Study 6

Case study 6 was a small local producer of handmade cheeses sold direct to consumers at the premises and at farmers’ markets. Direct competition was limited, cheese as an un-differentiated product was available from any supermarket, the competitive edge of this manufacturer was that the cheese is hand-made and that the consumer could have a direct interaction with the manufacturer to acquire knowledge about ingredients, usage and even input on new offerings.

Case Study 6: stakeholders

A stakeholder was understood to mean “ … an interested person, an interested party, who – not necessarily financial, but who has an interest in the business succeeding”. The basis for the definition focused on a financial interest and the two main stakeholders immediately identified were the family and the landlord: “… if I disappeared into a parcel of dust, anybody else I’m dealing with wouldn’t even feel an effect. So as far as I can see, that would be probably a better definition of a stakeholder”.

This was not seen as being equal to dependence:

Not dependence, but would feel an effect. If for example I vanish into a parcel of dust, then my supplier – be it Coles or whoever, wouldn’t even notice that I didn’t exist. So they’re not a stakeholder. However, if I vanished into a parcel of dust, the person who has financial interest in that would definitely notice it because they would then have to restructure their business to recoup loses and so forth.

An overview of stakeholders are presented in Table 5.14.
Table 5.14  Case 6: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
<th>Stakeholders identified when prompted</th>
<th>Stakeholders implied during the discussion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family</td>
<td>“… there’s a family of three who operate the business, and they’re obviously a significant stakeholder.”</td>
<td>“We have cancelled a couple of markets where we were spending more rent and we weren’t getting the required return back. So we stopped.”</td>
</tr>
<tr>
<td>Landlord</td>
<td>“The only other interested party would be the landlord”</td>
<td>“We need to grow, ‘cause the customer’s here today, won’t be here tomorrow. So we need to be on top of that, we need to develop new customers all the time. Word of mouth is the most effective way of advertising, especially with social media; one good comment can go around … one good comment will go as fast as one bad comment on social media, and you know, it could be talking well beyond your reach with a good or bad comment.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stakeholders implied during the discussion</th>
<th>Rejected as stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farmer’s markets</td>
<td>“No. No, we asked the government for help and we got told ‘what?’ Again, if [company name] vanished into a parcel of dust, then they’d have to get their tax from elsewhere but they wouldn’t have to restructure because of it.”</td>
</tr>
<tr>
<td>Referrers</td>
<td>Not applicable, have no investors</td>
</tr>
</tbody>
</table>

Regarding whether dependence was part of being a stakeholder, the interviewee pointed to the business’ dependendedce on three types of customers: “We have three income streams. The first one is the shop, we also have the farmers markets and we have wholesale. Each one of those represents fairly even loyalty to us and we’re fairly evenly dependent on those three”. Regarding dependence in other stakeholder relationships:

I haven’t actually given a great deal of thought to those kind of dependencies. I don’t believe the general community would … you know, they’d be upset for a day if I wasn’t here, but I don’t see it as being a major impost to them. Our customers, our wholesale customers: pretty much the same. When you are out at the [farmer’s] market, you are really just a tent, you are just selling a warm body, it doesn’t matter what you’re selling and if you didn’t turn up tomorrow, they wouldn’t notice.
The strict definition of the stakeholder concept was new to the interviewee, who commented: “Yeah … ahm… I’ve had to slightly modify my definition of a stakeholder as you ask question and I start thinking ‘yes this person would be affected by our demise or this part would…’ – I’m still trying to redefine my definition…”

**Case Study 6: stakeholder salience**

*Power* was understood as the ability of customers collectively to influence the business: “You’d be naïve to believe that your customers don’t have some power of dictation to you“. An example was a recent consideration to abandon the use of canola oil in response to customer requests and comments. Such change puts the organisation on a learning curve:

Ahm, some of our customers are expressing a desire not to have canola oil, and we are starting to lose those customers. So we now need to assess whether we need to use canola oil or whether we’re going to change to sunflower. So we have to weigh up a few things, cost being one of them. But we also have to look at the technical side of things; is it going to work the way we want it to work? So we’ll have a look at that. So yes, as a combined group they certainly have power. Ahm … they can certainly create a need for change. Whether they could dictate actual trading terms, I don’t think that they’d be able to do that. Having said that, if Coles and Woollies were our customers, then they can dictate. But yeah, I don’t think that in our business, the customers have enough power to be able to be a problem, but I certainly understand that customers do have a lot of power.

Suppliers also have power but “I don’t think they have as much power“. Suppliers’ ability to influence the way the business operates is limited as the business is not exclusively reliant on any particular supplier. Although the preferred option is to stay with current suppliers, it would be possible to replace them, should the need arise: “I’m fairly certain that we would go elsewhere. Having said that, we always want to be in a situation where we’re comfortable with each other. There is no point in trying to do business with somebody you actually loathe“.

The most powerful stakeholders in the business is family: “Family is - my wife and I, and my stepson”. Within the family – as a stakeholder group in the business, the interviewee claimed significant influence: “I’m the boss because she says I’m allowed to be!”, a kind of delegated influence “It’s just … it’s a mutual consensus” that was moderated by considerable respect and consideration for the other two family members:
Yeah! No, it’s … the power is not a … I mean, ultimately I’ve got a job to do, same as [wife] has a job to do and [son] has a job to do. We try not to step on each others toes, but by the same token if something needs to be done, we’d … as in something needs to be changed because it is not quite right or its breaking a law or whatever. We all like to believe we have a bit of power.

So I … and even with employees, it would never come down to a triangle hierarchy. You know, the employees: I need this done, I don’t need to explain why I need it done. Certainly within the family ‘this is why’ and normally there’s a rational discussion to try and trash out what needs to be changed and how it can be changed. On paper, it says I’m a sole director. But that’s only on paper.

The interviewee’s power varies with the situation and depending on which stakeholder is involved. Important decisions are typically made as team, involving family members and sometimes employees, with a focus on solving problems:

I’m the sole director. But that doesn’t mean that I make all the decisions and it doesn’t mean I make all the right decisions. Ahm, the same as if I’m talking employees, and I say ‘this needs to be done’ and they go ‘hang on, that doesn’t make sense’, then I’ll stand back and look at it. Ahm, we’ve told our customers, our trade customers that if they want something, we’ll do it. We have to bear in mind whether it’s legal and things like that, but that’s … it’s then a matter or working around the … you know, creating the solution.

Power is part of decision-making but power could also be misused:

Power corrupts and absolute power corrupts absolutely! Ultimately somebody has to make a decision to go against, as you said, morals and ethics or whatever you want to call it. It’s something that I can’t see arising. I think we are a little bit isolated because we are not a group of people who are potentially looking at alternatives and … I don’t know. I’m trying to think how somebody who were running the mafia would answer that question! I can’t see it arising.

Legitimacy was not immediately understood and perceived as relevant to the business:

Ahm, I’m currently playing cross-words trying to put that in … in the right spot so to make it so … whether the customers are legitimate …

I haven’t been put into a situation where … a request or a demand has been considered illegitimate, and I couldn’t imagine one arising.

<table>
<thead>
<tr>
<th>Table 5.15 Case 6: Basis for legitimacy</th>
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<tbody>
<tr>
<td><strong>Basis for claim</strong></td>
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<tr>
<td>Legal framework</td>
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to use that as a springboard into a conversation. I can’t imagine … because we’re a family. You know, we drive to work together, we drive home together and we eat together. Questions like that would be bounced around and I might make some very brash decisions, you know ‘there’re a couple of customers we’re not going to deal with’ but … I can’t imagine being put in a situation where a customer would ask me for an unlawful situation. The customer asks out of ignorance, they might not know what the law states. In the case I would accommodate them to the best I could, within what I know is the law. I wouldn’t … if knew something was black and white, I wouldn’t go into black if I know it should have been white.”

| Industry standard | “It still has to match our ethos. You know, if it was going to be … if I felt uncomfortable doing it or if there was going to be … I, I as in the family … if we felt it was uncomfortable, if one of us felt it was uncomfortable, we’d trash it out and try and get that middle ground where it was comfortable, or at least understand what the things were. Even if it was standard practice … I can’t imagine a situation arising … it if was distasteful, for whatever reason, even if it was standard practice, I simply wouldn’t be doing it. And again, because I don’t have to rely on five managers below me to do the right thing and so forth, those decisions can be made spur of the moment and within the circle, and then within a weeks time it can be changed if more information comes to hand – it can be changed.” |
| Referent power | “No” [doesn’t influence decisions] |
| Cultural/social acceptance | “I think it comes down to our ethos and our ethics, and … I don’t have to pick up a $300 order if we’re not going to be comfortable with it, and we’re concerned that it’s going to create a problem. Yeah, it’s one of those things, I can’t see it arising.” |
| Own moral values/ beliefs/ ethics | “Yes, [a strong influence!]. As I said when we started, I have a belief that I’ll trade ethically and honestly with everybody and I expect the same back. I don’t necessarily have to agree with the principle to be upholding that principle for a purpose – if that makes sense.” |

Legitimacy was not seen as an issue in the current set-up of the business but the interviewee thought that may change if the business was ever taken over and run by a management team rather than as a small owner-managed business: “You have a chance of a major stakeholder going ‘I need you to do this’ and needing … so desperately needing that stakeholder that you go, ‘yes alright’ and once you do it once, you do it all the time. But that’s not something that I can see happening within the small group”.

**Urgency** was explained using an old saying: “The squeaky wheel’s always going to get the grease”. Urgency can thus be a mechanism for getting things done and force compliance with demands:

… you’d respond to somebody who’d jump up and down and forsake other customers for it. Only to find out three weeks later that it was only as urgent as everything else and you have actually lost customers or damaged relationships, because you dropped the ball for them so you could pick up the ball for them [the other people]. That does happen but we don’t have … our stakeholders don’t have that level of power.
At the time of the interview, there were no ‘urgent’ stakeholders, but the interviewee readily admitted that the situation could change at any time. A prudent approach was to avoid getting into urgent situations in the first place:

We’ll always try to avoid getting into that desperate urgent situation. But yeah, an important enough stakeholder … elsewhere an important enough stakeholder with enough jumping and yelling and screaming will certainly have chance to dictate a requirement. And it would certainly affect a decision that would have to be made, but the decisions that would … you know, the interactions that we would have with stakeholders, major or otherwise, I can’t see them calling those sorts of shots.

… but I try and avoid them jumping up and down by giving them the extra special treatment first.

Definitions of what constitutes urgent varies between stakeholders: “Yes, so sometimes, their urgent is not my urgent”. Perceptions of ‘urgent’ may also vary between stakeholders and even between customers:

… everybody’s urgent. I’ve actually had a customer turn around to me and go ‘this is not urgent, tomorrow morning is fine’, and I also had somebody turn around and go ‘this is really, really super-urgent, I must have it by next Friday’ – and they mean it! They honestly mean it, that was their level of urgency: ‘this is a week away but if I don’t have it, the world will end’. The other person, was going ‘if I don’t have it tomorrow the world’s going to end but it’s not urgent – you take your time for it’. You’re always going to have a different level of urgency.

So I don’t respond necessarily to a different version of urgency ’cause as far as I’m concerned, the person who’s bought a bucket of cheese is buying a bucket of cheese, and they need the service that comes along with that.

A base line was a concern for safety and legality: “By making it more urgent, doesn’t make it … doesn’t give you the right to make it unsafe, illegal or immoral or whatever, and you can only do what you can do “. Situations may however occur that are legitimately seen as urgent:

… if somebody’s got a bucket of haloumi and pick it up and the handles fall off and it hits the ground and goes everywhere. If they’ve got service in an hour and have got to get the haloumi up and ready, well, that’s not a … that’s not a perceived urgency, that’s a situation and that’s a different thing. But here, I can’t make it any faster, I chuck it in the car and I drive it out there, I’m not going to speed to get out there, they’re not going to pay my fines. So if they order it now and go ‘desperately need it’ …

We don’t have the resources to get it to you, what can you bring to the table so that we can meet your urgency?’”. That breaks them down as well.
Personal relationships built on qualities such as rapport, respect, integrity honesty and friendship were seen as potential other attributes that would influence the salience of a stakeholder:

… your best customers are always going to be your friends, or your best customers are people who become your friends. I don’t like letting down friends.
Rapport, regularity, respect, I would say, everything that you would desperately rely on to have a friend, is the people you need as customers and you might not necessarily get that, but you can aim for it.

Changes, such as introducing a new product, involved evaluating customer preferences, the business was very customer driven:

Ahm, we perceive the need first … we’ve created a couple of new products, and those decisions were ‘we should be able to take it to that level’, we’ve taken it to that level and it was successful. I’ve had a customer specifically ask for a flavour, so we’ve made it – that flavour. We don’t lock the customers in to get a specific size, if they wanted two and half kilos, they get two and half kilos, if they wanted 2.7 they get 2.7, up to a point. Obviously when you look at a product and go ‘yes that’s got ‘saleability’, you’re obviously looking at your customers who are going to be interested in buying it.

Case Study 6: stakeholder relationships

Customers featured strongly as the interviewee worked to make sense of the concept of stakeholders but all customers were not equally important:

We try and treat all customers the same. Obviously if a wholesale customer rings up and goes ‘got a problem, need it fixed’, I’d do what I can straight away. Because their typical turnover would be … you know, they would be equivalent to five to ten customers. We automatically place more importance on that. If I lost two or three wholesale customers, that would be significant, that would change the game significantly. If I lost 20 or 30 retail customers, then I’d pick another 20 or 30 up. That’s always going to change.

A commitment existed with some important suppliers

As far as our suppliers are concerned, we haven’t said … yes, we have with our milk, which is our major thing, if we don’t have milk, we don’t have cheese. So we have a commitment with our milk supplier and they have a commitment to us. If any of that change, it would be noticed. As to other suppliers … don’t think there would be … I don’t think one would be noticed. Same with general customers, I don’t think a change in one would be noticed. It’d have to be a significant event; it’d have to be
something that caused all of the customers to stop. That’s not a stakeholder issue, that’s bigger.

The stakeholder group suppliers, specifically the suppliers of milk were also heterogeneous: “Some of them are single … small family groups. Some of them are of the level of multinationals even if they are not actually multinationals”.

In the case of conflicting stakeholder demands, typically involving customers: “If there was a … conflict is probably the best concept for it: if there was a conflict, we would try to get torn in two different directions to solve it”.

Consideration was also given to the time taken away from other work, such as paperwork and production, to attend a Farmer’s Market:

Ordinarily, if I drop a market, it is purely numbers, if we are not doing the numbers that we need to, then there’s no point in going to the market. We’re better off staying here and doing paper work rather than … and I’ve actually dropped a couple of markets, or one at least – no, a couple of markets: by the time I paid rent, drove down there and so forth, it just wasn’t working for me. So I dropped it and I didn’t get any flack about it, didn’t lose any business.

The interviewee felt it was important to not be emotive about such decisions: “We need to be very rational about it”. The Markets attended were carefully selected strategically to ensure maximum return on investment. On occasion, a market would be rejected on other grounds, for example location. Honesty and looking after trade customers was seen as essential:

I always play the game, I’ve got to be honest, and I expect people to come back to me with the same level of honesty. So … but … I would do that regardless of who … whether they were a stakeholder or part of a group who were a stakeholder. Yeah, I wouldn’t change that. My dealings with the person … the next person who walks through the door, at the moment, right now, they’re the most important person here. Sure I’ve got other things; if the café rung up and said ‘we’ve just dropped a bucket of haloumi and we’ve got dinner in an hour’, I’d but it in a taxi or jump in the car, or meet them half way or try to organise something. That’s looking after five to ten customers in one go.

Case Study 6: on being an owner-manager

The biggest challenge of being an owner-manager was time:

Ahm, time! It’s always going to be a situation where you’ve got thirty jobs to do and twenty of them can be done by anybody but nobody does them, and ten of them can only be done by you and you don’t have the
time to do them because you’re doing the other twenty. It’s a matter of juggling it, but yes, that’s going to be the biggest killer. You know, I’ll get home tonight and I’ll be doing the paperwork and other things or web design or whatever. So although I’m physically in the building for 12 hours, doesn’t mean I’m not working for 16 or 18. But I have to because – and so does [wife] and so does [son] – we have to, because in five years time we want to be able to sit back and have it just rolling over and go ‘that needs to be done’. We don’t want to be up at four o’clock in the morning making cheese, driving to Sydney.

Biggest motivation for being an owner-manager was long-term benefit: “I look forward to retiring, I look forward to having a self-sustaining business, one that … it’s never going to be easy. It’s never going to be ‘put your feet up and have fun’, but it’s going to get easier. As it gets bigger, you introduce new headaches …”

Case Study 7

Case study 7 trained thoroughbred horses for racing and was based around the knowledge, experience, reputation and licence of the sole trader, the 84-year old father of the interviewee. The business was family owned and operated with the interviewee, her husband and brothers working in, and running the business.

Case Study 7: stakeholders

The term stakeholder was understood as meaning: “Anybody or any organisation that has an input or is affected, or an output... So your internal customers, and your external customers are all stakeholders”. The clients were the owners of the horses that were trained by the business, a primary stakeholder group on which everything else depended:

It’s hard to put a finger and say our clients are the most important; if we don’t have clients, we don’t have a business. But if we don’t look after our horses, we’re not going to keep those clients either. And if our staff aren’t well enough trained or conscientious enough to look after our horses, you know…. But I would say our clients, because without clients we don’t have anything!
Regarding who could be excluded as a stakeholder, the interviewee indicated people who work in the industry but have no direct influence on the business’ direction or decisions made:

Ahm, … hadn’t thought about that! Probably all the hangeron-ers! People that are … we have our own stable, and then we train at [place] race course, so your know, the people that you’re dealing with at [place] Race Club in a daily … ahm … sort of routine, where they’re doing their job, saying ‘you can go on the track/no you can’t go on the track’. They really … other than doing their job, they’re not really a stakeholder to us.

An overview of the stakeholders is presented in table 5.16.

Table 5.16 Case 7: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
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<tbody>
<tr>
<td>Clients</td>
<td>&quot;Our clients would be the first stakeholder. It’s difficult because it is a little bit of a combination, maybe it should be our life stock, the horses&quot;</td>
</tr>
<tr>
<td>The horses</td>
<td>&quot;… probably our governing body is a stakeholder&quot;</td>
</tr>
<tr>
<td>Racing NSW</td>
<td>Staff members are essential to look after the horses</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Suppliers included feed merchants, farriers, veterinarians, telephone company, electricity provider and so on. &quot;[most people in the business]… they don’t think about the suppliers affecting them but it is a vice-versa. If we can’t pay our supplier, our supplier’s gonna have … that’s going to roll on to his stakeholders, isn’t it, and vice-versa&quot;</td>
</tr>
<tr>
<td>Stakeholders identified when prompted</td>
<td></td>
</tr>
<tr>
<td>Family</td>
<td>&quot;Yes and no. They’re a stakeholder because they’re actually keeping it going at the moment, but in terms of the financial reward to them, they’re just wage earners … no different to anyone else, if it goes belly up, they’re just the same as all the other staff. They may hold on a little bit longer, and they may work for nothing… yeah.&quot;</td>
</tr>
</tbody>
</table>
| Financiers/ investors                  | "Financiers … yes possibly. Investors … it depends on whether you look at an investor as buying a race horse. Like I said this industry does not fit into all the squares and circles! Someone could come along and say ‘I have x amount of money, buy me a horse’ and they’re racing it purely for what they can earn from that horse, and it’s a business for them in themselves. You have other people who might breed a horse or buy a horse, and they are racing it purely for pleasure. I think that investor thing can depend on the individual … what they’re looking for."
| Community                              | "Over the years, we have had … school students come in to do work experience but insurance is starting to put all that at play, make it harder. It isn’t … as the years have gone on, we have had less school students asking to do work experience. We, over the years kids would come a long and they’d want to work … so you give them a Saturday afternoon/Sunday job, it’s probably 15 years since we’ve had kids knocking on the door wanting that work. As we have less happening in the country and we have less people riding horses to work cattle/sheep, and they’re using motorbikes, you have less kids that have bush skills or horsemanship skills coming through, looking for a career and the career path have gone into business management, so they can get a job with a top stable as their racing manager or something."
| Punters*                               | "They’re definitely a stakeholder in the industry because for every dollar spent with the TAB, the industry gets a percentage of that from the government, and the industry as a whole, are very aware of punters being a big stakeholder. And unfortunately, from our point of view, we feel that they are focused far too much on that. Because that’s where the money, the funding’s coming from."
| Government                             | "… they’re making the rules. It’s a little bit in the … there’s a bit of a push now with…" |
industry wanting the government to give them a bigger percentage of the tax that is collected from gambling.”

Other industry stakeholders
“... there would be possibly other stakeholders, industry stakeholders, ‘cause you have farriers, you have veterinaries surgeons that are all in there... The truck mechanic is a stakeholder, you know...”

The interviewee
Affected by changing work loads

Stakeholders implied during the discussion
TV and online media
Has affected the industry as punters chose to bet online or from TAB outlets rather than attending the races.

Apprentice
An important stakeholder with a mutual dependence over time

Rejected as stakeholders
None

* People gambling on horse racing

Regarding whether dependence was part of the identification of stakeholders, the interviewee commented that it depended on the person; they were small enough that the dependence was low, stakeholders would be able to find somebody else. Other larger trainers may have more impact. The punters were seen as gamblers first and would find something else to gamble on: “Now, if you had no punters, they would go to another sport because if you’re a gambler, you’re a gambler and you’ll find something else. So they go to football or they go to car racing or whatever else you can bet on”. An indication of dependence on betting but not necessarily horse betting, that makes the industry dependent on being able to attract such people.

The industry was affected by the introduction of technology such as TAB big screens, Foxtel, TV coverage and internet: “… the industry’s seen a decline in participants turning up on the day – punters turning up to the races, because there is TV and there is internet and they can sit at home in their lounge chair, drinking beer, betting on their TV, watching the races”.

**Case Study 7: stakeholder salience**

**Power** was understood as meaning: “… influence or control”. The difference explained as: “Well if a stakeholder has control, it’s final. If it is an influence, it’s negotiable”. The interviewee offered an example:

Some [clients] actually say, ‘you’re the trainer, you’re in control’, and all his decisions, well 95% of his decisions are just accepted. There may be negotiation about which race; between going to Newcastle or Gosford, you know, but basically the races are … it will be coming down to ‘we nominated here, we nominated there – I think this field is an easier field’. So that’s not really control, that’s influence or knowledge.
Power in the industry is based on knowledge, expert power: “Knowledge in this industry is everything … but it’s also reputation … well not so much reputation but respect for that knowledge”. The interviewee then added that

I’ll just say, with the power, just from a personal view, my role in the family business: I’ll have the power to do … pay all the bills, I have access to all the money, make decisions – I need a new printer, I go and buy it – but when it comes to the finer things of … ahm, doing the costing and explaining that we need to put our fees up because we are not breaking even. That can sometimes be ignored because a lack of understanding, or a lack of generational transition from ‘it’s a small family business, you just keep putting in and putting in and putting in, to running it as a business. Where you can still be a small family business, but if you … your minimum goal has to be to break even.

I often find that small business don’t often realise the importance of having the right people in the right job and giving them the authority to carry out their job.

There was a perception that this was partly caused by a lack of business training but also a desire for control and reluctance on part of the founder of the business to let go and hand on responsibility for the business.

Yes, and that control thing, feeling that ‘you’re getting to much power in my business’. Because you find that they think of it as theirs and they don’t think of it as … the managing people… or the sole trader doesn’t think of the people involved as stakeholders, and the importance they play.

You have to allow people to grow personally, even your staff.

