Managing Stakeholders: An Integrative Perspective on the Source of Competitive Advantage

Minyu Wu[1]

[1] School of Business, Curtin University Sarawak, Sarawak, Malaysia

Correspondence: Minyu Wu, School of Business, Curtin University Sarawak, CDT 250, 98009 Miri, Sarawak, Malaysia. Tel: 60-8-544-3844. E-mail: minyu.wu@curtin.edu.my

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Abstract

Despite the enormous amount of academic work contributed to research on competitive advantage, a comprehensive framework that includes both internal and external attributes of the firm still remains undeveloped. This paper seeks to use a stakeholder perspective to examine the source of competitive advantage. Competitive advantage can be viewed as a firm's ability to contribute more customer value than its competitors. It endeavors to drive the largest gap between the buyer's willingness-to-pay and the supplier's opportunity cost. If stakeholders can be categorized by their relative potential on threat and cooperation, strategies for managing stakeholders are used to maximize their cooperative potential and minimize their potential threat so as to capitalize on value creation.

Keywords: competitive advantage, resource-based view, stakeholder theory

1. Introduction

Stakeholder interactions have recently become a critical issue for managers, as they increasingly face complex, ambiguous, and changing surroundings. In the past few decades, following dramatic technological advancement and international political reform, the world economy has experienced an historical change. Thanks to information technology and economic globalization, we are moving into a 'post-capitalist society' where knowledge also becomes 'the means of production' and the free market plays a role as the dominant mechanism of economic integration (Drucker, 1993). Today, managers encounter many challenges that are more complicated and more difficult than before. In this networked 'new economy', firms are confronted with not only 'hypercompetition' from strong competitors (D'Aveni, 1994) but also emerging economic orders and social impacts related to powerful stakeholders. Since Freeman (1984) presented his seminal work, which viewed stakeholder management as 'a stakeholder approach to strategic management', stakeholder management has progressively become a popular topic for management and business research.

Stakeholder interactions offer both challenges and opportunities to an organization, as multiple stakeholders demand more meaningful participation, while having the potential to contribute to creative solutions to complex issues (Svendsen & Laberge, 2005). In line with Freeman's (1984) argument, scholars increasingly view stakeholder management as a crucial part of strategic management, rather than just an alternative approach. For example, Kay (1993) treats corporate strategy as a response to multiple stakeholders and maintains that stakeholder relationships affect organizational strategic decisions and contribute to its success or failure. Wolfe and Putler (2002) argue that stakeholder management is a useful approach for successful firms to align both their strategic goals and decisions to stakeholder requirements. Halal (2001) regards stakeholders as partners who cooperate with the firm and encourage knowledge sharing to generate both economic and social values. In this view, stakeholder management plays an important role in enhancing firm competence with regard to knowledge generation. Hall and Martin (2005) highlight the significance of innovative uncertainty influenced by stakeholders and suggest that enterprises need to adopt different approaches according to various situations of stakeholder ambiguity and complexity. As these authors suggest, the traditional view of strategic management is insufficient for managers to achieve their strategic goals in a complex and dynamic environment. An enterprise should acknowledge the needs of its multiple stakeholders and collaborate with them to generate value that can benefit itself as well as its stakeholders.

Despite the concept of stakeholder management was rooted in the field of strategic management, few studies have accentuated the linkage between stakeholder management and competitive advantage, which is the core

issue in strategic management literature. Notable exceptions are Post, Preston and Sachs (2002) and Rodriguez, Ricart, and Sanchez (2002). Post et al. (2002) suggest that a firm's relationships with its critical stakeholders are crucial to generate organizational wealth. Rodriguez et al. (2002) argue that engaging good stakeholder relationships enhances innovation and reputation that lead to sustained competitive advantage. Nevertheless, a stakeholder perspective on competitive advantage is still in its early stage, and there remains a lack of studies that focus on this particular issue.

This study seeks to understand how a firm can create its competitiveness in a complex and dynamic environment. As the relationship between stakeholder management and competitive advantage has not been well explored, the main purpose of this study is to examine the question of how stakeholder management may influence the source of competitive advantage. The paper is organized as follows. The next section will briefly review the major streams of studies on competitive advantage and outline the concept of stakeholder management. In the section following next, an analytic framework will be introduced. It will then be followed by an empirical report of interviewing ten companies and a stakeholder perspective on the source of competitive advantage will be proposed. Finally, a conclusion remark and an agenda of future research will be introduced.

