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Stepping into the light: stakeholder impact on competitive adaptation

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Stepping into
the light

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Received May 2000

Revised September 2000

Accepted May 2001

Keywords Groups, Strategy, Stakeholders, Social responsibility

Abstract This paper develops a new model for analysing industry competitive structure. The new model combines traditional strategic group analysis with stakeholder theory. Thus we have a model that incorporates all actors into the industry analysis. Company-stakeholder clusters reveal the hidden, and often, crucial relationships that determine firm longevity. Using the new model, the small production canning industry is analysed.

Strategic group analysis has been influential in theoretical and empirical studies of industry structure and competition. It has made a significant contribution to the literature on the dynamics of industries and the nature of competitive advantage. Strategic group analysis is a technique that has been widely used as a strategic management tool in the development of business strategies. There is also an established critique of strategic group analysis that focuses on the difficulty identifying the strategic groups central to the analysis. Furthermore, traditional forces beyond industrial boundaries, such as regulators and pressure groups, are increasingly seen as playing an important role in business activities. Yet, these traditional forces feature little in strategic group analyses. As a consequence, critics charge that the strategic group concept may be of little practical value.

The gulf between these two perspectives implies a need for an improved analysis to fill the vacuum. This paper investigates some of the criticisms of strategic group theory and uses concepts from stakeholder theory to reformulate strategic group analysis into a more robust analytical tool. To this end, the paper is divided into three sections. The first section presents a brief overview of the literature on strategic groups and examines its current deficiencies. The next section explores how these issues might be overcome by introducing concepts from stakeholder theory. The final section highlights the implications of this new approach to academics and practitioners, using an example from the canning industry. Future research avenues are also proposed.

Critique of strategic group theory

The notion of strategic groups – the presence of firms within an industry following similar strategies – originates from the work of Hunt (in McGee and

The author gratefully acknowledges the insightful and constructive comments of the editor and two anonymous reviewers.



Journal of Organizational Change
Management,
Vol. 15 No. 3, 2002, pp. 255-272.
© MCB UP Limited, 0953-4814
DOI 10.1108/09534810210429291

Thomas, 1986) who first used the term to describe the various strategies of manufacturers in the "white goods" industry. A rich and diverse body of research has since developed around this concept and has been vigorously reviewed (Donsimoni and Leoz-Arguelles, 1984; McGee and Thomas, 1986). The underlying assumption of strategic group theory is that unique sets of characteristics can be identified, and isolated empirically, to define a particular industrial subset. This analysis is based on industrial organization economics that sees objective characteristics of industries as affecting both the conduct (strategy) and performance of firms. The theoretical and empirical existence of strategic groups has been applied to the link between group membership and performance, the role of strategic groups in the evolution of industries, and the patterns of rivalry between groups. The concept has also been used by management practitioners to analyse the positioning of competitors in different strategic groups as part of the development of business strategies (Cool and Schendel, 1988; Olivia *et al.*, 1987; Porter, 1979).

At the core of the literature on strategic groups is the issue of membership. Typically, firms are identified as a member of a particular industry and then as a participant in one of a number of strategic groups in that industry. Empirical studies identify characteristics of different strategic groups and use these as indicators of performance to explain strategic activities within a particular group or industry. For example, Cool and Schendel (1988) have shown that performance varies within strategic groups; Ryans and Wittink (1983) found that stock prices of firms in the same group move together, and financial policies and strategies have been demonstrated to be different between strategic groups (Baird and Sudharsan, 1983).

Despite the level of research interest in strategic group analysis, there is an emerging view that the concept has limited value to strategic management. The idea that firms within a given strategic group adopt "pure" generic strategies, such as those proposed by Porter (1980), is disputed (Hill, 1988; Murray, 1988). In addition, the manner in which economic, political and social factors are typically packaged together and set aside within the term "externalities"[1] (Porter, 1980) is controversial when viewed against concepts such as the ecological model of organizations (Aldrich, 1979; Astley and Fombrun, 1983). Indeed, this wider business environment is increasingly seen as a critical moderator of strategy and performance and inextricably entwined in the operation of organizations (Ansoff, 1979). Moreover, Maturana and Varela (in Morgan, 1986) argue that there is an autopoietic relationship between organizations and their environments and challenge the validity that a distinction can be drawn between the two.

These general criticisms of strategic group theory seem likely to persist in view of the increasing environmental turbulence and uncertainty facing organizations today (Brown and Eisenhardt, 1998; Emery and Trist, 1965; Trist, 1983). For organizations to survive, a greater acknowledgement of the interdependencies between organizations and their shadow environment is demanded. Many authors recognize the need for more systemic approaches to

organizational analysis; for example in management science Boulding (1956), in environmental management Roome (1992), in technology management Rothwell (1992), and in strategic management Pennings (1981) and Hill and Jones (1999). These authors appreciate the complex, ambiguous and dynamic interdependencies between organizations and the challenges created by today's "messes" (Ackoff, 1974), "inherently wicked" problems (Rittel and Weber, 1973) or "meta-problems" (Trist, 1983).

