

COMPANY MANAGEMENT AT A CROSSROADS - FOCALISATION ON THE STAKEHOLDERS

Ovidiu NICOLESCU

Romanian Scientific Management Society
41 Dacia Avenue, 010404 Bucharest, Romania
inst.manager@gmail.com

Ciprian NICOLESCU

Bucharest University of Economic Studies
2-10 Căderea Bastiliei St., 010374 Bucharest, Romania
ciprian.nicolescu@gmail.com

Abstract. *The starting points of our paper are represented by: a) our long and numerous contacts with organization management consultants and researches in Romania and other countries which have revealed quite a few limits of the present management theory and practice and its incapacity to fully valorize the new opportunities and challenges provided by the transition to the knowledge-based economy and society; b) our review and analysis of the numerous studies published by renown reviews and publishing houses which emphasized the increasing difficulties faced by the management in all types of organizations and the necessity to reinvent it. The paper main objective is to demonstrate the necessity and the possibility of the new type of the company management – stakeholders based management - instead of the classical management based on shareholder - manager - executant relationships. In order to achieve this objective, the study is structured in three main parts. The first part contains the demonstration of the necessity of the stakeholders based management, in the present period, using three categories of arguments - organizational, managerial and societal. Among the managerial arguments we mention: awareness of the existence of a comprehensive network of the stakeholders inside and outside organization; management of organization is based on the absolute primacy of the owner/ or shareholders' interests; potential of a large part of the companies endogen stakeholders (executants, managers) is used only to a small extent; traditional managerial relationship, manager-subordinate is not performing enough in the majority of the organizations; potential of the most part of companies exogenous stakeholders (clients, suppliers, investors, etc.) is frequently ignored or used only to a small degree; conceptualization, based on the stakeholders theory, of the firm as a „multipurpose entity”. The second part of the paper deals with the possibility to focus the management on the endogen and exogenous stakeholders. In order to demonstrate this, 26 arguments are structured on three levels – organizational, managerial and societal. The final conclusion of the study is that the organization stakeholders based management could and should represents the new type of the management in the company. This means new managerial strategy, system, mechanism, processes, culture and performance. Stakeholders based management is able to deal and solve much better and competitively the complex problems faced by companies during the transition to the knowledge-based economy and society, under the comprehensive impact of the present digital revolution.*

Keywords: *stakeholders; stakeholders based management; knowledge-based economy; management challenges.*

Introduction

We are living now in times of knowledge revolution, which determines the transition to the knowledge-based economy and knowledge-based society. The contemporary environment is characterized by VUCA – volatility, uncertainty, complexity, and ambiguity (Bennett & Lemoine, 2014). Never before, in the long history of mankind, the society and the economy have faced such environment. Every component of the economy and society is affected by these processes. Every component of the economy and society in order to survive, to be able to work and to be sustainable should make major changes in the processes. In the last years becomes very visible and influent digital revolution, which is a major component of the knowledge revolution. Digitization, digitalization, and digital transformation are three major processes which generate substantial changes in the volume, variety, speed and efficiency of the work processes. Economy and society are facing new demands, challenges, threats and opportunities, structures, mechanisms, and performances. Every component of the economy and society needs a new management able to elaborate strategies and policies, to create activities, structures, and systems, to make and implement decisions, actions and behaviors generating functionality and competitiveness.

In order to achieve such essential mutations, mandatory for organizations, the management should change deeply itself. If we look at what happened in the last decades, both in management practice and theory, we could see a lot of improvements, a lot of innovations, a lot of performances. Meantime we could see also numerous unsolved managerial problems, many questions without efficient answers, many organizations – some of them very large and powerful – which not survive, which disappeared in only a few years. The many and the substantial managerial advances occurred, especially in the developed countries, there were not able to solve performant a large part of the societal, organizational and individual requirements and challenges. The famous „Renegade Brigade” involving 136 of leading management professors, consultants and managers from the USA, Europe and Canada, in the Manifesto published by Harvard Business Review has concluded that the management should be reinvented. They have formulated a set of 25 challenges that should be taken into consideration in this very difficult undertaking.

