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Stakeholder Approach in Business Education and Management Practice – The case of Hungary

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The aim of the paper is to explore stakeholder orientations of companies operating in the Hungarian context. By doing so we are looking at the interrelationship of attention paid to stakeholders and the business performance of surveyed companies. Findings of the empirical study are then discussed in an educational context: based on the current management practices what business educators may learn in order to contribute to stakeholder orientations of the next generations of business decision makers.

Keywords: stakeholder approach, business performance, value creation, business education, Hungary

1 Introduction

Teaching and research stakeholder relations have been playing a huge part of the academic life of the authors of this paper. Stakeholder approach was an early inspiration and guiding principle for both of us from the beginning: teaching Business Economics [4] as young academics from the early 1990-ies we had the opportunity to dive into this area. While both having business and management backgrounds we are coming from different fields. Corporate Finance, Value Creation and Business Performance on the one hand, Business Ethics, CSR and Sustainability on the other. Stakeholder approach was one of those areas always being at our crossroads.

By approaching stakeholders from these different angles we find interesting how our fields fertilize the topic in various ways. Building on the intersection of our interest, in this paper we are presenting the findings of a major competitiveness survey in Hungary with regard to stakeholder relations. We were interested in whether acting top managers in Hungary had the same interest in and commitment to stakeholders as us, academic professionals have. Beyond our research we were also interested in how we could connect our findings to our other academic mission, teaching. Thus, in this paper we are framing our research findings from an educational point of view too.

2 Research Background

Our paper feeds in the long and contentful theoretical and managerial discussions of stakeholders [8], [11] and value creation. The interrelations of stakeholder value and shareholder value are discussed in a vast theoretical and empirical literature, in our paper we now focus on the reconcialiation of the two values. We aim to move toward the understanding of how stakeholder value and shareholder value can go hand in hand. We are building on the seminal works of Rappaport [17] and Jensen [12] in value creation, and we are utilizing the Performance Prism by Neely and his co-authors [15], [16] as a starting point of our empirical research.

First, let us quote Rappaport who „recognizes that the company's long-term destiny depends on a financial relationship with each stakeholder that that has an interest in the company. (…) a value-creating company benefits not only its shareholders but the value of all other stakeholder claims, while all stakeholders are vulnerable when management fails to create shareholder value. Enlightened self-interest dictates shareholders and other stakeholders actively engage in a partnership of value creation." [17]

Similarly, Jensen walks down the „enlightened" lane proposing the term enlightened value maximization. According to Jensen it is identical to enlightened stakeholder theory. In his exlanation he uses „much of the structure of stakeholder theory but accepts maximization of the longrun value of the firm as the criterion for making the requisite tradeoffs among its stakeholders." [12] As a result of this „enlightened stakeholder theory, while focusing attention on meeting the demands of all important corporate constituencies, specifies long-term value maximization as the firm's objective." [12]

After highlighting some of the key notions of key authors in value creation let us turn our attention to the other side: how the fundamental theorist of stakeholders, Edward Freeman understands the above relationship. Agle et al describe this in the following way. Edward Freeman argues that „Milton Friedman, Oliver Williamson, and Michael Jensen are stakeholder-theorists. By saying that, I mean that if one understands the spiris of their work, some of the actual words they have recently said, and if we have a slightly more expressive idea of business than have most economists, then the tensions between economists and stakeholder theorists simply dissolve."[1]

Holding on to the theories of these selected authors, a series of international empirical studies tested the reconciliation idea, see e.g. [20], [22]. This topic of the international research has been made explicit in local researches of the Hungarian context as well, see. e.g. [2], [9] [10] [22] [23]

For our empirical study we have chosen the two-sided idea of the Performance Prism. The Performance Prism emphasizes the importance of understanding stakeholder relationships. According to Neely at al [15], [16] the prism allows room for exploring stakeholder relationships on a mutual ground: the connections are viewed from both sides.

There are five interrelated facets of the Performance Prism. Quoting the first of these facets here only: " Stakeholder Satisfaction ± asks: ``Who are the stakeholders and what do they want and need?" see [16]. By needs and wants Neely and his co-authors take us to the following two fundamental questions:

- Stakeholder satisfaction – Managers' perception about their stakeholders' expectations (what the stakeholders want and need?)
- Stakeholder contribution – Managers' expectation towards their stakeholders (what the firms want and need from their stakeholders?)