Legitimacy was a term that was not well known: “I don’t know, it’s difficult. That sounds to me like … that it’s real, it’s real business. It’s not a hobby, it’s genuine business”. Stakeholders able to make legitimate demands on the business included suppliers, staff and the governing body: “

I mean they can legitimately come and say ‘we want to get paid’. That’s how I would look at it. Our staff can legitimately come and say, ‘this is unsafe, we want this rectified’ so it’s probably not a lot different from a lot of stakeholders we have talked about. There is Racing NSW – they have the power to walk in at any time and demand see treatment records, demand to check every horse and want to know … ‘well this one is recorded as being in the paddock, why haven’t you done a stable return, we’re going to take blood tests of this, this and this horse’ – and that’s just how it is. So they’re legitimately able to enter your business premises at any time, they have a surveillance team. They don’t have to give you notice, quite often they will ring, but they can just turn up.
Table 5.17  Case 7: Basis for legitimacy

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Legal framework</td>
<td>A claim based on a legal requirement would Always be seen as legitimate but a claim could also be legitimate even if not based on a legal requirement</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Industry standard was Always or Mostly a basis for legitimacy: &quot;It would be: does it have to be done now or can it be done tomorrow.&quot; A claim that was not industry standard may still be considered, for example an experimental treatment regime such as acupuncture.</td>
</tr>
<tr>
<td>Referent power</td>
<td>Identity of the stakeholder making the demand was ‘Always’ or ‘Mostly’ be important: “Always, from the point of view that that is how our business operates, we are there for the owners but they are all treated equally. An example was provided: a well known jockey wants to ride the horse, the owner wants him but the trainer doesn’t think he will suit the horse: the owner will get their way – he pays the bill, you can only advice”</td>
</tr>
<tr>
<td>Cultural/ social acceptance</td>
<td>“I would go with what I felt was right, so ‘sometimes’. I think it is important to make decisions on what you think is right, not what society thinks. There’s been a push to ban the whips, it’s seen as cruel. From a horsemanship knowledge, we would have to disagree. New whips just makes a noise.”</td>
</tr>
<tr>
<td>Own moral values/ beliefs/ ethics</td>
<td>“Yes that’s very consistent. Yes, we’d like to think that something is right or wrong, so I guess ‘sometimes’. This changed to ‘always’ during the discussion as the interviewee considered what would happen if a demand was not consistent with her own values: “Don’t do it. Rarely. For example with the whip, if the horse does not need it, it is five lengths in front, why would you need to use it.”</td>
</tr>
<tr>
<td>Other</td>
<td>“Maybe it just comes down to breaking rules. You have to be at the races early – rules. You might think it’s hot and you might get there just on the time and ‘stretch’ the rules.”</td>
</tr>
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</table>

The interviewee perceived that a link existed between formal and informal legitimacy: “I think there’s a link because informal ones are probably more your personal values and your personal values will be linked probably to some – not all but some laws or regulations, won’t they”.

**Urgency** was understood as meaning: “it needs to be dealt with and it needs to be dealt with now”. An obvious example would be with animal welfare, if something happened to a horse: “It needs to be treated or the vet needs to be called, it needs to be given pain relief because it’s suffering. That needs to be done now. We can’t wait ‘till … ‘it’s 9.30am, we’re going to finish our shift’, we can’t wait ‘till 2.30pm when they come back. It’s probably the same as feeding and watering your horses”.

Urgency may also come relate to more mundane concerns such as: “… paying bills, paying staff, all those aren’t … animal welfare and health, safety things … We have a thing that says ‘safety to yourself, safety to others and to your horse’ are the three … not necessarily in that order, it may be safety to yourself and your horse first and then to others, depending on the situation“.
Urgency may also occur with staff members occasionally requesting to be paid early, between normal pays. Such requests were decided on the merit of each individual case and taking into consideration the situation.

The interviewee perceived an overlap between attributes of salience: “yes, there is probably a little overlap among them. If you’ve got the power, you can decide that something is urgent”. Regarding possible other attributes of stakeholder salience:

I think we’ve covered it because at the end of the day, it’s a team. If you’ve got a team environment, all those things … and team and management, they’re going to be looking after the overlaps. You know, some people have to make decisions and some people have to follow. Other than that … even if it’s financial, there’ll be a legal obligation or a legal thing that you must do; ‘pay this’ or you haven’t paid it so a legal ramification … ‘we’re taking this’.

Case Study 7: stakeholder relationships

Overall, the relationships with stakeholders were seen as a network of interconnected parts: “… we’re all interconnected in so that if we’re not getting paid, our internal stakeholders can be affected. If we don’t have clients, our suppliers are going to be affected“.

The relationships with various stakeholders varied. Even within stakeholder groups, relationships with individual staff members may for example vary depending on level of experience and willingness to keep learning: : “Your staff, your employees … there’s … it only comes down to personality and ability to learn”. Some would stagnate in their learning after the first 12 months and the decision then had to be made whether to persist with trying to encourage them to get to the next level of learning or make other arrangements.

A similar situation existed with clients: some clients are very easy going and accepted advice while others wanted to be involved in the decision-making regarding their horse. This may include decisions regarding how to train the horse and when and where to race the horse and did not always match the professional advice from the trainer. On occasion, such situations may involve a conflict between the owner’s desire for financial gain and the trainer’s concern for the welfare of the horse and their own reputation should things go wrong.
Some owners are in a long-term relationship with the business: “We’ve had clients for 30 years, they’ve always had one or two horses. We’ve lost some of those recently, more I think through my father’s age and decline…”. Such relationships are typically very personal and persistent: “So the horse has gone but they have stayed, and it has actually cost them money. But they have been very old school: loyalty and standing by what was right was better than chasing the dollar”.

Clients are the hardest stakeholders to replace whereas with staff: “Your general everyday staff aren’t that hard. You might be short staffed for a couple of weeks but someone will come along”. Some of the applicants are however limited in their availability: “The other problem that we’ve found recently is that you can find the staff and they’re sort of mature age or single mothers, but then they’re only limited to the hours that suit them”. A direct danger was also present if the staff member brought children along.

With some staff, the issues were more about appropriate training and understanding the industry, often attracting kids and animal lovers with unrealistic perceptions of what the job involved: “It takes a long time for them to understand, these are performance animals, these are high … they’re fed to perform, high energy and they’re not pets. And you have to be alert, you have to be conscious of the dangers…”. Some types of staff were in short supply: “Track work riders are extremely hard, they are – not so much a dying trade, or they are a dying trade because everywhere in Australia, Australia wide … if you typed in ‘racing jobs’, there’s a website, ninety percent of the jobs are people looking for track work riders”. A track work rider must be able to pace the horse during training and there is a lack of people with such skills but also people willing to become trained. This may in part be because of the working hours which start very early at 4.30am and finishes late, with a rest brake of several hours during the middle of the day. The pay is also relatively modest at about $17 per hour. There are also simple ‘size’ restrictions on riders of race horses with limits on both height and weight, and a trend towards more female riders. The business had an apprentice that was seen as an important stakeholder, representing the future of the business in more than one way; the business will earn a share of her winnings once she starts racing, and if successful also a reputational gain. The relationship, over time was also likely to become mutual and
interdependent: “I guess from that perspective, I’m an important stakeholder in her future”.

Relationships with suppliers were also sometimes long standing: “So some stakeholders have a long, well established relationship, and it’s old fashioned loyalty and old fashion knowing that if you say ‘you’re going to get paid’, you get paid. … We’ve feed merchants that we’ve dealt with for 20 years and if things are slow for us, they’ll carry us. Such loyalty was based on a combination of a trust in the person and that the business had a reputation for always paying: “… suppliers know that even if you’re slow, they’ll get paid. I think that’s something that’s been evolving – it goes around. It’s an industry where you’re either up there or down here, and if you’re down here, you’re up and down, you have peaks and troughs. I have a theory that if the business doesn’t have money to pay the bills, everyone gets something, every month”. The pattern of peaks and troughs often flow from clients who do not pay on time and even decide to abandon the horse, which in the meantime needs to be looked after; fed and watered, and therefore costing money which may never be recouped.

Prioritising between such conflicting stakeholder demands required honesty in telling the owner of the horse the potential consequences of the decision: “So your horse would be better to go to the paddock, he’d be better to have three months in the paddock, come back, have another little preparation, but he won’t really start racing ‘till he’s three”. However, if the owner insisted: “… you carry out what they are paying you to do. What it means is that they won’t have a horse that’s racing at six, that horse will probably break down by the age of four”. A concern for safety was however overriding:

Unless you really feel that it’s going to be dangerous; welfare isn’t just about the horse, it’s about staff… ahm, there’s rules and there’s probably regulation. If your horse isn’t… have had an injury that may be more severe if it’s put under pressure, you’ve got an obligation not to race that horse.

You’re going to put a jockey’s life at risk and you may put a whole field of let’s say 12 jockey’s in the race, may put 12 lives at risk. So you then have to say ‘No, he’s too sore. You can’t’. If they take the horse off you and then race it, that’s their… but you’ve got to have a conscience.

Although accidents do happen – the industry is inherently dangerous, questions are asked if there is a fall in a race and the governing body, Racing NSW do autopsies on horses that break down during a race and have to be euthanized. A finding that there
were pre-existing conditions that should have been recognised may have repercussions, both legally and on the trainer’s reputation. “It can occur out of neglect or lack of understanding but that’s rarer. Most trainers have an unspoken ‘code of ethics’ I suppose, where the horse’s welfare is at the forefront. The horse’s welfare would come to the best of their ability before the owner’s welfare”.

Case Study 7: on being an manager

The main challenge of being in charge of a small business was seen as “Staying afloat! [interviewee laughs] Surviving!”. The interviewee also saw a problem with training for small business operators:

There are so many changing regulations, so many changing WH&S type obligations, that 20-30 years ago, small business didn’t … wasn’t aware and didn’t really acknowledge. Today they need to be aware and they need to acknowledge and it is very difficult to have … to find that information; to find out what you should be doing and you shouldn’t be doing. To move from the small business where you have a little manual cash book and you’re writing … you do your accounts. To today’s business world … where do you go for some simple, inexpensive, cost efficient advice. You used to go to your accountant, they don’t always have it. They’re not always interested. You can pay big money and go to business coaching, they don’t’ always understand, they don’t always understand this kind of business. They understand retail. And when you do … I’ve done courses. I tried to do some business administration … it’s all based on retail. And I say to them ‘I don’t know how to put…’ I know that that works in our industry … in horse racing, but I don’t know how to transfer it, into a mindset … into a … I remember doing something … and they talked about: you buy the material, then you make it into something … and then you sell it’, how do I turn that into horse racing???

The industry of horse racing was seen as changing and it was hard to keep up: “I see our industry, in the future being much more like Coles and Woolies. You’ll have only the big competitors and very, very few little independent sole traders or family businesses”.

The most important thing to improve the situation would be to offer industry specific courses: “You know they do not even have a racing industry admin course. They have all these courses; you can be a steward, an administrator for a race club of one of those things but I couldn’t just go and say ‘I’d like to do another course’ even if you have a look at MYOB. It’s very hard to set up my industry in MYOB, to do your invoices and everything”.

The industry is large but seen as lagging behind in many important areas such as workplace health and safety, which needs to be better implemented, especially on the race tracks: "Why when you have an industry as big as ours … they wouldn’t even think… they’re more concerned with… I think the jockey’s weight, the right horse…”.

The interviewee cited several concerns with the business and industry that affected the motivation to continue and put constraints on the ability to grow the business:

- Me personally? Maybe the lack of education or the inability to grow into a big business, not having the right people around you, not having the right mentors, and then you have the boss, at his age he doesn’t want to go …”
- A danger with small business is that you keep doing what you’ve been doing and you don’t make any changes because you don’t have the resources. I try to pick up working on the business, where my father, and to a degree my husband, works in the business. But a lot of people in the bush don’t have that, I was going to say ability but it may be an awareness.

In conclusion, the interviewee commented that the interview process had provided a valuable opportunity for reflecting on relationships with stakeholders.

Case Study 8

Case study 8 was a wholesaler of a wide range of bakery products, originally started by the interviewee’s father, who still has ownership in the business. The business has a national wide customer base, and their own logistics for serving customers in New South Wales.

Case Study 8: stakeholders

As a family business there were considerable overlap between the business’ shareholders and stakeholders and initially some confusion between the two concepts. The interviewee identified stakeholders narrowly, based on a financial interest: “It is the monetary aspect”, resulting in a strong focus on the family: “I think just purely my family really”. An overview is presented in Table 5.18.
Table 5.18 Case 8: Stakeholders

<table>
<thead>
<tr>
<th>Spontaneously listed stakeholders</th>
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<tbody>
<tr>
<td>Family</td>
<td>“In my situation it’s probably slightly different because the stakeholders in this company are my own family, so therefore the questions and the answers are different. So for me it’s about mum and dad essentially, to ensure there’s some sort of succession plan for them when they leave.”</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Stakeholders identified when prompted</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Suppliers</td>
<td>“If you’re running accounts with creditors or suppliers, you owe them a portion of money for an extended period of time, and so they have a holding over the inventory I may have bought, purchased from them.”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Not initially recognised as stakeholders but implied during the interview</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Customers</td>
<td>“…with customers, they may owe me money on account and I may have a stakeholding in the product that I have supposedly sold them and haven’t been paid for yet</td>
</tr>
<tr>
<td>Employees</td>
<td>“No! I wouldn’t think so, no.”</td>
</tr>
<tr>
<td>Government</td>
<td>“No. No! So, I don’t think local government is, or federal or state government.”</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Rejected as stakeholders</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Community</td>
<td>“Not on a monetary level, no I don’t think so.”</td>
</tr>
<tr>
<td>Unions</td>
<td>Although unions had an active role and influence in the business, this was not seen as being a basis for considering them stakeholders in the business: “We have out the back with our logistics we have the Storeman and Packers union that is working there. So from time to time we have conflict and we have to go to Fair Work and there is legislation provided from the union, for employees, in that situation.”</td>
</tr>
<tr>
<td>Industry</td>
<td>Not seen as a stakeholder in the business</td>
</tr>
</tbody>
</table>

Referring to Freeman’s (1984) definition of stakeholders, the interviewee was asked who could affect or be affected by the business. Employees, competitors and government were listed as being able to affect the business and this was linked to a level of dependence:

Well, employees are very, very high and, on competitors it’s also high. Because I think competition breeds a lot of success, makes you work harder, so those two people. There’s also, probably also to a lesser extent, local government, or state and federal government because we do import product from overseas, so there’s fees and duties to pay and also too about the food stuff that we are selling and the ingredients. Some of them, you’ve got to be careful with that as well.

So they probably do have more than … now that I think about it, quite a bit of influence over what we do, at the moment, yes.

Regarding who could be affected by the business: “Ahh, a lot of people”. On reflection the interviewee conceded that suppliers may both affect and be affected by the business.

The range of implied stakeholders then widened:

Well, yes, I think, obviously the customers we supply would depend on the product to produce their own products. But also, I think there’s a duty of care for our employees as well, I think that is really important. I think is important for them to understand what we are doing as an organisation and how it will affect them going forward. How good they feel or how bad they feel about that, so they are in the forefront of my mind, our
employees, all the time. But I think we can have the largest impact upon them, rather than our customers, I think.

**Case Study 8: stakeholder salience**

**Power** was understood as being two things at the same time:

The ability to influence people. And secondly, probably the amount of product that I’m buying from a supplier for a very, very large customer. We buy a lot of product, we pay well, and we are an important customer to them. I don’t like to exercise that, but it’s there and if I need to get something done – I can, based on that. And also, I think, getting back to the ability to influence people, I think that’s very, very powerful in this business and the ability to motivate people, to inspire them.

The ability to influence was however not seen as based on position power but on the ability to put forward a rational and convincing argument: “Yes, definitely, my ability to influence … to motivate staff to get behind an idea, a project, or a group of products that we’d like to sell or are currently selling. Or it could be the development of a new operating system or a marketing campaign, it could be change to logistics…”.

The ability to influence and convince also relied on reputation and trust:

I think you have to have a track record; I think you have to have a record of success. I think you also have to have a track record of making sure that you’re treating everyone properly within the organisation – they’re more likely to listen to what you’ve got to say. I think, it’s got a lot to do with your ability to speak well, at the right time.

… trust is also important, but that is directly related back to what I was saying about your own success within the organisation; what you’ve done, the decisions that have been made in the organisation that was successful.

Reputation and trust in turn was built on a perception of knowledge, expert power:

The research you’ve done. In some situations experience, all types of things. Maybe there’s external factors: the people that you’ve hired to help you with the research that will have an influence over the decisions that you make, or the decisions that certain people make in the organisation make, are one off and they disappear. You might pay them for that information, or that help or education.

Rather than static, the interviewee’s level of power vary between different situations and different points in time:

Yes, there’s a lot in that. Yes, definitely. I think that over time you do develop leverage over people to get them to get behind what you would like to do and that could be customers, it could be suppliers or it could be
employees in the organisation. So it just depends on that person, that you’d like to influence, or that group of people you’d like to influence. And it also depends upon whether or not they have a representative that may like to negotiate for them.

… if you are talking in a sales context, you might have a sales force with a sales manager, so you need to speak to them. He might wish to talk to me about certain campaigns, sales or marketing, and I might disagree with that. But he might have the forces behind him and say ‘look here are the numbers, everyone thinks we can do this’. There are so many factors there. That is actually toing and froing all the time. It is a fact and reality that quite often people don’t want to do what you would like them to do and they need to be convinced. Statistical data may need to be presented, which it quite often is, to help them to be convinced. And even then, it’s tough.

Stakeholders within the company also have power: “They can influence the company or people making decisions within the organisation by adding benefits, if you like, monetary benefits, within the negotiation process. That influences them, the decision-making. Quite a lot!”. Power were not seen as uniform or static in nature; there being different kinds of power. On which power was strongest:

I think the power to motivate people emotionally is the strongest, by a long way. I think that you can make … if you can create desire in people, or some sort of emotionally connection, if you like. If you can tag that into what you want them to do, and they can see an emotional benefit if they go and do something, that is more important than monetary rewards for instance.

Legitimacy was thought of as being credibility built on a track record:

Well, it is based upon, for me, credibility. So if there is a past track record of success or a history of effort and determination, I think that’s really important to an individual if he is in a position where he has … if he is in a senior position in the organisation. That’s really important to that person, to have legitimacy. To make sure that when he makes a decision, that decision is followed, or people that’s going to be affected by the decision, believe in it. Because of his historical employment or something that he has done within the organisation over the years. So yes, it is important, very important, yes.

Regarding which stakeholders could legitimately demand the interviewee’s attention customers were at the top of the list. When prompted, suppliers also had legitimacy:

They do, they quite often do. If they are the manufacturer of a product, they have an expertise in that product.

They might say to us ‘look, you need to make sure we have a brand equity in all our products, we need to make sure that you’re providing the customers who are using it, with a good quality product in good condition
and good date’. And also too, you know, with payment, you have to make sure that all the bills are being paid, otherwise … You quickly lose your legitimacy then, if you’re not paying your bills.

Family, the most prominent stakeholder identified initially, also had legitimacy. The legitimacy of family was seen as higher than suppliers but not higher than customers. In a more general sense, the circumstances that would legitimately cause the interviewee to divert attention away from current duties were often dramatic:

Well those moments you’re describing have happened many times and quite often, they’re not good. So I fear them. But it could be anything from the safety of an employee, it could be a problem with security, it could also be a problem with a customer who might owe us a lot of money and we realise that we may never see the funds again. It could be a personal matter at home as well, that could have an effect. Ahm, there are probably more things I could think of if I had more time!

I think security and employee safety are very important: above all else. There’re some aspects out the back which make it difficult … a little bit unsafe – well, not so much unsafe, but dangerous. Particularly with people driving trucks on the road, it’s a dangerous thing to do really, in traffic and it’s raining. And there’s heavy lifting out the back and there’s machinery and equipment, and there’re certain standards that needs to be adhered to. But things go wrong, no matter how hard you try sometimes.

An overview of stakeholder legitimacy in the business is presented in Table 5.19.

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
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<tbody>
<tr>
<td>Legal framework</td>
<td>A claim based on a legal requirement was seen as legitimate: “Yes, that is legitimate, always”, but a claim that was not based on a legal requirement could still often be legitimate</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Claims that are based on industry standards were always seen as legitimate although claims that were not industry standard could also be considered</td>
</tr>
<tr>
<td>Referent power</td>
<td>Stakeholder’s identity was not in itself a basis for legitimacy but could be considered: “Sometimes, you’ve got to keep your options open.”</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>Whether the demand was seen as generally acceptable in society or not was sometimes seen as a basis for legitimacy</td>
</tr>
<tr>
<td>Own moral values/ beliefs/ ethics</td>
<td>The interviewee's own moral values, beliefs and ethics were sometimes a basis for considering whether a claim was legitimate: “Unfortunately, I’m not always correct!” However, a claim that was in conflict with own values and beliefs would always be considered illegitimate.</td>
</tr>
</tbody>
</table>

Sometimes there was seen to be overlap between power and legitimacy.

**Urgency** was understood as relating to time and importance of issue, and having two meanings: “Well, it generally means one of two things. That there’s a problem that
needs to be solved immediately or there’s an opportunity that we may lose, or an opportunity that we may gain if we react quickly”. Such urgency quickly spreads and has to be maintained through the supply chain but can be instigated by a stakeholder who acts with urgency:

Sometimes, there may be a requirement to service an existing customer and our supplier will need to act with urgency to make sure that we have the product available to service that customer with. So that product needs to be here quickly and we have to send it out with our logistics quickly to make sure that the person, who may have just-in-time manufacturing, gets the product in a timely fashion. There’d be a lot of urgency right through the supply chain, from the manufacturer to the delivery point here, and for us to send it out to the customer as well.

Urgency makes things happen and could be seen as a catalyst for action: “It is, ideally you’d like to have everything planned. But, it is definitely”. Perceptions of urgency may however vary; the interviewee and a stakeholder having different opinions on what is urgent: “Yes it happens quite often. Ok, so it is determined by a few factors, initially the cost involved in doing what they would like you to do, and then we have to make a decision upon if we did make the decision to go and actually do what they asked us to do, what benefit that could provide us in the future”.

The decision is then based on a cost-benefit analysis: “Yes, mostly. And if we can see a monetary benefit in the future, indirectly or directly, and there’re many factors right there, believe me, we will try our best to have that done in a timely manner”. The level of formality in making the decision may vary depending on the time frame:

Some of them, quite often, if it is an urgent matter, we will have to rely upon existing data and then make a quick decision. We might come together as a unit, could be sale force or operations or logistics. We’ll come together and say ‘listen this is an urgent matter, it requires our attention, we know this, this and this; and this is what we think may happen – can we do this, is it possible to make this happen; and if we did, is it going to benefit the organisation?’. So, there’s a lot of factors involved right there and it depends on the situation.

Decision-making in such situations often involved a team effort:

I think it is a team decision. In the role as managing director, what normally happens is that you listen to all the data and all the information and all the opinions, and they all come together as a collective there and discuss it. What I try to do is once that’s, all that information come together, I try to make a decision, at the end, and that decision is often influenced by other people’s decisions as well.
On occasion there may however be dissent that has to be overcome, but autocratic decision-making was not seen as a viable option in such situations:

No, I try not to do that because it often creates more dissent. So reason. Over time, slowly and methodically, and put my hand up and say I made a mistake if it does not work out”.

… my position is to get everyone together and discuss things and make the decision at the end, and make sure that everyone understands all the information, and then we can make a decision, the collective can make a decision together and we can rationalise everything. So that’s better. Quite often I will make decisions, however … about certain things that needs to be met, when the decision needs to be made on the spot, quickly, without having to talk to people – but not often.

This approach was seen as influenced by the interviewee having worked in the business under the leadership of his father:

Yes, it is, because my father founded the company, the leadership in him was a hero leadership. So, he founded the organisation and he did everything; he sold, he drove the trucks he picked the product from the downstairs and put it on the truck, did the accounts, he did everything. People followed him because they could see that what he was doing was building or creating, or forging something that was difficult to do basically. And he was quite influential and he was a good talker and he was a powerful person.

So, having looked at all of that, and worked under him for quite some time, and also my mother in different areas of the business; I got a good look at him, a good look at her and a good look at other managers within the company over time, whether it be within finance or logistics, operation or sales, or even procurement, and you develop your own style based on all those environmental factors that come together to determine how you are going to be. That’s how I see it, I’m a product of my environment, I suppose.

The three attributes of power, legitimacy and urgency was seen as inter-related in that urgency could for example translate into legitimacy and change over time:

Yes, absolutely! I think if the matter is very, very urgent, because that person may not be legitimate before he proves himself to show something that’s important to you and so he gains his legitimacy.