In our paper, we try to find an answer to a large part of these challenges, and we outline a new innovative approach to these managerial relationships. We propose to enlarge and to change the nature of the management relationships. Traditionally, from the ancient times, the management is dealing mainly with the relationships manager – executant, based on the hierarchical authority and competences. We consider that the managerial relationships should be focused on the all relevant stakeholders involved in each organization. The managerial relationship with relevant stakeholders – executants, suppliers, bankers, designers, and of course shareholders and managers – should be based on the win-win approach in order to fully motivate and engage their information, knowledge and all other types of their resources. This means a radically new type of management. Based on the comprehensive review and analysis of the management literature we have identified two categories of arguments regarding stakeholders based management. The first category supports the statement that the management focused on the stakeholders it is necessary now, in order to replace the traditional management based on the relationship manager - executants. The second category of arguments

demonstrates that such management is possible now, taken into consideration the characteristics and the mutations at the societal, organizational and managerial level.

In our opinion, the radical change to the stakeholders based management could solve many of the present management deficiencies and concomitantly to generate new managerial capabilities in accordance with the content and the requirements of the new type of society and economy- based on knowledge. Stakeholders based management is much better equipped than the present management in order to valorize the opportunities created by digitization, digitalization and digital transformation and to overcome the many present deficiencies.

Why is necessary the stakeholders based management system now, in the present period?

Organizational arguments

- *Perception and understanding of organizations - of course including companies - as the social constructions.* This means that they are artifacts created by human beings to serve their ends. They follow processes that are shaped by human purposes, and they do not exist independently of human minds and actions. Organizations are systems of human actions in which means and ends are guided by the intentions, strategies and hoped-for incomes. They are in effect created by meaning, with a rich tapestry of cultural rules, roles, and intentions (Coghlan, 2016, p.7);

- *Development of a new type of company focused on knowledge* is characterized by resources, operations, and functionality which are quite a different comparative with the classical capitalist company; it is named knowledge-based company;

- *Companies contextualization by amplification of the extern environment influence* on their objectives, resources, activities, functionality, performance and sustainability, in the conditions of the multiplication and the acceleration of the companies inputs and outputs;

- Intellectual capital plays a decisive role in the survival, functioning, and development of modern companies, based on knowledge;

- *The resources of a large part of the companies* have changed deeply during the last decades through:

- the appearance of two new categories of resources - information and knowledge;
- the components, the structure and the functionality of "classical" resources - human, technical-material and financial - has substantially changed;
- the human resource, very closely associated with information resources and knowledge resources, has a major role in the modern organizations, much higher than in classical companies.

- *Companies activities have heavily changed during the last decades* through:

- the formation of the consistent activities focused on the creation, purchasing, use, share, valorization a.s.o. of the knowledge; all these operations constitute the content of the new company function – knowledge function; this function is a transversal company

function, different from vertical functions-research - development, commercial, production, finance-accounting and from classical company;

- the content and dynamics of classical activities (supply, production, sales, accounting, finance, etc.) also have changed deeply;

- human resources training, because of their size and major impact within the organization, become gradually - especially in the large and middle companies - a distinct company function fulfilled partially by externalization outside them.

- *Modern companies based on knowledge, is quadro-dimensional, trying to achieve concomitantly four types of objectives:*

- economical;

- social;

- ecological;

- educational.

- *The knowledge-based company represents an ecosystem presenting the following features:*

- the system made up of interactive parts which act together;

- multidimensional community - human, economic and ecological;

- networking endogen complex;

- system interconnected with other exogenous systems and with its environment.

