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Appraisal of the Stakeholder Management Model in the Insurance Industry

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Abstract
The paper considers the various contexts and approaches in the literature to the stakeholder theory of management. It starts by attempting to situate stakeholder theory as one of a number of competing theories of management and governance and then discusses specific attributes of stakeholder theory and the implications for the management and governance in different organizational contexts. The clear acknowledgement of stakeholder interest by organization will lead to real operational level advantages for Insurance organization
Keywords Management, Governance, Stakeholder Comparative Organizational Contexts.

1. Introduction

We are interested in the theory of "stakeholders" because of the direction in responsibility it suggests for management at various levels in the organization. This includes consideration of the employees, suppliers and clients, investors of capital and the community and wider society.

Stakeholders are constituents, who in our usage, have proper aspirations related to a given business, which can be identified or argued for, as opposed only to calculative interests in what a business does. More generally we use the term to refer to bodies (organized or not) of persons with a common concern relating to some business organization. This concern may be legally determined, as in the case of shareholders or employees, or derive from an identifiable interest or right in relation to an organization or business.

The fortunes of an insurance company depend on how it interacts with its key stakeholders: Investors who provide risk capital, clients who put their faith into the insurer's contingent promise to pay and entrust assets to it: employees who offer their intellectual capabilities to a business which is primarily knowledge –driven; and regulators whose core mission is to protect the interests of the individual policyholder.

It therefore sounds trivial that cultivating stakeholder relations is one of the most strategic management challenges. Given the specific features of the industry this imperative is particularly true for insurers.

In the insurance industry, stakeholders have more grounds for cooperation and mutual dependency. In most cases they are very important in the area of prospecting for business to be able to achieve the organizational objectives or to ensure desired service levels. Davis (1999) in particular points to the significance of the stakeholder concept for success and failure in the applications of Total Quality Management.

Research studies that are directed towards the normative or prescriptive behavior of directors or towards the explicit wording of the principles that must rule it are the micro level focus necessary to ensure stakeholder theory is implemented. There are variety of models in which the criteria to be used in different situations are detailed. Firstly, there are the relationships between size and complexity of the organization and the structures that must be adopted in each case. In the second case the emphasis is on the principles that must rule the relationships among partners, directive employees, administrators and stakeholders, so much so as to create a realm of freedom in which solutions can be found.

Estaban (1997) proposes consensus as a basis for all stakeholder relationships, on the idea that these are valid interlocutors and it is a moral duty of the enterprise to get into contact with all of them. in her call for consensus as a basis for these relationships she argues it is a case of valid participants creating amoral duty on the enterprise. We do not share her point of view because from our side it is useless to fight for consensus when interests are generally contradictory in most form of business organization. Nevertheless, in an organisation a negotiated agreement, that takes account of mutual interest and needs, and is conducted with a recognition as to the legitimacy of the stakeholders does to some degree become a ground for consensus of assorts upon which an organisation and all its' stakeholders can move forward.

This paper aims to explore the literature on stakeholder theory to develop a framework for understanding the role and influence of stakeholders

2. Literature Review

Stakeholder theory is an integrative framework for understanding the dynamic nature in which society interacts (Donaldson and Preston, 1995, Evan and Freeman, 1988, Freeman, 1984). Stakeholder theory was introduced in 1984 by Freeman and since then, has been the subject of different interpretations, primarily around the issue of who constitutes organizational stakeholders and their relationship to the organization.

Freeman (1984) defined organizational stakeholders as any group or individual who can affect or is affected by the achievement of organizational objectives. Whilst this definition is broad, it does enable the management of an organisation to take an all encompassing perspective as to who their stakeholders are and forces them to consider the impact stakeholders may have on business decisions.