Consequently, two critical issues can be identified, which limit the usefulness of strategic group analysis: first, problems surrounding the definition of the boundaries of a particular industry and the strategic groups within that industry. Second, questions encompassing the weak integration of the shadow environment in analyses. These issues are discussed further and then related to stakeholder management concepts as a means to generate a revised theoretical framework for strategic group analysis more applicable to theoretical and empirical work.

Boundary definitions

Key criteria used to sketch the boundaries of an industry in strategic group analysis are markets and technology (McGee and Thomas, 1986). Those firms producing goods that are close substitutes (in the view of the buyer) are seen as being in the same industry (Caves and Porter, 1977). Moving to a finer examination within industrial sectors, firm behaviour is used as the yardstick for group membership (Harrigan, 1995). For example, Newman (1978) determined that firms in the same strategic group had the same basic business, Porter (1979) classified firms in each industry as leaders and followers based on relative firm size. Hatten and Schendel (1977) argued for intra-group homogeneity in terms of a requirement for strategic group membership.

The use of this diverse set of criteria has resulted in practical problems in comparing the results of empirical research. It has also led to conflicting findings and the rather skilful use of statistics to generate "suitable" strategic clusters that fit the chosen characteristics but may not in actuality exist (Galbraith *et al.*, 1994). Primeaux (1985) stated that future research in the field must focus on finding reliable and consistent measures of strategic group membership.

In addition, some researchers recognize that organizational boundaries continue to blur. Organizations are now seen as "loosely-coupled" (Luke *et al.*, 1989; Thorelli, 1986) rather than wholly separate, easily definable entities. Furthermore, organizations are experiencing "fuzzy" boundaries as actors in the shadow environment increasingly impinge on the strategic choices available to organizations. For example, external pressure from regulators and community groups influence the strategic options available in companies in "high risk" industries, such as nuclear power generation (Wynne, 1988). As a result, the concept of strategic groups as isolated and uniquely defined entities

becomes increasingly difficult to justify and the practical application of strategic group analysis to strategic management more complicated.

Considerations of the shadow environment

The second area in which problems arise with strategic group theory is in its failure to account for the interconnectedness between strategic groups and their shadow environment. Although strategic group theory acknowledges the presence of external business factors, such as regulatory issues, political considerations, economic features, interest group concerns, and their role in influencing a particular industry's climate (Porter, 1980), they are typically accounted for by measures of uncertainty and risk (Cool and Schendel, 1988). Alternatively, the business environment is segmented into notions of the task and general environment as a means to study their relationship with performance. Both these approaches fail to confront the fact that these external elements, in many cases, change the relationships and dynamics between industries, between companies within industries (and within firms themselves), and by extension within and between strategic groups. Indeed, actors in the shadow environment are viewed by a number of authors as shaping processes within and between organizations (Wood, 1991). March (1995) noted that the recent changes to information technology have resulted in greater linkages and movement between organizations. This has led to the belief that the organizational boundaries of tomorrow will be much more permeable and fluid than those in existence today. Thus, the shadow environment will become part and parcel of the organization itself. Further to this, Barry and Elmes (1997) argue that the positioning (either inside or outside the firm) of stakeholder groups becomes less important in their ability to influence organizational strategy. It is the stakeholder's political and conceptual skills that will determine if their "story" is heard and accepted by the organization. Only when a voice is heard and listened to, will the shadow environment fully influence the direction of firm strategy.

Today, these external forces play a critical role in determining mobility within and between strategic groups. They influence the entry and exit barriers of a particular group and may impact the performance of companies within that group. Thus, the ability of organizations to identify and cope with these forces may be a factor critical to their survival.

If, as noted above, organizations face spiralling turbulence brought about by environmental forces and organizational interdependencies, there is an increasing likelihood that cooperative organizational forms will be created to mitigate the encountered uncertainty (Pfeffer and Salancik, 1978; Gray, 1985). Alternatively, organizations may choose to leave the strategic group and/or industry (Porter, 1979; Harrigan, 1980). In either case, there will be changes in the relationships experienced by companies at the intra-organizational (within), inter-organizational (between firms in the same industry or associated industries) and/or supra-organizational (among the set of actors in the shadow

environment) levels. Monitoring, managing and influencing these relationships may be crucial to organizational performance.

These issues imply the need to incorporate notions of the shadow environment more directly into the concept of strategic groups and to develop better responses to the interconnectedness of organizations. The remainder of this paper will explore how this may be achieved.

Integrating stakeholder theory into strategic group analysis

The received wisdom is that a company's primary obligation is to its stockholders. Indeed Friedman argues:

There is one and only one social responsibility of business to use its resources and engage in activities designed to increase profits (Friedman, 1962, p. 133).