Table 1 presents how these two directions can be translated into specific expectations.

Potential expectation of certain stakeholder groups:	Potential expectation of firms from certain stakeholder groups
Shareholders: high return, stability, security – strongly related to the activity of the company	From shareholders: financial resources, informal and market (non-financial) support
Customers: high service level, inexpensive products, stable and calculable relations	From customers: secure profitability, reliable relationships and good communication
Employees: high salaries, stability, good workplace environment and development opportunities	From suppliers: high service level, inexpensive products, stable and calculable relations
Suppliers: profitability, reliable relations and good communication	From employees: high level of work, loyalty
Local communities: financial and non-financial support from the company, stable employment	From local communities: good workforce supply, favourable atmosphere
Stakeholders: sincere opinion, suggestions, cooperation opportunities	From stakeholders: sincere opinions and suggestions

Table 1
Stakeholder expectations from two angles [16]

This two-sided approach of the Performance Prism led us to our research questions for the Hungarian context. We are enumerationg the research questions here, introducing our research methodology in chapter 3 and our findings in chapter 4:

- Who counts? What are the stakeholder groups understood to be important in the Hungarian context?
- What are the perceptions of managers regarding their stakeholders' contribution and expectations towards the firm?
- What is the relationship between stakeholder orientation and firm performance?

3 Methodology

The empirical research is based on the data of *"In Global Competition" – micro-economic factors of the international competitiveness of the Hungarian economy"* research program series organised by the Competitiveness Research Centre of Corvinus University of Budapest. During the past 20 years, a similarly structured survey was undertaken five times (in 1996, 1999, 2004, 2009 and 2013). Consequently wehad the opportunity to evaluate the path leading to the current situation and the changes of the competitiveness of Hungarian companies based on these similarly structured and sized database. The results of the previous surveys justify the validity of the research methodology. However, we would like to emphasize that the survey and its results reflect the opinion of the executives, not some objective truth [5].

In the course of the surveys executives in four managerial fields (chief executives, financial, manufacturing and commercial/marketing managers) from 300 companird responded to a comprehensive questionnaire. The survey included corporate data (facts provided by the companies) and managers' self-evaluations and opinions, mainly by evaluation of different statements in a 5-point Likert-scale.

In this paper we present the findings of the competetiveness survey regarding stakeholder approaches of corporate respondents based on the last survey, elaborated in 2013, putting it into perspective by also relying on the survey data from 2004.

The sample of 300 companies (of the survey in 2013) consists of primarily medium sized manufacturing companies with mostly domestic ownership. 83% of the sample are small and medium sized companies, 17% of the companies are large firms. Almost 77% of the companies in the sample have dominantly Hungarian ownership (71% are in Hungarian private ownership, while the ratio of the state-owned companies in the sample is relatively low, it is around 6%), and the rest of the firms (23%) have dominant foreign ownership. Proportion of firms in processing industries is fairly high (approximately 45%), and commercial companies and firms operating in other service sectors are also have a great share in our sample (20% and 15% respectively). For a more detailed characteristics of the sample and relations between these characteristics see [7]

In the questionnaire we asked executives to evaluate various statements concerning their stakeholders' importance in decision making and perceived needs and wants their different stakeholder groups (e.g. their perception about stakeholders' opinion) as well as the needs and wants of their firm toward their stakeholder (i.e. expected stakeholder contribution). Responses were given on a 5-point Likert-scale (5 – totally agree and 1– totally disagree). Results of earlier surveys are presented in the following papers [9], [10], [22], [23]

4 Empirical findings

In this chapter we are introducing the research findings regarding stakeholder approaches of business respondents as well as the implications of our findings to business education.

4.1 Stakeholder orientation

In 4.1.1. we introduce the outcomes of our research based on the Likert-scale statements of coporate executives regarding the importance of various stakeholder groups. Our second set of findings – 4.1.2. – introduces how the expectations towards stakeholder groups match or dismatch the perceived expectations of the stakeholders toward the companies. Finally, we look at the interrelationships of stakeholder approach and corporate performance (see 4.1.3).