- *The background of the performance and the sustainability of the knowledge-based company is represented by the sustainability diamond based on knowledge, as we can see in figure 1 (Nicolescu & Nicolescu, 2017);*

- *The manifestation of the new organizational paradox discovered by Gary Hamel "The organization should become more adaptable, innovative and inspirational, without being less focused and disciplined or less oriented on performance" (Hamel, 2009);*

- *Awareness of the fact that the success of a firm is determined by its ability to establish and maintain relationships within the entire stakeholder network (Post, Preston & Sachs, 2002, p.96);*

- *Companies reinvention taking into consideration the multiple changes and challenges occurred at mondo, macro, and microsystems. Recently, in a study published in MIT Sloan Management Review has outlined: "It is no longer about how companies should thrive, but rather how they must reinvent themselves to survive because that's the key issue today" (Weill & Woerner, 2017).*

Managerial arguments

- *Awareness of the existence of a comprehensive network of the stakeholders - inside and outside the companies - who have a major impact on their functionality, performance, and sustainability;*

- *Traditional management, still predominant in the most part of the companies, is based on the absolute primacy of the owner and/or shareholders interests, the necessities and expectations of the other stakeholders, being ignored or only sporadically taken into consideration. A partial exception from this refers sometimes to the companies' top managers;*



Figure 1. Sustainability diamond

- *Potential of a large part of the companies endogen stakeholders* - managers and especially executives - is used for the sustainable organization development only to a small extent;

- *The traditional managerial relationship, manager – subordinate*, involving two of the most numerous and important company stakeholders, which is based on hierarchy and on the "strong" authority of the manager, is not performing enough in the majority of organizations. As consequence, in companies have been developed new managerial elements based on participation, flexibility, collaboration, strategic agility, which could solve only partially this problem;

- *Potential of most part of companies exogenous stakeholders* - clients, suppliers, investors, bankers, consultants, a.s.o. - is frequently ignored or used only to a small part. Because of this situation, these stakeholders do not contribute enough to the generation of the company value added and to obtain a competitive advantage;

- *The ascertainment by many reputable specialists of the necessity to elaborate and to practice a new type of management*, radically different comparative with the management predominantly in the present – the management focused on stakeholders. This idea was very well formulated by the renowned Professor Eduard Freeman in the foreword of the book "Unfolding Stakeholder Thinking: Theory Responsibility and Engagement" - The need for a new era of management thinking and theory: one based on the idea of stakeholders. We need to rewrite management theory and practice!" (Andriof, et al., 2002, p.89);

- *Conceptualization based on the stakeholder theory of the firm as a "multi-purpose entity"* (Crane, et al., 2014). This reconceptualization "opens" the door for "de facto" integration of the stakeholders in the company strategy, functioning and performance.

Societal arguments

- The discovery by Harvard University mathematical biologist Martin Nowak in 2006 that "*natural cooperation*" as the *third fundamental principle of evolution* beside of mutation and natural selection (Nowak, 2006);

- *Human beings "are more cooperative and less selfish than most people believe*. Organizations should help us embrace our collaborative sentiments" (Benkler, 2011);

- *Societal requirements* formulated by prestigious specialists based on the valuable studies "*we should re-frame capitalism in the terms of stakeholders' theory* so that we come to see business as creating value for the stakeholders" (Freeman, et al., 2010, p.211);

- *Transition* in the national and international economy, from the competition between companies to *competition between networks of companies stakeholders*. We "have competing networks of stakeholders, where one competing network is in competition with other networks" as can be seen from the next figure. As consequence all relevant companies stakeholders should be integrated into networks able to compete successfully on the local, regional, national and international markets and environments;

