

THE INFLUENCE OF STAKEHOLDER-COMPANY RELATIONSHIP ON COMPETITIVENESS OF COMPANY

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Abstract

The authors of the article analyze stakeholder-company relationship as factor enhancing competitiveness of companies. The building stakeholder-company relationship is described as a strategic business investment, opens new possibilities for companies and contributes to the attainment of competitiveness of companies. By emphasize the importance of stakeholder-company relationship the article treats of socially responsible policies, which implementation determines the building long-term stakeholders' trust as a basis for strong and enduring stakeholder-company relationship. The paper deals with the development of strategic policies of socially responsible Lithuanian companies. Companies in Lithuania in their relations with the stakeholders focus on realizing policies of transparent business, anti-discrimination and anti-corruption. Researched the impact of stakeholder-company relationship on enhancing competitiveness of company, the authors found that an active development of socially responsible policies positively influences business relationships with stakeholder groups and increases competitiveness of company in the global market.

Keywords: corporate social responsibility, competitiveness, stakeholder-company relationship, socially responsible policies.

JEL Classification: F23, M14, M21.

Introduction

There is an increased pressure on companies and managers to act ethically and in socially responsible manner in the time of globalization. Pressures from different stakeholders have forced many companies to take action in order to protect their public reputation and to gain the competitiveness, because companies are responsible for all of its stakeholders and should take greater responsibility for society at large. The concept of corporate social responsibility has changed today to being more relevant in the decision making of companies, due to factors such as information development that has made the stakeholders more aware of how companies behave and take responsibility. The orientation of business consolidates on activities that result is not directed solely by profit, but also to stakeholder needs. Stakeholders are essential to the successful functioning of companies because they provide resources, form the industry structure and make up the socio-political arena. This in turn is what creates competitiveness for the companies.

The problem and novelty of the study

The premise of the study is that contribution of corporate social responsibility to competitiveness of company hinges on the building strong stakeholder-company relationship. The strong relationship with stakeholders is the force for successful functioning of company. While the stakeholder-company relationship and the strategic socially responsible policies which ensure that relationship between company and stakeholders, and their influence in gaining the competitiveness of companies in time of globalization has received a little attention in the literature, this study is significant and topical in term of novelty.

The object of the study is stakeholder-company relationship.

The aim of the study is to analyze stakeholder-company relationship as factor enhancing competitiveness of companies.

The tasks of the study are:

1. To investigate the importance of stakeholder-company relationship in gaining competitiveness of company.
2. To analyze socially responsible policies in building strong and enduring stakeholder-company relationship.
3. To analyze strategic policies in building stakeholder-company relationship of socially responsible Lithuanian companies.

The methods of the study are systematic, logical and comparative analysis of scientific literature, synthesis.

The importance of stakeholder-company relationship in gaining competitiveness of company

The competitiveness of a country depends on the competitiveness of the companies in that country. The competitiveness of the company is related to how business interacts with the environment, producing a value to the participants in this environment. Business does not act in isolation. Companies have always had relationships with their stakeholders, which include shareowners, customers, suppliers, employees, regulators, and local communities. According to Post et al. (2002), stakeholders are essential to the successful functioning of a company because they provide resources to the company (e.g., customers, investors, and employees), form the industry structure (e.g., supply chain associates and strategic alliances), and make up the socio-political arena (e.g., communities and governments). External environmental shifts and strategic and tactical moves by other participants of environment affect the capacity of the company to continue creating and capturing value. "The success of organization depends on its ability to generate satisfaction and loyalty among its customers, employees, suppliers, etc. Mutually defined favourite relationships with the stakeholders are a meta-capacity and can turn into a form of competitive advantage" (Susniene & Vanagas, 2006). Every company attempts to capitalize on strategic use stakeholder-company relationship in prevailing business environment to gain competitiveness. A business company grounded with competitive advantage has an edge over its rivals in attracting stakeholders, providing them with the value that fulfil their expectations, commanding competitive forces and withstanding competitive pressures and strengthen its market position. According to Fauver & Fuerst (2006), stakeholder-oriented companies are also welcomed more readily into new markets, as existing companies embedded in those markets perceive them as less hostile to local values and ways of operating.