The study of how enterprises are managed has been a pre-occupation of many writers and the literature can be broken up into several different models of governance:

Representational Theory – a democratic model. This theory suggests that the idea of democracy and democratic government are central to the development of culture and practices in the governance of organisation. This perspective suggests that representation of member interest is the key driver in the job and responsibility of a board member. In this contest any member can come forward as a candidate for the board. Expertise is not a key requirement as it may be in order model, greater emphasis and resources may be needed in the areas of director training.

Agency Theory – compliance model. This theory assumes that the owner of organizations and the management of these organizations have different interests. Governance arrangements are means by which managements (agents) is encouraged and forced to act in the best interest of the owners. Such a framework is generally applied to explain behavior in the private and capital based business model.

Stewardship Theory – a partnership model. Contrary to agency theory, this model assumes that managers want to act as effective stewards of resources on behalf of owners. The board supports management, works with management and focuses on long term strategic interests. This model is driven by normative values of service to others and community. It has a long pedigree in terms of the management literature (Davis (1995) has argued that management can become a vocation but management must become clearer about what this vocational management employment profiles involves for their recruitment and selection processes.

Resource Dependency Theory- a co-option model. In this case the main role of the board is to maintain good relationship with key non-owner external stakeholders, again this framework has clear synergies with the organization normative relationship with the wider community and society.

Stakeholder Theory – a stakeholder model. This theory suggests that organization should be responsible to a range of groups besides the owners. Its close applicability to the organizational model has already been acknowledged above.

Managerial Hegemony Theory – a rubber stamp. This theory relates to the premise that control of organizations has really passed from owners to a new professional managerial class. The board becomes little more than a rubber stamp.

We need to note in Davis (1995) and Davis and Donaldson (1998) that these writers see stakeholder theory requiring a servant leader model of management in order to guarantee the integrity of its implementation.

Mainstream management theorists such as Ronald K. Mitchell, Bradley R. Age and Donna J. Wood (1997) have seen the significance of stakeholders as those who make up groups without whose support the organization would cease to exist. According to Donaldson and Preston (1995) stakeholders are persons or group with legitimate interests in procedural or substantive aspects of corporate activity, Alkhaafaji (1995) see stakeholders as carrying some form of risk as a result of having invested either capital, (human or financial), or something else of value, in a firm, and whose investments are placed at risk as a result of the firm activities.

Overall, the information suggest that scholars who attempt to narrow the definition of stakeholder emphasizes the claim legitimacy based upon contract, exchange, legal title, moral right, at-risk status or moral interest in the harms and benefits generated by the company actions and that, in contrast, scholars who favor a broad definition emphasize the stakeholder power to influence the firm's behavior, whether or not there are legitimate claims. As a bridging concept, we argue that the broad concept of stakeholder management must be better defined in order to serve the narrow interest of legitimate stakeholders. Otherwise, influencing groups with power over the firm can disrupt operations so severely that legitimate claims cannot be met and the firm may not survive.

2.2 Stakeholder Theory

Scott (1991) points out that both institutional and resource dependence theories, emphasise the variety of external pressures, (social, moral and economic) that organizations face, and, that these demands must be managed for organizational survival. It is these external pressures that result from an organisation's identified stakeholders. Although, stakeholders place pressure on an organization, an organisation's response is not usually limited to a single stakeholder, rather to the legitlmate claims of multiple stakeholders.

Hill and Jones (1992) linked stakeholders theory to the concept of agency. Agency theory focuses on aligning the goals of two groups, in this case, management and stakeholders (Einsenhardt, 1989). The basis of agency theory is that management is employed on behalf of the stakeholders to manage the organization, and therefore, should act in their stakeholders best interests rather than according to their own selfish interest (Milgrom&Roberts, 1992).
This highlights what appears to be a simple theory, but it is difficult and complex to analyse. Still, it remains important for management to understand, identify and respond to each of their stakeholders. Thus stakeholder theory is an important framework for understanding managerial decision making.

Rowley (1997) extended stakeholder theory by utilizing concepts from social network analysis to examine the characteristics of entire stakeholder structures and their impact on organizational behaviours rather than individual stakeholder influences.