4.1.1 Importance of stakeholders

In our study, first we looked at the importance of stakeholders. Our aim was to explore who counts for the business decision makers in the Hungarian context. The importance of the following stakeholder groups have been detected: owners/shareholders, managers, non-managerial employees, consumers/buyers, suppliers, local communities, and the natural environment. Executives in the competiveness survey were responding to questions regarding the importance of the interests and opinions of these various stakeholder groups.

Figure 1 shows the rankings of the stakeholders based on the results in 2004 [9], [10], [22] and 2013.

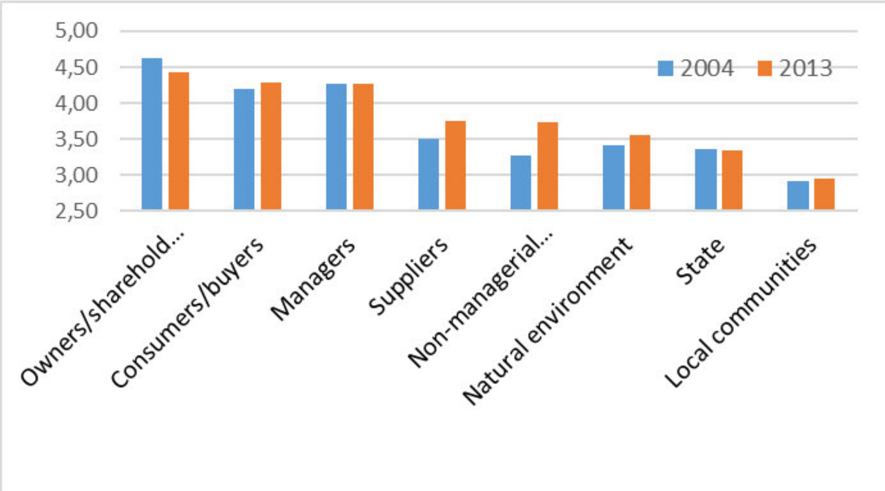

Figure 1
Perceived importance of certain stakeholder groups

The first three groups – owners, managers, consumers – are understood to be the most influential stakeholders in executive decision making in both years. The perceived importances of suppliers and non-managerial employees have slightly increased between the two points in time, but none of them approached the levels of the previous groups of stakeholders. Our results have reached similar conclusion as Benedek et al. [2] emphasize in their research, that was made among comparies in Hungary. Only the category of the state experienced a slight decrease in importance. Another interesting shift in data is the natural environment being one rank less important during the latter survey.

4.1.2 Perceived needs and wants – a two-sided view

With the Performance Prism in our mind, we were interested in the coherence of expectations provided by top decision makers.

On the one hand, we explored what managers thought about their stakeholders' contribution and expectations towards the firm. Building on Neely's wording we were focusing on the needs and wants of corporations toward their stakeholders.

On the other hand we wished to look at these stakeholder relationships from another angle: How do executives understand and perceive the needs and wants of their stakeholders?

Figure 2 presents the stakeholder expectations of top managers in Hungary, and also the changes in expectations over a decade.

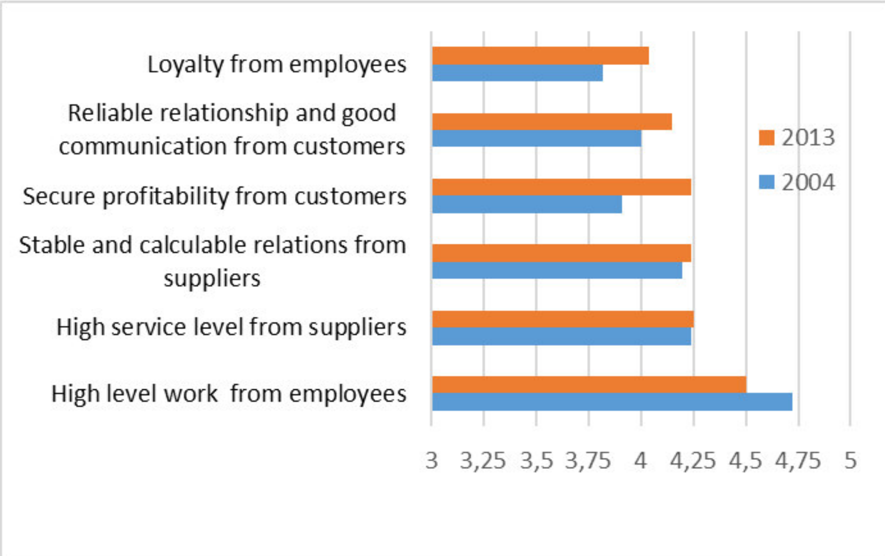

Figure 2

Company's needs and wants toward their stakeholder – The opinion of executives in Humgary