Innovations influence competitiveness directly by price wars and offensive strategies and indirectly through motivation of employees and all factors of company's activity and sometimes through governmental policy. The innovation resulted in a wealth of new products and enviable success in the marketplace. Company creates its relationship with stakeholders by taking into account concerns and interests of stakeholders. Heugens (2002) has argued that integrating stakeholder views and interests into company's decision-making, and codifying issues management knowledge, positively influences company's competitiveness. Also Ayuso, Rodriguez & Ricart (2002) stated that proactively engaging with stakeholders and being open to their ideas, as demonstrated by the company's partners acting on suggestions from their non-profit partners, has been noted as positively affecting the company's competitiveness through the ability to assimilate and act on new ideas. The ability to accumulate new ideas of stakeholders and produce innovative product using the advanced technologies becomes the dominant source of competitive advantage in knowledge society. Holmes and Moir (2007) point out that company's innovation outcomes might be a deliberate outcome of engagement with external stakeholders, or might be an unexpected, ancillary benefit from such relationships. Also Mendibil et al (2007) found out that the strong engagement with employees and external stakeholders contributes to the innovation capacity and competitiveness model of the company.

Company's reputation plays an important or very important role in the achievement of business objectives. "Reputations have economic value to companies because they are difficult to imitate" (Fombrun, 1996). Reputation is an intangible and complex concept, which takes time to change. According to Fombrun (1996), "a reputation develops from a company's uniqueness and from identity-shaping practices, maintained over time, that lead stakeholders to perceive the company as credible, reliable, responsible and trustworthy...Reputations therefore are a source of competitive advantage". Reputation ranges over a broad area of the company's activities. One of those activities is building strong stakeholder-company relationship. The enduring stakeholder-company relationship is very important in enhancing company's reputation. Mahon (2002) maintained that company's reputation develops over time as the result of complex set of interrelationships and exchanges between stakeholders and the focal organizations in different situations. If company has nurtured its reputation among its stakeholders, those stakeholders will develop "reputational expectations" as to how company will act in stakeholder-company relationship, which – providing the reputation is positive – can serve as an asset for the company (Mahon & Wartick, 2003).

Good relationship with all groups of stakeholders makes easier for company to operate, leads to new ideas for products or services, allows the company to enhance reputation and maximize value. According to Susniene & Sargunas (2009) "stakeholder relationships can be a source of opportunity and competitive advantage rather than simply threat or drain on organizational resources". Stakeholders have economic, technological, political, social or even managerial effects on a company and building strong stakeholder-company relationship is therefore an important part of anticipating business opportunities and risks. Over time, as economies, labour markets, and supply chains have become increasingly globalized, the number and

variety of stakeholders impacted by individual companies has grown and the need for enduring stakeholder-company relationship has become an essential part of doing business.

Socially responsible policies in building strong and enduring stakeholder-company relationship

According to the new European Commission's definition (2011) corporate social responsibility is "the responsibility of enterprises for their impacts on society". Respect for applicable legislation, and for collective agreements between social partners, is a prerequisite for meeting that responsibility. To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of maximizing the creation of shared value for their owners/ shareholders and for their other stakeholders and society at large; identifying, preventing and mitigating their possible adverse impacts (European Commission, 2011).

CSR refers to operating a business in a manner that accounts for the social and environmental impact created by the business to all stakeholders. "CSR gradually becomes a concurrent part of modern companies' activity, which stimulates a number of factors: an alternation of consumers' wishes and demand, changes of suppliers' attitudes and requirements, pressure on legislators and principles, new expectations of employees, changing scale of social values" (Juscius & Snieska, 2008). Corporate social responsibility also means the commitment to developing policies that integrate responsible practices into daily business operations. CSR is, among other things, a key stakeholder relationship-building activity (Waddock & Smith, 2002). According to Hopkins (2004) CSR is concerned with treating the stakeholders of the company ethically or in a responsible manner. Stakeholders exist both within a company and outside. The natural environment is a stakeholder. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation. Valackiene & Miceviciene (2011) stated that "CSR requires a responsible firm to take into full consideration its impact on all stakeholders prior to making any business decisions which may affect them"