Consequently, it is held that any action taken by management must ultimately be justified by whether or not it furthers the interests of the corporation and its stockholders (Freeman and Reed, 1983). However, there is also a tradition, which departs from this view and moves to one that contends that business must contribute to solving social problems, even at its own expense, if it is to maintain its privileged place (Miller, 1969). Research on corporate social responsibility (CSP) delves into the development of constructive relationships between business and society. Carroll's (1979) early taxonomy, built on Sethi's (1975) model, categorized society's expectations of business responsibilities. The research showed a hierarchy of importance from economic (highest), legal, ethical, and discretionary (lowest). Wartick and Cochran (1985) continued in this stream of responsibility and restraint. Their work argued that since society confers legitimacy on business (due to its economic contributions), it also is in a position to manipulate corporate behaviour to conform to social expectations. Wood (1991) continued the hierarchical categorization of CSP. Her research looked at the levels of application of CSP: institutional, organizational, and individual. Underlying all this is the supposition that values can motivate corporate behaviour and in turn can result in desirable social outcomes.

Those supporting this perspective assert that there are other groups to whom the corporation is responsible in addition to stockholders. Namely; all those groups who have a stake in the actions of the corporation (Freeman, 1984). These are an organization's stakeholders.

Stakeholder theorists vary widely on the range of a stakeholder's purview (Windsor, 1992). In its widest sense, a stakeholder is any identifiable group or individual who can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives, and includes public interest groups, protest groups, government agencies, trade associations, competitors, unions, customers and employees (Freeman and Reed, 1983). In a narrower sense stakeholders are any group or individual on which the organization is dependent for its continued survival, such as employees, customers, certain suppliers, key government agencies, shareholders (Freeman and Reed, 1983). Narrow views of stakeholders define

relevant groups in terms of their direct influence over the firm (Clarkson, 1995; Hill and Jones, 1992). In either case, there is a notion that companies are inextricably linked with a set of stakeholders, however defined, which taken together impact the strategy, and consequently, the performance of companies. Viewed in this manner, stakeholders cannot be ignored. Swanson's (1999) model of corporate decision-making includes, what she terms, a "value-neglect organization". In this mode, managers ignore many stakeholders as they view their relationship as too complicated or "messy". Swanson proposes that organizations can improve their corporate social performance by engaging managers and stakeholders in a "communicative ethic".

Stakeholders have also been conceptualised as primary and secondary stakeholders. Those who have a formal, official or contractual relationship, such as owners, suppliers, customers and employees are seen as primary stakeholders (Carroll, 1989). Secondary stakeholders might be viewed as part of the externalities depicted in strategic group analysis or, as has been suggested here, as actors in the shadow environment. However, these actors play as significant a role in determining performance outcomes as primary stakeholders. It follows that such classifications should be approached with caution since it is increasingly difficult to identify which stakeholders are critical to particular companies or their actions (Carroll, 1989). This issue has been acknowledged by Savage *et al.* (1991) who analyse stakeholders in terms of their potential for threat to an organization or for cooperation with an organization, rather than in relation to their type. The problem of identifying, and subsequently managing, stakeholders is further complicated by the reality that each generic stakeholder type, customers, employees, regulators, does not represent, in general, a homogeneous group, as illustrated in the case of the environmental movement in which different elements might be perceived as more radical and potentially more powerful. Additionally, there will be differences among stakeholder types reflecting the cultural biases, dissimilar value systems and divergent mind-sets among the key members of each group. It is possible to be a member of a number of stakeholder groups simultaneously. These issues add to the diversity and complexity of stakeholders that organizations encounter. Moreover, there is a dynamic element to this management problem – stakeholders enter and leave a domain, increase or diminish in importance, and create or destroy power structures, which suggests that stakeholders must be tracked and managed over time.

These factors make it appropriate to think of organizations as carrying a cluster of stakeholders. These company-stakeholder clusters are interlinked in a complex manner with those carried by other organizations. They will change and develop over time and create or destroy linkages within and between strategic groups, between industries and among organizations beyond traditional industrial boundaries. The criticisms of strategic group theory described previously may be mitigated by taking a company-stakeholder cluster view of strategic group members.

This idea was influenced by post-modern views of stakeholders. Calton and Kurland (1996) offered a post-modern theory of stakeholder enabling that shifted the stakeholders from a group that is “managed” by the firm to one that exercises joint control over areas of shared concern. This theory moves away from the view that the stakeholder group is external to the firm and that it is an entity that needs to be controlled by management. If the stakeholder group is now a part of a company-stakeholder cluster, then the view of the relationship changes. As “part of” the cluster, the stakeholders are no longer outside looking in, but rather they are an integral part. Calton and Kurland’s (1996) theory helps to solve the stakeholder paradox posited by Goodpaster (1991). This paradox involves “business without ethics” and “ethics without business”. In the first case, managers focus solely on profit maximization to the detriment of stakeholder interests, which is the dominant paradigm in many North American firms. “Ethics without business” occurs when managers focus too much attention to non-owner stakeholder groups. Managers must therefore solve this dilemma by striking a balance between owner considerations (profit) and the claims of non-owner stakeholder groups. It is believed that the model proposed in this paper will assist managers with this balance. A company-stakeholder cluster is much more likely to reveal important stakeholder concerns so that these shared concerns can be jointly controlled.