Yes, they can change over time. He may develop his legitimacy out of urgency and then maintain it. Yes!

Similarly, the business also sometimes has to ‘develop’ its own legitimacy: “Quite often we feel that we need to prove ourselves as a player in the marked that can provide benefit to them. So if we can do that, then we can leverage them for more benefits in the future”.

Legitimacy was seen as being a concept that was central: “… when I look at legitimacy, I think to myself that there are many factors that determine whether someone is legitimate, and it can mean so many things in this business, in this organisation, and I think it probably encapsulates most things that I can think of”.

Legitimacy also influences decision-making in that it was important to base decisions on factors independent from what the competition may be doing:

… quite often we try not to look too much at what our competitors are doing in the end. Initially it is important and the research is very important because then you can identify an opportunity. However, once that’s done and you’re developing or going though a project, by then you should have the details of what that project, or the outcome of that project will need to be. And therefore what our competitors are doing in that timeframe become less important.

**Case Study 8: stakeholder relationships**

Relationships with individual stakeholders within a group were diverse, relationships with individual customers in particular varied:

That’s right, yes there is. I think that is like every business. I think there are customers that are valuable to have and it could be because the way they pay, or the product they buy, the margin or return – the profit on the product you’re selling them is also important. And, yes there’s a whole lot of little customers I imagine that some of them don’t pay well, they don’t buy a lot, maybe it’s difficult; it costs a lot of energy, and the resources taken to deliver to them or supply them and to look after them are quite large compared to how much profit we make from that.

The level of dependence on individual, small customers were low but dependence on the group of small customers collectively were sometimes high, meaning loosing one would have minimal effect but loosing the group would have a more dramatic impact. The same groups dependence on the business was moderate:

They could replace us, yes. They are dependent on us to a certain extent because the general day-to-day operation of their business is dependent on us, but that can always be changed. So they could seek another supplier, at any given time and within a short period of time, probably less than a month, they could have things running as they were when they were with us.

The interviewee felt that the business had a commitment to stakeholders in general but that the commitment was more significant with some stakeholders:
Absolutely! Yes, I think some stakeholders, and I’m talking suppliers here, are instrumental in our organisation because we might sell a very large collection of their products and we’re dependent upon those products to supply our own existing customers, they demand them. So without the ability to sell those products, it would have an effect on our overall business. So those companies in particularly, we are dependent upon to ensure that we have their brands, or their particular style of product, because there’re so many people who desire them or need them within our customer base.

The commitment was seen as mutual, the commitment from some suppliers was particularly strong. These relationships were very close and cooperative in working towards what was seen as a common goal, to serve the ultimate customer:

They do, they do, they … yes some companies are better than others, but we do have probably a handful of organisations that work with us, pretty closely on certain things … sometimes it may be because they want to make sure that we’re supplying the end users, our customers, with the correct product, provide information about how to use that product, sometimes they help us to establish other customers.

This may be through demonstrations to current or potential customers with a view to generating sales. Such demonstrations often directed towards manufacturers:

Any type of food manufacturer that’s involved in food preparation, whether it be Asian food, Indian food or it could be bakery, anything at all. They will go to those manufacturers and say to them ‘look, we don’t supply you direct, we’re a large organisation, we don’t have the logistics or the resources to supply you direct, so the best thing for us to do is to use [company name] as a distributor of our products’. So they will bypass us, go to that manufacturer, display their products and say ‘all of those are available through [company name], our distributor, and so if you’d like to buy them, you can get them from there‘.

An important benefit of having a manufacturer demonstrate the product was the higher level of expertise in the product:

… they have expertise in their own product. If they are the manufacturer for instance, they have a lot more expertise than we do, with their own product. So they can demonstrate them and show the potential benefits to a potential buyer and, you know, whether they want to prove them more economical, better value or better quality … but they are generally better than us at that – even though we do pride ourselves on that point!

Creating a strong relationship between the organisations had considerable benefit:

So those companies are really good to work with and you’ve got to have a close relationship … so you end up developing friendships or colleagues that lasts a very, very long time, and some of those people may move to
other organisations, and then you establish a similar thing with them as well.

Personal relationships are also important and may thus drive relationships between organisations: “Yes, quite often you do. Quite often you network and you find yourself moving around with certain individuals because they are always able to provide you with the benefit of some description”.

Not all relationships are successful and to end a relationships with a stakeholders such as a supplier may carry a cost:

Ahh, well the cost to us is intangible to some degree because they would be costs associated with training staff to sell a different product. We don’t know how much time, effort and resources that would take. There’s also a cost there that is hard to identify with the sales that we could potentially loose. Even if we decided to use a different supplier with a similar style of product, not everyone will accept that. We wouldn’t have done the research, at the moment anyway, to understand how much that would affect our business in terms of sales. So yes, there’s quite a few things there.

The cost of ending relationships may result in a reluctance to change and provide motivation to maintain the relationship despite difficulties:

Oh, we’ve done it before! Absolutely, it happens all the time. You know, there’re individuals we’ve had to deal with, from organisations who we’re dependent on, that we don’t like. But we’ve never … we’ve just tried to make it as practically as possible in terms of monetary value. So if they’re providing us with a product we’re making good profit on, and we have a relationship that’s average, we can often make it work for us anyway. It has to pretty… it has to be something considerable to turn around and say ‘we’re not going to buy your product anymore because xyz’, but it does happen.

Given opportunity to add other factors that may influence decisions regarding stakeholders, the interviewee came back to the situation with suppliers and the commitment required for a successful partnership:

Sometimes you would like to buy product from a particular supplier because you realise that if you did, you’d be able to make profit and sell quite a lot of their product. But there are many, many considerations before you actually go and do that and probably the main one there, is probably the consistency of supply and the quality of supply. So some of these people have great products but if they can’t supply you consistently, all the time at the right price, with the quality ingredients, the quality product, for years, not just weeks or months, it’s not worth … you know
… they have to show us that they can do the right thing all the time and be consistent with their supply.

Overall the relationships with stakeholders were perceived as positive: “They’re good. We’ve been in business long enough to establish many good relationships and not many bad ones. Yeah, we know quite a few people in the industry. We have a reputation, we have a brand, so I’d say they’re good, yeah”.

Reputation may be build on word of mouth and by referrers who recommend the business through their network. The interviewee considered that the business had such contacts and that they were important:

We do, yes we do. Yes, they are, they are important, especially if they are influential themselves, they are very important.

They could be an expert, they could be customers. They could be, yes, industry expert, they could be customers, they could be from local government, they could be suppliers. They could be just about anywhere really. So it’s important.

Prioritising between competing demands was not generally seen as an issue: “To be honest, I don’t find myself in that position very often. Yes, I think that, you know, sometimes you have to prioritise, there is only so much time. Generally speaking, we try to look after people who are most important first”. In the unlikely event that there was a need to prioritise, customers were given priority: “Customers first and employees second, or customers and employees first and then suppliers later”. Customers in a long-term relationship with the business were given high priority:

With the customers I think, because our customers – we have a high customer retention – they buy on a weekly or monthly or fortnightly basis regularly. Probably 80% have been customers for longer than five years. So you develop relationships with those people and you develop a standard and it has to be maintained. So if you, if they are used to having things done quickly, and having things answered quickly, that’s all part of the service you provide the customer. So you have to maintain that standard. So, if they come along and say ‘look I’m desperate for ten lots of something of this, and I need it today, can we come and pick that up’, it’s important that I move and get going. That will always take priority, because they do know us and have developed a personal relationship as well quite often, so that demands attention.

In the ‘hypothetical’ situation that two such customer wants attention at the same time: “Ah, well … ah, whoever is here first!”.
Case Study 8: on being an owner-manager

The biggest issue with being a small business owner-manager was finance:

Funding expansion can be difficult, particularly if the expansion is large. So, what we try to do is to … as a family organisation, is to grow every year but to grow relatively slowly, so we can fund the growth ourselves, but quite often it doesn’t always happen that way and you find yourself where you need to access finance and it can be challenging, and I’m talking about cash flow and things. And that’s a challenging and sometimes all encompassing priority, yep.

Consistently, the most significant improvement that could be made to the situation was to do with money: “That’s a really easy question: give me more money! Because with more money we can do all the things that we’d love to do right now, that we can’t, because business is a game of juggling limited resources – no matter what business you are in. Simple”.

The main motivator for being an owner-manager had changed:

A few years ago I would have said that on some level it is probably egotistical and I also like to make my own decisions about things, and I prefer to make sure that I have a bearing on what happens in here. But now, in the last ten years since I have a family and I have children, I see the ability to be an owner or business operator or shareholder/stakeholder of the company crucial in providing for them. Because I see that the benefits are larger, not just in time but money, monetary rewards … … quite often it’s a balance, isn’t it, really. In my position it is a balance between having … working … you can be so engrossed in your work, that you spend more than 55 or 60 hours away, maybe 70 or 80 hours a week at work, which is not enough to be a father. You really need I think less than 50 hours a week.

So the question is how much do you work and how much time do you spend at home. Now, in my position, I can build in time, because I make the decisions about many things, I can build in time that allows me to spend that time with my family, you see, so I can make those decisions. I’m not … those decisions are not determined by my employer who may want me to work certain hours or certain days of the week or certain times to have the money to pay the mortgage. Although those factors are important. But there is more flexibility there, for me.

Yes, I see it as being able to control the work/life balance better.

Given the opportunity to add an open-ended comment, the interviewee offered an insight into the uniqueness of family businesses:

Because there are quite a few family businesses, and they are different. Generally speaking they’re run differently to normal organisations in the initial stage. Because what happens is you find yourself not being very
professional, particularly at the start because people can be employed not on merit but because they’re a cousin or a brother or a sister, and that leaks into the organisation and you have people working in the organisation who are not doing the right things or don’t have the skills or qualifications. And also too, decisions can be made without taking into consideration research and other factors. So you make wrong decisions; it could be emotional decisions rather than one based on data, for instance.

So those forms or views of an organisation that is family owned can often be very different and it takes an effort in time to change away from that and become a more professional organisation.

The business was seen as well on the way in the process of moving from a ‘family’ business to become a professionally operated organisation but the interviewee also acknowledged the importance of the passion that family bring to the venture, particularly in the initial stages of setting up a business.

**Case Study 9**

Case study 9 was a small business providing policy and governance advice to membership organisations such as clubs. Although there were competitors, the business was perceived as being unique in the level of knowledge and expertise offered by the founder of the business.

**Case Study 9: stakeholders**

The term stakeholder was first defined by listing groups who may be stakeholders. Initially, the focus was essentially on marketing:

… rather than think stakeholder … I think everybody needs a chance to do business. So that’s how I see … the stakeholders. It’s probably not the definition …

… more I think in terms of marketing … so target markets … I know who our core markets is, then I have target markets that we set. And then I also think of those people who would most benefit from what I know.

… I always think of them in terms of target markets, core markets, nice-to-have markets, critical markets and those kind of things.

So I don’t really think in the stakeholder term. I don’t think you’re stakeholder in my business, so … I think you’re a market [laughing]…
However, on reflection during the interview: “I think being a stakeholder’s definitely got to be a two-way thing. If it is not a two-way thing, then it’s … and you’re just handing out your cash, then it’s a marketing thing. Where if someone’s putting their hand into your business and pulling cash out, then they’re a beneficiary”.

An overview of stakeholders identified is provided in table 5.20.

<table>
<thead>
<tr>
<th>Table 5.20 Case 9: Stakeholders</th>
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</thead>
<tbody>
<tr>
<td><strong>Spontaneously listed stakeholders</strong></td>
</tr>
<tr>
<td>Clients</td>
</tr>
<tr>
<td>Business to business networks</td>
</tr>
<tr>
<td>Potential clients</td>
</tr>
<tr>
<td>Chambers of Commerce</td>
</tr>
<tr>
<td><strong>Stakeholders identified when prompted</strong></td>
</tr>
<tr>
<td>Referrers</td>
</tr>
<tr>
<td>Interviewee and her husband</td>
</tr>
<tr>
<td>Accountant</td>
</tr>
<tr>
<td>Community</td>
</tr>
<tr>
<td><strong>Stakeholders implied during the discussion</strong></td>
</tr>
<tr>
<td>Suppliers</td>
</tr>
<tr>
<td>Family</td>
</tr>
<tr>
<td>Government</td>
</tr>
<tr>
<td>Industry</td>
</tr>
</tbody>
</table>

Stakeholders were thought of as being in different tiers, depending on the closeness and dependence is between the parties: “So we’ll spend time managing those relationships. But there’s other business-to-business relationships with people we know but we don’t invest time. So there are all these tiers in my head of the value of those relationships”.

Chapter Five

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Stakeholders, in particular clients developed a dependence on the advice and support provided:

Ahm, some CEOs in the boards, end up with a high dependency, we have to wean them off us [laughs].

Ahm, we had to say to the board … ‘you have to ring [person’s name], the CEO: stop ringing us’. We went to one industry dinner there, but we didn’t have any contact with them for about 10 weeks and that was purposely to allow [the new CEO] to get in there and start being the leader. So there’re funny little things like that. There are other clients who need to use us more, and talk to us more – but they don’t. So you only hear all the bad stuff on through the grape wine … and ring them up.

Competitors were considered to be able to affect the business, while the clients and their membership were affected by the business. Dependence was not necessarily part of the relationship: the interviewee were not dependent on the competitors and the clients were not dependent on the interviewee: “No. No, we are a luxury item. [laughs]”.

Case Study 9: stakeholder salience

Power was seen as a part of a transaction, an exchange:

Well, my power is that I can read something and understand it and transform it into something that’s useful. And their power is that they have the money! [laughs] So it is just an exchange of goods and services. Power through knowledge, you know, that’s… and then with that knowledge, it turns into… someone has the money to pay for that knowledge, or a desire to be a part of that knowledge. They’ve got the power though the finances, the money.

An important aspect was also seen as the ability to say ‘no’, to be able to decide to walk away from clients that were too difficult, a kind of power:

Only over your own destiny. Yes … that’s only a personal power. Sometimes, like in the start-up phase I didn’t have any, I was completely reliant on the industry to fund what it was that I was doing. But I have to say when I told [business name] ‘look, you don’t have to use me, and I don’t care if you do or don’t, as long as it’s on my terms’, I felt good about that, you know, it’s driving me nuts.

This kind of power was not available in the role as employee, especially a female employee. A bad experience with a superior during previous employment, left the interviewee concluding that “… it’s actually safer for me to run my own show, it’s less risk!”
I would’ve still been on what I regarded as ‘good money’ but instead, the proof is in the pudding because my stuff is sort of earning us a wage, and it is growing in reputation. That’s power to me, now I own my products, I own my knowledge and it makes money for me – I’m living off that knowledge. So that’s pretty powerful stuff! Most people can’t do that, they learn stuff, or they don’t learn it, they just stay where they are and they let life treat them as life treats them and they have to put up with poor management, they have to put up with bad colleagues and having to put five dollars in the present fund and … ahw …

But you know, trying to … there’s this myth that employers want very talented, out of the box thinkers, it’s a myth, it’s a myth. So they get me, and I’m a talented out of the box thinker, who makes things happen and can create a revenue stream. And they hate it! They just don’t want anything to do with you because you won’t colour in their lines. How can you create and be entrepreneurial in someone else’s business if they just want you to sit in a box. It just doesn’t work. So it … like I said, it is more risk for me to do that [be employed]. That’s my motivator; I don’t have any other choice [laughs]. That’s it.

**Legitimacy** was understood to mean having a place and being of value:

… it just means having a place in the … in the economic world. I’m not selling blue birds, I’m selling something that’s real, it all comes back to that authenticity, that’s useful and there’s value, that’s … so I have a right to be where I am. That’s sort of … [laughs]. I’ve done my hard yards, I’ve spent time continue doing the hard yards, so yeah, my business is legitimate. It’s not just bull …

Stakeholders were therefore also seen as having legitimacy, some being more legitimate than others …

Only if I tie the definition of legitimacy to the ability to govern and lead. Some are just shocking, ehm, yeah, they have boards of directors that can’t operate, or have no knowledge, so you know… I guess it’s tying that to economic viability and the knowledge to be able to do the job. Some stakeholders simply do not have that knowledge and it’s on those steps; they don’t know, they don’t know they don’t know. Which at the end of the day, creates a business that fails. So yeah … that’s my definition for today … for legitimacy.

Legitimacy was firmly based on the legal framework:

Yes, well the legal framework is just taken as a given. Because you work in governance and there is a lot of connection with legislative acts that you just take for granted that you don’t do those things. Thinking from my client’s perspectives, getting them to connect that kind of behaviour. Ahm, yeah, I haven’t really thought of legitimacy in that way. Possibly because I think … it is what I think about all the time; is doing the right thing or doing the wrong thing.
However, values were also important, such as expressed through the company vision and value statement for example. An overview is presented in table 5.21.

### Table 5.21 Case 9: Basis for legitimacy

<table>
<thead>
<tr>
<th>Basis for claim</th>
<th>Response</th>
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<tbody>
<tr>
<td>Legal framework</td>
<td>A claim based on a legal requirement, it was Mostly seen as legitimate but a claim not based on a legal requirement could still be considered, the interviewee often preferring to refer clients to a lawyer for such issues.</td>
</tr>
<tr>
<td>Industry standard</td>
<td>Industry standards were a definite determinant of legitimacy: claims consistent with industry standards always seen as legitimate, while claims outside industry standards generally not.</td>
</tr>
<tr>
<td>Referent power</td>
<td>“Rarely because if they … if it is someone who has a high profile but I’m very suspect as to why they contact me, I might not engage. I might not think the call is legitimate. I think they are doing a ring around, a witch-hunt or something. … everyone is a potential point to do business. Some people just require a little more digging than others to find out who they are. If it is someone who we think we shouldn’t be working with, ‘cause we’ve done this. We’ve never discounted them first off but if we dig around and we find ‘this person is no good’, then …”</td>
</tr>
<tr>
<td>Cultural/social acceptance</td>
<td>A claim that was generally accepted in society was seen as legitimate. If it was not generally accepted in society: “You’d have to convince me that it would be good and that it would not contravene anything; rarely, given that I am fairly liberal minded.”</td>
</tr>
<tr>
<td>Own moral values/ beliefs/ ethics</td>
<td>Own moral values, beliefs and ethics were also strong boundaries for what was considered legitimate and may include decisions about the type of industry</td>
</tr>
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</table>

When asked whether there may be an overlap between power and legitimacy, the interview responded:

Yes, probably. Ahm … see I have power to … I don’t have to do things that I don’t agree with or don’t want … well, I have to do things I don’t want to, like BAS statements and things, but I don’t … if it is not an area I agree with then I don’t have to engage in it. So yes, I have personal power. But like everyone else, I don’t have unlimited power because I do have to accept some jobs, difficult jobs, because they’re paying and I have to do them.

**Urgency** was understood as relating to time; things that are needed quickly. Such demands were typically charged at a premium price: “So mainly it’s linked back to price. If they really want … and if they don’t agree to the price, then [pause] they just have to wait in line”. A premium price normally worked to reduce client’s urgency:

… once they realise there is a fee attached to it, then they usually become more reasonable. So urgency and tying back to money, and they’ve got the power to pay. So they’ve got the power to define how urgent things are [laughs].
Circumstances in which genuine urgency may exist and where an urgent response was seen to be legitimate may be the impending insolvency of business or “… when a CEO rings me up and they are in dire trouble”. Currently, the business is able to cope with such situations “

… as I get busier that will probably become more of an issue. But because we … we’ve been comfortable in our workflow, we haven’t … I mean, yes I do drop things and go and see people, but usually I can … Yeah, yes, I can sort of … or I just re-prioritise. So this week is called a product evaluation week, which means I’m trying to re-jig a few of the products that need improvement. I just need a clear week to be able to do this. But of course, I’ve got a meeting on Friday, which came in last week and then mum’s birthday. Just all of those … as we get busier, I think that will become more of an issue. If you’ve done the hard yards building the relationships in the right way and people understand where you’re coming from and who you are, then usually, I guess it will turn out ok. I don’t have that problem at the moment. I’ve always been a really good organiser!

**Case Study 9: stakeholder relationships**

Building relationships with stakeholders in general and CEOs of potential clients in particular were seen as a very important means of reputation building and to promote word of mouth recommendations:

… and become one of those relationship builders and someone who’s good to know. That’s principally [husband’s] problem in the business, ‘cause … I’ve got on the brains all this academic knowledge – a bit weird. And he’s the … sometimes it can be just too full on. [He] can talk ‘normal’ [laughs], and is really good …

Relationship building was a key theme, important for the success of the business. Selling solutions to clients involved training them to become self-sufficient and potentially a one-off transaction but with a strong relationship, the business could be ongoing:

So actually educating and telling them how to use things, and building confidence is much better than giving them a book and waving goodbye, allowing them to do that. So now, what I’ve done is, in all the quotes there is a non-negotiable training element. ‘cause it looks like money for nothing for most of them, but I know that it actually re-engages them down the track.

An important aspect of building long-term relationships was to reward loyalty. Clients who had previously bought a product was included in the next upgrade:
They’ll get a free version on the upgrade and then they can choose what they want to use.
So you’re rewarding loyalty and you’re allowing them to be part of your learning journey as well.

Mostly the relationships are about building confidence and empower the clients, this is seen as in the long-term contributing to the reputation and success of the business: “… trust is a funny word isn’t it. It’s more a … ahm … I like to think of building peoples confidence, and they’re building my confidence, so it’s a whole confidence, you know … let’s build confidence in each other rather than trust”.

Another aspect of such relationship building was the relationships fostered with suppliers to the industry:

… we’ll stick our nose in and have a look at point of sales systems, we’ll talk about craft beer and craft wine and sometimes in my newsletter, I’ll talk about entertainment. So, although they don’t supply directly to us, it’s important to just have a little light network, if someone says ‘what would you recommend for blah, blah’, I’ll say ‘well, there’s this and this and this’. Just looks like another point of expertise, that you know what you’re talking about.

Such recommendations were not often known to the business being recommended, the interviewee acting as a referrer:

Yes, oh, yes. So when I recommend … like I’ve put [person] down to do the legal contract for [business], didn’t do one last year, just got big time from their departing GM …
So I said ‘it’s not negotiable, you have to set up a proper agreement’. So [person] will do that and I’ll say ‘there’s no financial interest in this’, I don’t get a kick-back or anything, and the same when I put a marketing agent into one of my clubs and I said to the GM ‘I have nothing to do with this, I’m not getting any money. I’m just recommending to maintain my independence. The same when I work with, if I recommend [business] into a place.
So, I’ve thought about how do I monetise that and really, it’s not worth it, it’s … it gets too ugly and … you know … I can … if one of those people do the wrong thing, I can drop them without any issues. It’s just not worth it to try to earn money of other peoples’ smallness [scrambled word].

Relationships with clients are not all the same, the interviewee considered this could be explained by various leadership models:

Some people can be a little bit more straight forward and honest to you, others you have to couch things in… and others you have to back everything up with evidence. So just depends on where they sit, probably
in the leadership model, whether they have high trust or they need to prove that trust is the way …

The interviewee indicated that she used the leadership models as a guide for communicating with each client and provided several examples of where clients could be placed into models such as the Hersey-Blanchard situational leadership grid. Such evaluation of clients needs in terms of style of communication was mostly intuitive, the interviewee “… usually try and size up …” the person and decide how to proceed.

Relationships with clients involve considerable commitment but tempered by the reality that the business needs to survive:

We… our approach is that we give the same level of service until they make it clear, they’re either not going to engage or they’re going to engage to a higher degree.

Ahm if we don’t get the gig, I’ll have to let that relationship go down to that second or third tier. Because there is only one of me, I have to spend the time in the relationships that are going to … earn money. I can’t invest all my time talking to people because they’re a stakeholder, they have a responsibility within the relationship as well.

Some relationships were however important to pursue as they would be hard to replace or the flow on effects of loosing them significant:

Ahm, well that’s every day! Seat-of-the-pants business stuff. Someone like [name of business] is a really important customer because they are high supporters of the industry association as well and the fact that they’ve used me says volumes in our reputation.

So it would be very … it’s important, so I will spend extra time, making sure that gets them over the line ‘cause that’s extremely valuable in that respect, and they would be difficult to replace. If they drop us, and then use someone else, that actually says a lot as well so it is important. But if it doesn’t come through, that’s ok as well. It is just business, you just have to keep going.