2. Competitive Advantage and Stakeholder Management in the Literature

2.1 Numerous Perspectives on Competitive Advantage

In management literature, scholars have addressed competitive advantage by different views. The first research stream is the activity-position approach (Porter, 1985; 1991; 1996), emphasizing that competitive advantage resides in business activities and activity systems, rather than resources. This stream of studies normally put more emphases on external analysis of opportunities and threats as the source of competitive advantage. Porter (1985) argues that the firm's outstanding performance mostly results from its strategic choices that provide the firm superior positioning in an industry structure, such as to lower costs, to differentiate products, or to stay focused in a niche market. The strategic choices are determined by a range of competitive forces: (1) the bargaining power of customers, (2) the bargaining power of suppliers, (3) the intensity of rivalry amongst firms in the industry, (4) the threat of substitute products, and (5) the threat of new entrants into the industry. Although there were suggestions for including a sixth or seventh force, such as government and complementors, in Porter's five-force model, Porter argues that these additions are not unique but merely act through the initial five forces (Jörgensen, 2008; Porter, 2008). Thus, in this view, competitive advantage is achieved by fitting the role that can meet the industry-specific situations. As Porter (1996, p.62) puts it, "strategic positioning means performing *different* activities from rivals' or performing similar activities in *different ways*" (emphasis original).

The second research stream is the resource-based view. It holds that dissimilar resource endowments with distinctive advantages result in different performances between firms (Barney, 1991; Conner, 1991; Wernerfelt, 1984; Peteraf & Barney, 2003). It seeks to examine the source of competitive advantage by focusing on internal analysis of organizational strengths and weaknesses. Accordingly, the primary resources regarding a firm's competitiveness include its physical assets, financial capital, human resources, organizational systems, technology and knowledge, and intangible assets (e.g., trademark, patent, copyright, and goodwill). In particular, Barney (1991) suggests that a firm's competitive advantage is characterized by its strategic resources that are valuable, rare, imperfectly imitable, and non-substitutable.

Following the similar logic, some researchers shifted their focus from resources to capabilities. For instance, Dierickx and Cool (1989) argue that strategic resources with competitive advantage potential are developed and accumulated within the organization rather than acquired in factor markets. Mahoney (1995) advocates the combination of resources and metal models within the firm. These authors focus their attention on resources and capabilities developed internally. In particular, firm-specific capabilities are more important than resources as they influence how resources within an organization are utilized efficiently and effectively. In a similar vein, the dynamic capabilities approach argues that performance differences across firms are due to differential capacities of firms to integrate, utilize, renew, and reconfigure resources in response to the changing environment (Eisenhardt & Martin, 2000; Teece, Pisano & Shuen, 1997). Some researchers argue that the resource-based view does not acknowledge the subjective perspective of resource heterogeneity (Foss, 1994) and fails to recognize the significant role of the entrepreneurial judgments or managerial capabilities of a firm (Foss, Foss & Klein, 2007). In particular, Kraaijenbrink, Spender and Groen (2010) argue that the resource-based view could improve substantially if it acknowledges the diversity among resources, for example, static and dynamic resources.

The third research stream is the relational view that also goes beyond the firm's boundaries but focuses on interfirm analysis (Dyer & Singh, 1998; Lavie, 2006). Dyer and Singh argue that competitive advantage stems from collaboration between firms. They have suggested four potential sources of interorganizational competitive

advantage: (1) relation-specific assets, (2) knowledge-sharing routines, (3) complementary resources/capabilities, and (4) effective governance. In other words, a firm's critical capabilities are not individual skills or tacit knowledge within the firm but social relations between organizations. Accordingly, an individual firm acting alone is not able to generate competitive advantage, which is determined by the dynamic interactions between organizations to create mutual benefit. This view is echoed by Foss (1999) who indicates that sustained competitive advantage may originate from network capabilities or collective learning. As suggested by Foss, firms are not fully self-contained and can generate accumulated network capabilities, coming from inter-firm interactions such as knowledge-sharing, relationship building and industrial standardization.

Apparently, these approaches are based on different assumptions and units of analysis, and there is a lack of a holistic approach to competitive advantage, which reflects both internal and external attributes of the firm.

2.2 Stakeholder Management and Competitive Advantage

In this study, the attention is focused on critical stakeholders that are defined as 'those who have valued resources, vested interest, power or other influential factors that are critical to a firm's strategy or strategic decisions.' This notion is similar to Kochan & Rubinstein's (2000) study of the Saturn Corporation, which suggests stakeholders (1) provide the firm with valued resources, (2) have some interests that may be influenced by the success or failure of the firm or by their relationships with the firm, and (3) are able to exert influence on the firm by power or other means. Freeman (1984) suggests that stakeholder management is 'a stakeholder approach to strategic management' and emphasizes that there is a need for a systematic framework of managing stakeholders due to internal change (from customers, employees, and suppliers) and external variation (from governments, competitors, consumer advocates, environmentalists, special interest group, and media). Freeman (1984, p.130) also presents a stakeholder strategy formulating process including "six major tasks: (1) stakeholder behavior analysis; (2) stakeholder behavior explanation; (3) coalition analysis; (4) generic strategy development; (5) specific programs for stakeholders; (6) integrative strategic program."