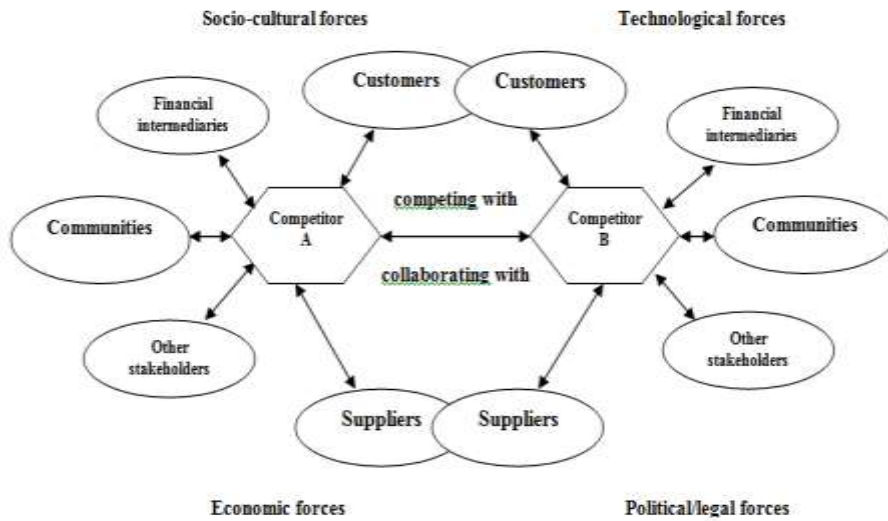


Figure 2. Competing stakeholder networks

We mention that the overlapping ovals are an indication that competitors are likely to share some of the same customers and suppliers. We acknowledge that overlaps may also occur with other types of stakeholders as well (Freeman, et al., 2010, p.117).

Why is possible stakeholders based management now, in the current period?

Organizational arguments

- *Manifestation in the companies of the very strong modernization tendency of the resources, activities, and functionality, many companies becoming and acting as ecosystems able and open to the intensive innovation and change;*
- *Transformation of the increasing proportion of the companies in the knowledge-based organizations, which detain the necessary vision and resources - especially the knowledge and information - in order to remodel them according to the new challenges, necessities, and opportunities;*
- *Transformation of the large percentage of the companies into learning organizations, amplifying substantially companies and their managers and executives capacity to innovate and to remodel themselves;*
- *Fast digitization of the companies and business environment, which enhances and accelerates the organization and people access to the knowledge and information, the communication and the consultation with the companies stakeholders, internal and external, actual and potential;*
- *Amplification on the information and knowledge detained, shared and used by the companies and their components, and of the other stakeholders;*

- *Proliferation* at the level of companies of the approaches focused on the sustainability and corporate social responsibility, which make them more open and proactive to their stakeholders.

Managerial arguments

- *The deep transformation of the in management practices in numerous companies - corporations and large companies in the pole position - being on quasi-continuous innovation and change;*

- *The appearance in quite many companies of the new managerial dimensions - provisional, innovational, flexible, motivational, methodological, informational, formative, participative, systemic and international - but still not enough used and valorized by them;*

- *Seizing, taking into consideration and valorizing to a large extent by the numerous companies managers of the huge potential of the new organization resources - information, knowledge - and intellectual capital;*

- *Awareness of a large number of managers of the company many categories of stakeholders existence major impact on it and their clients, suppliers, managers, executors, shareholders, investors, a.s.o.;*

- *Development in numerous companies of the specific and effective managerial mechanisms for certain important stakeholder categories, which has proved the possibility, the usefulness, and high capacity to produce a performance of such managerial mechanisms. The largest used and performant such mechanism there are the Customer Relationship Management (CRM) and Supply Chain Management (SCM);*

- *Development under environmental challenges and demands for certain stakeholder categories (local communities, company employees, for example) of the specific managerial approaches with human and ecological dimensions like Corporate Social Responsibility (CSR);*

- *The recent formulation of the thesis that the combination of the focus on management process with the stakes of companies stakeholders, could represent to the present necessities and realities an alternative solution for obtaining sustainability (Sadun, Bloom & Reenen, 2017);*

- *Remodel of the organization and employees culture, placing emphasis on the novelty, creativity, change, flexibility, participation, and adaptability;*

- *Manifestation, because of the mutations on the company environment, associated with the transition to the knowledge-based economy and society - both in management science and practice - of the numerous innovative ideas and approaches, continue amplified and diversified in order to increase company performance and sustainability;*

- *Identification of the necessity to radically remodel the organization management by the great number of renowned management scientists and top managers from prestigious companies and the formulation by them of appeals and urges in this respect. Among*

them, we mention "*Renegade Brigade*" published by Harvard Business Review in 2009, and the strategic document adopted at the Davos Forum in 2017, called "*The Compact for Responsive and Responsible Leadership - A Roadmap for Sustainable Long-Term Growth and Opportunity*". (World Economic Forum Annual Meeting, 2017);

In *Renegade Brigade Manifesto* (Hammel, 2009), 136 of leading professors, consultants and managers from USA, Europe, and Canada have concluded that „the modern management” (management 1.0) of which dates back to the late nineteenth century, has reached the limits of improvement. They have laid out a roadmap for reinventing management proposing to construct management 2.0 taking into consideration 25 management’s grand challenges (see the table 1):

