THE COMPETITIVE ADVANTAGE OF THE ORGANIZATION IN CORRELATION WITH THE POWER OF STAKEHOLDERS: A CHALLENGE FOR MANAGERS

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Abstract:Continuous scanning of a company's environment is an attribute of an organization's management in order to create or sustain its competitive advantage on the market. Often the stakeholders of the organization support the manager's efforts but sometimes some of them have other options on behalf of the organization's interests. Although businesses are economic activities, they are in close interdependence with society, with so-called social responsibility towards stakeholders (investors, employees, clients, creditors, etc.). Nevertheless, businesses need the stakeholders' support to work. The paper aims to present the main aspects of the stakeholder concept and to highlight the main sources of the competitive advantage in relation to the stakeholder power. Finally, a conceptual model is proposed whereby the strength of the stakeholders can increase the competitive advantage of the organizations and its success. The methodology used is based on the research of bibliographic references and personal observations.

Keywords: competitive advantage, stakeholder, management, organization's success, conceptual model

1. Introduction

Every organization acts in an environment that includes a number of stakeholders.They influence the activity of the organization in different degrees of importance and have different power depending on their position towards the organization, interests and management acceptance.

Based on strict criteria of efficient organization activity, focusing on its polyvalent competencies, the management of the organization must ensure that the interests of its stakeholders are met.

The competitive advantage, as an invisible component of the company's strategy, derives from the ability of the organization's management to combine basic and secondary resources and capabilities in the form of well-synchronized activity systems. But in turn, the stakeholders can help increase the competitive edge of the organization.

The paper aims to present the main aspects of the stakeholder concept and to highlight the main sources of the competitive advantage in relation to the stakeholder power. Finally, a conceptual model is proposed whereby the stakeholders' power can increase the competitive advantage of the organizations and its success. The methodology used is based on the research of bibliographic references and personal observations.

2. The competitive advantage: general view

A competitive advantage is the designation by a firm of superior products or services from a significant point of view for consumers compared to similar offers of most competitors. "Competitive advantage is the ability of the firm to have superior performance to its competitors in terms of the basic purpose of the organization's existence: profitability" (Grant, 1997, p. 174).

Competitive struggle has been and is defined as a struggle for competitive advantage or competitive advantage, therefore, action that does not lead to competitive advantage for the management of the organization is not of strategic interest.

In an organization, competitive advantage can be obtained from internal sources, from an external organization, or obviously from both sources simultaneously.

Among the external sources of the competitive advantage we mention: changes in customer or beneficiary demand; price changes; changes in the technical and technological level; capability of scanning the environment and obtaining information; flexibility to respond to change, involving the structure, culture and equipment of software, etc.

The role of external factors in creating competitive advantage does not consist in conferring passive advantage but results from the firm's ability to respond to the change. Any change in the external environment gives the company new opportunities to create profit, so the response to change and the opportunities is an attribute of strategic management, of top managers.

Responding to change generally includes anticipating changes over time, so companies need to change strategy and take their capabilities as success factors for the future.

Internal sources of competitive advantage generally refer to new business approaches that exist or can be created within the organization, to technical aspects of new ideas, and generally to all aspects of the organization that can create an edge compared to competition. The main internal sources for obtaining the competitive advantage are: the creativity of the company's members; innovation capacity; advanced technology owned by the firm; learning ability of company members; experience gained in a certain direction of activity; all the competencies of the company's members and others (Doval, 2009, p.47).

Michael Schumpeter, the reputed theoretician of micro-economics (in Mc Craw, 2007), defines innovation as one of the following: the emergence of a new product (service); introducing a new production method; the emergence of a new outlet market; conquering a new source of supply and generating a new form of organization for the industry.

The innovation is about reconfiguring the company, rearranging the "value chain", changing the rules of the game, so the company needs to capitalize on distinct skills and create barriers to protect the created advantage (Marc de Jong and Menno van Dijk, 2015).