Despite a lack of universal acceptance concerning the definition of stakeholders (Alkhafaji, 1989, Clarkson, 1994), the evolution of stakeholder theory has seen the inclusion of a variety of different perspectives that aim to more closely relate the theory to real world interpretations of organizational behavior. Critical research has refined and developed the theory to include characteristics such as power, legitimacy and urgency, which will affect the way organizations choose to manage their relationship with stakeholders.
It is important to recognize the legitimacy of some claims over others. Power and legitimacy, then, are necessarily core attributes of a comprehensive stakeholder identification model. We argue that when these two attributes are evaluated in light of the compelling demands of urgency, a systematic, comprehensible and dynamic model is the result

Power

Most current definitions of power derive, at least in part, from the early Weber idea that power is the probability that one factor within a social relationship would be in a position to carry out his own will despite resistance. (Weber, 1947) this leads to the following question. How is power exercised? Alternatively what are the bases of power?

Etzioni (1964) suggests logic for the more precise categorization of power in the organizational setting, based on the type of resource use to exercised power. Coercive power, based on the physical resources of force, violence or restraint, utilitarian power, based on material or financial resources, and normative power, based on symbolic resources. In fact most organization do to some degree exert forms of power represented in all these categories, but what is most significant for stakeholders is the form of power used o legitimize the goals and actions of the organization and what determines the boundaries over which actions in support of goals cannot be legitimately crossed.

A party to a relationship has power; to the extent it has or can gain access to coercive, utilitarian or normative means, to impose its will in the relationship. We note, however, that this access to means is a variable, not a steady state, which is one reason why power is transitory; it can be acquired or lost. Hence in respect of normative resources based on values and social objectives management needs to be particularly vigilant as to their maintenance and continued relevance.

Legitimacy

When an organization identifies its stakeholders and their level of power, it is also important to establish the legitimacy of that power. Attempts to define the basis of stakeholder legitimacy tend to be on the basis of something at risk, or in property rights, or in moral claims. The notion of legitimacy loosely refers to socially accepted and expected structures or behaviors. It is often coupled implicitly with that of power when people attempt to evaluate the nature of relationships in society. Many scholar seeking to define a firm's stakeholder narrowly also make an implicit assumption that legitimate stakeholder are necessarily powerful. When that is not always the case (e.g. minority stakeholders in a company, a firms employees, its customers etc) the assumption that powerful stakeholders are necessarily legitimate (e.g. corporate raiders, institutional investors) cannot be sustained.

Suchman (1995) defined legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate, within some socially constructed system of norms, values, beliefs and definitions. Mitchell, et al (1997) reinforced Suchman's definition, arguing, legitimacy is a desirable social good that is larger and more shared than mere self-perception, and may be defined and negotiated differently at various levels of social organization.

Despite the common linkage of these two concepts, we accept Webers (1947) proposal that legitimacy and power are distinct attributes that can combine to create authority (defined by Weber as the legitimate use of power) but that can exist independently as well. An entity may have legitimate standing in society, or it may have a legitimate claim on the firm, but unless it has either owner to enforce its will in a relationship or a perception that its claim is urgent, it will not achieve relevance for the firms' managers. For this reason we argue that a comprehensive theory of stakeholder relevance requires that separate attention be paid to legitimacy as an attribute of stakeholder-manager relations. Definitions generally imply that legitimacy is rooted in a desirable social good, that is something larger and more shared than a mere self-perception and that it may be defined and negotiated differently at various levels of social organization.

Urgency

Viewing power and legitimacy as independent variables in stakeholder-manager relationships take us some distant toward a theory of stakeholder identification and relevance, but it does not capture the dynamics of stakeholder-manager interactions. We propose that adding the stakeholder attribute of urgency helps to move the model from static to dynamic. By "urgency" we mean a condition that is "calling for immediate attention" or "pressing". Urgency, includes the idea of "compelling", "driving" and "imperative" only when two conditions are met (1) when a relationship or claim is of a time-sensitive nature and (2) when that relationship or claim is important or critical to the stakeholder. We define urgency as the degree to which stakeholder claim call for immediate action.