Remodelling strategic group analysis

This section of the paper examines a re-modelled strategic group analysis. While exploring this in the abstract is sufficient, an industry example will be more helpful to the discussion. The example used here is of the small production canning industry[2]. This industry is characterized by small and medium sized firms. They use a variety of process technologies (cold and hot canning) to can locally grown fruits and vegetables. Firms operating in this industry tend to have smaller production runs than the larger canning operations such as H.J. Heinz or Campbell’s Foods. Some organizations specialized in a single product type (tomatoes) and others processed a variety of products (fruits and vegetables including tomatoes). In this case study there were a number of small canning factories that operated during the growing season (June-October), canning fresh vegetables or producing fruit/vegetable juices. Some of the factories actually ran year round, but most closed for part of the year.

The events depicted in the scenarios took place in the summer of 1999. Up to that time there were five small canning factories operating in this industry sector. From the analysis one will see that during the 1999 operating year one of the firms left the industry and another changed its strategy to join another strategic group. The following discussion of the two scenarios provides different views of this industry. The first looks at this industry using traditional strategic group analysis. While it provides an explanation of the events occurring in the industry, it does not give us a complete picture. The second scenario includes the new model for strategic group analysis. It includes

company-stakeholder clusters, which include the actors from the shadow environment participating as full members of the competitive environment.

Figure 1 illustrates a diagrammatic interpretation of scenario 1, a typical strategic group analysis of this industry, at time T_0 . It attempts to show some of the relationships between organizations in different strategic groups, other members of the industry, and the shadow environment based on a “traditional” strategic group methodology. There are five firms operating in the industry and the shadow environmental actors are seen as being peripheral to the industry.

At time T_0 , there were three strategic groups:

- (1) SG1 (companies A and B);
- (2) SG2 (company C); and
- (3) SG3 (companies D and E).

Traditional strategic group analysis would tell us that the firms in each of the groups are following the same basic strategy as other members within their group but at the same time are following a different strategy from the other firms in the other groups. Strategic group SG1 included companies that specialized in a single product type and pursued a high quality-low cost strategy. At the other end of the spectrum, strategic group SG3 consisted of two firms producing a variety of products using a low quality-high cost strategy. It should be noted that it is unlikely that the firms in SG3 purposely followed a

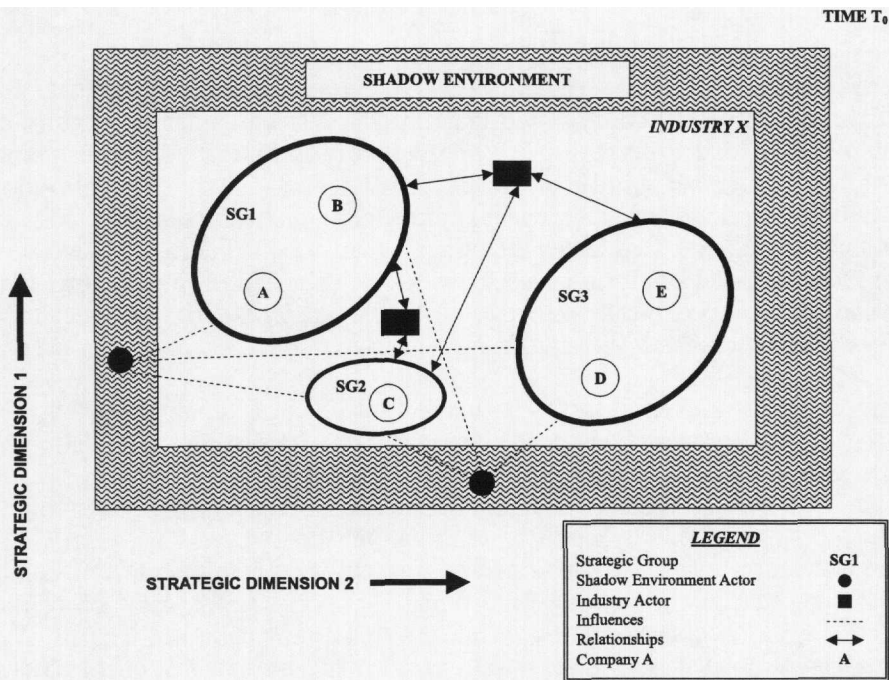


Figure 1.
Traditional model of strategic groups at T_0

high cost strategy, no firm would. However, in this instance because these two organizations produced a number of products their set-up costs were significantly higher than those in other strategic groups. Moving to T_1 , where $T_1 = T_0 + t$, events have unfolded in the industry such that the configuration of the groups has changed.