Overall relationships with stakeholders “… need to be based on authenticity. [Husband] and I try and be authentic in who we are, in our skills, if there’s something we don’t know, we say ‘we don’t know but this person does’. And that is important for us to say, ‘we don’t know but [name] does, or [name] does, or this person does, here’s their number, ring them up’ or do you want us to get them to ring you”.

However, not all relationships were successful: “sometimes you build relationships and they’re dead ends, then you cut and run.”
Prioritising between conflicting demands from stakeholders usually revolves around timing and can mostly be negotiated:

Ahm, well usually you just ask ‘how urgent?’. Or when they say ‘I need blah, blah blah done’, I’ll say ‘oh well, I’ve got such and such tomorrow, such and such Wednesday, such and such Thursday, I can get to it on Friday, but I prefer to get to it next Tuesday. What do you want to do?’

I just negotiation with them. And if it is stupid urgent, then I get [husband] to do the stuff works [?] and set things up and then I’ll just apply the brain at the last moment. The priority is to quote, getting quotes out, so you meet someone, you’ve got to get a quote out the next day. So that’s a priority. Yeah, we just negotiate, I keep sending emails, saying ‘I’m getting to your job on Thursday, if you need it earlier, please advice asap’ or ‘when’s your next board meeting – ok, I’ll get you the paper one week before’. That kind of thing.

So it’s more giving them something to say to their people and just keeping communication open and negotiation. They know it’s only me, and they know [husband] does some things on the side, so they know that when they ‘buy’ me [laughs].

When asked whether clients could always be relied on to be rational: “Well … my customers tend to be rational! Only I think ‘cause they understand there’s not really anywhere else they can go for what I do. Some of it’s unique. So it’s either just be patient and eventually you’ll … I mean, but we don’t leave things hanging for a long time either. We’ve got a reputation for delivering”.

**Case Study 9: on being an owner-manager**

The main challenge of being an owner-manager was the anxiety:

You’ve really got to learn how to … there is three points, I always say; there is working on the business and working in the business, you’ve got to get a good balance. So this week’s working on the business and last week was working in the business, but you’ve also got to balance it with your anxiety. It is not a journey for the faint of heart! Because you can’t work well if you’re freeking out about ‘oh my good, how’re we going to pay for stuff’…

It’s just … I think I’m much better now at balancing the anxiety with being able to work in the business and work on the business. Because you don’t want to be meeting clients and be full of anxiety going ‘got to get this job, otherwise …’.

Generally on the issue of being an owner-manager:

It comes down to the ability to build relationships sometimes …

I think the most important thing is the relationship side of things, if you don’t like working with someone – the beauty of having your own
business is that you don’t actually have to work with them. You can just take them off your email list [laughs] and no longer engage!

Conclusion on Chapter Five

These nine case summaries presented the individual within-case analyses for each case study, and provides the basis for the cross-case analyses presented in the following, Chapter Six. Chapter Seven will then present the conclusions and implications of the research.
Chapter objectives

In this chapter, the data analysis is presented cross-case in response to each of the of the research questions (RQs) designed to answer the Research Problem “How may Stakeholder Salience be effectively defined and applied in management of stakeholder relationships in small business? The cross-case analysis compares patterns and themes across all nine cases. The following discussion is structured around the research themes for each RQ.

6.1 Theme 1: Perceptions of stakeholders (RQ1)

RQ1 asks “How do small business owner-managers define and identify stakeholders?”. Three sub-questions were designed to help answer RQ1. The findings to each are presented below, followed by an answer to RQ1.

RQ1a: What do owner-managers understand by the term ‘stakeholder’?

The term ‘stakeholder’ was initially understood as revolving around ‘having an interest in something’, an investment or financial commitment – a narrow definition that has some commonality with academic definitions such as Freeman’s (1984). Some interviewees added that the interest could be direct or indirect and others that it could also involve being affected by the business, an overview is presented in Table 6.1.
Table 6.1  Definitions of ‘stakeholder’

<table>
<thead>
<tr>
<th>Case</th>
<th>Summary of answers to IQ3.1: What do you understand by the term ‘stakeholder’ – what does it mean to you?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>… an interest or investment or understanding and is influenced by the outcome of something</td>
</tr>
<tr>
<td>2</td>
<td>… having an interest in something</td>
</tr>
<tr>
<td>3</td>
<td>… really somebody who has a direct or indirect interest in the business</td>
</tr>
<tr>
<td>4</td>
<td>“… a person who has an interest in our service, one way or another. So either we provide a service to them, or we work together with them to provide a service, or they fund us and we have to be accountable to them”</td>
</tr>
<tr>
<td>5</td>
<td>“Someone who has a direct interest in the business or a relationship with the business …”</td>
</tr>
<tr>
<td>6</td>
<td>“… an interested person, an interested party, who … not necessarily financial, but who have an interest in the business succeeding”</td>
</tr>
<tr>
<td>7</td>
<td>“Anybody or any organisation that has an input or is affected or an output, you know. So your internal customers, and your external customers are all stakeholders”.</td>
</tr>
<tr>
<td>8</td>
<td>Stakeholders were identified narrowly, based on a financial interest: “It is the monetary aspect”, resulting in a strong focus on the family: “I think just purely my family really”.</td>
</tr>
<tr>
<td>9</td>
<td>I think being a stakeholder’s definitely got to be a two-way thing. If it is not a two-way thing, then it’s … and you’re just handing out your cash, then it’s a marketing thing. Where if someone’s putting their hand into your business and pulling cash out, then they’re a beneficiary.</td>
</tr>
</tbody>
</table>

As each interview progressed, several interviewees refined their initial definition. The first prompt for this came already while working out who was a stakeholder, RQ1b.

**RQ1b: Whom do decision makers consider stakeholders?**

When asked *Who are the stakeholders of this business?* Stakeholder groups in each business were recognised on four levels:

- **S** – *spontaneously* identified
- **P** – identified when *prompted*
- **I** – *implied* during the interview
- **R** – *rejected* as a stakeholder

Several interviewees modified their perception of stakeholders during the interview process, typically to recognise additional stakeholders whom were not initially identified. This ‘upgraded status’ among stakeholders is included in the overview in Table 6.2.
Table 6.2  Identification of stakeholders

<table>
<thead>
<tr>
<th>Stakeholder Classification</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
<th>Case 5</th>
<th>Case 6</th>
<th>Case 7</th>
<th>Case 8</th>
<th>Case 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td>I</td>
<td>S</td>
<td>P</td>
<td>S</td>
<td>I</td>
<td>S</td>
<td>I</td>
<td>S</td>
<td>P</td>
</tr>
<tr>
<td>Family</td>
<td>P</td>
<td>R</td>
<td>R</td>
<td>P</td>
<td>S</td>
<td>P</td>
<td>S</td>
<td>S</td>
<td>R</td>
</tr>
<tr>
<td>Customers/Clients</td>
<td>S</td>
<td>I</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>P</td>
<td>S</td>
<td>I*</td>
<td>S</td>
</tr>
<tr>
<td>Suppliers</td>
<td>S</td>
<td>I</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>P</td>
<td>S</td>
<td>P</td>
<td>R</td>
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<tr>
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<td>I</td>
<td>S</td>
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<td>S</td>
<td>P</td>
<td>I</td>
<td>I*</td>
<td>S</td>
</tr>
<tr>
<td>Third Parties (not directly involved)</td>
<td>I</td>
<td>I</td>
<td>S</td>
<td>S</td>
<td>S</td>
<td>P</td>
<td>P</td>
<td>R</td>
<td>P</td>
</tr>
<tr>
<td>Networks</td>
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<td>I</td>
<td>I</td>
<td>P</td>
<td>I</td>
<td>S</td>
<td>I</td>
<td>S</td>
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<tr>
<td>Government/Regulators (all levels)</td>
<td>S</td>
<td>I</td>
<td>S</td>
<td>I</td>
<td>P</td>
<td>R</td>
<td>P</td>
<td>R</td>
<td>R</td>
</tr>
</tbody>
</table>

* Rejected as stakeholder by the interviewee but implied during the interview

Table 6.2 list the attitudes to stakeholder groups commonly identified in the literature. However, to reflect the attitude of the several interviewees, in particular Cases 2 and 3, where contractors were seen as an extension of the business, the classification ‘employees’ has instead been named ‘Human Resources’.

Although there were significant correlations as to which groups were seen as influencing the business, they were not necessarily identified as stakeholders. In most cases, the list of stakeholders that were spontaneously identified was relatively brief (indicated with the letter S in Table 6.2). When prompted by the researcher, addition stakeholders were often recognised (P in Table 6.2), but there were also occasions when generic stakeholders were explicitly rejected (R in Table 6.2). Some generic stakeholders were not identified at all in some businesses; the classification ‘employees’ for example, had no relevance for a non-employing business such as Case 9. Other stakeholders, although not recognised as such by the interviewee, were nevertheless implied during the interview (I in Table 6.2), for example by the level of concern and consideration shown for the stakeholder’s situation and likely response to actions by the interviewee.

There were several instances where a stakeholder fitted into more than one category. In Case 5, for example, some suppliers were also customers. In Case 1, some employees were also customers. With the exception of Cases 4 and 9, the owner-managers were also employed in the business. Frequently, as in Cases 5, 6, 7, 8, 9, other family members were also actively engaged as employees in the business.
The interviewee’s and their businesses engaged with a wide range of stakeholders, well beyond the classic and generic stakeholders listed in the literature: customers, suppliers, owners, employees, and even beyond the expanded view of stakeholders which includes government, regulators, financiers and various indirect stakeholders such as unions and industry associations acting on behalf of a stakeholder group. Many such stakeholders were highly important, specific or particularly important to a business or industry yet did not fit neatly into a stakeholder group. An overview is presented in Table 6.3.

Table 6.3 Individual stakeholders

<table>
<thead>
<tr>
<th>STAKEHOLDER CLASSIFICATION</th>
<th>Sub-group</th>
<th>Case 1</th>
<th>Case 2</th>
<th>Case 3</th>
<th>Case 4</th>
<th>Case 5</th>
<th>Case 6</th>
<th>Case 7</th>
<th>Case 8</th>
<th>Case 9</th>
</tr>
</thead>
<tbody>
<tr>
<td>OWNERS</td>
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<tr>
<td>Active in business</td>
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<td>✔</td>
<td>✔</td>
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<td>✔</td>
<td>✔</td>
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<tr>
<td>Not active in business</td>
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<tr>
<td>FAMILY MEMBERS</td>
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<tr>
<td>Directly dependent</td>
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<tr>
<td>Indirectly dependent</td>
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<tr>
<td>CUSTOMERS/CLIENTS</td>
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<tr>
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<td>Regular/ongoing</td>
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<tr>
<td>Potential clients</td>
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<td>SUPPLIERS</td>
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<tr>
<td>Customers providing referrals</td>
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<td>✔</td>
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<tr>
<td>Material or equipment for production</td>
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<tr>
<td>Manufacturers of goods for sale</td>
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<tr>
<td>Admin services and supplies</td>
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<tr>
<td>Banks/Financiers/Insurer</td>
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<td>Farmer’s markets</td>
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<td>Logistics services</td>
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<tr>
<td>Providers of phone and electricity</td>
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<td>✔</td>
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<tr>
<td>Solicitors, accountants, bookkeepers</td>
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<td>✔</td>
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<tr>
<td>Employees: contract of service</td>
<td></td>
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<td>✔</td>
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<tr>
<td>Employees: casual</td>
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<td>✔</td>
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<tr>
<td>Contractors: contract for service</td>
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<td>✔</td>
<td>✔</td>
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<tr>
<td>Apprentices/trainees</td>
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<tr>
<td>THIRD PARTIES</td>
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<tr>
<td>Independent referrers</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Media: independent reporting</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Users of system or structure</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Animals: not traded</td>
<td></td>
<td></td>
<td></td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
<td>✔</td>
</tr>
<tr>
<td>Macro-environment (society)</td>
<td></td>
<td>✔</td>
<td>✔</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Illustrated in Table 6.3 is that the interviewees, rather than thinking of stakeholders in terms of generic stakeholder groups such as customers, suppliers, employees and even family, operated on a much more fine-grained identification of ‘who counted’ in the business. Table 6.3 is not exhaustive, including only stakeholders identified by the interviewees, empty spaces indicating that although a stakeholder such as electricity providers were likely of importance to all interviewees, they were in some cases of relatively minor significance.

In most cases the owner(s) were active in the business, the exception was Case 4, which was owned by the membership. Where family members were dependent on the business, they were typically directly involved in the business by performing some task. Customers could be divided into several categories: occasional, ongoing/regular and potential, varying levels of attention was paid to customers depending on the value of the sale but also on the long-term value of the relationship. Identified suppliers varied greatly, often reflecting the particular industry and dependence on resources such as raw materials, financing and administrative services. The business’ reliance on different types of human resources varied – in several cases the preference for using contractors was an important decision that was mostly made in consultation with the contractors.

Third parties consisted of stakeholders identified as significant to the business but not in a direct relationship with it. Such stakeholders are in an – from a business perspective – unusual relationship with the organisation, as there is benefit but no consideration and no transaction. This included the following groups:

- Independent referrers: individuals or organisations that refer business but is not in a fiduciary relationship with the business
• Related referrers: individuals or organisations that refer business but is not in a fiduciary relationship with the business but may be in a related service and benefit by mutual referrals
• Media: independent reporting of news and events that may affect the business
• Users of system or structure: end-users of the overall system or structure which the business is engaged in, such as gamblers in the racing industry
• Animals, not traded: race horses that are the object of the clients attention
• Macro-environment: the natural environment, economy and society
• Micro-environment: various industry bodies, related services
• General community: the local environment in which the business operates
• Charities and not-for-profit organisations: some businesses see such organisations as stakeholders dependent on their generosity
• Beneficiaries: government departments such as the ATO which derive a benefit without providing an input to the organisation and family members such as adult, independent children that may eventually inherit the proceeds of the business.

Networks included formal networks that were not industry specific, such as business-to-business networks and networking events as well as personal networks consisting of personal contacts. Government was seen as an ‘imposition’: sometimes imposing draconian rules and regulations without proper consultation and with limited understanding of the impact on small business.

There were considerable discrepancies regarding the importance of stakeholders within groups. The stakeholder groups suppliers and customers for example were diverse, even within a business: one supplier may be spontaneously identified as an important stakeholder while the overall group ‘suppliers’ were seen as not being a stakeholder.

The list in Table 6.3 is not exhaustive, reflecting only stakeholders that were explicitly identified – spontaneously, when prompted, or implied during the interview. Prompting for stakeholders was either to identify the interviewee’s perceptions of the most commonly listed generic stakeholders from the literature, or to clarify and follow up on stakeholders indicated during the discussion. Some stakeholders were simply implied as a result of fitting with Freeman’s (1984) definition of stakeholders – able to affect or be
affected by the organisation. In following the lead of the interviewee rather than a pre-conceived theoretical expectation, although in some ways incomplete, the results reflect the interviewee’s perception rather than that of the researcher.

**RQ1c: How do owner-managers determine who is or is not a stakeholder?**

Most interviewees’ ways of determining who was a stakeholder were closely linked to their definition of the term, but modified by having been asked about various possible stakeholders. Interviewees consistently came back to the idea that a stakeholder is someone with an interest in the business, but the type of interests considered relevant for the purpose of determining stakeholder status varied. Financial investment or ownership was most consistently thought as a basis for being a stakeholder but influence in general and benefit may also be important. An overview is presented in Table 6.4.

<table>
<thead>
<tr>
<th>Case</th>
<th>Summary of answers to RQ1c: How do owner-managers determine who is or is not a stakeholder?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“I guess you have to consider everybody to a more or less degree depending on what the decision is.”</td>
</tr>
<tr>
<td>2</td>
<td>The interviewee insisted that ownership was the only basis for stakeholder status. However, several other stakeholders were implied during the interview.</td>
</tr>
<tr>
<td>3</td>
<td>Stakeholders are seen as existing “… in concentric rings around an organisation … the closer they are to the organisation, within concentric rings, the more mutual impact there is … The further out they are there is less impact and therefore there are consequences for operations arising from that.”</td>
</tr>
<tr>
<td>4</td>
<td>“I guess because we are publicly funded, everybody could be a stakeholder.” Freeman’s (1984) definition was seen as a viable method for determining who was a stakeholder.</td>
</tr>
<tr>
<td>5</td>
<td>Somewhat consistent with Freeman’s (1984) definition, largely based on who can influence or benefit from the business</td>
</tr>
<tr>
<td>6</td>
<td>Based on possible effect: “… if I vanished into a parcel of dust, the person who has financial interest in that would definitely notice …”</td>
</tr>
<tr>
<td>7</td>
<td>Everything revolves around the horses and their owners as stakeholders; other stakeholders are identified based on their ability to support this central focus of the business</td>
</tr>
<tr>
<td>8</td>
<td>Initially just based on ownership, but during the interview widened to consider others who may be affected by the organisation</td>
</tr>
<tr>
<td>9</td>
<td>Important stakeholders were seen as those in a close and dependent relationship with the interviewee</td>
</tr>
</tbody>
</table>

Interviewees did not appear to have a rational process for determining who was a stakeholder, instead falling back on an intuitive perception of who could influence or be influenced by the business. The result was a fragmented picture with most interviewees uncertain on how to approach the task. When introduced, Freeman’s (1984) definition appeared to resonate with most interviewees and was seen as a viable first approach for determining stakeholder status.
Discussion of findings on RQ1

The definition of the term ‘stakeholder’ was strongly influenced by the interviewees perception of whom may be a stakeholder in their business. Several interviewees initially answered the question by talking about who they engaged with in significant ways. A definition was then engineered from that perception, indicating a pragmatic understanding of the term rather than an academic definition. Level of formal business education did not appear to affect this approach as even interviewees with business degrees approached the question in this way.

Although the term ‘stakeholder’ tended to not be part of the interviewees’ everyday vocabulary, their understanding of the term as someone with and interest or involvement in the business was broadly consistent classical definitions in the literature (Carroll & Buchholtz, 2012). However, the meaning of ‘interest’ and ‘involved’ varied considerably, several interviewees initially pointing narrowly to a financial involvement. Yet, all interviewees also spoke about the importance of building positive and constructive relationships with groups such as customers, suppliers, employees and other stakeholders, suggesting a discrepancy in definitions between academics and practitioners. However, during the interviews, it became apparent that the interviewees consistently took a ‘stakeholder approach’ to managing their relationships with various individuals and groups commonly considered stakeholders in the literature (Carroll & Buchholtz, 2012).

6.2 Theme 2: Stakeholder salience (RQ2)

RQ2 asked “How do decision makers in Australian small business perceive stakeholder salience?”. Perceptions of power, legitimacy and urgency, and therefore salience, appeared to be situational and relative rather than absolute measures. The perception of power in a particular decision for example, resulting from evaluating own overall power relative to stakeholder’s overall power in the situation.

RQ2a: How do decision makers perceive the proposed attribute ‘power’?

Power was influenced by level of dependence, commitment and potential exit costs as well as risk in each specific situation. Experience was a mitigating influence in that it
provided the decision maker with a ‘programmed’ decision path; having been through similar situations before, perhaps even with the same stakeholder.

Several interviewees were uncomfortable with the concept of power, instead preferring to think in terms of influence, yet readily accepted the importance of being able to make decisions to change, hire and fire and generally affect others, Table 6.5 provides an overview.

**Table 6.5  Definitions of power**

<table>
<thead>
<tr>
<th>Case</th>
<th>Definitions of power</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“The ability to enforce change, or not change [something]”</td>
</tr>
<tr>
<td>2</td>
<td>“I have never really thought about it … the ability to hire and fire people</td>
</tr>
<tr>
<td></td>
<td>Yet power was also seen as intrinsic to everyday management: “It just goes along with everyday decision-making about how you run things.”</td>
</tr>
<tr>
<td>3</td>
<td>“… the power to make the decision.” The power to withdraw support or engagement, to walk away was also an important type of power: “… withdrawing is powerful”</td>
</tr>
<tr>
<td>4</td>
<td>To be able to force somebody to do, or stop doing something</td>
</tr>
<tr>
<td>5</td>
<td>Influence on decision-making, often used destructively: I’m very aware of illegitimate power and how it can be fairly destructive. The interviewee preferred to think in terms of “A ‘mutually beneficial relationship’, rather than someone having power over someone else.”</td>
</tr>
<tr>
<td>6</td>
<td>“You’d be naïve to believe that your customers don’t have some power of dictation to you.”</td>
</tr>
<tr>
<td>7</td>
<td>“… influence or control”. The difference explained as: “Well if a stakeholder has control, it’s final. If it is an influence, it’s negotiable”</td>
</tr>
<tr>
<td>8</td>
<td>“The ability to influence people. And secondly, probably the amount of product that I’m buying from a supplier for a very, very large customer.”</td>
</tr>
<tr>
<td>9</td>
<td>“Well, my power is that I can read something and understand it and transform it into something that’s useful. And their power is that they have the money! [laughs] So it is just an exchange of goods and services.”</td>
</tr>
</tbody>
</table>

The interviewee’s power was seen as based on ownership or position (position power), expertise and reputation/trust (personal power). Stakeholders in similar positions within a stakeholder organization were assumed to be able to exercise same kinds of power and power was therefore handled carefully.

Interviewee’s power was taken for granted in terms of being able to make decisions within the business. Underlying this perception appeared to be the position power afforded them based on their position as the key decision maker, usually an owner, and/or delegated based on a formal position such as licensee – Case 4, or General Manager – Case 9. Being an owner-manager was frequently closely tied to knowledge and therefore also a level of expert power.

Stakeholders subject to direct command and control by the interviewee’s position power, such as employees, sometimes also had knowledge based expert power, a fact
readily recognized by interviewees. Similarly, contractors were assumed to have expertise based on specific knowledge, skills or abilities, their appointment dependent on such expertise. However, in contrast to employees, contractors also had power to control some aspects of their involvement and, subject to contractual obligations, ability to walk away or at least refuse to enter another contract.

Customer’s most important power, consistent with the definition of power as the ability to make decisions, change or withdraw, was the ability to walk away and refuse to engage with the organization. The ‘strength’ of such power was considerable and interviewees recognized the need to negotiate such relationships with sensitivity. The interviewees were however also aware of the potential symmetry of such power relationships and of their own ability to walk away from a customer – albeit often at a cost. In the case of small or occasional customers in transactional dealings, the impact of loosing one or a few such customers was seen as regretful but not significant. On the other hand, the loss of a regular customer, especially if in a long-term relationship with the business and purchasing profitable products was seen as significant and the interviewees would invest considerable effort to maintain such relationships even when posing a challenge. As a collective, customers have significant power, interviewees recognized that without customers, the business would not exist and there was a need to respond to changes and trends in customers’ wants.

The power of suppliers varied with the type and level of dependence on the individual supplier. There was also recognition that the business’ relationships with suppliers were similar to the relationship with customers, but seen from the other ‘end’. Interviewees were keenly aware of their own power – or lack thereof – in their role as customers and expressed empathy with other small businesses, sometimes giving them preference above large suppliers.

Government’s direct power on the business was seen as autocratic and displaying little understanding of the small business sector. Government also had indirect power in the role as regulators or various industries and commercial relationships such as employment, business registrations and taxation.
RQ2b: How do decision makers perceive the proposed attribute ‘legitimacy’?

The term ‘legitimacy’ was not part of the everyday vocabulary of the interviewees but was understood as relating to the idea of ‘doing what’s right’ and being genuine or authentic, representing an informal legitimacy based on norms and values and therefore culturally based. On the other hand, legitimacy was also understood more formally as based on legal requirements. An overview of definitions is presented in Table 6.6.