Table 1. Management’s grand challenges

1.	<i>Ensure that the work of management serves a higher purpose.</i> Management, both in theory and practice, must orient itself to the achievement of noble, socially significant goals.
2.	<i>Fully embed the ideas of community and citizenship in management systems.</i> There’s a need for processes and practices that reflect the interdependence of all stakeholder groups.
3.	<i>Reconstruct management’s philosophical foundations.</i> To build organizations that are more than merely efficient, we will need to draw lessons from such fields as biology, political science, and theology
4.	<i>Eliminate the pathologies of formal hierarchy.</i> There are advantages to natural hierarchies, where power flows up from the bottom and leaders emerge instead of being appointed.
5.	<i>Reduce fear and increase trust.</i> Mistrust and fear are toxic to innovation and engagement and must be wrung out of tomorrow’s management systems.
6.	<i>Reinvent the means of control.</i> To transcend the discipline-versus-freedom trade-off, control systems will have to encourage control from within rather than constraints from without.
7.	<i>Redefine the work of leadership.</i> The notion of the leader as a heroic decision maker is untenable. Leaders must be recast as social-systems architects who enable innovation and collaboration.
8.	<i>Expand and exploit diversity.</i> We must create a management system that values diversity, disagreement, and divergence as much as conformance, consensus, and cohesion.
9.	<i>Reinvent strategy making as an emergent process.</i> In a turbulent world, strategy making must reflect the biological principles of variety, selection, and retention
10.	<i>De-structure and disaggregate the organization.</i> To become more adaptable and innovative, large entities must be disaggregated into smaller, more malleable units.
11.	<i>Dramatically reduce the pull of the past.</i> Existing management systems often mindlessly reinforce the status quo. In the future, they must facilitate innovation and change.
12.	<i>Share the work of setting direction.</i> To engender commitment, the responsibility for goal setting must be distributed through a process in which the share of voice is a function of insight, not power.

13.	<i>Develop holistic performance measures.</i> Existing performance metrics must be recast since they give inadequate attention to the critical human capabilities that drive success in the creative economy.
14.	<i>Stretch executive time frames and perspectives.</i> We need to discover alternatives to compensation and reward systems that encourage managers to sacrifice long-term goals for short-term gains.
15.	<i>Create a democracy of information.</i> Companies need information systems that equip every employee to act in the interests of the entire enterprise
16.	<i>Empower the renegades and disarm the reactionaries.</i> Management systems must give more power to employees whose emotional equity is invested in the future rather than the past.
17.	<i>Expand the scope of employee autonomy.</i> Management systems must be redesigned to facilitate grassroots initiatives and local experimentation
18.	<i>Create internal markets for ideas, talent, and resources.</i> Markets are better than hierarchies at allocating resources, and companies' resource allocation processes need to reflect this fact.
19.	<i>Depoliticize decision making.</i> Decision processes must be free of positional biases and should exploit the collective wisdom of the entire organization and beyond
20.	<i>Better optimize trade-offs.</i> Management systems tend to force either-or choices. What's needed are hybrid systems that subtly optimize key trade-offs.
21.	<i>Further, unleash human imagination.</i> Much is known about what engenders human creativity. This knowledge must be better applied in the design of management systems.
22.	<i>Enable communities of passion.</i> To maximize employee engagement, management systems must facilitate the formation of self-defining communities of passion.
23.	<i>Retool management for an open world.</i> Value-creating networks often transcend the firm's boundaries and can render traditional power-based management tools ineffective. New management tools are needed for building and shaping complex ecosystems.
24.	<i>Humanize the language and practice of business.</i> Tomorrow's management systems must give as much credence to such timeless human ideals as beauty, justice, and community as they do to the traditional goals of efficiency, advantage, and profit.
25.	<i>Retrain managerial minds.</i> Managers' deductive and analytical skills must be complemented by conceptual and systems-thinking skills.