Companies A through E responded to events in the industry environment and the shadow environment with varying degrees of success, such that at time T_1 , company E had left the industry and company C had joined SG1. As a result, SG2 was eliminated, as shown in Figure 2. The results would be typically explained in strategy literature in terms of the individual strategies of each company. Company C may have overcome the mobility barriers to enter SG1 and was then able to adopt a more profitable strategy than in SG2. Company E may have elected to exit the industry to pursue more profitable activities elsewhere. Alternatively, it may have failed to anticipate changes affecting SG3 and went out of business.

The above scenario provides one particular description of specific events in the small production canning industry. It gives some indication of the various competitive positions of each company. However, it gives little information with regard to the relative importance of the stakeholders in this industry and the shadow environment. Moreover, it provides limited predictive capability about which companies in which strategic groups would outperform others. Additionally, it does not indicate which companies were under threat from turbulence in the environment.

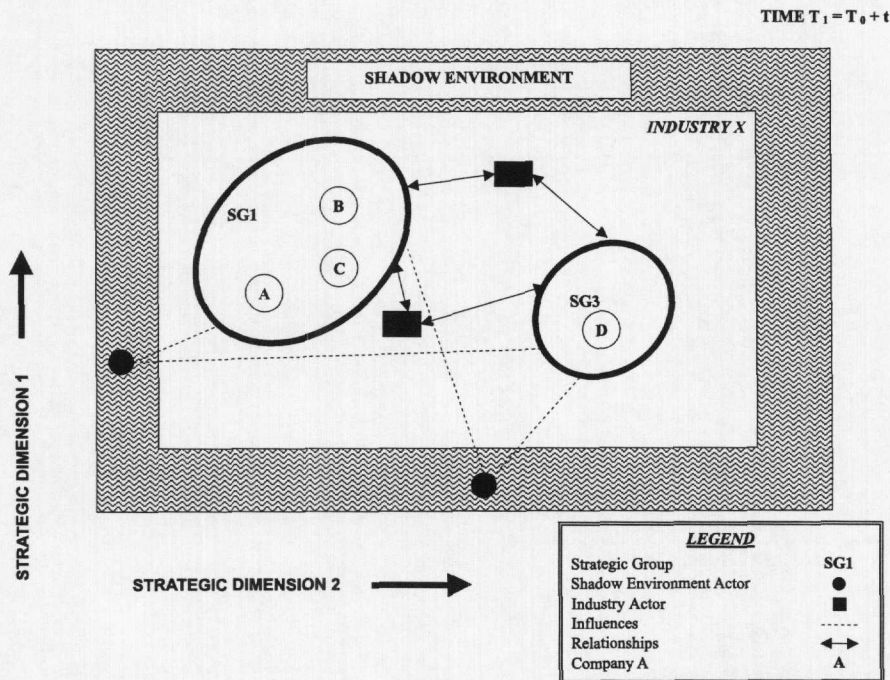


Figure 2.
Traditional model of
strategic groups at T_1

Contrast this with Figure 3, in which the same companies and strategic groups are depicted at time T_0 . In this case, each company is represented as a company-stakeholder cluster. By incorporating the companies and their stakeholders in this manner it is possible to identify the wider interdependencies between companies and strategic groups. It shows that strategic groups are not uniquely identifiable, stand alone objects: they are connected via a variety of stakeholders that play a crucial role in organizational survival. One such critical relationship is that between stakeholder S4 and companies A, B and D. For the companies in the small production canning industry, their stakeholders range from suppliers (S1) to customers (S2) to employees (S3) to community groups (S4) to government bodies (S5). We see the same type of configuration of the groups, as in Figure 1, where companies A and B belong to SG1, SG2 has company C, and SG3 includes companies D and E. However the stakeholders are specifically identified with the companies, thereby forming company-stakeholder clusters.

At time T_1 , Figure 4, changes in this critical relationship have split the structure apart. At time T_1 , community groups (S4) had taken action to prevent dumping of effluent into the nearby lake. It was fairly standard practice for the firms to release excess hot effluent (the resulting liquid from the canning process) into a nearby lake. This would reduce the overall costs of disposal of the effluent. The firms would normally either have to treat the effluent before releasing it into the sewage system or pay to have it trucked and dumped at a