Harrison and St John (1997, p.14) define stakeholder management as "communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organization and its stakeholders." They make a distinction between two approaches to stakeholder management: the traditional approach—buffering and the proactive approach—bridging. Buffering focuses on activities to create buffers between the firm and its stakeholders for minimizing their impacts on the firm, including regulatory compliance, advertising, and public relations. On the other hand, bridging concentrates on forming stakeholder relationships, which involve more communications between the firm and its stakeholders in order to pursue mutual benefit. Hence, bridging tends to use partnering activities based on engaging stakeholder relationships and reinforcing interdependencies. It focuses on creating shared values and searching for common goals rather than just adapting to stakeholders' wants and needs. Some studies (e.g., Andriof & Waddock, 2002; Wu, & Eweje, 2007) have increasingly emphasized the proactive approach that advocates the use of the term stakeholder engagement instead of stakeholder management to highlight the importance of partnership between the firm and its multiple stakeholders (Lozano, 2005).

The essence of the shift from the traditional approach to the proactive approach to stakeholder management is that these writers pay more attention to dynamic efficiency—value creation and learning (Nooteboom, 1992)—in order to acquire critical information, strategic resources and problem-solving capabilities. The proactive approach emphasizes that managers should focus on creating value for the organization's multiple stakeholders, based on social capital and 'value-based networks' (Wheeler, Colbert, & Freeman, 2003). In this aspect, Post et al. (2002) propose a comprehensive model, indicating that a firm's relationships with its critical stakeholders are crucial to generate organizational wealth. There are two main parts in Post et al.'s model. One is the corporate core that comprises strategy, structure, and culture. The other is the strategic environment of the corporation including three types of stakeholders: resource-based, industry-structure, and social and political stakeholders.

Although the concept of stakeholder management was rooted in the field of strategic management, few studies have linked stakeholder management to competitive advantage. However, some researchers have begun to examine the association between these two subjects. For example, Jones (1995) argues that stakeholder management may create competitive advantage by reducing transaction costs. Harrison, Bosse and Phillips (2010) suggest that firms, which share value with their stakeholders and involve them in their strategic decisions, could gain benefits such as "increased demand and efficiency, higher levels of innovation, and an increased capacity to deal with unexpected events" (p. 67), which would further become the source of competitive advantage. Similarly, other studies indicate that successfully engaging stakeholder relationships, a firm can acquire significant competitive advantages in the form of risk management, reputation, adaptation, and innovation,

through accumulation of social capital and absorption of the knowledge created (Ayuso, Rodríguez & Ricart, 2006; Rodriguez et al., 2002; Svendsen, Boutilier, Abbott & Wheeler, 2001). In particular, Rodriguez et al. (2002) argue that relationships with critical stakeholders exhibit a socially complex and implicit nature, so it is difficult for competitors to imitate or substitute them.

Nevertheless, studies on the linkage between competitive advantage and stakeholder management are on their early stage. A systematic approach is still missing. Encouragingly, the literature has provided some evidence that stakeholder management is crucial to mobilize resources through social relationships. But there is a gap of how to apply the concept of stakeholder management to the main research streams of competitive advantage—the activity-position view, the resource-based view, and the relational view.

3. Theoretical Framework

According to Kilbourn (2006), the theoretical perspective in a research reflects the researcher's theoretical orientation, which is crucial to interpreting the data in a qualitative study, irrespective of whether it is explicitly or implicitly stated. In other words, theoretical perspectives play a role as the filter for focusing and bounding the data to be collected. As Miles and Huberman (1994) put it, "any researcher, no matter how unstructured or inductive, comes to fieldwork with some orienting ideas" (p.17). Therefore, the theoretical perspective of this study is explicitly put in this section.