The created competitive advantage must be sustained in order not to erode in competition. The speed with which the competitive advantage is undetermined as a stretch over time depends on the ability of competitors to provoke through innovation or imitation. In essence, the imitation of the strategy used by competitors brings advantages, so firms that have already created a competitive advantage have to put barriers against imitation.

According to the famous specialist Michael Porter (1985), the competitive advantage of a company is essentially reduced to a low cost or a product or service that is distinguished by its qualities, by similar products offered by others or most competitors. The vast majority of specialists reluctantly reject the possibility of introducing competitive advantages in the sources of competitive advantage, the competitive advantage through the lowest price without having the advantage of reduced cost.

Conventional sources of competitive advantage are concretized by the low-cost advantage, i.e. the leading position in terms of cost in an industry, and differentiation, that is, what the firm offers as "unique", except for the lower price then competition.

The strategic management concerns are focused on bringing low-cost differentiation back into the top, despite the growing gap that low price pricing tends to take without respecting a certain quality. For this reason, the principles of total quality management (TQM) have been implemented, which implies high quality with low costs.

The sources of competitive advantage based on reduced costs are (Grant, 1997, p.200-209): economics of scale; the economy through learning; process technology; product design; designing the process; capacity utilization; entry costs; efficiency of residues.

The desire to promote unfair methods of competition using unconventional competitive advantage is not accepted in the literature as a form of competitive advantage.

The second conventional source of competitive advantage is the differentiation. The differentiation in the competitive environment refers to the promotion of what is "unique" (Grant, 1998, p.217-232), except for a lower price. Differentiating as a strategy does not mean to promote "uniqueness" for the sake of being "unique" but to create value by: understanding products and services; understanding customers and consumers and identifying unique opportunities and their creative exploitation. Differentiation is created in two ways: (1) the way of supply on the market (to customers and consumers) by examining the resources and capabilities that can create uniqueness; (2) the way of market demand by examining the needs and preferences of consumers. Success consists in correlating the demand for differentiation with the firm's ability to provide differentiation (Doval, 2009, p.51).

Domestic demand plays an essential role in understanding competitive advantages despite the increasing internationalization of national economies. A detailed analysis of this determinant will include three things: the composition of demand, the size and pace of demand growth, and the mechanism by which domestic consumption preferences are transmitted to markets outside.

After analyzing the factors that can support the creation of uniqueness, Porter (1995, p. 124-125) identifies the following factors:

- the intensity of marketing activities;
- the characteristics and performance of products and services;
- complementary services (repairs and assistance, delivery methods, credit, etc.);
- the technological level embedded in design and production,
- the quality of inputs - supplies;
- procedures that influence the management of each activity;
- the skills and experience of employees;
- location of the organization's point of view or location in relation to its market;
- degree of vertical integration, etc.

The Swedish School of Management specifically promotes the identification of "niche opportunities" (Ridderstrale & Nordstrom, 2007) as a source of competitive advantage. In theory, there is no limit for a company to offer its customers and consumers a wide range of opportunities, which, moreover, are associated with the characteristics of products and services.

The competitive advantage has its existential source in the very functions of competition. In their attempt to differentiate themselves from competing firms, organizations seek a niche, seek to speculate on a permanent basis and to a large extent their own skills and innovation in the field. In practice, competitive advantage based on differentiation is infinite in size, and as tightly as the competitive environment in which the organization operates, the diversity of supply that generates a competitive advantage will be high. According to Michael Porter (1985), the competitive advantage of a company is essentially reduced to a low cost or a product or service differentiated by its qualities, by similar products offered by others or by most competitors.

3. The stakeholders' power

Stakeholders are "those groups without the support of which the organization would cease to exist" (Stewart, 1963). In the 1970s, Russel Ackoff highlights the importance of these groups of partners who can play a role in the firm and proposes that they be considered for the general interest of the firm. "Stakeholders are any group or individual that the firm depends on for its survival" (Freeman and Reed, 1983). The definition considers that the company has limited resources, the stakeholders can supplement these resources. However, the most common definition is: "stakeholders are groups or individuals who, directly or indirectly, are affected by the achievement of an organization's objectives or which may affect the achievement of those objectives" (Freeman, 1984, p.46).