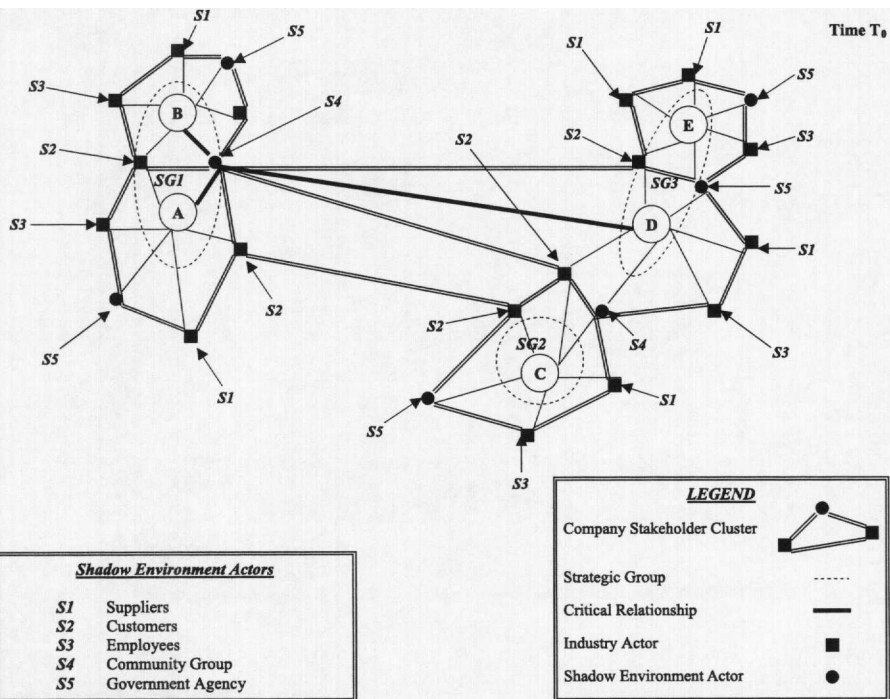


Figure 3.
Proposed model of
strategic groups at T_0

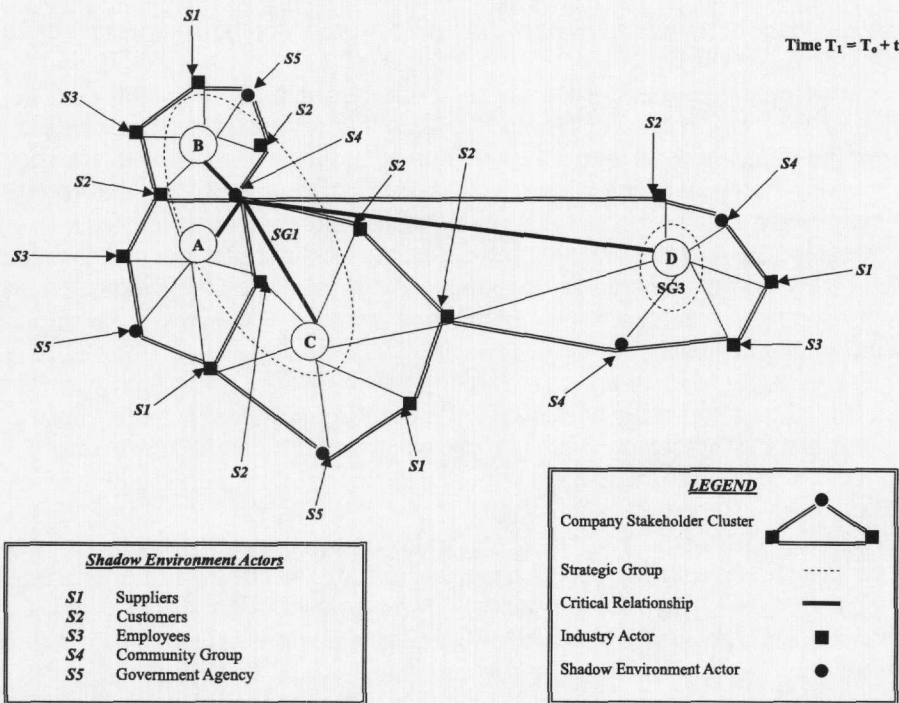


Figure 4.
Proposed model of strategic groups at T_1

waste site. Both added considerable costs to operations. Therefore, the firms would dump some of the effluent into the lake. The community groups had been protesting the practice of dumping the effluent into the lake for a number of years. All of the canning firms had received formal complaints from the community and government environmental agencies. In fact, company C had been charged with illegal dumping into a small river that ran behind their factory. Companies A and B had well developed public relations strategies to deal with the groups and were seen by S4 as being the most environmentally responsible of all the firms. Overall A and B dumped the least amount of effluent of all five firms. Companies C, D and E had less than a stellar reputation within the community. All had basically told the community that they would run their businesses with impunity.

In the summer of 1999, community action groups stepped up their campaign against all the companies' dumping practices. They began letter-writing campaigns, media interviews, door-to-door canvassing, and even picketing in front of the factory gates. They specifically targeted companies C, D and E, but did not ignore A and B.

From Figure 4, one can see results of the community groups' actions. Company E, unaware of the importance of this stakeholder, did not survive the turbulence in the environment. They never believed that the community groups would ever succeed in shutting them down. However, their operations were so badly affected by the over-all campaign that by the end of the summer they had

ceased operations and indicated that they would not be re-opening in the summer of 2000.

For company C, the story was much different. During the campaign they spotted the critical role of S4 and repositioned themselves. They began a vigorous program to clean up their activities and a successful public relations campaign that went a long way to heal and strengthen the relationship with S4. Whereas company D ignored this relationship and has (temporarily) survived. It was doubtful that they would open for business in the summer of 2000. They did, but on a drastically reduced production schedule. They have indicated that they have full intentions of continuing operations in 2001, but all indications point to their demise.