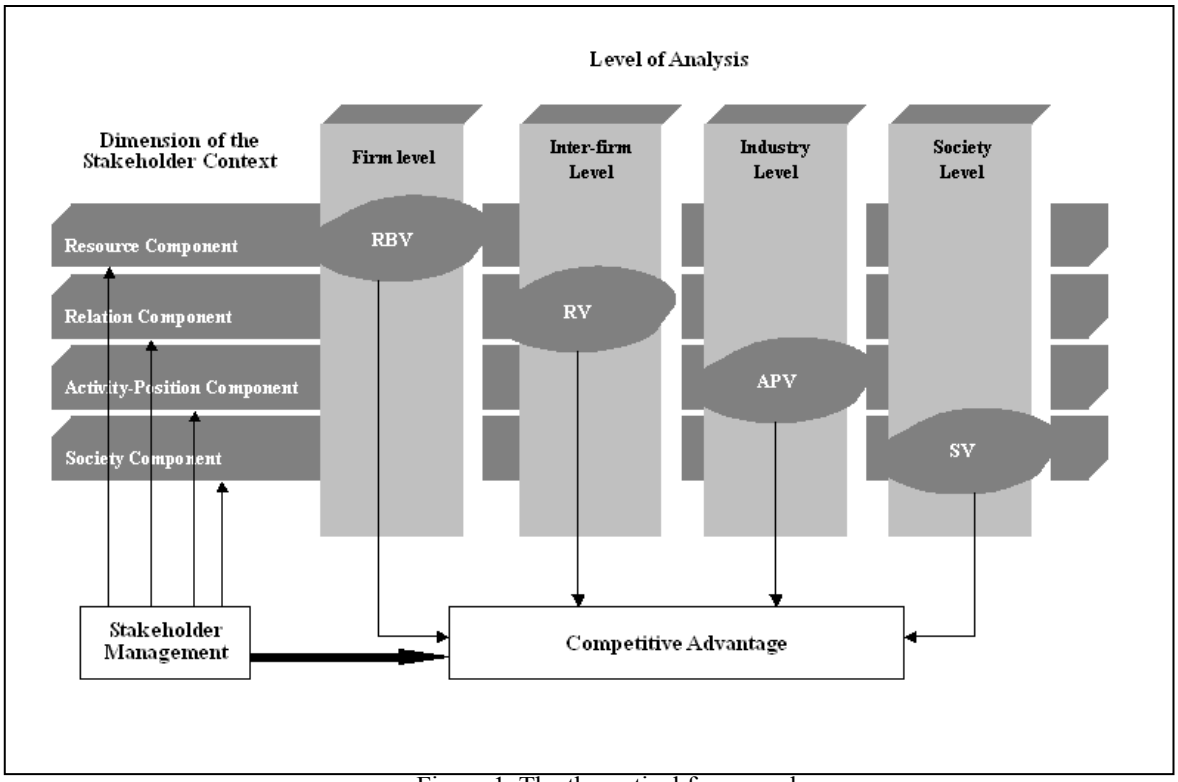

Figure 1. The theoretical framework

The literature review of the previous section reveals what have been done by preceding studies regarding the focus and the domain of this study. In search of a holistic approach, competitive advantage is relevant to both internal and external attributes of the firm; a stakeholder perspective on competitive advantage is quite suitable in this regard. Accordingly, a theoretical framework is developed as Figure 1. In this framework, the concept of competitive advantage not only integrated the three perspectives—the activity-position, the resource-based, and the relational views but also included an analysis of society component. The stakeholder perspective is a systematic framework that reflects both internal and external attributes of the firm and integrates various perspectives on competitive advantage. The framework will be used as a lens for subsequent analysis to answer the research question of how stakeholder may management influence the source of competitive advantage.

4. Methodology

In order to capture the relations between stakeholder interactions and competitive advantage, a qualitative case study approach is used for this research. A case study approach allows a researcher to examine the dynamic social phenomenon and present holistic explanations (Yin, 1994). Moreover, it provides the opportunity for

theory building (Eisenhardt, 1989). In this study, data collection is mainly based on in-depth interview as well as documentary data. Using different methods to collect different types of data can achieve triangulation (Yin, 1994).

Table 1. Profiles of case companies

Company	Founded Year	Industry	Size of Capital* (US$,000)
Alpha	1982	ERP software	41,600
Beta	1995	Industrial Computing	32,977
Gamma	1988	Textbook Publishing	26,658
Delta	1960	PVC Tape	90,440
Epsilon	1996	TFT-LCD	2,439,290
Zeta	1971	CRTTV; TFT-LCD	2,651,534
Eta	1961	Textiles (Apparel)	43,226
Theta	1980	Construction	32,549
Iota	1983	Commission Dyeing & Finishing	58,878
Kappa	1993	Computer Security Control System	3,125

*Data of September, 2007; Conversion rate: NTD/US$=32.0

Interviews with CEOs or senior managers of ten firms (as shown in Table 1) were conducted in Taiwan in September and October of 2007. Taiwan is relatively small open economy and has experienced significant impacts of globalization and technological advancement in the past two decades. Many firms in Taiwan had to develop and maintain their competitiveness in this complex and dynamic environment for their survival. Hence, these Taiwanese firms are able to provide useful data and information for this study.

The interviewees are the people who were involved in strategic decisions and stakeholder management of their companies. Each interview was conducted in the participant's office and lasted one to two hours. All interviews were tape recorded with interviewee's consent. Documentary data mainly include the company history and important events of each case. They were used to support participant contributions.

Analysis in qualitative data refers to searching for meaning through interpreting the views and behaviors of the participants. In general, Miles and Huberman (1994) have suggested three types of activity: data reduction, data display, and conclusion drawing. Initial data analysis in this study includes reading the interview transcripts and documents and organizing themes according to the theoretical framework in the previous section.

5. Stakeholder Management Influences the Source of Competitive Advantage

Using the theoretical framework proposed in the previous section, the findings from this empirical study show that the source of competitive advantage of firms is based on their valued resources acquired or generated from multiple channels and the strategies adopted to gain positional advantages. It also supports the notion of competitive advantage includes (1) resource advantages from superior skills and resources and (2) positional advantages from superior customer value and/or lower relative costs (Day & Wensley, 1988). The empirical results are reported as the following two parts: first, the possible roles that stakeholders may play in influencing the source of competitive advantage; second, the strategies for different types of stakeholders.