More recent approaches concern the stakeholders as:

- Investors who have made a risky investment in the firm and have something to gain or lose, depending on the behaviour of the firm (Clarkson et al., 1994).
- Groups or individuals who have moral or legal claims against a firm, which it can, by its actions, respect or, on the contrary, cannot respect them (Langtry, 1994). This explanation of the term emphasizes the role of ethics in business conduct, the action of one party having a favourable or negative effect on the other parties involved.
- Those on whom the firm has unfair non-contractual effects, which they would like to change, or individuals with their own values and purposes, with which the firm interacts to obtain a mutual benefit (Slinger, 1999). The definition combines the ethics and economic interest of the firm.
- Those individuals or entities contributing voluntarily or involuntarily to the organization's activities, contributing to its ability to create well-being, risk taking and potential beneficiaries (Post et al., 2002). The definition shows the possibility of gain or loss in the stakeholder organization relationship.

Although the definitions presented (representing only a small part of the existing literature) are different in the enunciating way, they have as a common element the delimitation of the stakeholders from the rest of the organization, as well as the emphasis on the importance they have in the company, influence exercised over it and the relationship of mutual economic and moral interest established between them and the organization.

The stakeholders of the organization are in their internal and external environment. The most common internal and external stakeholders are summarized in the following (Agle, Mitchel & Sonnenfeld, 1999; Freeman 2010; Chinyio et al., 2010; Weak, 2014):

• Internal stakeholders: Owners, customers, employees, shareholders, trade unions, management, board of directors, investors

• External stakeholders: Competitors, interest groups, government, media, environmentalists, local community, financial community, activist groups, suppliers, trade associations, academic institutions, regulators.

The role of the stakeholders is different depending on their interests towards the organization, interests that can be financial, non-financial, collaboration etc. One of the most important stakeholder roles is support for organizations for social integration and environmental protection (Medland, 2015).

The organization's management must identify which stakeholders are involved, how much power they have, how much influence they can exert within the organization, what interests they have and how much they can get involved in the organization's work (Usmani, 2012).

The literature offers a wide range of approaches in stakeholder analysis. The stakeholders' analysis is a useful process for managing the organization to assist in decision-making situations where the various stakeholders have competing interests, resources are limited, and stakeholders' needs have to be properly balanced (Mayers, 2005). The author proposes a six-stage process: (1) Developing the purpose and procedures of initial analysis and understanding of the system; (2) Identification of key stakeholders; (3) Investigating the interests, characteristics and circumstances of Stakeholders; (4) Identification of patterns and interaction between stakeholders; (5) Evaluating the power and potential roles of the stakeholders and (6) Evaluate options and use findings to make progress.

The organization's management is interested in the power, influence and impact of stakeholders. In general, the relations we are looking at relate to: power / interest, power / influence, influence / impact and model of advantage (Unsmani, 2012; Usmani, 2015). The author explains that stakeholder advantage can be defined as "the extent to which managers prioritize competing claims of stakeholders in their decision-making process." The advantage model or the concept of *Stakeholder Salience* highlights three attributes of the stakeholders: power, legitimacy and urgency (Mitchell et al., 1997, p.853-854).

- Power is the possibility for a party to cause another party to do what it would not have done in the absence of power. Stakeholders who have this attribute can influence decisions so that their interest is considered despite the resistance of others. Stakeholders can have power and use or have power and not exercise it.
- Legitimacy is the correspondence between the options and objectives of an entity and those of an organization. From this perspective, stakeholders are defined as the legitimate interest that is not against the organization's development goals.
- Emergency is defined as the degree to which stakeholders require immediate attention. Sometimes they just want to draw attention to them by formulating urgent requests.