This new model of competitive structure that includes the stakeholder view of strategic groups has a number of important implications for strategic management and research. Each of these will be reviewed in the next section.

Discussion and conclusion

Current conceptualisations of strategic group analysis focus on the structure of the transactional environment as a means to relate the strategic characteristics of competitors to their performance – structure leads to strategy leads to performance. The concern is to identify the nature and drivers of performance within each group of competitors in an industry and to adjust a company's strategic position to maximize its performance potential within that industry. This primarily static analysis, along the minimum of dimensions, views company survival as a function of profit that is mediated by the competitive forces within an industry. Consequently, interdependencies between companies and the broader shadow environment are externalised in the investigation. By introducing the concept of company-stakeholder clusters, it is possible to develop a model that is a more accurate representation of the dynamic system of which companies are a part. In this case, organizations and their shadow environment are viewed as an interdependent system within which many complex relationships are internalised. The analytical focus moves to the domain level of analysis rather than the transactional set. Of central concern is managing the relationships between a company and its stakeholders as a means of mediating environmental turbulence, reducing uncertainty and ultimately enhancing survival prospects.

From this latter perspective, companies can be viewed as part of the "crystalline structure" of a group (McLarney and Clarke, 1995). This structure, or network of relationships, is vulnerable to the "chemistry and physics" of the environment, the dominant stakeholder relationships. If the chemistry changes, existing bonds may be shattered and new bonds created directly impacting the strategic options available to a company, as was the case in the small production canning industry example. Consequently, the ability of firms to identify key stakeholder relationships plays a key role in company performance and survival. It follows that the critical research and management question is no longer "where is the company positioned in relation to other

companies?" but "where is the company positioned in relation to the world?" This implies the need for companies to engage in domain level collaboration as well as collaboration at the set level. It may also indicate the need to develop novel institutions at the domain level (Trist, 1983) to act both as sensing mechanisms for environmental disturbances and also as a means of coping with the meta-problems increasingly encountered by organizations. Firms participating in these new organizational forms are likely to have greater chances of survival.

Work by Mitchell *et al.* (1997) is particularly relevant to this discussion. Their research focused on "the principle of who or what really counts" in stakeholder theory. The central premise is that with some effort stakeholders can be identified. However, it is the firm's managers that determine the salience of these stakeholders and ultimately decide which ones deserve managerial attention. Mitchell and his colleagues identified three stakeholder attributes (power, urgency, and legitimacy) and modelled the absence or presence of these attributes in terms of salience. Power is defined as the extent to which a party has or can gain coercive, utilitarian or normative means to impose its will in the relationship. Urgency is based on time sensitivity (the degree to which a delay in managerial attention is unacceptable to the stakeholder) and criticality (the importance of the relationship to the stakeholder). Without the power to enforce its claim on the firm or the perception that its claim is urgent, a stakeholder with a legitimate claim will not achieve the requisite salience with the firm's managers. They simply will not show up on the manager's radar. It is the combination of power, urgency and legitimacy that "triggers reciprocal acknowledgment and action between stakeholders and managers" (Mitchell *et al.*, 1997, p. 870).

The model developed by Mitchell *et al.* is not static but rather quite dynamic. The authors illustrate that stakeholders can impact the level of salience they are attributed by acquiring one or more of the three attributes. For instance, a stakeholder with only power is classified as being dormant because without legitimacy or urgency their power remains unused. By acquiring legitimacy, the group becomes a dominant stakeholder group and begins to register on managerial radar. Their claim is legitimate and they are powerful enough to act on this claim. If the group's claim then also becomes urgent, managers will have a clear and immediate mandate to give priority to the group.

This was the case with the community group in our small production canning example. Turning to Figure 5 we can see the movement of the community group S4 from an entity with one attribute (legitimacy) to a force to be reckoned with by the canning firms.

The community group (S4) always had a legitimate claim with the firm. The dumping of effluent into the lake was illegal as deemed by the federal, provincial, and municipal law. However, S4 did not have the power to enforce its claim and it was not seen as being urgent as the dumping occurred randomly and posed no immediate threat to human health. This is illustrated in Figure 5 as time T_{0-1} , prior to the summer of 1999. Here the community group