5.1 The Possible Roles That Stakeholders May Play

According the findings of this empirical study, there are several themes appeared. It could be argued that stakeholders play different roles in influencing a firm's competitive edge. First, stakeholders are providers who supply valued resources to the focal firm. Second, stakeholders are catalysts that may facilitate generation of valued resource. Third, stakeholders may have impacts on competitive advantage (in terms of positional advantages) by their various influences.

5.1.1 Stakeholders as Resource Providers

There are four major channels through which a firm can acquire or accumulate its resources. First, resources can be purchased from the markets through transactions. Second, for some specific resources or capabilities, they can only be created or accumulated within the organization since no such markets exist. Third, some strategic assets

or capabilities can only be generated (or at lower costs) by inter-firm interactions, or alliance partnerships. Thus, they would neither be purchased from the markets nor created or accumulated within the organization alone.

Resources acquired from the markets

Valued resourced acquired from the markets include human resources and financial capital. Stakeholders related to this category include manager, employees, investors/shareholders, and banks. As firms regard employees as one of their valued resources, they should have devoted much effort to acquire them from the labor markets. The following quotations illustrate how firms manage potential and existing employees as important stakeholders:

The CEO of Delta: "*to our employees, our tradition is treatment with respect and promotion from within; moreover, we also support tuition fees of our staff for post-graduate studies on a case by case basis*."

The senior manager of Eta: "*to retain our employees, our company offer a reasonable profit sharing scheme to reward those contribute to the success of the organization…it is also important to provide our staff with good working conditions*."

On the other hand, although the shareholders versus stakeholders debate is a hot topic in the corporate governance literature (e.g., Letza, Sun, & Kirkbride, 2004; Vinten, 2001), the importance of financial capital as a valued resource is rarely emphasized by the research on competitive advantage. However, the companies interviewed in this study indicated that they regarded financial capital as an important resource that helps strengthen their competitiveness. The following quotations illustrate how firms manage their shareholders in order to successfully raise capital:

The senior manager of Epsilon: "*we communicate with our institutional investors periodically, such as press conference, press release, investor seminars, direct dialogue and so on, to let them know our strategic plan and current operation; transparency is a very important policy of our organization and we continuously provide current and future investors with relevant information*."

The senior manager of Eta: "*as a listed company, shareholders are crucial to us because we need to raise new capital from the public frequently…we communicate with our investors through different channels and we respect their opinions or comments on our business by quick responses and transparent information*."

The above quotations demonstrate that critical stakeholders (potential and existing employees and shareholders) are providers of valued resources that can be acquired from the markets. Moreover, the strategy of the firm would determine what resources should be acquired and what positional advantage will be generated. For instance, in the cases of Epsilon and Eta, both companies rely on huge financial capital, together with necessary human resources, to expand their capacities in order to create cost advantage by economies of scale.

Resources built or accumulated internally

Some valued resources (or capabilities) are usually developed internally, such as unique technology, sound production process, superior organization culture, or innovative ability (Amit & Schoemaker, 1993; Dierickx & Cool, 1989; Mahoney, 1995). Stakeholders in this category mainly include managers and employees. However, the focus is on training, learning and development rather than recruitment. The following quotations illustrate how firms manage their managers and employees as important stakeholders to facilitate capability building:

The CEO of Beta: "*we promote our company as a learning organization; training and development is crucial for our company to accumulate our capabilities and face a changing environment… and I believe that is why we can perform better than our competitors*."

The senior manager of Theta: "*as a learning organization in a changing environment, continuous improvement is our objective all the time and we have provided our employees with all kinds of training and programs to support them, which not only enhanced our productivity but also increased our employee satisfaction…it can be reflected by our success of ISO 9001 and 9002 certifications achieved*."

The above quotations demonstrate that with appropriate stakeholder management, firms can develop valued resources or superior capabilities that enhance their competitiveness. Additionally, Beta and Theta both regarded themselves as learning organizations, highlighting the importance of adaptation to change. This is also consistent with the dynamic capabilities perspective (Eisenhardt & Martin, 2000; Teece et al, 1997).

Resources acquired or generated from alliance partnerships

Another source of resource advantage stems from resources acquired or generated by alliance partnerships. Stakeholders related to this category include suppliers, customers, and other organizations such as competitors. The following quotations illustrate how firms manage alliance partners as important stakeholders:

The CEO of Alpha: "*we provide the best service and training programs to our customers, we continuously improve and upgrade our products according to customers' feedback and involve them in our product development along with their growth; we even extend our products and services as our customer move their operations from Taiwan to overseas markets such as China…we aim to building strategic partnerships with our customers*."