The stakeholder's dimensions are stressed by Banks et al., 2016, as being:

• Core or peripheral competitiveness versus exploration & exploitation

• Strategic or tangential innovator versus strategic or tangential maintainer

If a firm's engagement with a stakeholder is intrinsically linked to the ability of the firm to possess a cost or differentiation advantage, then the stakeholder's relationship is core to competitiveness. Nevertheless, the most useful techniques in management's practice is and remains the Mitchell et al. (1997) four's dimensions of the stakeholders' power against interest:

- Low interest and low power – apathetic stakeholders – those who should be monitored by the project manager in case their interest or power changes but which require almost no attention at that point in time
- Low interest and high power – latent stakeholders – those who need to be satisfied by the outcome of the project but who may not require regular attention during the project itself
- High interest and low power – defender stakeholders – those who will support the project and its aims and should be given regular updates to keep them included and motivated
- High interest and high power – promoter stakeholders – the group of stakeholders on which the project manager must devote their attention to managing closely. These are the stakeholders with the largest capacity to promote the project within the business but also have the largest capacity to derail it if not carefully handled.

This model is showing how the organization's management should act with the stakeholders (Gudavajhala, 2017):

- High power-high interest: manage closely;
- High power-low interest: keeping them informed;
- Low power-high interest: keeping them satisfied;
- Low power-low interest: monitoring.

The same author underlined other three aproaches of stakeholders analyze, as the followings:

1) Influence versus Impact Grid: Influence is how actively a stakeholder is involved or, the extent to which a stakeholder can persuade/force others in decision making. Impact is the ability to bring a change or result by the stakeholder.
2) Power versus Influence Grid: Influence is how actively a stakeholder is involved while power is the level of authority
3) Importance versus Influence Grid: The order in which the interest and needs of each stakeholder should be addressed is defined by 'Importance'.

Using the power-interest matrix the players with the higher power and interest in an organization are the owners, investors, customers, employers, suppliers and competitors that are influencing the economic, legal, social and ethical dimensions of company's responsibility (Staba, 2014).

However, De Jan Ruecker (2011) reminds the Clarkson's 7 principles of strategic management that includes the stakeholder's importance (Clarkson, 1995): (1) Acknowledge and monitor all the concerns; (2) Listen and correspond to all the apprehensions; (3) Adopt relevant practices and modes of behaviour; (4) Treat the stakeholders fairly; (5) Collaborate with the public and private entities; (6) Avoid any activities that might endanger human rights and (7) Take notice of the potential conflicts that may possibly occur.

4. A conceptual model the stakeholders' power is supporting the organization's competitive advantage

In the management theory and practice it is seen that the concept of competitive advantage and the concept of stakeholders' power are both parts of the strategic management.

Having in view the main sources of the competitive advantage and the main stakeholders we analyzed the relationship among these items. We have qualified the stakeholders' power with H (high power), M (medium power), L (low power) and N (lack of power) and generally attributed them to the sources of the organization's competitive advantage (table 1). The qualitative attribute is given using the different organizations' data and own observation.

Table 1 The relations between the stakeholders' power and the sources of competitive advantage

Stakeholders/ Sources of competitive advantage	Share-holders/ investors	Managers	Employee	Unions	Suppliers	Clients	Competitors	Public institutions	Media	Community
Creativity	L	H	H	L	M	M	M	L	L	L
Innovation	L	H	H	L	M	M	H	L	L	L
Advanced tech investments	H	H	M	L	M	H	H	L	M	M

Competencies capitalization	N	H	H	L	M	M	M	M	N	N
Cost control	L	H	L	M	H	H	H	M	N	L
Reconfiguration	H	H	L	M	N	N	M	N	L	N
New market share	N	H	H	N	L	H	H	N	L	L
Barriers against imitation	N	H	M	N	M	H	M	N	M	L
Entrance-purchasing quality	N	H	N	N	H	L	M	N	L	L
Prices changing on the market	N	M	N	N	M	M	H	M	N	M
Branding & promotion	L	H	H	M	M	H	H	N	H	M
Information tech	M	H	H	L	M	M	L	M	H	M
Social responsibility	H	H	M	M	M	H	H	N	H	H

Depending on the industry the organization is running its activity the stakeholders' power could be different regarding the competitive advantage' sources.

This table could be a useful instrument to prioritize the stakeholders on their power to influence the management decisions in order to increase the organization's competitive advantage.

The general model could be drafted as in fig. 1.