<table>
<thead>
<tr>
<th>Case</th>
<th>Summary of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>“… formally accepted, authentic, I suppose”</td>
</tr>
<tr>
<td>2</td>
<td>“… do the right thing”</td>
</tr>
<tr>
<td>3</td>
<td>“Industry standard is where I have to be. If it is not industry standard, I’m not obliged.”</td>
</tr>
<tr>
<td>4</td>
<td>A combination of position power, expertise and reputation</td>
</tr>
<tr>
<td>5</td>
<td>“Depends on who you’re speaking to I suppose. Expediency I suppose, doing your civic duty or duty of care I suppose, to make sure they get the right thing. But they probably wanted it in a hurry as well.”</td>
</tr>
<tr>
<td>6</td>
<td>The term was initially not seen as ‘fitting’ but essentially understood as based on legal requirements and own ethos</td>
</tr>
<tr>
<td>7</td>
<td>“That sounds to me like … that it’s real, it’s real business. It’s not a hobby, it’s genuine business.” However, legitimacy was also understood as being reasonable, ‘right’ or based on legal requirements.</td>
</tr>
<tr>
<td>8</td>
<td>“Well, it is based upon, for me, credibility. So if there is a past track record of success or a history of effort and determination, I think that’s really important to an individual if he is in a position where he has … if he is in a senior position in the organisation.”</td>
</tr>
<tr>
<td>9</td>
<td>“… it just means having a place in the … in the economic world.”</td>
</tr>
</tbody>
</table>

Interviewees’ uncertainty regarding a precise definition of ‘legitimacy’ as seen in Table 6.6, did however not mean that the interviewees did not apply the concept. Quite to the contrary, there was a strong sense of the importance of doing what was perceived as ‘right’ and to expect the same from stakeholders.

Indicated in Table 6.7 is that perceptions of legitimacy was based on formal legitimacy – the legal framework, but also that legitimacy may be informal, based on personal values and cultural expectations. Alternative but closely related concepts were industry standard, being authentic, reputation, duty, ethos, genuine, reasonable, right, and credibility.

**The legal framework as a basis for legitimacy**

Interviewees generally concurred that a claim based on a requirement anchored in the legal framework was legitimate and this was not negotiable. However, several
interviewees also considered that a claim could be legitimate even if not legally enforceable. Interviewee 6 explained:

I have an obligation to operate within the law. Unfortunately, when it comes to food, the law isn’t necessarily black and white. So if I was asked to change something specifically for one customer and that then brought me into a grey area of the law, then I’d need to justify it. I’d need to look at it and go ‘can’t do it this way but I can do this’. I’m prepared to use that as a springboard into a conversation.

**Industry standard as a basis for legitimacy**

Industry standard was generally considered a strong guide for determining legitimacy of a claim: claims consistent with industry standard were seen as legitimate. In Cases 3 and 9, industry standard was a definitive line that determined legitimacy:

*Interviewee 3:* Industry standard is where I have to be. If it is not industry standard, I’m not obliged. In my field there is so much research and law; if it’s not industry standard, it’s probably been considered and discarded.

In Cases 4, 5, 6, 7, and 8 claims that were not industry standard could still be legitimate. Interviewee 4 commented: “… it depends, in the legal field because we don’t use same standard as a private practice – we try to be a bit better by providing a holistic service”. Interviewee 1 added that industry standard was not clear as there were contention between academic beliefs and what happened in reality. One Interviewee commented on the decision making process regarding legitimacy:

*Interviewee 6:* … because I don’t have to rely on five managers below me to do the right thing and so forth, those decisions can be made spur of the moment and within the circle, and then within a weeks time it can be changed if more information comes to hand – it can be changed.

**Referent power as basis for legitimacy**

The identity or status of the stakeholder was of low importance in determining the legitimacy of a claim, in some cases emphatically rejected, the focus instead on the facts of the claim, Interviewee 1: “Rarely; only if they can hold me to account”, Interviewee 2 emphasised the point: “No, no, we don’t listen to that crap” and Interviewee 5 agreed: “Wouldn’t matter … No, I wouldn’t look at that as particularly important”. There were however situations where the identity of the person making the claim influenced the legitimacy, usually as a result of the persons position power:

*Interviewee 3:* Rarely. I mean, let’s say it is the Mayor of the council I’m dealing with so they wear a couple of hats; they have legitimacy as well as being a special person, but if it was just, you know ‘I’m the greatest
person’ it would be very low. A person without ‘celebrity’ can still be right, their perspective may still have legitimacy. I have no problem with an unknown person telling me how it is.

Interviewee 4: … depends on who it is. If it is the attorney general it would be ‘always’… but something like telling us to not do law reform work, we might not agree.

A pragmatic attitude to business sometimes also meant that in reality the identity of the person making the claim does have some bearing, Interviewee 8 commented “Sometimes, you’ve got to keep your options open”, and Interviewee 9: “… everyone is a potential point to do business”. Interviewee 7 suggested it may vary between industries: “… a well known jockey wants to ride the horse, the owner wants him but the trainer doesn’t think he will suit the horse: the owners will get their way – he pays the bill, you can only advise”.

Cultural/social acceptance as basis for legitimacy

Informal legitimacy; being generally accepted in society is a culturally based construct. A claim not generally seen as legitimate in society was not generally considered legitimate unless there were reasons for doing so:

Interviewee 9: You’d have to convince me that it would be good and that it would not contravene anything: rarely, given that I am fairly liberal minded.

On occasions, something could still be legitimate even if not generally accepted in society. Interviewee 4 explained: “… there are some clients society might say don’t deserve to get free legal service but we would still provide them. We would not turn people away because they have a record or things like that”.

However, several interviewees expressed a strong desire to make their own decisions according to what was seen as moral. Being acceptable in the wider society did not necessarily mean it was acceptable to the interviewee or in the particular business. Interviewee 5 explained: “I make my own decisions. I probably conform very much to society but I don’t necessarily think it is important. I do it because of my own beliefs and standards.” Interviewee 6 suggested that: “I think it comes down to our ethos and our ethics”, and Interviewee 7 added: “I would go with what I felt was right”.
**Own moral values/beliefs/ethics as basis for legitimacy**

Own moral standards were important for determining legitimacy, but the question highlighted the difficulty of always matching own beliefs with generally applicable standards such as a code of ethics for the industry: Interviewee 3: “If it is completely contradictory to my own personal beliefs, then I would be unlikely to give it legitimacy”.

Interviewees also recognised their own fallibility and limitations, Interviewee 8: “Unfortunately, I’m not always correct!”. However, a claim that was in conflict with own values and beliefs would be considered illegitimate:

*Interviewee 5:* That would probably be more useful, which would hopefully tell you something! I mean, I’d probably lean towards my own beliefs first rather than what society thinks. Yes, that’s fairly strong for me but I’m not perfect so I’ll say mostly. I do my best!

There was also recognition that the behaviour by everyone involved in the business reflected on the reputation of the interviewee as well as the business:

*Interviewee 2:* ... those people on your site is a reflection on your business, they’re basically representing you even though they are working for a sub-contractor, you’ve still let them on your jobsite.

*Interviewee 6:* I’ll trade ethically and honestly with everybody and I expect the same back.

Although the interviewee’s own personal values, beliefs and ethics appear to form a foundation for decision-making such perceptions were not always allowed to influence decisions made:

*Interviewee 4:* I do rely on my own moral values, so if it does not match, I guess I would consult with somebody. I would try to keep my own personal views out of it. I have to ignore them. The reason I work in the community legal centre is that it is something that I feel is important and want to do so most of what I do here accords with my own moral views. So it does not often happen. The only thing I can think of is if stakeholders make demands on me, or the centre, that create conflict of interest.

Professional standards such as codes of ethics may thus take precedence:

*Interviewee 3:* So something like a contract or policy. I do argue against people’s policies. In fact I had a major win against council in December where we essentially broke the back of their policy based on site specific information that we presented and I had developed it all. Wasn’t my profession but I developed it and I was really proud of that – a once in career moment!
Perceptions of legitimacy appear to rest on a foundation of personal values, morals and ethics. Even when professional codes of ethics takes precedence, such standards have been accepted and adopted a priory by the interviewee and can therefore be seen as a programmed decision approach to legitimacy. Discussing legitimacy with the interviewees also highlighted that the area is rarely black and white; often decisions have to be made quickly in circumstances, which at least on the surface, appear to present ethical dilemmas. The interviewees all appeared to have a strong understanding that they have to live with the consequences of such decisions and therefore had strong opinions on what the decision should be.

**RQ2c: How do decision makers perceive the proposed attribute ‘urgency’?**

Of the three attributes of salience, urgency was the one most readily understood; most interviewees identifying the time factor as well as the criticality embedded in the term. Table 6.7 provides an overview.

<table>
<thead>
<tr>
<th>Case</th>
<th>Summary of responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Urgency was seen as having to do with time and importance; how quickly something has to happen, but this was recognised as a subjective concept: “Urgency is in the eye of the beholder”</td>
</tr>
<tr>
<td>2</td>
<td>“Do it now, it puts pressure on you and unfortunately if you urgently need to do something, if it is safety related, you’ve got to do it.”</td>
</tr>
<tr>
<td>3</td>
<td>Perceptions of urgency was sometimes different between the interviewee and stakeholders, the interviewee perceived having power to disregard stakeholder’s urgency: “If there was no consequences or I disagreed with the basis for their urgency. If for example, they’re not under contract, and won’t enter one.”</td>
</tr>
<tr>
<td>4</td>
<td>Legal processes sometimes, or legal precedence might define urgency</td>
</tr>
<tr>
<td>5</td>
<td>“I want my stuff … I think of urgency as being a ‘time thing’. The shorter the time; the more urgent.</td>
</tr>
<tr>
<td>6</td>
<td>Urgency was a fact of life: everybody’s urgent but could sometimes be understood in terms of an old saying: “The squeaky wheel’s always going to get the grease.” There was also a recognition that perceptions of urgency varied: “Yes, so sometimes, their urgent is not my urgent.”</td>
</tr>
<tr>
<td>7</td>
<td>It needs to be dealt with and it needs to be dealt with now</td>
</tr>
<tr>
<td>8</td>
<td>“Well, it generally means one of two things. That there’s a problem that needs to be solved immediately or there’s and opportunity that we may loose, or an opportunity that we may gain if we react quickly.”</td>
</tr>
<tr>
<td>9</td>
<td>Urgency was understood as relating to time and things needed quickly. This could be translated into price: “So mainly it’s linked back to price. If they really want … and if they don’t agree to the price, then [pause] they just have to wait in line.”</td>
</tr>
</tbody>
</table>

Interviewees’ definitions of urgency was generally understood to be based on time sensitivity and/or criticality – consistent with Mitchell et al’s (1997) definition. Interviewees also spontaneously commented on the differences in perception of
urgency. Several interviewees indicated that a stakeholder’s perception of ‘urgent’ may be very different from their own, Interviewee 6: “Yes, so sometimes, their urgent is not my urgent”. The basis for such differences was sometimes contextual and may be influenced by whether the claim comes from an established customer. Various ‘tests’, such as charging extra or demanding pre-payment, were applied to establish the ‘real’ urgency of the claim. A refusal to pay is taken as a lack of commitment to the urgency: an indication that the claim was less urgent than originally put forward, Interviewee 5: “They are saying it with their mouth but they are not committed. If it’s somebody I’ve never heard of, I just don’t respond”.

Legitimacy underpinned both the exercise of power and responses to claims of urgency, indicating a level of interaction between the three attributes.

**RQ2d: How do decision makers perceive interactions between attributes of stakeholder salience?**

Some interviewees perceived considerable interactions between the three attributes. Power for example was supported by legitimacy but also relative, and moderated by others level of power. Possessing power and legitimacy may for example allow one to ignore powerful stakeholders acting with urgency. Power could also be legitimised by the subject of power:

*Interviewee 1:* There may be something that I highly value the ethos of and it has great legitimacy but not power. They still have influence. Well, you might have … I guess it is in accordance with my belief system, I may have an aligned belief system with something so the belief system is … well that is the way I want to work and it is an ethical… that is where my ethics are and my ethos is and so that may have great legitimacy. If I fail something there may be people in that organisation who may never know that I am not doing that or if they did, there is nothing they can do about it. And so they only have power because I let them have power. The influence is just in me working in accordance to me.

*Interviewee 2:* Well yes, what you can do is to say – I’ll give you this job if you can get it finished by tomorrow night – so there is a link there, and of course they all lie and say ‘yes we can’ but then take twice as long.

When asked whether there may be an overlap between power and legitimacy, interviewee 9 responded:

*Interviewee 9:* … yes, I have personal power. But like everyone else, I don’t have unlimited power because I do have to accept some jobs, difficult jobs, because they’re paying and I have to do them.
RQ2e: What other attributes do decision makers consider part of stakeholder salience?

When asked what other attributes may form part of stakeholder salience and should possibly be considered as a formal attribute, personal contact – or the anonymity resulting from the lack thereof, was suggested as an additional attribute. The anonymity of a stakeholder such as a large company where the interviewee was unable to connect a name and face to the organisation, compared to a small business where a personal relationship may exist, was seen as important and qualities such as rapport, respect, integrity honesty and friendship were perceived to be potential other attributes that would influence the salience of a stakeholder:

*Interviewee 1:* There is a little bit anonymity as well, as in a company who has done something for you and you have a relationship as opposed to you are just using them, for example as with the phone company or electricity company where you talk to a different person every time.

*Interviewee 5:* Integrity is one … I think business runs better if the owner has some integrity. That goes with being trustworthy and those sorts of things. There is no use in saying things and doing other things. Try to do what you say, that’s how I interpret integrity.

6.3 Theme 3: Stakeholder relationships (RQ3)

RQ3 asks “How do decision makers in Australian small business manage stakeholder relationships?”. Three sub-questions were designed to help answer RQ3. The findings to each are presented below, followed by an answer to RQ3.

**RQ3a: How do decision makers perceive relationships with stakeholders?**

Overall the interviewees’ approach to stakeholders appeared to be ‘cautiously constructive’ with stakeholders perceived as individuals or entities with potential to bring positive outcomes. Attitudes to stakeholders are therefore initially the same but relationships then develop in different ways depending on factors such as personalities and industry expectations and situational circumstances:

*Interviewee 5:* … people need the product and they come to me. I just try to build in that relationship as well if I can, sometimes you can’t, they have that one enquiry and just want to do the business. It is the same on the supplier side… you have some suppliers you have very good understandings with and others not so good.
Yet, relationships were important, both from a business survival perspective and as a motivator for the interviewee to be in business:

*Interviewee 9:* It comes down to the ability to build relationships sometimes … I think the most important thing is the relationship side of things, if you don’t like working with someone – the beauty of having your own business is that you don’t actually have to work with them.

The interviewees seemed to aim to base relationships with stakeholders on a common basis of goodwill tempered by the pragmatic reality that the business needed to survive:

*Interviewee 6:* We try and treat all customers the same.

*Interviewee 9:* We… our approach is that we give the same level of service until they make it clear, they’re either not going to engage or they’re going to engage to a higher degree. I can’t invest all my time talking to people because they’re a stakeholder – they have a responsibility within the relationship as well.

*Interviewee 4:* We try to keep the relationship with clients the same I suppose.

Differences could sometimes be accounted for by factors such as the individuals involved: how well they knew each other, and their particular style of communication:

*Interviewee 5:* I think there are certain relationships that are different, with different customers. I’m not sure whether that’s just a personal communication thing rather than industry.

However the difference may also depend on the stage of the relationship, according to interviewee 1: “… whilst there are variations, with clients, you treat them similarly but at different times”. With individual clients, the interviewee described a gradual development of the relationship from when a client first enters the business to when the relationship is well developed. There is a change in where the initiative for further treatments comes from; in the beginning the practitioner guides the client by making suggestions and recommendations. Later, the client takes charge and decides the frequency of visits and whether there is an ongoing plan or a casual relationship.

Customers as stakeholders featured strongly as the interviewees worked to make sense of stakeholder relationships, but all customers were not equally important. Interviewees had a strong sense of the varying levels of benefit derived from various customers and that in the long-term, some customers may be more profitable than others.

*Interviewee 8:* I think that is like every business. I think there are customers that are valuable to have and it could be because the way they
pay, or the product they buy, the margin or return – the profit on the product you’re selling them is also important.

Customers may also vary in their expectations regarding level of service provided, some clients requiring less time and involvement than others and being easier to deal with:

*Interviewee 3:* So that is pretty much a one way thing in that they give me their objectives at the beginning but I then, I’m basically running it.

*Interviewee 9:* Some people can be a little bit more straight forward and honest to you, others you have to couch things in… and others you have to back everything up with evidence.

Other clients that were more ‘high maintenance’ and wanted to be involved in the detailed decision-making. This sometimes results in conflicting demands that have to be prioritised. However disincentives, such as extra costs, was used as a pro-active means to manage the situation at an early stage:

*Interviewee 3:* The higher maintenance clients want lots of interactions, lots of meetings, lots of drafts, lots of fiddling around.

Customers who bought volume or products with higher mark-up were particularly valuable and hard to find, and extra efforts were made to nurture such relationships:

*Interviewee 5:* So if you find one, particularly someone who buys on a regular basis – might have a contract with a mining company who does repairs and maintenance – you’ve really got to hold on to them.

Relationship building was a key theme, important for the long-term success of the business. One interviewee pointed to the importance of converting transactions to relationships:

*Interviewee 9:* … actually educating and telling them how to use things, and building confidence is much better than giving them a book and waving goodbye … in all the quotes there is a non-negotiable training element. It looks like money for nothing for most of them, but I know that it actually re-engages them down the track.

Positive relationships supported decision-making. The decision maker’s knowledge of the stakeholder’s expectations as well as insights to the individual stakeholder’s ‘way of thinking’ facilitated informed decision-making.

**RQ3b: How do owner-managers make decisions regarding stakeholders?**

Decisions were often made intuitive and ad-hoc in response to urgent demands. Significant decisions perceived as affecting the organisation long-term were however
supported by a level of perceived rationality that was often based on practical experience or personal values. Decision-making was therefore influenced not just by perceptions of legitimacy of the stakeholder’s demand, but also by the interviewee’s self-perception. Table 6.8 provide examples of decision types indicated.

Table 6.8  Decision-making

<table>
<thead>
<tr>
<th>Case</th>
<th>Decision and approach</th>
<th>Programmed / Non-programmed</th>
<th>Rational / Intuitive</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Decision to reduce staff hours: reluctance to make decision as impact on staff members negative, options carefully evaluated, potential impact on both business and stakeholders taken into consideration</td>
<td>Non-programmed</td>
<td>Rational</td>
</tr>
<tr>
<td>2</td>
<td>Decision to engage contractors rather than employees: decision prompted by deeming rules, stakeholders informed of options and involved in decision</td>
<td>Non-programmed</td>
<td>Rational</td>
</tr>
<tr>
<td>3</td>
<td>Decision to not have employees: based on previous experience and a perception of increased flexibility. However, decision may be partly reconsidered.</td>
<td>Non-programmed</td>
<td>Intuitive</td>
</tr>
<tr>
<td>4</td>
<td>Decision regarding whom to assist and how much assistance will be provided: based on numerous factors taking into account both the clients needs, situation, level of disadvantage, as well as the centre’s ability to respond</td>
<td>Programmed</td>
<td>Rational</td>
</tr>
<tr>
<td>5</td>
<td>Decision to prioritise one client and let another wait: strongly influenced by anticipated reaction from both clients and interviewee’s self perception regarding ability to negotiate around any objections</td>
<td>Non-programmed</td>
<td>Intuitive</td>
</tr>
<tr>
<td>6</td>
<td>Decision to attend certain farmer’s markets but not others: an ongoing evaluation</td>
<td>Programmed</td>
<td>Rational</td>
</tr>
<tr>
<td>7</td>
<td>Decision to oppose clients requests to race a horse: based on concern for the welfare of the horse</td>
<td>Non-programmed</td>
<td>Intuitive</td>
</tr>
<tr>
<td>8</td>
<td>Decision to refuse a potentially profitable supplier: concern regarding consistency of supply</td>
<td>Programmed</td>
<td>Intuitive</td>
</tr>
<tr>
<td>9</td>
<td>Decision to advice client to not use the business: highly rational and counterintuitive</td>
<td>Non-programmed</td>
<td>Rational</td>
</tr>
</tbody>
</table>

Decision-making appeared at least partly influenced by personal characteristics of the interviewee: level of experience, self-confidence and attitude to risk. To refuse or delay servicing a customer was consistently seen as a risk that had to be balanced against the risk posed by overcommitting limited resources. Some interviewees preferred to involve staff members or affected stakeholders in decision-making while others frequently did not. Again, positive and constructive relationships with stakeholders was important and supported efficient decision-making.

Although decisions may be intuitive rather than rational, interviewees were conscious of and considered the impact decisions could have on other stakeholders.
Interviewee 5: Yes, probably a reasonably conscious process. Most decisions are not made in isolation.

Some stakeholders were seen as neglecting this approach in relationships with small business: various government departments and large business in particular. Government decisions affecting small business were seen as one directional and autocratic. The government’s lack of timely consultation with industry has a significant effect and in the end, it is the client who ends up paying a higher price. Changes to rules regarding door handle clearances in the construction industry was an example of how draconian implementation of change and a disregard for commercial realities can have unintended consequences:

Interviewee 2: As far as we know, wheelchairs haven’t got any wider, we used to be able to use the 820mm door, now you’ve got to put a 920mm door. Unfortunately your manufacturers have not caught up… It was just, ‘this is the new rule’.

Government may also affect the availability of ‘good’ sub-contractors as this fluctuates with demand:

Interviewee 2: In today’s climate it is easy to find somebody because nobody is busy. It was difficult when the BER [Building Education Revolution] was on because everybody was busy and all that does is that drives the price up. When we got BER, we knew that would happen so we locked in the sub-contractors straight away. All the builders told the government but they do not listen.

Interviewees were keenly aware of the importance of effective communication; seen as key to maintaining positive relationships and to support effective decision-making. Several interviewees re-told events where they had been able to prioritise stakeholders based on what they felt was a well-founded expectation to be able to ‘talk to’ the other stakeholder. Good communication was seen as critical for building a strong and positive relationship where issues can be resolved, the interviewee becomes almost a translator for the clients to assist them to understand formal requirements and what is and is not possible:

Interviewee 3: That’s why I use common English a lot when I first meet people, somewhat to their surprise, and I talk about high maintenance people and they all laugh, so already you are building a relationship through laughter and by meeting them on their property that they have paid all this money for, you are meeting them on their ground, literally, at the beginning. So to me that is part of the relationship building.
Communication with customers who were other small business ‘men’ was perceived as easier, a rapport was easily established and problems could be solved together. Purchasing officers of large companies tended to dictate what they wanted and was not always willing to listen to advice.

Interviewee 5: … you speak to a purchasing officer, it’s very rigid; ‘this is what I need’; ‘but, you’re sure you need that, don’t you… in my experience…’, ‘No, this is what I need’. And you know very well that’s not what he needs because there is no scope, there is no understanding or education. Where if you could just speak to some other bloke – or girl – who is more hands on, they’d just say; ‘oh, yes, I see what you mean’

With technology, effective communication has become easier and the setting up of a website has affected the relationships with clients, especially new clients, and turned out to be more effective than paper based marketing. The website essentially allows the clients to self-sort:

Interviewee 3: So when somebody… an enquiry, comes from the website, it’s really high quality. It’s in a sense easier to sell to, because they know what they are getting. They have already an idea of what we do, how we do it, who we can put them in touch with, our success rate, our recent projects, our current projects, all that is in there.

An important mechanism also reliant on communication was active networking. The interviewees had a strong sense of the importance of networking as a means of gathering information about the general and specific environment. Net working was however also important for the personal contacts:

Interviewee 9: … and become one of those relationship builders and someone who’s good to know. That’s principally [husband’s] problem in the business, ‘cause … I’ve got on the brains all this academic knowledge – a bit weird. And he’s the … sometimes it can be just too full on. [He] can talk ‘normal’ [laughs], and is really good …

Reputation may be build on word of mouth, by referrers who recommend the business through their network. The interviewee considered that the business had such contacts and that they were important:

Interviewee 8: We do, yes we do. Yes, they are, they are important, especially if they are influential themselves, they are very important. They could be an expert, they could be customers. They could be, yes, industry expert, they could be customers, they could be from local government, they could be suppliers. They could be just about anywhere really. So it’s important.
Such recommendations were not often know to the business being recommended, the interviewee acting as a referrer:

Interviewee 9: Yes, oh, yes. I don’t get a kick-back or anything, and the same when I put a marketing agent into one of my clubs and I said to the GM ‘I have nothing to do with this, I’m not getting any money. I’m just recommending … to maintain my independence.