The CEO of Gamma: "*we endeavored to establish a close relationship with our customers…we involved them in new product development and pilot use of new products; we also provided them with a wide range of training and development programs and got very good feedback…we have developed so-called 'strategic partnerships' with our core customers; based on this kind of relationship, we are able to upgrade our competitiveness by strategic investment, including new product introduction, human resource development and financial capital expansion*"

The CEO of Eta: "*we have enjoyed an advantage in a specific market that is with high unit prices and relatively smaller orders; we have integrated and mobilized the resources of upper, middle, and lower streams as an alliance partnership, which provided high-quality and flexible products within a very short period…the alliance partnership was formed by a long-term relationship: we shared our information, we worked together for specific overseas orders in a systematic way, and we developed new products collectively; together with cheaper transportation costs within the island (Taiwan), we have created and run a strong business model for many years*."

The CEO of Iota: "*we formed a supply network with our strategic partners, from spinning, weaving to dyeing and arranging; it strengthened our competitiveness in this highly competitive market…the supply network is based on a long-term relationship and it needs mutual trust among ourselves…we share our information regarding market price, product design, production, capacity and quality control system*."

The CEO of Kappa: "*in cooperation with foreign partners, we leverage our technology, capabilities and experience in local market so that we have competitive advantage in several overseas markets…We cooperate with our upper stream and lower stream partners in joint development of new products and services for a niche market*."

The findings also demonstrate that active stakeholder management support firms in acquiring or generating resources through alliance partnerships. For instance, Gamma and Eta developed relation-specific assets by active stakeholder engagement. Alpha generated both relation-specific assets and knowledge-sharing routines by establishing strategic partnerships with its customers. Eta, Iota and Kappa successfully leveraged their complementary resources (capabilities) to support each other and created competitive edges. The essence of stakeholder management regarding alliance partnerships is to pursue common goals by way of partnering activities.

The above discussion generates the following proposition:

Proposition 1*: Stakeholder management facilitates firms in acquiring or generating valued resources through markets, within the organization, and inter-organization interactions.*

5.1.2 Stakeholders as Catalysts That Facilitate Generation of Resources

A firm's stakeholders comprise different constituents. Some of them are valued resource providers; some do not provide resources directly but are a catalyst or hindrance that may facilitate or impede generation of valued resource. For example, intangible assets such as reputation need long-term investments as well as commitments by the firm; for the most part, to obtain other constituents' (e.g., governments or local communities) recognition is crucial. The interviewees of this study illustrated that how firms could benefit from cooperation with multiple stakeholders, including local communities and civil society.

The CEO of Beta: "*we established a foundation holding a variety of charity events, covering education, the disables, humanity, and so on…we believe that we should give something back to the community and our employees and shareholders must be proud of us and work together with us*."

The CEO of Gamma: "*we donated textbooks to children of low-income families and offered free advisement service for searching missing children…we also sponsored and participated in many sport events, such as triathlon, swimming and cycling…these activities not only increased our reputation and corporate awareness but also strengthen our staff's capabilities, such as problem-solving and perseverance, helping them cope with a highly competitive environment*."

The senior manager of Epsilon: "*green product and green supply chain has become an important subject in this*

industry and we have committed to change our mindsets and focus more on green competitiveness by integrating environmental protection into our strategy and operations…the 'Green Solutions' initiative would enhance our capabilities and lead to improved productivity, better supply chain performance, and higher level of customer satisfaction."

The senior manager of Zeta: "*following the philosophy of our parent company, we respect our stakeholders and have a good reputation for integrity and transparency…it helped us to establish relationships or alliance partnerships with other companies*."

The above quotations demonstrate that while stakeholders do not provides the firm with resources directly, stakeholder management still facilitates the firm acquiring the resources from the factor markets (e.g., Beta), generates capabilities internally (e.g., Gamma and Epsilon), and benefits from alliance partnerships (e.g., Zeta). On the other hand, failure to manage stakeholders well may impede resource advantage as resource providers unwillingly develop relationships with the firm. The above discussion generates the following proposition:

Proposition 2*: Through facilitating relationship establishment, stakeholder management supports firms in acquiring or generating valued resources or capabilities.*

5.1.3 Stakeholders as Influencers of Positional Advantage

In addition to influence resource directly or indirectly, stakeholders may impact either on a firm's cost advantage or on its differentiation, thereby affecting its positional advantage. The following quotations demonstrate that stakeholder management is crucial to a firm.

The CEO of Delta: "*one of our products involved a kind of toxic organic solvent and hazardous waste, which is high polluting; however, we made a tremendous investment to protect the environment…the cost disadvantage in the earlier years turned out to be our competitive advantage as the government increasingly tightened the environmental laws and regulations that meant many of our competitors could not survive as they were not affordable to make such investment later on…moreover, as we have established our reputation regarding corporate social responsibility, our customers are more comfortable dealing with us*."

The senior manager of Zeta: "*while we were building our plants, we needed to conduct environmental impact assessment and endeavored to minimize the negative effects on local communities…through dialogue with our neighbors, we ensured that we are a good citizen by controlling our production processes…without appropriate actions regarding environmental or social issues, a company would be in a disastrous situation*."