Although it was virtually ignored until now in any explicit sense in the stakeholder literature, the idea of paying attention to various stakeholder relationships in a timely fashion is an issue for management. However, although time sensitivity is necessary, it is not sufficient to identify a stakeholder claim or manager relationship as urgent. On addition, the stakeholder must view the claim on the firm or its relationship with the firm as critical or highly important

The combination of the three attributes of power, legitimacy and urgency above leads to seven types of stakeholders that can be grouped in the following categories according to Mitchell et al's Typology. Note that for Mitchell et al all those who fall outside the three circles are excluded from being identified as stakeholders. See Fig. 1

a. **Dormant** Power without legitimacy or urgency. The coercive power of the state and the influence of the media can be of service to those who have such resources but do not have a necessary sense of urgency. The essential for these stakeholders is the possibility of summing a second attribute (legitimacy or urgency). In the case of the state urgency can arise as a result of lobbying. The issue of legitimacy remains problematic here. Is the survival of the government a legitimacy reason for confiscating organizational property for example? There is a real danger here that multinational or nationally based competitors may be able to pressure the state and media to act in ways hostile to organizational interests, values and purpose.

b. **Exigent** Urgency with legitimacy but without power can make these stakeholders noisy and uncomfortable only where they can find additional power bases to underpin the urgency they feel.

c. **Discreet** Legitimacy, but without urgency and without power. The attention given to this category of stakeholder depends on the discretional recognition of the organization, something that usually happens to philanthropic support and in organization may refer to volunteer activities trying to encourage the values and structure of co-operation in the their communities and the organization other stakeholders.

d. **Dangerous** Urgency and power without legitimacy. There is plenty of room, if such is the case, for the use of coercion from the part of this type of stakeholder, under the form of useless, acquisitions. Sabotage, strike, terrorism, and for co-operatives in particular the external political manipulation by parties and interests who want to extract resources or mobilize resources for their own ends.

f. **Dominant** These are stakeholders who have power and legitimacy and they belong to the dominant coalition. Therefore their interests and expectancies make a difference for the organization.

g. **Dependent** Urgency and legitimacy without power make this category of stakeholders to be dependent on the power of other stakeholder, inside or outside the organization in order to insure their interests be attended to and not ignored.

h. **Forever Final** These stakeholders have all three attributes and therefore take priority.

Mitchell et al (1997) stated that the exercise of stakeholder power is triggered by conditions that are manifest in the other two attributes of the relationship legitimacy and urgency. Power, as a single attribute does not generate high salience in a stakeholder relationship. Rather, it gains importance when it is legitimate and it is exercised through a sense of urgency. Legitimacy also requires intersection with the other two attributes of stakeholder theory; power and urgency, to result in high salience. If a stakeholder is legitimate, then it will gain access to rights through power and be heard via urgency. The difference lies in the fact that urgency only requires interaction with one of the other two variables, not both. Urgency, on its own, is sufficient to create pressure on jthe stakeholder relationship and to induce a reaction from an organization, which may then lead to an increase in salience. Highly important and powerful stakeholders are located where power, legitimacy and urgency intersect. When the three variables are present simultaneously, stakeholder theory becomes a dynamic model.

Clearly in the context of insurance business the expectation of services and the expectation of delivery or the threat of the failure of delivery will constitute an expectation of urgency for all the stakeholders

3.0 Management Implication

As management in large scale organizations including insurance industry has the advantage of access to key levers of power (through control of procedures and information and formal communication channels), it seems important that the management culture and vocational motivation should have a close match to the goals values and ownership structure of the form of business they operate. (Richard, 1999). Seven principles for the exercise of professional organisational management have been presented for clarification by Davis and Donaldson (1998)

(1) Pluralism. The recognition of the rights of all stakeholders and respect for cultural diversity within the ‘community. It also represents recognition that the marketplace needs variety in terms of organizations as potential partners to truly free marketplace.