However, overall most interviewees perceived relationships with stakeholders as positive:

Interviewee 8: We’ve been in business long enough to establish many good relationships and not many bad ones.
Interviewee 9: [Relationships]… need to be based on authenticity.
Interviewee 3: It is very infrequent, with my stakeholders, that I would have a threat of falling out, or a falling out. You just negotiate it, you anticipate that it’s coming and you negotiate it. You don’t fall out and then have to withdraw and spend all that time to re-establishing a new professional relationship of some sort.
Interviewee 4: I just think it’s just part of our work, its maintaining those relationships, the centre wouldn’t be able to operate very well if we didn’t.
Interviewee 1: I would not say it is a burden but it is a commitment.

Most interviewees thus recognised a level of dependence on stakeholders such as customers and recognised the mutuality of stakeholders’ dependence on them, also recognised was the resulting commitment and effort to maintain the relationships over time, even when difficult.

**RQ3c: What factors may affect decision-making regarding stakeholders?**

Dependence, commitment, duration of the relationship and potential exit cost were all factors that may affect decision maker’s perceptions of stakeholders and therefore also impact on decisions made.

**Commitment**

Commitment featured as an element with suppliers:

Interviewee 6: So we have a commitment with our milk supplier and they have a commitment to us. If any of that changed, it would be noticed. As to other suppliers … don’t think there would be … I don’t think one would be noticed.
The commitment was seen as mutual, the commitment from some suppliers particularly strong. These relationships were very close and cooperative in working towards what was seen as a common goal: to serve the ultimate customer:

*Interviewee 8:* ... sometimes it may be because they want to make sure that we’re supplying the end users, our customers, with the correct product, provide information about how to use that product, sometimes they help us to establish other customers.

A mutual commitment, based on trust and respect existed between the interviewee and the most important stakeholders, particularly customers:

*Interviewee 5:* Yes, that’s right, a reciprocal commitment. I try to build with most of our... with stakeholders... I talk about building relationships with people, I think that is an important word; it is all about building relationships with people. I just feel if you can do that, the rest of it – well, it won’t necessarily look after itself, because price is important and things like that, but if you can build up trust and a relationship with someone that’s a good start.

Interviewee 3 saw stakeholder relationships as underpinned by a level of mutuality; relationships with stakeholders in the ‘inner circle’ being more mutual than relationships with those in the outer circles, where relationships were one directional. The relationship with the bank was considered particularly important to keep stable, according to Interviewee 3: “... with your banker, you need to have a confident … a mutually confident relationship with your bank. There are alternatives but chances are, the move is going to cost you money and you may be on some special deal now, or whatever”.

The level of commitment to the relationship varies between stakeholders, some are short-term while others are much more long-term. Contractors may also come in with varying levels of experience and require varying levels of supervision:

*Interviewee 3:* So I have contractors ranging from the people who are working for me part-time on a regular basis but as contractors, through to those who are self-employed and who I call ‘suppliers’.

*Interviewee 2:* We are using second and third generation ‘subbies’, I have been in the building industry for a long time. The painters we use, that’s third generation, the gyprockers are second generation, and some of those sub-contractors, I have worked with them for thirty-five or forty years and that is because everybody knows the foreman has been there all the time and everybody knows how the other bloke thinks and it just makes it much better on site.
Commitment may also be indirect: “If a surveyor worked on a property that I am now pulled into by a new owner, I would go back to the previous surveyor in almost every instance; who did the work before, because there is a history there and therefore there is an economy for the client, in me working with that person”. Commitment may even vary within stakeholder relationships:

Interviewee 3: The councils are obviously long-term relationships but the individuals within the councils; some are there in the same job for far too long, and with some of them there are churn.

**Dependence**

Overall, the relationships with stakeholders were seen as a network of interconnected parts, as explained by Interviewee 7: “… we’re all interconnected in so that if we’re not getting paid, our internal stakeholders can be affected. If we don’t have clients, our suppliers are going to be affected”.

Interviewee 2: You know, it’s like a big domino thing, if this guy goes broke, they can affect a multitude of different people.

Interviewee 5: I guess I see most of our relationships with stakeholders as two-way. Hopefully with our employees, I can look after them and in return they do a fair days work. So I suppose it’s sort of … communication and going both ways, and I see that with customers as well.

Interviewee 8: I think some stakeholders, and I’m talking suppliers here, are instrumental in our organisation because we might sell a very large collection of their products and we’re dependent upon those products to supply our own existing customers, they demand them.

A close and dependent relationship may however also pose a risk:

Interviewee 3: I am also aware that the loss of a key supplier could be a risk issue for the business so I network quite heavily and make sure that I know who is around and we know enough about each other, we’ve got each others details, that I have choices. That is a risk management thing from my perspective.

**Duration**

Most interviewees expressed a desire to build long-term relationships with profitable clients but recognised that clients may chose not to. The initial relationship short-term and conditional, but with an option of an ongoing relationship:

Interviewee 1: … our ideal is certainly to encourage a long-term relationship but it is not necessarily so.
Business 1 put strong emphasis on developing a positive and long-term relationship. A process is established wherein a series of initial visits is followed by a survey and discussion about progress so far. This allows the practitioner to suggest changes or illuminate areas that have or could be improved but that the client may not have recognised as resulting from the treatment, according to Interviewee 1: “… for example they may be here for back pain but may have also had a change in their asthma or bowel function or something else”. A kind of back-wards ‘up-selling’ that rather than increasing the size of the sale provides a basis for building trust and long-term relationships. Relationships may therefore be affected by factors such as level of commitment, dependence, duration of the relationship and perceptions of potential exit costs.

Some relationships involved more than one stakeholder, sometimes the relationship with a supplier for example became joint effort to drive the marketing effort:

Interviewee 8: If they are the manufacturer for instance, they have a lot more expertise than we do, with their own product. So they can demonstrate them and show the potential benefits to a potential buyer and, you know, whether they want to prove them more economical, better value or better quality

Interviewee 8: So those companies are really good to work with and you’ve got to have a close relationship … so you end up developing friendships or colleagues that lasts a very, very long time, and some of those people may move to other organisations, and then you establish a similar thing with them as well.

The business relationships thus blended with personal relationships and this appeared to strengthen the relationship and support flexibility and longevity by supporting a sense of trust and confidence:

Interviewee 8: Quite often you network and you find yourself moving around with certain individuals because they are always able to provide you with the benefit of some description.

Interviewee 9: … trust is a funny word isn’t it. It’s more a… ahm… I like to think of building peoples confidence, and they’re building my confidence, so it’s a whole confidence, you know… let’s build confidence in each other rather than trust.

An aspect closely related to the long-term duration of the relationship and seen as important in this regard was to make sure that stakeholders got paid in a timely manner:

Interviewee 2: Mostly, the sub-contractors are not big businesses and for most of them, some of them have offices but the owner works on site, so
it is pretty personal. We make sure we keep a certain amount of cash money so that if we do mess up a payment or a progress payment gets held up, or a client’s late paying it for whatever reason, we can fulfil our obligation to our sub-contractors because they obviously have obligations as well.

Interviewee 6: Some of them are single… small family groups. Some of them are of the level of multinationals even if they are not actually multinationals.

Interviewee 7: So some stakeholders have a long, well established relationship, and it’s old fashioned loyalty and old fashion knowing that if you say ‘you’re going to get paid’, you get paid. … We’ve feed merchants that we’ve dealt with for 20 years and if things are slow for us, they’ll carry us.

An important aspect of building long-term relationships and encourage cooperation was to reward loyalty:

Interviewee 9: They’ll get a free version on the upgraded and then they can choose what they want to use. So you’re rewarding loyalty and you’re allowing them to be part of your learning journey as well.

Exit costs

Not all relationships were successful and to end a relationships with a stakeholders such as a supplier may carry a cost:

Interviewee 9: Sometimes you build relationships and they’re dead ends, then you cut and run.

Interviewee 8: Ahh, well the cost to us is intangible to some degree because there would be costs associated with training staff to sell a different product. We don’t know how much time, effort and resources that would take.

Exit costs for ending relationships with stakeholders vary, according to Interviewee 1: “certainly there is a cost in ending a relationship with a patient, especially a regular patient”. Regarding employees, the cost is mostly related to the cost involved in training a new employee. This included direct cost of running double shifts to train them and the fact that new employees are initially less effective.

Exit costs, the cost of ending relationships may result in a reluctance to change and provide motivation to maintain the relationship despite difficulties:

Interviewee 8: Absolutely, it happens all the time. So if they’re providing us with a product we’re making good profit on, and we have a relationship that’s average, we can often make it work for us anyway. It has to pretty… it has to be something considerable to turn around and say
we’re not going to buy your product anymore because xyz’, but it does happen.

Anticipated costs may also act as a barrier and reluctance to engage in a relationship which require commitment of resources but where long-term success was perceived as uncertain:

Interviewee 8: Sometimes you would like to buy product from a particular supplier because you realise that if you did, you’d be able to make profit and sell quite a lot of their product. But there are many, many considerations before you actually go and do that and probably the main one there, is probably the consistency of supply and the quality of supply.

Another strong factor was the interviewee’s self-perception such as believes about own negotiation skills, personal values and perceptions of own power, legitimacy and urgency – the attributes of stakeholder salience.

6.4 Theme 4: On being an owner-manager (RQ4)

Being an owner-manager had both positive, highly motivating aspects as well as negative, challenging aspects, both important.

**Positive/motivating aspects of running a small business**

Being in control and being able to make own decisions was a strong motivating factor:

*Interviewee 1:* I like having my own thing, I like having my own identity in my role.

*Interviewee 5:* I spent most of my life as an employee, so I know that side of things. There was an opportunity that presented itself and without giving it too much thought, I took it. It wasn’t really a lot of thought to go in to it. But I guess it is … it is about control, really. I’m not under someone else, I can call the shots, I have power and control.

*Interviewee 2:* Being happy with what you are doing, being satisfied with what you are doing. Which, that takes into everything; you’ve got to make money, you’ve got to be helping your stakeholders earn a reasonable living and it gives you great satisfaction to look at the completed product. If your client’s happy, your subcontractor is happy, every body is happy, and if you make money that is a bonus.

Having control also meant flexibility, Interviewee 3: “Flexibility! Of time. But it is also power”. Defining flexibility in terms of time meant being able to take time off every year, occasionally take long weekends or have afternoons off – essentially being able to “… simply step out of the business when I choose to …”. The trade off was the need to
sometimes work long hours, Interviewee 3: “… also the inflexibility sometimes when you have to burn the midnight oil”.

Interviewees also had a long-term perspective and expectation of future benefit acted as a motivation for dealing with current challenges:

Interviewee 6: I look forward to retiring, I look forward to having a self-sustaining business, one that … it’s never going to be easy. It’s never going to be ‘put your feet up and have fun’, but it’s going to get easier.

Interviewee 8: A few years ago I would have said that on some level it is probably egotistical and I also like to make my own decisions about things, and I prefer to make sure that I have a bearing on what happens in here. But now, in the last ten years since I have a family and I have children, I see the ability to be an owner or business operator or shareholder/stakeholder of the company crucial in providing for them.

**Negative/challenging aspects of running a small business**

A major challenge reported by several interviewees were that they were time poor and that this had several flow-on effects:

Interviewee 6: Ahm, time! It’s always going to be a situation where you’ve got thirty jobs to do and twenty of them can be done by anybody but nobody does them, and ten of them can only be done by you and you don’t have the time to do them because you’re doing the other twenty. It’s a matter of juggling it, but yes, that’s going to be the biggest killer.

Interviewee 3 added: “Well, the trite one is hours in the day, but you can hear that that does not really bother me”.

Instead, the main challenge came from circumstances not within the control of the interviewee, such as the challenges and uncertainty of being a small business in a turbulent environment with constant change requiring adaptive responses, Interviewee 3: “A hard thing is managing volatility in the volume of business. That’s pretty big picture, its not week to week deadlines, it’s the big picture”. Being time poor also affected the interviewees’ ability to work ‘on’ the business rather than just ‘in’ the business. Then there was the challenge of being a technical expert as well as a management expert and keeping everything in balance and everyone happy:

Interviewee 1: I would like a bit more of an objective look at my business principles and things like that, that is why I am thinking to have a business coach. I don’t have a great strength in some of that and I fly by the seat of my pants”

Interviewee 4: Yes, dealing with people that you work with. I need more training on that side of things, general management. I did have some
training but it’s a long time since I had it and I probably could do with an update on that.

Interviewee 9: You’ve really got to learn how to … there is three points, I always say; there is working on the business and working in the business, you’ve got to get a good balance. So this week’s working on the business and last week was working in the business, but you’ve also got to balance it with your anxiety. It is not a journey for the faint of heart!

The financial challenges spanned both the private and business sphere:

Interviewee 3: Because being in your own business, you don’t have a secure income, and I choose not to.

Interviewee 7: Staying afloat! [interviewee laughs] Surviving!

Interviewee 8: Funding expansion can be difficult, particularly if the expansion is large. So, what we try to do is to … as a family organisation, is to grow every year but to grow relatively slowly, so we can fund the growth ourselves, but quite often it doesn’t always happen that way and you find yourself where you need to access finance and it can be challenging, and I’m talking about cash flow and things.

Interviewee 5: Probably management succession is another issue and difficulty. In terms of the viability of the business it is important that I think about the future. Being a small businessman, a lot relies on me to reduce that liability. So that’s a risk.

In concluding the interviews, several interviewees spontaneously commented that they felt the process had provided a valuable opportunity for reflecting on relationships with stakeholders, something that was not given priority during day-to-day operations:

Interviewee 5: It’s got me thinking about a few things. Often you don’t … like I say, you just do things, and it is good to actually sort of talk about why you do things sometimes”.

### 6.5 Conclusions on Chapter Six

In sum, the nine cases had in common that they were all small businesses. Yet illustrative of the highly heterogenetic Australian small business sector, each was also distinctly unique. The cases came from different industries, were of varying sizes and structures, and length of time in operation. Similarly, the interviewees varied: both males and females were represented, the level of education and experience in management and time in the role as key decision maker varied, and whereas some were founders of the business, others had come into the owner-manager role later.

Data were analysed in several steps based around four broad themes: perceptions of stakeholders (RQ1), perceptions of stakeholder relationships (RQ2), perceptions of
stakeholder salience (RQ3), and the interviewees perceptions on their own situation as the key decision maker in a small business. Conclusions on findings and a comparison with the relevant literature are presented in Chapter Seven where answers to the theoretical RQ4 and RQ5 will also be presented.
Chapter objectives

The objectives of this chapter is to present the findings and conclusions to the research questions supporting the investigation into the primary research problem regarding “How stakeholder salience may be effectively defined and applied in management of stakeholder relationships in small business?”.

Relationships with stakeholders are however strongly embedded in context and the understanding of such relationships therefore dependent on understanding the context. Characterised by the existence of a single key decision maker, small business offered a suitable context for investigating stakeholder relationships. This key decision maker is typically also a significant stakeholder in the business and able to provide insights into the multifaceted challenges and processes for identifying, building and maintaining relationships with stakeholders.

Mitchell et al’s (1997) model of stakeholder salience offered a basis for exploring how stakeholders may be prioritised but the three attributes of stakeholder salience were not well defined. This study aimed to explore how stakeholder salience could be better defined. It was found that by providing more stringent definitions for two of the attributes, power and legitimacy, and adding two additional attributes, value and stake, the model would better reflect how stakeholders are managed. These changes are based on findings in the small business context but likely to be equally relevant in other organisational contexts. The ValuePLUS model, similar to the original stakeholder salience model, is therefore non-context specific. Findings from this study also provided additional insights that provide a basis for development of a further three models regarding stakeholder relationships. Each will be introduced in turn.
7.1  The research themes

This section presents the conclusions to the RQs and the research problem based on the theoretical discussions in Chapters Two and Three, and on the empirical findings presented in Chapters Five and Six. Also presented here, are the theoretical implications resulting from this study, arranged around the themes previously presented:

- Perceptions of stakeholders (RQ1)
- Perceptions of stakeholder salience (RQ2)
- Perceptions of stakeholder relationships (RQ3)
- Application of stakeholder salience to assist small business (RQ4)
- Implications for theoretical definition of stakeholder salience (RQ5)

Small business participants

Although often overlooked, the small business sector makes a significant and important economic and social contribution (see Chapter Three). In Australia, the sector is slowly gaining recognition (Benett, 2015; Council of Small Business Australia [COSBOA], 2015; K. Phillips, 2015). The proportion of small businesses tends to fluctuate somewhat over time. According to the latest figures form ABS (2015) the proportion of small businesses had increased slightly, to 98% since the start of this study.

7.1.1  Theme 1: Stakeholders – SPIR

‘Stakeholder’ was understood by most interviewees as relating to ‘having an interest’ in something, a relatively narrow definition that nevertheless is consistent with several definitions in the literature.

It was found that in most cases, the term ‘stakeholder’ was not part of the interviewee’s everyday vocabulary. Yet, it was also apparent during the interviews that a stakeholder approach was generally applied and important relationships known and managed with care to safeguard the long-term survival of the business. An overview of findings on RQ1, the relevant Sections in Chapters Two and Three, and contribution to theory, are presented in Table 7.1
Table 7.1  RQ1 – overview of findings

| RQ1: “How do decision makers in Australian small business define and identify stakeholders?” |
|-----------------|------------------------------------|------------------|
| **RQ1a: What do decision makers understand by the term ‘stakeholder’?** |                      |                  |
| F1.1 The term ‘stakeholder’ is widely used in academic literature and public policy but was not part of the interviewees’ everyday vocabulary | Section 2.2 | Adds to theory |
| F1.2 The term ‘stakeholder’ was understood by the interviewees as relating to an interest in something | Section 2.2 | Supports and adds to theory |
| F1.3 The interviewees nevertheless applied a stakeholder approach in their business | Section 2.1 | Adds to theory |
| **RQ1b: Whom do decision makers consider stakeholders?** |                      |                  |
| F1.4 Most academic literature identifies stakeholders as ‘generic groups’ but interviewees considered stakeholders as individual businesses or persons rather than generic groups | Section 2.10 | Supports and adds to theory |
| F1.5 Some important stakeholders, such as ‘referrers’, did not fit into any of the discrete and generic categories | Sections 2.3; 3.1 | Adds to theory |
| F1.6 Identity of stakeholders varied between businesses and industries and membership of generic groups were heterogenic. For example different types of customers, suppliers and ‘employees’ | Section 2.3 | Supports and adds to theory |
| **RQ1c: How do decision makers determine who is, or is not a stakeholder?** |                      |                  |
| F1.7 Stakeholders were identified on four levels: spontaneously, when prompted, by implication, and some were explicitly rejected | Sections 2.2; 3.2 | Adds to theory: the SPIR model |
| F1.8 The process for determining who is a stakeholder was intuitive rather than rational, but based on knowledge and experience | Sections 2.2; 3.3 | Adds to theory |
| F1.9 The process was affected by interviewee’s subjective perceptions | Sections 2.2; 3.4 | Supports and adds to theory |

A disconnect is shown in Table 7.1 to exist between the academic and practitioner understanding of the term stakeholder and to whom it may refer. The membership of generic stakeholder groups, such as customers, suppliers and employees, were highly heterogenic – to the point of sometimes making the concept of generic stakeholder groups irrelevant. Each business’ stakeholder environment was unique: not only did the membership of each stakeholder group vary, there were also several stakeholders who did not fit comfortably into any of the generic groups. On the other hand, not all generic stakeholder groups were represented in all businesses – ‘employees’ for example, were not relevant for non-employing businesses. In addition, the relative importance of stakeholders varied and interviewees’ prioritisation of individual stakeholders – even within groups – varied. Some customers were for example much more important than others and some suppliers, such as sub-contractors – a group of stakeholders that may be understood as either suppliers or a human resource, critical for the success of the business. The decision maker would go to some length to accommodate an important stakeholder while other stakeholders may be quickly and conveniently abandoned, reflecting a level of asymmetry in the relationship.
The process of determining who was a stakeholder during normal operations was typically intuitive, ad hoc and based on interviewee’s subjective perceptions rather than a rational analysis and decision-making process. For several interviewees, the interview situation presented a rare opportunity to reflect on stakeholder relationships and the first time they had focused their thought on this issue. The process was seen as valuable, suggesting an opportunity for constructing a tool to assist small business in this process. Stakeholders were recognised on four levels, giving rise to the newly developed SPIR typology for understanding stakeholder identification, presented in Table 7.2.

### Table 7.2. The SPIR typology

<table>
<thead>
<tr>
<th>Level of recognition</th>
<th>Symbol</th>
<th>Description and comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spontaneous</td>
<td>S</td>
<td>Stakeholder spontaneously identified in response to open ended questions regarding whom the stakeholders of the business were, indicating a high level of awareness and cognitive availability</td>
</tr>
<tr>
<td>Prompted</td>
<td>P</td>
<td>Stakeholder only recognised when prompted by researcher. Indicated a moderate level of awareness and cognitive availability</td>
</tr>
<tr>
<td>Implied</td>
<td>I</td>
<td>Stakeholder not explicitly identified but strongly implied during the interview. Indicating a disconnect between the awareness and possibly definition of the term stakeholder</td>
</tr>
<tr>
<td>Rejected</td>
<td>R</td>
<td>Stakeholder explicitly rejected when prompted. Indicated a level of judgement and decision to exclude stakeholder, or possibly misconceptions about the meaning of the term</td>
</tr>
</tbody>
</table>

The SPIR model may forms the basis for developing a tool to assist decision makers in small business to identify and analyse their particular stakeholder environment by prompting a pro-active analysis of who may be a stakeholder in a business (RQ4). This requires a further means for identifying the relative ranking of stakeholder demands on a particular issue and at a given time, and thus have several levels. An initial approach is presented in Table 7.3.

### Table 7.3 The SPIR continuum of engagement

<table>
<thead>
<tr>
<th>Level</th>
<th>Description and comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Passive</td>
<td>Part of the relatively permanent context of the particular business. May include a variety of groups or individuals able to affect or be affected by the business in some way at some time</td>
</tr>
<tr>
<td>Active</td>
<td>In active and current relationship with the business at the moment, an ongoing relationship</td>
</tr>
<tr>
<td>Urgent</td>
<td>Of critical importance to issue at hand, highly active or likely to become highly active in near future. May significantly affect or be affected by the current issue</td>
</tr>
</tbody>
</table>

The dynamic nature of stakeholder relationships is illustrated in Table 7.3. While a large number of stakeholders may form part of the organisation’s context, a smaller subset will be actively engaged with the business for shorter or longer periods of time. The tax office, for example, is likely rise to prominence when annual returns are due. Similarly,
some stakeholders may become critical in regards to particular issues, such as a large project that cannot go ahead without the support of a major sponsor. Given the tendency to use heuristics, the ‘availability’ of stakeholders in the mind of the decision maker may affect the identification of stakeholders spontaneously, when prompted, or to reject the stakeholder. Implied stakeholders may be recognised outside the stakeholder concept, for example as a ‘partner in business’ rather than a stakeholder.

A conclusion to RQ1 was that the usefulness and practical relevance of generic stakeholder groups such as owners, customers, suppliers, employees, as cited in much academic literature, was called into question. ‘Employees’ for example were seen as individuals providing skills and efforts valuable to the success of the business. The formal distinction between employees – engaged on a ‘contract of service’, and contractors – engaged on a ‘contract for service’ (van der Waarden, 2014), was seen as imposed by regulators but of little practical significance in the business achieving its goals. At least in the small business sector, stakeholders appear to be recognised as individuals and individual organisations, each with a unique relationship with the business and decision maker. A focus on the relationship may thus provide a more useful and relevant approach.

### 7.1.2 Theme 2: Perceptions of stakeholder salience

It was found that although interviewees recognised their own power to make decisions in the business, several interviewees were uncomfortable with the concept of power and preferred ‘influence’. An overview is presented in Table 7.5.