The CEO of Eta: "*we had an unpleasant experience when we established a factory in Latin America…we did not deal with the local unions well and they used their influence on AFL-CIO and forced our US customers to suspend their orders…it was an important lesson learned by us that we must be careful not to ignore some critical stakeholders*."

The above quotations demonstrate that stakeholder management sometimes needs to devote significant financial and human resources to deal with critical stakeholders. It might affect a firm's cost advantage negatively in the short run but positively in the long run. Failure to managing critical stakeholders might cause a disastrous outcome. The result of this study is consistent with Porter and van der Linde's (1995) research, which indicated that an enterprise's effort to reduce environmental impact could result in "lower cost, better productivity quality, and enhanced global competitiveness" (p.121). Thus, the above discussion generates the following proposition:

Proposition 3*: Stakeholder management helps firms achieve positional advantages either by lower costs or differentiation.*

5.2 The Strategies for Different Types of Stakeholders

Interestingly, in this study, firms interviewed tended to use different strategies for managing their stakeholders. Freeman (1984) suggests a classification of generic stakeholder strategies. According to the stakeholder's relatively cooperate potential and relatively competitive threat, he divides them into four categories: swing, defensive, offensive, and hold. Using the same two-dimension criteria (diagnosing the stakeholder's potential for threat and cooperation), Savage, Nix, Whitehead and Blair (1991) provide a similar typology and categorize stakeholders into four types. First, the supportive stakeholders of a firm have low potential threat but high cooperate potential, including managers, employees, suppliers, and customers. The firm should adopt a strategy to involve such stakeholders that can maximize the cooperative potential. Second, the marginal stakeholders of a firm have low potential for both threat and cooperation, such as consumer interest groups and small shareholders. The firm should use a strategy to monitor such stakeholders in order to minimize its costs. Third, the nonsupportive stakeholders of a firm have high potential threat but low cooperate potential, including

competitors, governments, and activists. The firm should pursue a strategy defending against this type of stakeholders by changing their status. Fourth, the mixed blessing stakeholders refer to those having high potential for both threat and cooperation, such as possible alliance partners, potential customers, or prospective suppliers. The firm should undertake a collaborative strategy to maximize the cooperative potential and thereby minimize the potential threat.

Resource-providing stakeholders are generally supportive. As they have some common interest, firms should involve these stakeholders to maximize their cooperative potential. The empirical results of this study support this argument. For instance, most firms viewed their employees as precious assets and all companies interviewed showed their efforts to recruit and maintain employees with competitive salaries and other schemes. Beta, Gamma, and Theta, for example, ongoing training and development programs were provided to enhance employees' capabilities and thereby strengthen organizations' competencies. Moreover, in the case of Alpha, financial capital supported its R&D as a strong competitive edge. Epsilon and Zeta, financial capital helped them achieve economies of scale in order to gain cost advantage. Both of them strived to communicate with existing and potential investors for the purpose of successfully raising capital in the market. Although firms may have differences in their competitive strategies, the importance of managing stakeholders is similar among them. For Alpha, Gamma, Zeta, Eta and Iota, alliance partnerships offer them valuable relation-specific assets and knowledge-sharing routines. These companies have devoted much time and many resources to develop such partnerships, which include both suppliers and customers. Stakeholders of this category and their intentions are much more identifiable than other categories. It could be argued that firms integrate stakeholders, who provide them with valued resources, into their key issues so as to achieve their common goals. The above discussion generates the following proposition:

Proposition 4a*: Firms tend to involve stakeholders who provide them with valued resources.*

Apart from stakeholders who directly provide the firm with resources, there are other stakeholders that may influence generation of resources. According to the interviewees of this study, they focused their attention to local communities, civil society or governments in order to build corporate reputation or brand awareness. For example, Beta, Eta, and Theta established foundations to engage in charity events for the benefits of the disadvantaged. Epsilon and Zeta are two pioneers promoting sustainable development and corporate social responsibility. The stakeholders they targeted mostly are marginal stakeholders. However, they use the collaborate strategy, in contrast to the monitoring strategy suggested by Savage et al. (1991), in order to generate good relationships and reputation, which may increase buyers' willingness to pay on the one hand and attract valued human resources and financial capital on the other. It is evident that actively building relationships with stakeholders contributes to value creation. The following proposition is derived from the above discussion:

Proposition 4b*: Firms tend to collaborate with stakeholders who facilitate the generation of valued resources.*

Some stakeholders are invisible but this does not mean they should be ignored. These stakeholders generally focus on a specific issue and might create substantial difficulty. Sometimes it could be a government agency; it also could be local communities or a trade union. Most are nonsupportive stakeholders that have relatively high competitive threat but low cooperate potential. Therefore, the firm should adopt a defending strategy to avoid the potential threat that might be posed by these stakeholders. The companies interviewed in this study revealed a similar phenomenon. For example, in the case of Zeta, it prevented potential loss by effective communication with local communities. Delta and Iota had successfully minimized the potential costs by defending (including government fines and pressures from environmentalists), which became an advantage as competitors failed to manage critical stakeholders. Thus, the above discussion generates the following proposition:

Proposition 4c*: Firms tend to defend stakeholders who may influence their positional advantages other than resources.*

6. Discussion

According to the empirical findings of this study, it could be argued that that the source of competitive advantage is multiple, comprising several main sources— superior resources, unique capabilities, and solid relations—reflecting the integration of three main research streams (the activity-position, the resource-based, and the relational views). From a stakeholder perspective, firms can be regarded as webs of relations among stakeholders and stakeholder management refers to firms working together with their stakeholders and creating value as 'value-based networks' (VBNs) (Wheeler et al., 2003).