(2) Mutuality. The fundamental right of all to gain a mutual benefit from any association they are party to, and the right not to be bound to any association from which a permanent disadvantage arises is an essential principle for a stakeholder based business.

(3) Individual Autonomy. The principle that as much authority and independence as is possible be delegated to individuals engaged in the service for the sake of their dignity and the trust and solidarity that binds all the stakeholders.. The principle also implies the rights of members to be free from dependency and to be independent bodies with their responsibilities and obligations to the organisation and to the fulfillment of their purpose.

(4) Distributive justice. Enabling access to the means for the wealth creation and a fair sharing of the wealth created in line with both economic activity and economic need for all stakeholders. Fair trade and fair employment to all partners and stakeholders as the basis for their economic wellbeing, together with sustainable development for their community and the wider society.

(5) Natural justice. As with the accepted standards in all public bodies for fair independent and impartial treatment by managers and within the management process.

(6) People centered. While organisation must accumulate capital this is not their end purpose of merely serving the people better. The worker should be the subject not the object of employment. In managing resources and people it is the wellbeing and growth of people that is the most crucial objective.

(7) The multiple roles of work and labor. This is the recognition of the importance of work for the wellbeing of the individual and community both in terms of paid, voluntary or domestic work. Managers have a

particular responsibility to ensure the quality of working life for all those whose working activities are affected by their decisions

The values and principles proposed by Davis and Donaldson (1998) should be the guide for the entire stakeholder relationship programme within any organization. The emergence of the stakeholder approach has been a reaction to the belief that our present institutions at all levels have to change. Some use protest to put well-needed pressure on government to deliver on their responsibility and others have worked at trying to see how to create space for different voices of the various parts of society may be heard in our complex world. Both are needed to ensure checks and balances but it is the emergence of the stakeholder space over the past decade or so that is new. By stakeholder space I mean the creative involvement of stakeholders working together with government and enterprises at all levels, local, provisional, national and international to make better informed decisions and to implement arguments.

4. Conclusion

The emergence of stakeholders in influencing corporate decision making has attracted increased attention. The stakeholders governance when situated in organizations and well rooted, provides the market with the real competitive element which is essential for its effective functioning. It could be argued that organization that provides stakeholder leverage in the global market would provide a greater sensitivity to all stakeholder needs by giving power to the formerly powerless stakeholder. (Davis, 2005).

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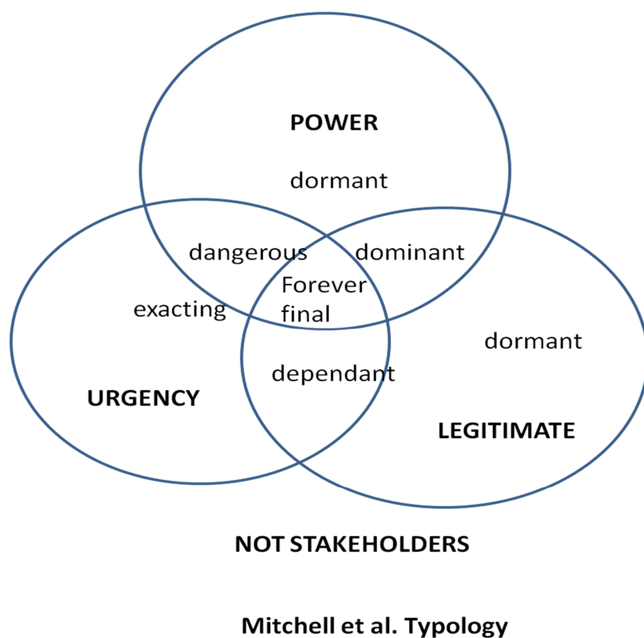
Fig. 1



Mitchell et al. Typology

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