"The Compact for Responsive and Responsible Leadership - A Roadmap for Sustainable Long-Term Growth and Opportunity", has been elaborated by 100 leading business and finally adopted by all participants in Davos Forum 2017. According to this document, there is a need for a Compact that recalibrates the relationship between public corporations and their major investors, and conceives of corporate governance as a collaboration among corporations, shareholders and other stakeholders working together to achieve long-term value and resist short-termism. Disagreement between stakeholders is best resolved in a transparent and respectful manner, de-escalating conflictual stances wherever possible. Each manager participant as a responsive and responsible leader has undersigned and commit to acting within the remit of his/ her responsibilities, duties and influence to promote meaningful engagement between the

board, investors and other stakeholders that builds mutual trust and effective stewardship, and promotes the highest possible standards of corporate conduct and to implement policies and practices within the organization that drive transformation towards the adherence to long-term strategies and sustainable growth for the benefit of all stakeholders.

- *Enhancement of the managers' professionalization tendency*, who because of the high knowledge level and of the vision focused on change, innovation, and participation, are able to initiate and practice a new management type in the relationships with the companies' stakeholders, valorizing their large potential in a win-win approach.

Societal arguments

This category of arguments is represented by the *tendencies in the organization environment* which enable and make possible the implementation of the stakeholders based management, we just enumerate them in the figure 3. (Nicolescu & Nicolescu, 2017).

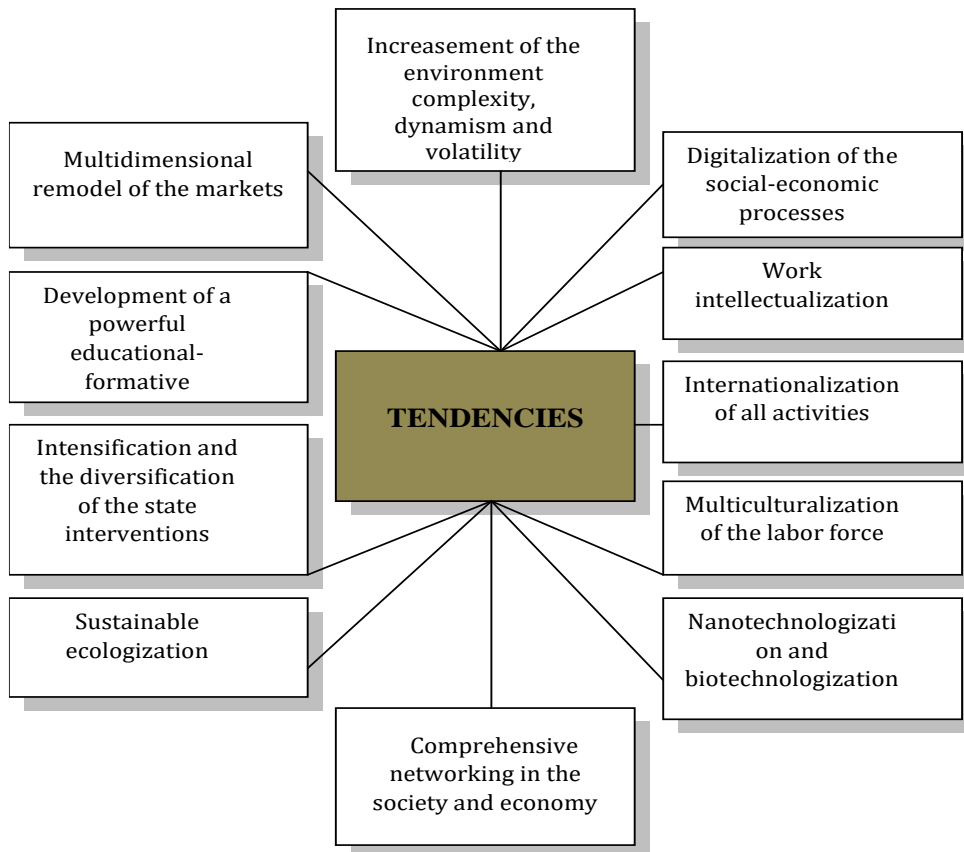


Figure 3. The main tendencies in the organization changing the business environment

Some of these tendencies there are very complex, influencing not only the possibility of the company management to focus on the stakeholders, but also to the necessity to do this in order to survive and be sustainable.