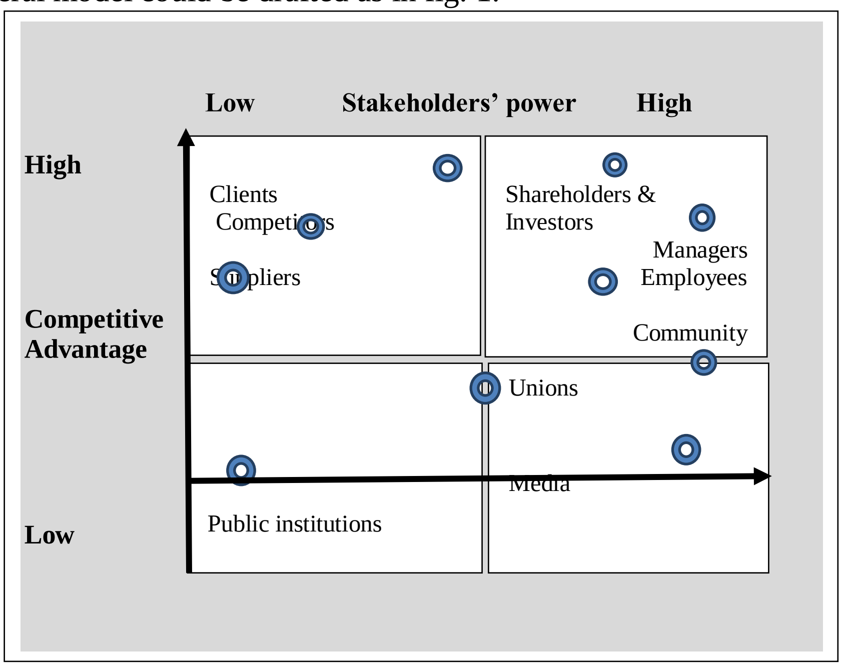

Fig. 1 The general conceptual model of the competitive advantage and stakeholders' power correlation

It is no doubt that exerting their power on the organization the stakeholders could influence its development, bringing success, such as supporting the high technology investments (by shareholders or investors), or leading to the failure, such as the Unions that may claim huge salaries that increase the costs.

Conclusions

Following the definitions selected in the paper, it can be appreciated that the organization has an ethical obligation towards its stakeholders. The organization-stakeholder relationship is reciprocal: the organization can affect the stakeholders, but they can also influence the organization.

Stakeholders are delineated by the rest of the organization and have a particular importance within the firm, exert an influence on the organization and a relationship of mutual economic and moral interest that is established between them and the organization (Doval, 2018).

Depending on the importance of the relationship with the organization, there are key stakeholders - without their continued and constant participation, the organization would cease to exist, being vital to its survival (shareholders, employees, creditors, suppliers, customers) and secondary stakeholders - are affected by the company without directly causing the cessation of its existence (the community, the media).

For this, the company's strategy must be directed towards creating new advantages that will lead to increased customer satisfaction and asymmetry towards competitors. In doing so, it is possible to extend the advantage, while reducing or eliminating the advantages of competitors.

Searching for the competitive advantage itself does not necessarily lead to success in the competition. The explanation is given by the lack of a stimulating internal environment for firms. They can do a good job depending on how they appear, they are organized and run, and the intensity of rivalry in the market

Defining the company's strategy is to analyze the competitive advantage of the business. Companies have a range of competitive advantage analysis models, but they can also create other models if those used in the literature do not reflect the competitive environmental conditions in which they correlate business characteristics and company strategy.

Depending on the competitive advantage owned or targeted to be held by the firm, its strategy will be geared in such a way that it can effectively use the competitive advantage to meet the interests of the stakeholders and the needs of the company's clients, to obtain additional profit competitors and ultimately to develop a successful business. As business rediscover and higher sense of purpose, it can create a value for all stakeholders (Mackey & Sisodia, 2017).

The paper is a synthesis of the main aspects of the stakeholder concept and can be a useful guide for managers to improve their work towards different stakeholder categories in terms of the support they can give to the organization.

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