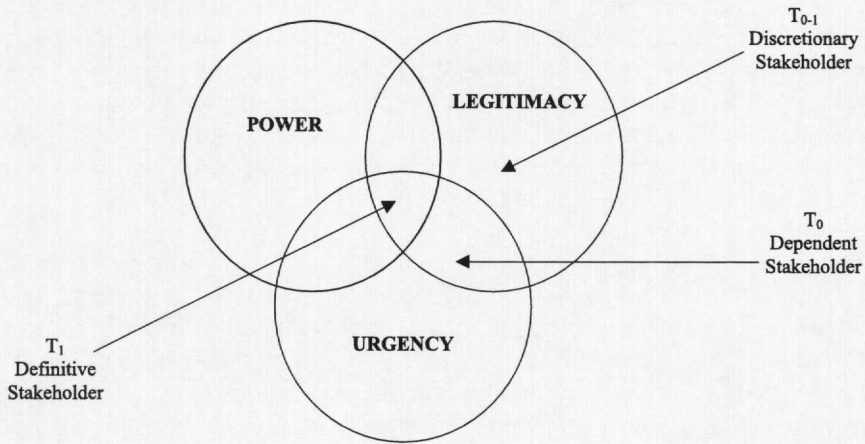


Figure 5.
Stakeholder classes

is identified as a discretionary stakeholder according to Mitchell *et al.*'s taxonomy. At T_{0-1} the managers of the canning factories were under no pressure to engage in any relationship with the community group. Only firms A and B acknowledged that S4 existed. Interestingly it was the canning factories that actually presented S4 with its next attribute, urgency, by escalating the frequency with which they dumped effluent and thereby moving the community group into the dependent stakeholder group. The increased effluent caught the attention of a greater number of homeowners and the ranks of the community group swelled in the summer of 1999 (T_0). Dependent stakeholders however, have to rely on either other stakeholders or the firm's managers for advocacy or guardianship. At T_1 S4 acquired the final attribute, power, and became a definitive stakeholder. The most salient of stakeholders is the definitive class as they possess urgent legitimate claims and they have the power to act. The community action group acquired power not only through an alliance with the general public but also by gaining a powerful ally in government agencies. While S4 increased its level of salience over the summer of 1999, not all firms in the industry recognized this and by the end of the production season one of the firms had ceased to exist, another was teetering on the brink of dissolution. Only company C actually increased the level of attention it paid to S4 and thereby remained in the industry.

The events in this industry during the summer of 1999 demonstrate how difficult it can be for organizations to change even when all indications point to necessary and dramatic change. The environment for all companies in the small production canning industry was quite turbulent. Studies have found that environments that are characterized as being turbulent have variability not only in their rate of change, but also in the predictability of that change. In other words, turbulence is not only about a rapid change in the environment, but also about the stochastic nature of that change (Aldrich, 1979; Keats and Hitt, 1988). Keats and Hitt (1988) speak about environmental instability and volatility as being a function of both change and predictability. These combine

to increase risk for organizations in terms of survival and performance. This idea of stochastic change is related to a stream of research on environmental uncertainty led by Tushman, Anderson and Romanelli. Tushman and Anderson (1986) argued that change happens incrementally with breakthroughs happening occasionally and effectively punctuating the flow of organizational evolution. It is these breakthroughs or discontinuities, which increase the uncertainty in the environment (Anderson and Tushman, 1990). As environments shift, existing configurations and competencies are no longer appropriate so organizations must deal with the altered environment (Eisenhardt, 1989). Romanelli (1989) found that survival rates were best for firms that fit their strategies to the changes in the environment.

Companies A, B and C fit their strategies to changes in the importance of one stakeholder group S4. Companies D and E either chose not to change or, more likely, were unable to change. Company E did not survive and company D's prognosis is not promising. These two firms did not increase the level of managerial attention to S4 and this was a fatal mistake.

Interesting research questions emerge from this idea since an important issue will be how firms integrate the changing environments and fluctuating levels of salience of stakeholder groups into their strategic management processes. Moreover, it is probable that sensitivity to stakeholder relationships will alter power structures within and between organizations and their strategic groups. This research issue might be extended to explore a firm's ability to access and manage key relationships as a critical resource in the reduction of environmental uncertainty (Pfeffer and Salancik, 1978). Indeed, network management – the explicit monitoring and assessment of the “value” of network participation – is an area undeveloped in the literature. It becomes a central issue in strategic group analysis when company-stakeholder clusters are the central unit of analysis.

The aim of this paper was to provide an improved analytical framework for the analysis of the dynamics of industries. Viewing companies as a part of network of relationships and focusing on company-stakeholder clusters, rather than independent strategic groups, gives rise to a more realistic representation of corporate complexity. This type of analysis will become increasingly important as companies learn to deal with today's meta-problems. It should be noted, finally, that this paper does not solve the current debate in the literature in terms of creating a convergent stakeholder theory (Freeman, 1999; Jones and Wicks, 1999; and Trevino and Weaver, 1999). At the current time there has not been a successful blending of the normative (what organizations should or should not do) and the descriptive (what organizations do and can do). This paper has simply provided an analytic framework to view organizations and their respective stakeholders.

Notes

1. In this paper I will refer to those environmental factors identified by Porter as “externalities”, as comprising the “shadow environment”. Actors in the shadow

environment are interest groups, community organizations, etc They are referred to as shadows as they are often ignored in competitive analysis.

2. The names and location of the example have been concealed at the request of the participating organizations.

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