#### Table 7.4 RQ2 – overview of findings

<table>
<thead>
<tr>
<th>RQ2: “How do decision makers in Australian small business perceive stakeholder salience?”</th>
<th>RQ2a: How do decision makers perceive the proposed attribute ‘power’?</th>
</tr>
</thead>
<tbody>
<tr>
<td>F2.1 Power in academic literature may be understood as an essentially contested concept with no one definition applicable to all disciplines</td>
<td>Section 2.5</td>
</tr>
<tr>
<td>F2.2 Power is an important attribute of stakeholder salience</td>
<td>Sections 2.4; 2.5</td>
</tr>
<tr>
<td>F2.3 Power at a general level was understood by the interviewees as the ability to make decisions, decide whether to implement change, and to get things done. Essentially as ‘power to’</td>
<td>Section 2.4; 2.5</td>
</tr>
<tr>
<td>F2.4 The basis for power may be the decision maker’s position in the organisation, knowledge, or purchasing power</td>
<td>Section 2.5</td>
</tr>
<tr>
<td>F2.5 Power was seen as an integral part of relationships and the ‘power to walk away’ a significant type of power supported by the ‘freedom to choose’ (supported by social values, a type of legitimacy)</td>
<td>Sections 2.5; 2.6</td>
</tr>
<tr>
<td>F2.6</td>
<td>A correlation was found between perceived level of dependence and perceived power</td>
</tr>
<tr>
<td>F2.7</td>
<td>Interviewees’ recognised their power as constrained by the power of the stakeholder and even by third parties and therefore constantly re-negotiated</td>
</tr>
<tr>
<td>F2.8</td>
<td>Power is a subjective perception that influence attitudes and decision-making</td>
</tr>
</tbody>
</table>

**RQ2b: How do decision makers perceive the proposed attribute ‘legitimacy’?**

| F2.9 | The term ‘legitimacy’ is widely used in academic literature and public policy but was not part of the interviewees’ everyday vocabulary | Section 2.6 | Adds to theory |
| F2.10 | Legitimacy was understood by the interviewees as ‘doing the right thing’, based on a standard or legal requirement, but also as being authentic, genuine and ‘real’ in the business sense | Section 2.6 | Supports and adds to theory |
| F2.11 | Legitimacy may be based on formal or informal norms and values | Section 2.6 | Adds to theory |
| F2.12 | Legitimacy may apply to the entity, the claim or the behaviour of a stakeholder (Santana, 2012) | Section 2.4 | Supports and adds to theory |
| F2.13 | Legitimacy was seen by interviewees as closely related to reputation, and credibility and therefore trust | Section 2.6 | Adds to theory |
| F2.14 | Legitimacy is a subjective perception that influence attitudes and decision-making | Sections 2.6; 3.4; 3.5; 3.7; 3.8 | Adds to theory |

**RQ2c: How do decision makers perceive the proposed attribute ‘urgency’?**

| F2.15 | The term ‘urgency’ is widely used in academic literature and public policy and the same held with the interviewees | Section 2.7 | Supports and adds to theory |
| F2.16 | Urgency was understood by interviewees mainly as meaning time sensitivity, but could also relate to importance of the issue. A problem or opportunity that needs immediate attention | Section 2.7 | Supports and adds to theory |
| F2.17 | Interviewees pointed to the subjectivity of urgency; a stakeholder’s ‘urgent’ was frequently different from the decision maker’s perception of ‘urgent’, such perceptions influence attitudes and decision-making | Section 2.7; 3.4; 3.5; 3.7; 3.8 | Adds to theory |
| F2.18 | Urgency could be translated to higher price; the more urgent the claim, the higher the price | Section 2.7 | Adds to theory |

**RQ2d: How do decision makers perceive interactions between attributes of stakeholder salience?**

| F2.19 | Power is supported by perceptions of legitimacy | Section 2.8 | Supports and adds to theory |
| F2.20 | The effect of urgency is mitigated or amplified by perceptions of power and legitimacy | Sections 2.7; 2.8; 3.6 | Adds to theory |

**RQ2e: What other attributes do decision makers consider part of stakeholder salience?**

| F2.21 | Personal contact; knowing who you are dealing with | Section 2.9 |
| F2.22 | Trustworthiness, based on rapport, respect, integrity, honesty and friendship | Section 2.9 |

This study has both confirmed and added to the understanding of the attributes of stakeholder salience. The three attributes of salience, power, legitimacy and urgency, as proposed by Mitchell et al (1997) appear appropriate for stakeholder identification. These attributes may also be understood as dynamic concepts. Decision makers and
stakeholders may possess varying levels of each and the relationship a negotiated outcome that is also dynamic. The definitions of power and legitimacy could however be better defined to facilitate ease of understanding and usefulness of the model, see Table 7.5.

### Table 7.5 Definitions of attributes of stakeholder salience

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Meaning</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power</strong></td>
<td>Clarity</td>
<td>Ability to make, enact and enforce a decision</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to cause disruption or provide solutions (including innovation)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to influence relationships between third parties</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ability to walk away if dissatisfied (less dependent)</td>
</tr>
<tr>
<td><strong>Legitimacy</strong></td>
<td>Clarified</td>
<td>Complies with formal, encoded rules</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Complies with informal, social norms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Complies with the decision maker’s ethical stance</td>
</tr>
<tr>
<td><strong>Urgency</strong></td>
<td>Confirmed</td>
<td>Mitchell et al (1997:864): “… the degree to which stakeholder claims call for immediate attention”</td>
</tr>
</tbody>
</table>

Table 7.5 provides an overview of meanings for each of the three attributes of power, legitimacy and urgency. The attribute of power is understood as an ‘ability to’ do something and may be based on position, control of resources, or knowledge. Power however also allows for the ability to walk away – an important type of power not mentioned as such in the stakeholder literature. Such power is supported by social values and therefore legitimacy. Legitimacy is understood as compliance with rules, social norms and personal values. Legitimacy may further exist on three levels (Santana, 2012), legitimacy of entity, claim or behaviour. Regarding urgency, Mitchell et al’s (1997) definition appeared to hold. Also considered were potential other attributes, suggested in the literature, see Section 2.4 and Table 7.6.

### Table 7.6 Potential other attributes of stakeholder salience

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Source(s)</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperation</td>
<td>Tashman &amp; Raelin (2013) Bundy et al (2013)</td>
<td>These attributes may be understood as attributes of relationships rather than of stakeholders, and point to level of commitment, ‘replaceability’ of stakeholder and potential exit costs, examined in RQ4</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>(Eesley &amp; Lenox, 2006)</td>
<td></td>
</tr>
</tbody>
</table>

Rather than attributes for identifying and classifying stakeholders, these attributes relate to the relationships. The relationships were the focus of RQ3, discussed below, whilst RQ5 considered the issue of whether aspects of the relationship should form part of the stakeholder salience.
7.1.3 Theme 3: Stakeholder relationships

It was found that stakeholder relationships were recognised as highly important to small business and the interviewees reported spending considerable time and effort to build and maintain strong relationships. An overview is presented in Table 7.7.

Table 7.7  RQ3 – overview of findings

<table>
<thead>
<tr>
<th>RQ3: “How do decision makers in Australian small business manage stakeholder relationships?”</th>
</tr>
</thead>
<tbody>
<tr>
<td>RQ3a: How do decision makers perceive relationships with stakeholders?</td>
</tr>
<tr>
<td>F3.1  Relationships with stakeholders were seen as a resource supporting business success</td>
</tr>
<tr>
<td>F3.2  Relationships with stakeholders were based on goodwill but tempered by a pragmatic need for business survival</td>
</tr>
<tr>
<td>F3.3  Relationships were affected by the perceptions and attributes of the parties and situation at hand</td>
</tr>
<tr>
<td>F3.4  Relationships were seen as dynamic; parties may have different expectations and in a constant state of re-negotiation</td>
</tr>
<tr>
<td>F3.5  Communication was of critical importance for maintaining constructive relationships</td>
</tr>
</tbody>
</table>

RQ3b: How do decision makers make decisions regarding stakeholders?

F3.6  Decision-making was supported by positive relationships with stakeholders | Sections 3.7; 3.8 | Supports and adds to theory |
| F3.7  Decision-making were often ad hoc and intuitive but based on experience and therefore supported by a level of rationality | Sections 3.4; 3.6 | Supports and adds to theory |
| F3.8  Decisions were programmed, non-programmed or mixed | Section 3.6 | Supports and adds to theory |

RQ3c: What factors may affect decision-making regarding stakeholders?

F3.9  Decision-making was influenced by characteristics of the decision maker: level of experience, self-confidence and attitude to risk | Sections 3.6; 3.7; 3.8 | Supports and adds to theory |
| F3.10 Decision-making was influenced by perceptions of flexibility in relationships with stakeholders | Section 3.4; 3.6; 3.8 | Supports and adds to theory |
| F3.11 Decision-making was influenced by subjective perceptions of the particular stakeholder | Section 3.4 | Supports and adds to theory |
| F3.12 Perceptions and decisions regarding stakeholders were affected by level of mutual commitment to the relationship | Section 2.10; 3.5; 3.6 | Supports and adds to theory |
| F3.13 Perceptions and decisions regarding stakeholders were affected by level of dependence in the relationship | Sections 2.10; 3.5; 3.6 | Supports and adds to theory |
| F3.14 Perceptions and decisions regarding stakeholders were affected by potential exit cost to end the relationship | Sections 3.5; 3.6 | Supports and adds to theory |
| F3.15 Perceptions and decisions regarding stakeholders were affected by the duration [history] of the relationship | Sections 2.7; 2.10; 3.8 | Supports and adds to theory |

Table 7.7 shows that the interviewees perceived relationships with stakeholders as important for the success of the business. Positive relationships supported problem
solving and decision-making and interviewees reported investing time and effort to build and maintain those relationships. Such ‘goodwill’ was ideally expected to be reciprocal. The parties may on occasion have different expectations, and communication was important to successfully negotiate each situation.

Decisions were influenced by perceptions of stakeholder expectations, such as anticipations regarding acceptability and potential reaction, but also by perceptions of own needs as well as own values – a kind of self-regulation to maintain respect, reputation and trust while also protecting the business. Decision makers’ personal values, experience, self-confidence and attitude to risk therefore affected the decision-making, as did perceptions of the stakeholder and ability to negotiate through the situation.

Building on the work by Myllykangas et al (2010:70), Ulmer et al (2007:39), Harrison and Wicks (2013) and McVea and Freeman (2005) relationships with stakeholders may be characterised based on three dimensions:

- Dependence – may be based on difficulty of finding acceptable alternative to replace the stakeholder, thereby attributing a measure of power to the other party
- Commitment – active engagement and involvement in the relationship
- Cost – associated with maintain or ending the relationship, may affect decision to stay or leave

These dimensions could be identified on a collective – with a more or less homogeneous stakeholder group – or on an individual basis and results in an ordinal ranking of seven types of stakeholder relationships as set out in Table 7.8.

<table>
<thead>
<tr>
<th>Relationship</th>
<th>Relationship with collective stakeholder group</th>
<th>Relationship with specific (individual) stakeholder</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMMITTED</td>
<td>Long-term involvement Dependence: very high Commitment: very high Costs: high</td>
<td>Symmetrical relationship Dependence: symmetrical Commitment: symmetrical Costs: very high</td>
<td>Owner-managers, sole proprietors</td>
</tr>
<tr>
<td>ENGAGED</td>
<td>Long-term involvement Dependence: high Commitment: high Costs: high</td>
<td>Symmetrical relationship Dependence: very high Commitment: high Costs: high</td>
<td>Skilled employees, essential suppliers, clients (relationship) ‘prosumers’</td>
</tr>
<tr>
<td>CASUAL</td>
<td>Long-term involvement Dependence: very high Commitment: high</td>
<td>Transactional relationship Dependence: low Commitment: moderate</td>
<td>Transactional customer, unskilled employees, government, regulators,</td>
</tr>
<tr>
<td>Type</td>
<td>Description</td>
<td>Dependence</td>
<td>Commitment</td>
</tr>
<tr>
<td>------------</td>
<td>------------------------------------------------------------------------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>GENERALISED</td>
<td>Occasional involvement</td>
<td>low</td>
<td>moderate</td>
</tr>
<tr>
<td></td>
<td>Asymmetrical relationship</td>
<td></td>
<td>low</td>
</tr>
<tr>
<td>ESTRANGED</td>
<td>Involvement irrelevant</td>
<td>irrelevant</td>
<td>irrelevant</td>
</tr>
<tr>
<td></td>
<td>Asymmetrical relationship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOXIC</td>
<td>Involvement irrelevant</td>
<td>irrelevant</td>
<td>irrelevant</td>
</tr>
<tr>
<td></td>
<td>Negative relationship</td>
<td></td>
<td>negative</td>
</tr>
<tr>
<td>NON-RELATIONSHIP</td>
<td>None or occasional contact</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td></td>
<td>Commitment none</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The first two categories, Committed and Engaged, are ‘positive’ relationships as described by Ulmer et al. (2007), where both parties have a vested interest to make the relationship work and solve problems together. This supports flexibility in attitude and significant trust. Trust tends to build over time and may therefore also support the longevity of the relationship. Duration may therefore be considered an outcome rather than an attribute in its own right. Estranged and Toxic relationships are similar to Ulmer et al.’s ‘negative’ classification, where at least one party have a negative or destructive commitment to the relationship and refuses to walk away. Casual or Generalised relationships, similarly to Ulmer et al.’s ‘ambivalent’ classification, are very loose and at arms length as individual members are easily replaced. The types of relationships exist as a continuum rather than as discrete categories and a particular relationship may on occasion or in regards to a particular issue move between types. In this way, relationships may not be ‘pure’ in that they are actually composed of a ‘suit’ of issue-specific relationships and often supported by a level of general goodwill.

A focus on the relationship, rather than generic stakeholder groups, provides insight into differences in perceptions of stakeholder salience depending on level of commitment, dependence and exit costs. The effect of power and intended influence, for example, varies with dependence and commitment (Lammers & Galinsky, 2009; Wrong, 2009) and asymmetrical dependence provides the less dependent party with power, based on the ability to walk away.
7.1.4 Theme 4: Application to assist small business

Although the interviewees had significant control and flexibility with time off, an acknowledged moral responsibility towards various stakeholders sometimes also meant very long hours at work. An overview is presented in Table 7.9.

Table 7.9 RQ4 – overview of findings

| RQ4: “How may Stakeholder Salience be applied to enable and assist decision makers to analyse the stakeholder environment of a small business?” |
|-------------------------------------------------|---------------------------------|---------------------------------|
| F4.1 Being in control and able to make own decisions was a strong motivating factors for the interviewees | Sections 2.5; 3.7; 3.8 | Supports and adds to theory |
| F4.2 Flexibility, facilitated by power, was important. This meant being able to take time off, but also to sometimes work very long hours. A matter of balancing the various demands | Sections 2.5; 2.6; 2.7; 3.7; 3.8 | Supports and adds to theory |
| F4.3 Long-term goals focussed on setting the family up for the future (succession), and preparing for own retirement | Sections 3.5; 3.7; 3.8 | Supports and adds to theory |
| F4.4 A major challenge was time, the interviewees felt that they were ‘time poor’ and constantly had to do trade offs between what they wanted to do and could do | Sections 2.7; 3.6; 3.7; 3.8 | Adds to theory |
| F4.5 The challenge was not just the need to work long hours, but rather that there simply was not enough time regardless. Delegation may help solve this problem, but a difficulty may exist in finding reliable staff that could and would do the job | Sections 2.6; 2.7; 3.7; 3.8 | Adds to theory |
| F4.6 A major challenge and source of anxiety was the significant volatility (turbulence) and the difficulty of simultaneous focusing on the day-to-day running of the business and the strategic “big picture”. Lack of opportunity, and sometimes skills, for reflecting on the business | Sections 3.5; 3.6; 3.7 | Supports and adds to theory |
| F4.7 The irregularity of cash flow, both personal and in the business was reported to be a challenge. The lack of a secure income presented a problem, but it was also recognised as a feature of being a small business owner-manager and therefore a conscious choice | Sections 2.5; 3.5; 3.6 | Supports and adds to theory |

The interviewees’ significant desire for self-determination, belief in own ability and propensity to accept risk are ‘attributes’ generally supported in the literature. Approaches to assisting small business operators then should focus on facilitation rather than directives. Less red tape and policies that could be easily understood and implemented requiring minimum resources would be welcome. Such resources could then be applied to the operational side of business instead of regulatory aspects. A significant finding (see RQ1) was that small business operators do not necessarily have a clear picture of the stakeholder environment for their particular business, or analysis of how changes in the environment may affect them and their business. A tool to assist such analysis and decision-making may therefore be valuable to small business owner-managers and key decision makers. An initial conceptual approach to developing such a tool was developed, a schematic outline in seven steps is presented in Figure 7.1.
Each of the seven aspects presented in Figure 7.1, need to be analysed from the perspective of the particular entity. To assist this process, several questions are posed. An overview is presented in Table 7.10.

**Table 7.10  Analysing the general and specific stakeholder environment**

<table>
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<tr>
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<tbody>
<tr>
<td>Who can affect us?</td>
<td>Who adds, or could add, value to this entity?</td>
<td>Who can make, enact and enforce a decision relevant to us?</td>
<td>What are the formal encoded rules (laws, regulations and standards) that apply to us?</td>
<td>Who claims time sensitivity in communicating with us?</td>
<td>What are our risks (tangible and intangible)?</td>
<td>With which collective groups (such as 'customers') do we have a current and active relationship?</td>
</tr>
<tr>
<td>Who can be affected by our decisions and activities?</td>
<td>Who are, or could, detract value from this entity?</td>
<td>Who may cause disruption or provide solutions (including disruptive innovation) relevant to us?</td>
<td>What are the formal encoded rules that apply to entities dealing with us?</td>
<td>With whom do we claim time sensitivity?</td>
<td>What is our attitude to risk and uncertainty?</td>
<td>With which individual entities do we have important relationships?</td>
</tr>
<tr>
<td></td>
<td>Where are we, or could we add value?</td>
<td>Who can influence relationships between third parties that are relevant to us?</td>
<td>What informal social norms affect us?</td>
<td>Who claim criticality of issues in communicating with us?</td>
<td>What do other entities risk in dealing with us?</td>
<td>Is the relationship constructive or destructive?</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Who is less dependent on us than we are on them (able to walk away)?</td>
<td>What our own moral values and ethical stance?</td>
<td>With whom do we claim criticality of issue?</td>
<td>What is the attitude to risk and uncertainty by entities identified above?</td>
<td>What is the direction and level of asymmetry in dependence?</td>
</tr>
</tbody>
</table>

**Figure 7.1  Analysis of stakeholder environment, schematic overview**
Table 7.10 provides an overview of a decision process developed to assist decision makers in the process of analysing the stakeholder environment relevant to their organisation and situation. It takes the process from identifying the general environment of all potential, active and passive stakeholders, through to identifying the specific and urgent stakeholders that should be given priority at the time. This process has implications for the stakeholder salience model, the theme for RQ5.

### 7.1.5 Theme 5: Theoretical definition of stakeholder salience

The three attributes of stakeholder salience originally suggested by Mitchell et al (1997) were found to be appropriate but not well defined. It was also found that additional attributes may be required to make the model useful for practitioners. An overview is presented in Table 7.11.

#### Table 7.11 RQ5 – overview of findings

<table>
<thead>
<tr>
<th>RQ5: “How may stakeholder salience as a theoretical model be effectively defined?”</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F5.1</strong></td>
<td>With the literature offering many and conflicting approaches to defining and understanding power, the proposed definition of power as an attribute of stakeholder salience was found to be inadequate.</td>
</tr>
<tr>
<td><strong>F5.2</strong></td>
<td>Although the definition of legitimacy was found to be appropriate in a general sense, there was no means for identifying the precise operations of underlying factors supporting the concept.</td>
</tr>
<tr>
<td><strong>F5.3</strong></td>
<td>The proposed attribute ‘urgency’ was found to be appropriately defined.</td>
</tr>
<tr>
<td><strong>F5.4</strong></td>
<td>Value creation was found to be an important and central aspect of stakeholder relationships and should therefore be included in the model.</td>
</tr>
<tr>
<td><strong>F5.5</strong></td>
<td>The model revolves around the definition, identification and understanding of relationships with various groups and individuals who may affect or be affected by the organisation and therefore with something ‘at stake’. Identification of this ‘stake’ should be part of the model.</td>
</tr>
</tbody>
</table>

Table 7.11 provides an overview of the theoretical findings in relation to the stakeholder model (Mitchell et al., 1997). It was found that by providing more stringent definitions of the three original attributes and adding two other attributes, the model could provide a useful means for assisting decision makers in small business in analysing the stakeholder environment. This gives rise to the newly developed ValuePLUS model presented in Table 7.12.
Table 7.12  Proposed attributes of the ValuePLUS model

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Meaning</th>
<th>Source(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value creation</td>
<td>Contribution to the process of creating or delivering value by providing solutions, innovations or causing disruption. Contribution may be positive or negative</td>
<td>Control of desirable resource Knowledge that is in demand Willingness to contribute</td>
</tr>
<tr>
<td>(added)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power (clarified)</td>
<td>Ability to make, enact and enforce a decision Ability to influence relationships between third parties Ability to walk away if dissatisfied (less dependent)</td>
<td>Position in organisation or system Fundamental social values such as freedom and self determination</td>
</tr>
<tr>
<td>Legitimacy</td>
<td>Complies with formal, encoded rules Complies with informal, social norms Complies with the decision maker’s ethical stance</td>
<td>Formal: legal framework Informal: social acceptance Personal values and beliefs</td>
</tr>
<tr>
<td>(clarified)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urgency (confirmed)</td>
<td>Mitchell et al (1997:864): “… the degree to which stakeholder claims call for immediate attention”</td>
<td>Time sensitivity: delays are not acceptable; Criticality: issue perceived to be of critical importance</td>
</tr>
<tr>
<td>Stake (added)</td>
<td>Investment or interest at risk, potential for loss – the resource ‘at stake’</td>
<td>Perceptions of possible gain and attitude to risk and uncertainty</td>
</tr>
</tbody>
</table>

Table 7.12 presents an overview of the ValuePLUS model of stakeholder salience with updated definitions of the three attributes of stakeholder salience proposed by Mitchell et al (1997). These updated definitions aim to resolve the issue of uncertainty resulting from definitions that were either highly contested or poorly understood by practitioners.

Central to the clarified definition of power in stakeholder relationships, is the ability to make, enact and enforce decisions affecting the relationship and being able to negotiate outcomes to suit own preferences. Also important is the ability to influence third parties, for example through lobbying or marketing efforts, thereby increasing own power to negotiate. Finally, the ability to leave the relationships if not satisfied. This ability to walk away forms the basis for considerable power as it is based on an assumption of options being available and therefore limited dependence on the particular relationship. The clarified definition of legitimacy recognise the three aspects of legitimacy. The formal legitimacy is encoded in the legal system and therefore declared and enforceable. The informal legitimacy is embedded in perceptions of what behaviour is socially acceptable or not, and may change as society’s perceptions change. Finally, the decision maker’s own ethical stance based on personal values, supports decision-making regarding how to act. The definition of the third attribute, urgency, was found to be appropriate as defined by Mitchell et al (1997).

Two new attributes are ‘value and ‘stake’. Value refers to the centrality of the process of value creation in most business relationships. Value creation underpins power and importantly also legitimacy, see discussion in Chapter Two. A business that looses the ability to create value, also looses the right to operate and ability to influence and
negotiate. Value creation is closely linked to risk and therefore loss, something being ‘at stake’, and inherent in commercial relationships. Stake refers to the risk involved in investing resources in the value creation process, see discussion in Chapter Three. Attitudes to risk and the magnitude of what is ‘at stake’ affects dependence and therefore decision making regarding how to interact with and manage relationships with stakeholders. In addition, such considerations may be relative rather than absolute, and decision makers evaluate comparative ‘value’ and ‘stake’. Both the contribution to value creation and the risk involved, the stake, therefore need to be considered in evaluating stakeholders’ salience.

The two attributes of power and stake, are possessive, meaning something that a stakeholder is perceived as either possessing or not. Notably, such perception is subjective on both sides and perceived by both the stakeholder and the decision maker. The ‘reality’ of the situation results as a negotiated outcome of these two perspectives. Legitimacy and urgency on the other hand are ‘descriptors’ that may exists in degrees and vary from time to time. They are not negotiable but may be moderated by other factors, such as other more pressing demands, and are therefore relative and dependent on context.