The four-strategy-framework suggested by freeman (1984) and Savage et al. (1991) provides insights to our understanding of strategies for managing different stakeholder. As their categorizations of stakeholders are quite

different from that of the different roles stakeholders may play in influencing the source of competitive advantage, this study revealed that distinctive strategies were employed. Nevertheless, similar phenomenon appeared. First, a company tends to use different strategies to deal with different stakeholders according to their role in impact on competitive advantage. Second, companies use the same type of strategy while they are dealing the similar category of stakeholders.

To answer the question of how stakeholder management may influence the source of competitive advantage, the concept of value creation is the key. Kay (1993) notes, "success in business drives from adding values of your own, not diminishing that of your competitors, and it is based on distinctive capability, not destructive capability" (p.364). Therefore, the essence of competitive advantage is the ability to contribute more value added to customers than competitors in a competitive environment. How stakeholder management influences competitive advantage can be analyzed according to the impacts of stakeholders on resource advantages and positional advantages.

According to Porter (1985), generic competitive strategies that can achieve competitive advantage include cost leadership, differentiation, and focus. However, Ghemawat and Rivkin (2001) dispute the conflicting relationship between cost and differentiation. They use Japanese manufacturing industries as an example and argue that superior products at lower costs could coexist. Another argument is exemplified by Marks and Spencer that successfully positioned itself as a relative high quality (but not the best) and relative cheaper price (but not the lowest) in the UK apparel market. They further posit, "positioning, in this view, is an effort to drive the largest possible wedge between cost and differentiation (or price)…the largest gap between the two, however, need not occur at the extremes of lower costs or high price premia" (2001, p. 57). This can be explained by Brandenburger and Stuart's (1996) 'added value' argument that value created equals the total difference between the buyer's willingness-to-pay and the supplier's opportunity cost. Therefore, competitive advantage comes from increasing perceived use value (of the customers) or decreasing costs of the product or service (Lippman & Rumelt, 2003).

If we consider stakeholder management as strategies for maximizing stakeholders' cooperative potential and minimizing their competitive threat, it could be viewed as an instrument that maximizes the largest possible gap between the buyer's willingness-to-pay and the supplier's opportunity cost. Through the three possible roles discussed above, stakeholders may influence resource advantages and positional advantage, and thereby impact on competitive advantage. Thus, the above discussion generates the following proposition:

Proposition 5*: Stakeholder management contributes to the source of competitive advantage by maximizing cooperative potential and minimizing competitive threat.*

7. Conclusion

In this study, the attempt is to answer the question, "how may stakeholder management influence the source of competitive advantage?" According to the empirical results of this study, competitive advantage comes from a mix of various sources. Valued resources include those acquired from the markets, internally built or possessed by the firm, generated by alliance partnerships, or created by other channels. Firms use multiple resources to build up their competitive advantage—both resource advantages and positional advantages. The activity-position, the resource-based, and the relational views explain the source of competitive advantage through different lenses. However, each of them only tells a part of the story. Therefore, it is argued, a stakeholder perspective that comprises both internal and external attributes of the firm could be an appropriate alternative.

The essence of competitive advantage is the ability to contribute more value added to customers than competitors in a competitive environment. It endeavors to drive the largest gap between the buyer's willingness-to-pay and the supplier's opportunity cost. Stakeholders play different roles in influencing a firm's competitive advantage. First, stakeholders are providers who supply valued resources to the firm. Second, stakeholders are a catalyst or hindrance that may facilitate or impede generation of valued resource. Third, stakeholders may have impacts of competitive advantage either on resource advantage or positional advantages by their various influences. Stakeholders of a firm can be categorized by their relative potential in terms of threat and cooperation. Strategies for managing stakeholders are used to maximize their cooperative potential and minimize their potential threat so as to capitalize on value creation.

Future research may address the isolating mechanisms that protect the value created by an advantage and preserve such advantage (e.g., Dyer & Singh, 1998; Porter, 1985; Rumelt, 1997). This area is rarely explored by a stakeholder perspective and merits further investigation. Besides, according to the stakeholder perspective, the managers' task is to develop and implement a strategy that integrates various relationships and balances different interests in a multi-stakeholder context (Freeman & McVea, 2001). Thus, balancing multiple stakeholder

interests should be put in the future research agenda since it is important for both managers and scholars.

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