Conclusions

In our opinion, the logical answer to all elements presented in this paper is the transition to the new managerial vision and to stakeholders based management. Such revolutionary mutation involves deep and complex changes in all major company management components:

- company strategy
- entire organization management system
- decisional management subsystem
- methodological management subsystem
- organizational management subsystem
- informational management subsystem
- human resources management subsystem
- organizational culture
- company organizational behavior
- company performance and sustainability.

Company stakeholders based management shall be more performant comparative with the predominantly management of companies at present, because it shall be able to use the resources and the potential of their endogen and exogen relevant company stakeholders: managers, executives, shareholders (owners) clients, suppliers, investors, bankers, local community, a.s.o. It shall be focused on the knowledge - the main company raw material, production, means, product capital and competitive advantage in the knowledge-based economy (Nicolescu & Nicolescu, 2011). The use and valorization of the intellectual capital of the relevant stakeholders shall be in the center of all managerial processes and relationships, generating the quadridimensional sustainable performances – economic, social, ecological and educational (see figure 1).

Transition to the stakeholders based management depends decisively on the managers. They should be the first to remodel the vision, mentality, approach, decisions, actions, and behavior. The implication of all relevant stakeholders in management practice and theory is absolutely necessary. RSMS - Romanian Scientific Management Society - could and should play a major role in the transition toward organization stakeholders based management.

References

- Andriof, J., Waddock, S., Husted, B., & Rahman, S.S. (2002). *Unfolding stakeholder thinking: Theory, responsibility and engagement*. Sheffield: Greenleaf Publishing.
- Benkler, Y. (2011). The unselfish gene. *Harvard Business Review*, 89(7-8), 76-85.
- Bennett, N. & Lemoine, J. (2014). What VUCA really means for you. *Harvard Business Review*, 92(1-2), 27-28.
- Coghlan, D. (2016). *Inside organizations: Exploring organizational experiences*. London: Sage Publications.
- Crane, A., Palazzo, G., Spence, L.J., & Matten, D. (2014). Contesting the value of "Creating Shared Value". *California Management Review*, 56(2), 130-153.

- Freeman, R.E., et al. (2010). *Stakeholder theory: The state of the art*. Cambridge: Cambridge University Press.
- Hamel, G. (2009). Moon shots for management. *Harvard Business Review*, 87(2), 91-98.
- Nicolescu, O., & Nicolescu, C. (2011) *Organizația și managementul bazate pe cunoștințe*. Bucharest: Pro Universitaria.
- Nicolescu, O., & Nicolescu, C. (2017). New approach - Quadrangle of knowledge based sustainability. *Conference Proceedings 1 of The 23rd International Conference - The Knowledge-Based Organization*, June 15-17, 2017 (pp. 411-417), Sibiu: Nicolae Balcescu Land Forces Academy Publishing House.
- Nicolescu, O., & Nicolescu, C. (2017). Recent world tendencies in the organisation environment. In *Proceedings of the 11 International Management Conference - The Role of Management in the Economic Paradigm of the XXIst Century, November 2-4, 2017* (pp.366-373), Bucharest.
- Nowak, M.A. (2006). *Evolutionary dynamics: Exploring the equations of life*. Cambridge, MA: Harvard Business Press.
- Post, J.E., Preston, L.E., & Sachs, S. (2002). *Redefining the corporation, stakeholder management and organizational wealth*. Stanford, CA: Stanford University Press.
- Sadun, R., Bloom, N., & Reenen, J.V. (2017) Why do we undervalue competent management? *Harvard Business Review*, 95(5), 120-127.
- Weill, P., & Woerner, S. (2017) Surviving in an increasingly digital ecosystem. *MIT Sloan Management Review*, 59(2), 26-28.
- World Economic Forum Annual Meeting (2017). *The Compact for responsive and responsible leadership - A roadmap for sustainable long-term growth and opportunity*. Retrieved from http://www3.weforum.org/docs/Media/AM17/The_Compact_for_Responsive_and_Responsible_Leadership_09.01.2017.pdf.