Socially responsible companies integrate social, environmental, ethical human rights and consumer concerns into their business operations and core strategy in close cooperation with their stakeholders. The aim of socially responsible policies of companies is to maximize the creation of shared value, which means to create returns on investment for the company's shareholders at the same time as ensuring benefits for the company's other stakeholders and to prevent and mitigate possible adverse impacts which companies may have on society. CSR requires engagement with internal and external stakeholders so it enables companies to create a strong and enduring stakeholder-company relationship. Socially responsible companies attach significance to implementation of transparent business policy in creating stakeholder-company relationship. As stated in company's "Dairy N Pack" (India) profile, quality and transparent business policies have helped to win the trust of customers and company intends to serve them with utmost sincerity and hard work. Transparency helps companies maintain an open relationship when conducting business operations. In business, transparency typically prohibits the use of personal agenda, hidden contracts or other activities that can create distrust between a company and its shareholders. The failure of transparent policies can result in internal and external stakeholders suffering financial loss from the actions of one or a few individuals. Socially responsible companies are committed to providing an environment free of discrimination and where all stakeholders are treated equally with dignity, courtesy and respect. Companies believe that all employees should be able to work in an environment free of discrimination, victimisation, sexual harassment and vilification. The implementation of anti-discrimination policy contributes to consolidation relationship between company and its stakeholders. The German chemical company BASF seeks to uphold equal opportunities for all, irrespective of sex or colour, in all its operations. Anti-discrimination policy is of particular importance within its operations in Brazil, a country forged out of diverse cultures, where black people and women, in particular, are sometimes constrained in their educational and employment opportunities. Businesses have a corporate responsibility to respect all human rights. Human rights are the basic rights of each human being, independent of race, sex, religion, political opinion, social status or any other characteristic. Businesses increasingly need a stable international environment in which to operate, with sustainable markets and a "level playing field" of opportunities. Human rights policy offers a common framework for businesses to understand societies' expectations and deliver value to stakeholders in a more sustainable way. Chevron's company's (USA) policy is designed to increase awareness of human rights throughout the company and deepen company's ability to manage human rights issues. The policy addresses

four human rights areas relevant to our business: employees, security providers, the community and suppliers. Companies are also focusing on corruption risk to protect their most vital asset - their reputation - and are developing anti-corruption policy expected by investors and other stakeholders. Company "Orkla" (Sweden) places emphasis on preventing corruption, and one of company's primary objectives is to contribute to the development of a strong anti-corruption policy. The purpose of this policy is to increase awareness and knowledge of corruption problems and to state clearly attitude and procedures for ensuring compliance with anti-corruption legislation. Effective anti-corruption policy not only mitigate risk but can also enhance company's reputation and establish credibility, and also is considered valuable or very valuable to all stakeholders. One of the main purpose of the social integration policy of company is the training and re-integration of the excluded persons from the labour market and mainly the low qualified unemployed and the disadvantaged persons to stop them been permanently excluded from the labour market and to re-integrate the society in general. Company "ERDF" (France) promotes the integration of people with disabilities within the company, and provides supports their professional development (such as with human and/ or technical assistance, easy access to training, specific assistance with mobility and autonomy, etc.). Social integration policy of company "ERDF" is also oriented to professional integration of young people. ERDF provides many young people with opportunities to partake in work-study programs and carries out targeted actions. Companies which respect stakeholders' interests form strong relationships with those groups.

There are also many good socially responsible policies to engage with stakeholders' groups. As mentioned Hopkins (2004) every company should not be expected to be involved in every aspect of social development. That would be ludicrous and unnecessarily restrictive. But for a company to be involved in some aspects, both within the company and on outside, will make its products and services (for example financial services) more attractive to consumers as a whole, therefore making the company more profitable and attractive for all stakeholders.

By implementing their social responsible policies, companies can build long-term employee, consumer and citizen trust as a basis for strong and enduring stakeholder-company relationship. "Spreading CSR conception impels to ensure the implementation of needs and goals of all groups concerned" (Dagiliene, 2010). This in turn helps to create an environment in which companies can innovate and grow. The economic crisis and its social consequences have to some extent damaged levels of trust in business, and have focused public attention on the social and ethical performance of companies. CSR offers a set of values on which would be built a more cohesive society and on which is based the transition to a sustainable economic system.

Strategic policies in building stakeholder-company relationship of Lithuanian companies

The long-term success of the company depends on how it manages to integrate harmoniously into the environment and to assess internal and external stakeholder expectations. The relationship between the company and the surrounding environment should be formed on the basis of social responsibility. The practical development of strategies of corporate social responsibility must take into account the expectations of all stakeholders. Stakeholders' expectations associated with pursuance of transparent business, human rights, anti-discrimination and social integration policies in the relations between business and the surrounding environment.

According to Rudzioniene (2006) "the most important stakeholders in Lithuanian companies are investors, regulators, employees. At least important are media and the all public". Employees, customers and suppliers have a strong influence and are of fundamental importance to the survival of the company. The media, authorities, trade unions and local residents are other stakeholders with a wide-ranging influence. The long-term survival of companies is partly dependent on maintaining relationships of trust.