Although the ValuePLUS model is based on findings from the small business context, the clarified definitions of power and legitimacy as well as the added attributes of value and stake, are not limited in application to small business. Power and legitimacy are concepts that exist and are relevant in all human relations while value creation and risk are central to commercial operations regardless of size. Similar to Mitchell et al’s stakeholder salience, the ValuePLUS model is therefore non-context specific, and may be transplanted to other contexts.

### 7.2 Conclusions on Chapter Seven

Subject to the caveats entered in Chapter One, the findings of this study may be different to those addressing like matters for other sized businesses or dependent businesses, such as a franchise. The findings may also be different for small businesses in other geographical areas, cultural settings and jurisdictions. This research was cross sectional in nature, involving a relatively small number of cases. A longitudinal study
involving more cases may provide further insights on how stakeholder relationships may change over time.

Perceptions of the key decision makers in the nine small businesses, on the issue produced 58 findings that support and add to theory. New definitions for the previously proposed attributes of stakeholder salience were developed. Four new models were also developed and presented:

- The SPIR model
- Continuum of stakeholder relationships
- Tool for analysing stakeholder environment
- The ValuePLUS model for understanding of stakeholder relationships, particularly in the small business sector

Although these four models are separate, they are also related in that they are all concerned with stakeholder relationships and can be used together. The models are based on existing theory and findings anchored in the small business sector, but likely to also apply in other organisational contexts as the concepts are not limited to small business stakeholder relationships.

Mitchell et al.’s (1997) original model of stakeholder salience was conceptual and non-context specific. These new models, although here placed in the context of small business, are also non-context specific and fundamentally conceptual, providing theoretical insights. They are however also pragmatic in that they aim to offer value to decision makers in stakeholder relationships. Significant contributions are therefore made to the stakeholder literature in general.

Significant scope exists for testing these findings and models. Qualitative and longitudinal studies to test the stability of these concepts over time and in different organisational and cultural contexts would add value and depth to the understanding of stakeholder relationships and therefore theory.

A stakeholder approach to management may provide a means to address the uncertainty and increasing turbulence facing business by recognising stakeholders ‘partners’ in the value creation process, and thereby promoting ethical and constructive approach rather than confrontational and exploitive to management. This study contributes insights to stakeholder relationships as perceived by key decision makers in small business. Based
on such insights, definitions for several key concepts are clarified and several new models contributed to the larger body of stakeholder theory.


References


Appendix A: Case study protocol
Appendix B: Interview instrument
Appendix C: Interview audit instrument
Appendix D: Information statement
Appendix E: Consent form
Appendix F: Ethics approval
Appendix A

Case study protocol

| Preparation and planning | To empirically answer the contextual component of the Research Problem “How may stakeholder salience be effectively defined and applied in management of stakeholder relationships in small business?”, a semi-structured interview instrument (Appendix B) was developed around four themes:  
• Perceptions of stakeholders (RQ1)  
• Perceptions of stakeholder salience (RQ2)  
• Perceptions of stakeholder relationships (RQ3)  
• Perceptions of challenges of being a key decision maker (RQ4)  
A pilot study was undertaken to confirm the interview instrument |
| Potential participants (interviewees) | Potential interviewees were identified according to the following predetermined selection criteria:  
• Australian small business with less than 20 employees (ABS, 2014a)  
• Independently owned and operated for at least three years  
• Key decision maker (interviewee) in charge of the organisation for at least two years |
| Initial contact | Potential participants (interviewees) were contacted by phone or email and invited to participate. Information statement (Appendix D) and consent form (Appendix E) forwarded by email. If no response was received, one follow up email or phone call was made.  
Time arranged with the interviewee for the researcher to attend the interviewee’s place of business to conduct the interview. |
| The interview | The researcher attended the place of business at the agreed time. Thank the interviewee for participating.  
• Briefly explain the process and offer to answer any questions or concerns regarding the process.  
• Verbally confirm the interviewee’s permission to record the interview.  
• Offer the interviewee to review the summary of the transcribed interview, note response. |
## Appendix A

<p>| | | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td></td>
<td>• Unless the interviewee had already returned a signed consent</td>
<td>• The interview followed a semi-structured interview instrument</td>
</tr>
<tr>
<td></td>
<td>form to the researcher prior to the interview, this was</td>
<td>(Appendix B)</td>
</tr>
<tr>
<td></td>
<td>requested prior to the start of the interview. A copy was left</td>
<td>• After concluding the interview, thank the interviewee for</td>
</tr>
<tr>
<td></td>
<td>with the interviewee.</td>
<td>their time and offer to again clarify any concerns.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interview audit</td>
<td>An interview audit was performed, see Appendix C</td>
<td></td>
</tr>
<tr>
<td>Transcription</td>
<td>The interviews were transcribed by the researcher</td>
<td></td>
</tr>
<tr>
<td>Case summaries</td>
<td>Individual case study summaries were produced from the</td>
<td></td>
</tr>
<tr>
<td></td>
<td>transcribed interviews</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B

Interview Instrument (v.01a)

1. About the owner-manager (the interviewee)
   Previous experience in management:  Y / N
   Age:  18-29  30-39  40-49  50-59  over 60
   Owner-manager of this business since:  
   Level of formal qualification:  
   Percentage ownership (50%+ or majority):  
   Gender:  

2. About the business
   Type (manufacturing/service):  
   Industry (-ies):  
   Suburb:  
   Years in operation:  
   No. of employees (headcount):  

3. About the Stakeholders of the business
   3.1. What do you understand by the term ‘stakeholder’ – what does it mean to you?
   3.2. How do you determine who is a stakeholder (on what basis)?
   3.3. Who are the stakeholders of this business?
   3.4. How would you determine who is NOT a stakeholder?

   Interviewer: Follow up on any omissions of generic and commonly listed stakeholder groups, e.g. owners, investors/financiers, family, customers, suppliers, employees, community, government(s), industry, unions.

   3.5. Which stakeholders can affect the success of this business and what is your level of dependence on them (Low/Med/High)?
      3.5.1.  
      Dependence: Low  Med  High
      3.5.2.  
      Dependence: Low  Med  High
      3.5.3.  
      Dependence: Low  Med  High
      3.5.4.  
      Dependence: Low  Med  High
      3.5.5.  
      Dependence: Low  Med  High
      3.5.6.  
      Dependence: Low  Med  High
      3.5.7.  
      Dependence: Low  Med  High
      3.5.8.  
      Dependence: Low  Med  High
      3.5.9.  
      Dependence: Low  Med  High

   3.6. Which stakeholders may be affected by the success or failure of this business and what is their level of dependence on you (Low/Med/High)?
      3.6.1.  
      Dependence: Low  Med  High
      3.6.2.  
      Dependence: Low  Med  High
      3.6.3.  
      Dependence: Low  Med  High
      3.6.4.  
      Dependence: Low  Med  High
Appendix B

Interview Instrument (v.01a)

| 3.6.5. | Dependence: Low Med High |
| 3.6.6. | Dependence: Low Med High |
| 3.6.7. | Dependence: Low Med High |
| 3.6.8. | Dependence: Low Med High |

4. Relationships with stakeholders

4.1. How similar/different is your relationship with individual stakeholders within groups of stakeholders (homogeneous in membership). For example the stakeholder group ‘customers’, is your relationship with all customers the same?

4.2. For each stakeholder, please classify the relationship in terms of your level of Commitment (long-/short-term), Replaceability (how difficult would it be to replace the stakeholder/group?), and Exit costs (costs involved in ending the relationship).

Interviewer: Please use table below, one for each stakeholder/group. Copies are attached at end of Interview Instrument.

| Stakeholder: | 
| --- | --- | --- |
| Your commitment to stakeholder: | Replaceability of stakeholder: | Exit costs (to end the relationship) |
| Long-term | Long-term | Difficult | Difficult | High | High |
| Medium term | Medium term | Possible | Possible | Medium | Medium |
| Short-term | Short-term | Easy | Easy | Low | Low |

4.3. Apart from Dependence, Commitment, Replaceability and Exit Cost, what other factor(s) may influence your relationship with stakeholders?

4.4. Overall, how would you describe the relationships with your stakeholders?

5. Do you sometimes find that you have to prioritise one stakeholder or stakeholder group above another? Please give examples.

6. Thinking about instances when you have to decide to give priority to one stakeholder above another:

6.1. What factors influence your decision?

6.2. What is the process of making that decision?

7. Power in the relationship with stakeholders

7.1. What do you understand by the word ‘power’ – what does it mean to you?

7.2. Do you, as the owner-manager of this business, have power in the relationships with various stakeholders?

7.3. What gives you that power (type/basis of power)?
Appendix B

Interview Instrument (v.01a)

7.4. Is your level of power always the same?

7.5. Is power the same in relationships with different stakeholders or do you have, or use different kinds of power with different stakeholders?

7.6. How/when do you typically use power in relationships with stakeholders?

7.7. Does the stakeholders also have power, if so on what basis and how is it used in the relationship with you and your business?

7.8. If both you and the stakeholder have power, who ‘wins’?

8. Legitimacy in the relationship with stakeholders

8.1. What do you understand by the term ‘legitimacy’ – what does it mean to you?

8.2. Which stakeholders can legitimately demand your attention?

8.3. What kind of event or circumstance would you consider a legitimate reason for you to divert attention away from your ordinary duties to address a stakeholder’s demand?

8.4. On what basis would you consider a stakeholder’s demand on your attention as the owner-manager to be legitimate:

8.4.1. The claim is based on a legal requirement (e.g. OH&S):

Always   Mostly   Sometimes   Rarely   Never

8.4.2. The claim is considered industry standard (standard praxis):

Always   Mostly   Sometimes   Rarely   Never

8.4.3. On basis of the identity of the stakeholder, if the demand comes from an ‘important’ stakeholder (e.g. a celebrity):

Always   Mostly   Sometimes   Rarely   Never

8.4.4. It is generally accepted in the society(-ies) in which we operate (culturally based):

Always   Mostly   Sometimes   Rarely   Never

8.4.5. It is consistent with my own moral values/beliefs/ethics:

Always   Mostly   Sometimes   Rarely   Never

8.4.6. On what other basis would you pay attention to a stakeholder?

8.5. What kind of claims from stakeholders would you consider not legitimate?

8.5.1. The claim is not based on a legal requirement:

Always   Mostly   Sometimes   Rarely   Never

8.5.2. The claim is not considered industry standard:

Always   Mostly   Sometimes   Rarely   Never

8.5.3. On basis of the identity of the stakeholder, if the demand comes from a stakeholder without influence:

Always   Mostly   Sometimes   Rarely   Never
Appendix B

Interview Instrument (v.01a)

8.5.4. It is not generally accepted in the society in which we operate:

<table>
<thead>
<tr>
<th>Always</th>
<th>Mostly</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
</table>

8.5.5. It is not consistent with my own moral values/beliefs/ethics:

<table>
<thead>
<tr>
<th>Always</th>
<th>Sometimes</th>
<th>Rarely</th>
<th>Never</th>
</tr>
</thead>
</table>

8.5.6. On what other basis would you not consider a stakeholder demand legitimate?

8.6. Do you think power is affected by formal/informal legitimacy, if so, how?

9. Urgency in stakeholder relationships

9.1. What do you understand by the term ‘urgency’ – what does it mean to you?

9.2. Do stakeholders sometimes behave with some urgency in demanding your attention?
   Please provide examples.

9.3. If so, what factors will convince you to pay attention to them?

9.4. In what circumstances would you ignore a stakeholder who behaves with some urgency?

9.5. Do you see a relationship between a stakeholder’s Power, Legitimacy and Urgency?
   Please provide examples.

10. We have talked about power, legitimacy and urgency: what other factors would impact on your perception and decisions regarding the importance of a particular stakeholder?

11. When making decisions, to what extent do you consider the possible impact of your decision on various stakeholders?

12. What would you consider the biggest challenge of being an owner-manager? Please elaborate.

13. What would be the one most significant thing that would improve your role as an owner-manager?

14. What would you consider the biggest motivator for you as an owner-manager?

15. What is your biggest advantage in dealing with stakeholders?

16. What is your biggest difficulty in dealing with stakeholders?

17. Is there any other comment you would like to make?
INTERVIEW AUDIT INSTRUMENT

Date of interview: ________________________________

Firm: ________________________________

Location: ________________________________

Start time: ________________________________

Finish time: ________________________________

26 July 2014

Source: developed for this research based on Meredith & Cunneen 2008
Appendix C

1. Did the interviewee understand:
   a. The nature of the interview? Yes / No / Don’t know
   b. Why it was being conducted? Yes / No / Don’t know
   c. What was expected of him/her? Yes / No / Don’t know

2. Did interviewee:
   a. Give informed consent to be interviewed? Yes / No / Don’t know
   b. Give consent to the interview being recorded? Yes / No / Don’t know

3. Was confidentiality confirmed to interviewee (where necessary) Yes / No / Don’t know

4. Were researcher’s questions guided by interview instrument? Yes / No / Don’t know

5. Did interviewee understand interview questions asked? Yes / No / Don’t know

6. Were adequate definitions of specific concepts provided (as appropriate)
   by researcher to assist the interviewee? Yes / No / Don’t know

7. Where responses confirmed or explored (as appropriate) by the researcher
   to ensure adequate understanding Yes / No / Don’t know

8. Was there evidence of ‘coaching’ interviewee towards
   certain answers? Yes / No / Don’t know

9. Were interviewee’s interests and integrity respected at all
   times by researcher? Yes / No / Don’t know

10. Was University of Newcastle’s interests and reputation upheld
    at all times by researcher? Yes / No / Don’t know

Auditor observations or comments on any aspect of interview process

______________________________________________________________
______________________________________________________________
______________________________________________________________

Auditor: ______________________________________________________
Signed: ___________________________ Date: ______________________
Appendix D

Professor Emeritus Frank Clarke
PhD, BEc (Syd.); FCPA, ACIS
Newcastle Business School
Faculty of Business and Law
The University of Newcastle, Australia
PO Box 127
Ourimbah 2258
Phone ((02) 43484001
Frank.Clarke@Newcastle.edu.au

Information Statement for the Research Project:
“Stakeholder Relationships: defining, understanding and applying
Stakeholder Salience in Australian small business.”
Document Version IS01b; dated 27/09/13

You are invited to participate in the research project identified above which is being conducted by Annika Westrenius from the Newcastle Business School at the University of Newcastle. The research is part of Annika Westrenius’ studies at the University of Newcastle and is supervised by Professor Emeritus Frank Clarke and Dr Lisa Barnes from the Newcastle Business School.

Why is the research being done?
The purpose of the research is to better understand small business owner-manager’s perceptions of stakeholder relationships and how small business owner-managers make decisions affecting stakeholders. Previous research suggests that attention may be focused on stakeholders perceived as having power to influence the success of the business, a legitimate demand and/or those who display urgency in their attitude to the business.

Small business makes a significant social and economic contribution to Australia’s prosperity and growth. A better understanding of the focus and processes affecting stakeholder relationships in Australian small business may assist policy makers, researchers, owner-managers and other stakeholders alike.

Who can participate in the research?
We are seeking owner-managers of Australian small businesses to participate in this research. You have received this invitation as a result of your membership or attendance at an event organised by a business organisation such as a Chamber of Commerce or through a business advisor such as an accountant.

You are invited to participate if you fit the following description:

• You are the owner-manager of an Australian small business with less than 20 employees
• The business is independently owned and operated by you
Appendix D

- You are in control of the daily running of the business and have been so for at least the past 2 years
- The business has been in operation for at least 3 years

If you are not currently the owner-manager of an independent (not franchised), Australian small business then unfortunately you are not eligible to participate.

What choice do you have?

Participation in this research is entirely your choice. Only those people who give their informed consent will be included in the project. Whether you decide to participate or to not participate, your decision will not disadvantage you.

If you do decide to participate, you may withdraw from the project at any time without giving a reason and have the option of withdrawing any data you may have provided or that you consider identifies you.

What would you be asked to do?

If you agree to participate, you will be asked to participate in a face-to-face interview with the researcher, Annika Westrenius. The questions will seek information about stakeholders’ salience: how power, legitimacy and urgency work in stakeholder relationships and how you prioritise between conflicting demands from various stakeholders.

How much time will it take?

It is anticipated that the interview will take approximately one hour. The interview will follow a structured format and will take place at your business premises during normal business hours.

What are the risks and benefits of participating?

We cannot promise you any direct personal benefit from participating in this research. However, understanding the processes involved in managing and prioritising between stakeholder demands may benefit small business operators and stakeholders, including policy makers.

Participation in this research will not expose you to any perceived risks.

How will your privacy be protected?

No identifying information about you, your organisation or stakeholders will be used in any reporting of research outcomes. Any information collected by the researcher, which might identify you or your stakeholders will be stored securely in a password protected file and only accessed by the researcher, except as required by law.

How will the information collected be used?

Data collected will be used in a thesis submitted as part of Annika Westrenius’ fulfilment of PhD (Management) and may also be reported in journal articles and presented at academic or professional conferences. Individual participants or businesses will not be identified in any reports arising from the project.
Appendix D

Subject to your consent, the interview may be audio recorded and transcribed. You will be provided opportunity to review, edit and/or erase your contribution. Participants will be offered a summary of the results of this research.

What do you need to do to participate?
Please read this Information Statement and be sure you understand its contents before you consent to participate. If there is anything you do not understand, or you have questions, contact the researcher.

If you would like to participate, please complete and return the attached Consent Form to the Chief Investigator, Professor Emeritus Frank Clarke. You will then be contacted to arrange a time convenient to you for the interview.

Further information
If you would like further information please contact the researcher:
Annika Westrenius by email: Annika.Westrenius@uon.edu.au
Alternatively, you may contact the Chief Investigator:
Professor Emeritus Frank Clarke by email: Frank.Clarke@Newcastle.edu.au

Thank you for considering this invitation.

Professor Emeritus Frank Clarke
Chief Investigator

Annika Westrenius
Researcher

Complaints about this research
This project has been approved by the University’s Human Research Ethics Committee, Approval No H-2013-0291
Should you have concerns about your rights as a participant in this research, or you have a complaint about the manner in which the research is conducted, it may be given to the researcher, or, if an independent person is preferred, to the Human Research Ethics Officer, Research Office, The Chancellery, The University of Newcastle, University Drive, Callaghan NSW 2308, Australia, telephone (02) 4921 6333, email Human-Ethics@Newcastle.edu.au
Appendix E

Consent Form for the Research Project:

“Stakeholder Relationships: defining, understanding and applying Stakeholder Salience in Australian small business.”

Researcher: Annika Westrenius
Supervisors: Professor Emeritus Frank Clarke and Dr Lisa Barnes
University of Newcastle

Document Version CF01b; dated 27/09/13

I agree to participate in the above research project and give my consent freely.

I understand that the project will be conducted as described in the Information Statement, a copy of which I have retained.

I understand I can withdraw from the project at any time and do not have to give any reason for withdrawing.

I consent to participating in an interview and having it recorded.

I understand that my personal information will remain confidential to the researchers.

I have had the opportunity to have questions answered to my satisfaction.

Business: __________________________ Phone: __________________

Email: ______________________________________________________

Print Name: ___________________________________________________

Signature: ____________________________________________________
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HUMAN RESEARCH ETHICS COMMITTEE

Notification of Expedited Approval

To Chief Investigator or Project Supervisor: Emeritus Professor Frank Clarke
Cc Co-investigators / Research Students: Doctor Lisa Barnes
Ms Annika Westenius


Date: 21-Oct-2013
Reference No: H-2013-0291
Date of Initial Approval: 21-Oct-2013

Thank you for your Response to Conditional Approval (minor amendments) submission to the Human Research Ethics Committee (HREC) seeking approval in relation to the above protocol.

Your submission was considered under Expedited review by the Ethics Administrator.

I am pleased to advise that the decision on your submission is Approved effective 21-Oct-2013.

In approving this protocol, the Human Research Ethics Committee (HREC) is of the opinion that the project complies with the provisions contained in the National Statement on Ethical Conduct in Human Research, 2007, and the requirements within this University relating to human research.

Approval will remain valid subject to the submission, and satisfactory assessment, of annual progress reports. If the approval of an External HREC has been "noted" the approval period is as determined by that HREC.

The full Committee will be asked to ratify this decision at its next scheduled meeting. A formal Certificate of Approval will be available upon request. Your approval number is H-2013-0291.

If the research requires the use of an Information Statement, ensure this number is inserted at the relevant point in the Complaints paragraph prior to distribution to potential participants. You may then proceed with the research.

Conditions of Approval

This approval has been granted subject to you complying with the requirements for Monitoring of Progress, Reporting of Adverse Events, and Variations to the Approved Protocol as detailed below.

PLEASE NOTE:

In the case where the HREC has "noted" the approval of an External HREC, progress reports and reports of adverse events are to be submitted to the External HREC only. In the case of Variations to the approved protocol, or a Renewal of approval, you will apply to the External HREC for approval in the first instance.
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and then Register that approval with the University’s HREC.

- Monitoring of Progress

Other than above, the University is obliged to monitor the progress of research projects involving human participants to ensure that they are conducted according to the protocol as approved by the HREC. A progress report is required on an annual basis. Continuation of your HREC approval for this project is conditional upon receipt, and satisfactory assessment, of annual progress reports. You will be advised when a report is due.

- Reporting of Adverse Events

1. It is the responsibility of the person first named on this Approval Advice to report adverse events.
2. Adverse events, however minor, must be recorded by the investigator as observed by the investigator or as volunteered by a participant in the research. Full details are to be documented, whether or not the investigator, or his/her deputies, consider the event to be related to the research substance or procedure.
3. Serious or unforeseen adverse events that occur during the research or within six (6) months of completion of the research, must be reported by the person first named on the Approval Advice to the (HREC) by way of the Adverse Event Report form (via RIMS at https://rims.newcastle.edu.au/login.asp) within 72 hours of the occurrence of the event or the investigator receiving advice of the event.
4. Serious adverse events are defined as:
   - Causing death, life threatening or serious disability.
   - Causing or prolonging hospitalisation.
   - Overdoses, cancers, congenital abnormalities, tissue damage, whether or not they are judged to be caused by the investigational agent or procedure.
   - Causing psycho-social and/or financial harm. This covers everything from perceived invasion of privacy, breach of confidentiality, or the diminution of social reputation, to the creation of psychological fears and trauma.
   - Any other event which might affect the continued ethical acceptability of the project.
5. Reports of adverse events must include:
   - Participant's study identification number;
   - date of birth;
   - date of entry into the study;
   - treatment arm (if applicable);
   - date of event;
   - details of event;
   - the investigator's opinion as to whether the event is related to the research procedures; and
   - action taken in response to the event.
6. Adverse events which do not fall within the definition of serious or unexpected, including those reported from other sites involved in the research, are to be reported in detail at the time of the annual progress report to the HREC.

- Variations to approved protocol

If you wish to change, or deviate from, the approved protocol, you will need to submit an Application for Variation to Approved Human Research (via RIMS at https://rims.newcastle.edu.au/login.asp). Variations may include, but are not limited to, changes or additions to investigators, study design, study population,
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number of participants, methods of recruitment, or participant information/consent documentation. **Variations must be approved by the (HREC) before they are implemented** except when Registering an approval of a variation from an external HREC which has been designated the lead HREC, in which case you may proceed as soon as you receive an acknowledgement of your Registration.

**Linkage of ethics approval to a new Grant**

HREC approvals cannot be assigned to a new grant or award (ie those that were not identified on the application for ethics approval) without confirmation of the approval from the Human Research Ethics Officer on behalf of the HREC.

Best wishes for a successful project.

Professor Allyson Holbrook
Chair, Human Research Ethics Committee

For communications and enquiries:
Human Research Ethics Administration

Research Services
Research Integrity Unit
The Chancellery
The University of Newcastle
Callaghan NSW 2308
T +61 2 492 17894
F +61 2 492 17164
Human-Ethics@newcastle.edu.au


**Linked University of Newcastle administered funding:**

<table>
<thead>
<tr>
<th>Funding body</th>
<th>Funding project title</th>
<th>First named investigator</th>
<th>Grant Ref</th>
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</table>

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