Now that more and more stakeholders are making demands of companies' ethical, social and environmental awareness, it is also natural for Lithuanian companies to be receptive to these issues and actively implement socially responsible strategies in companies' activities. The building stakeholder-company relationship in Lithuanian is usually understood as the company's relations to the employees, unions, business partners and direct customers. On the basis of the experts' assessment „The integration of corporate social responsibility into the strategies of international companies in Lithuania”, socially responsible companies set great store on realization of the transparent business and anti-discrimination policies in the relations with stakeholders (Kontautiene, 2011). The implementation of transparent business policy and its nurturance between the company's suppliers, business partners and consumers as very

important and an important noted by 47 percent of the respondents (see Figure 1). Business activities on the basis of human rights, of non-infringement of workers' rights and of eliminating any discrimination in their relations with internal and external stakeholders, i.e. the anti-discrimination and human rights policies kept by companies, as very important evaluated 57 percent of experts. Over 30 percent of respondents have assessed these policies as important and significant on average. Anti-corruption policy in relations with stakeholders as very important emphasized 44 percent of experts. Social integration policy in relationship with stakeholders as very important noted only 12 percent of the experts, 16 percent of respondents described as important and 22 percent – as average important.

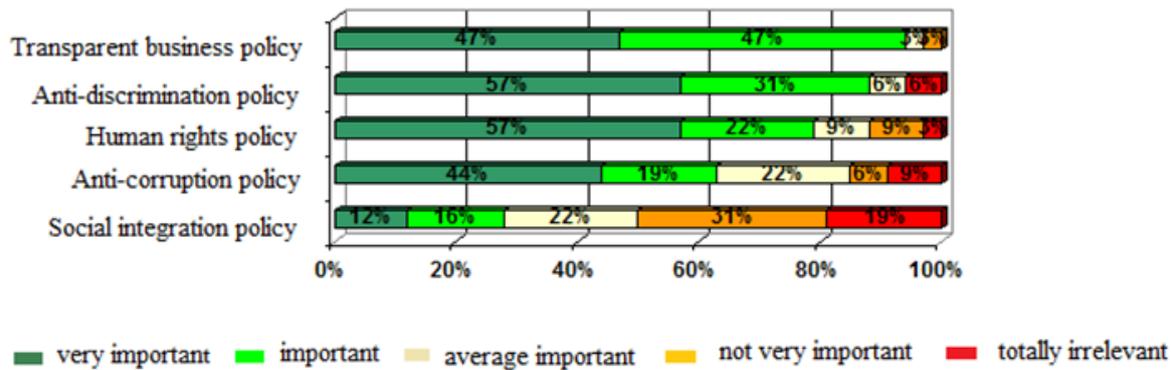


Figure 1. Distribution of evaluation of socially responsible policies, in percent

Lithuanian companies, on the basis of study, in relationship with stakeholders focus on anti-discrimination, transparent business and human rights policies. Social integration policy, in the opinion of experts, at least affects the relationship companies with stakeholders in Lithuania.

The companies cannot survive without stakeholders' active participation, which has led stakeholders to develop abilities to influence companies' decisions and their competitiveness. This influence capacity has been reflected in the development of a many policies and operating practices within the companies in order to deal with and create close relationships among companies and different stakeholders.

The practical development of strategies of corporate social responsibility may be necessary to make responsibility truly a business imperative. A strategic approach to building strong and enduring stakeholder-company relationship is increasingly important to a company's competitiveness.

Conclusions

Stakeholders are essential to successful functioning of company. The strong and enduring stakeholder-company relationship strengthens company's market position, contributes to the innovation capacity of company, positively influences in enhancing company's reputation. It maximizes the value of company and increases competitiveness of company in prevailing business environment.

Corporate social responsibility is responsibility of company for its impact on all stakeholders. Socially responsible policies development is stimulated by wishes and demands all groups of stakeholders. Socially responsible companies make their policies in close cooperation with stakeholders. The socially responsible policies as transparent business, human rights, anti-discrimination, anti-corruption, social integration ensure the building long-term employees', consumers', government' and society's trust and positively influence the building of strong and enduring stakeholder-company relationship.

Socially responsible Lithuanian companies actively implement socially responsible strategies in companies' activities. The building stakeholder-company relationship in Lithuanian is usually understood as the company's relations to the employees, unions, business partners and direct customers. Lithuanian companies in relationship with stakeholders focus on anti-discrimination, transparent business and human rights policies. An active integration of those policies shows the initiative company's attitude to the environment regarded by stakeholders as a socially responsible approach.

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