The highest expectation of top managers was directed to employees. Checking out the final bars of Figure 2 reveals that both in 2004 and 2013 high level work provided by employees is the number one expectation of executives. Loyalty of the same stakeholder group was perceived as far less important, especially in 2004. Over time this aspect showed a slight increase though.

Behind the employes we find the suppliers. Executive wants include high service level from them, and more and more stable relationships. Expectations toward the customers are ranked the lowest from among these three stakeholder groups. Securing profitability as well as maintaining reliable relationships and good communication became more important by the time of the 2013 survey, and in this growth the financial crisis might have played an important role. (Results from 2004 are based on [9], [10], [22].)

Figure 3 presents the supposed expectations of various stakeholders according to the opinion of executives.

Figure 3

Stakeholders' needs and wants toward the company – The opinion of executives in Hungary

Stability can be described as the major excpectation on the corporate side. Namely, according to the perception of the executives, shareholders expect stability and security more (4.11 in 2004; 4.22 in 2013) than as they wish to achieve high return (3.16 in 2004; 3.48 in 2013). Similarly, they attribute employees a higher expectation of stability than high salary, and their suppliers the need of reliable relations more than profitability.

However, there is an imbalanced view about the needs and wants in business relationships. What we detected here is a skewness toward the firms' expectations toward their stakeholders. Their – so to say – requirements are stronger than the requirements they perceive from stakeholders toward the companies. Thus, in their understanding and perception these expectations are from being mutual. The wants of the corporate respondents regarding stakeholder groups such as the customers or suppliers, are generaly higher than the perceived needs of the same stakeholder groups stated by top managers in Hungary.

4.1.3 Stakeholder orientation and performance

Finally, we have investigated the interrelationship of stakeholder orientation and corporate performance. Four types of approaches toward stakeholders have been identified in the Hungarian context resulting from our factor and cluster analyses [23]. Based on perceived importance of stakeholders' we have identified three factors of stakeholder groups: (1) shareholders and managers (2) markets (operations) related stakeholders, as customers, suppliers and employees, and (3) non market-related stakeholders, such as the state, trade unions, local communities, natural environment and the media. A cluster analyses based on the three factors resulted in the following four clusters [23]: Companies with

- no stakeholder orientation at all (13% of the sample),
- general stakeholder orientation (29%),
- shareholder- and manager orientation (30%),
- market- and operations orientation (28%). (See in detail: [23])

Table 1 summarizes the relation between firms' business performance and stakeholder orientation based on [23]. The evaluation of corporate business performance is rooted in a factor and cluster analyses built on the companies' self evaluation of their operational, market and financial performance [7]: "Leading companies" perform above industrial average at operational, market and financial levels as well; while a second cluster is characterised by "good operational but weak financial performance"; "average performers" describe their performance close to the industrial average; and the companies in the category of "lagging behind" have poor financial and market performance with operational performance similar to the industrial average (See in detail [7]).

Performance clusters: Stakeholder-orientation clusters:	Lagging behind	Average perfromers	Good operating, weak financial performers	Leading firms	All respondent s
Not stakeholder oriented	28%	53%	11%	8%	100%
Generally stakeholder oriented	26%	30%	9%	36%	100%
Shareholder- and manager oriented	21%	44%	14%	21%	100%
Market- and operations oriented	18%	41%	10%	31%	100%
Alll respondents	22%	40%	11%	26%	100%

Table 2
Interrelations of business performance and stakeholder orientation [23]

By analysing the crosstable of the two factor and cluster analyses we realize that in the cluster of "Not stakeholder oriented" firms the percentage of "Lagging behind" and "Average performers" is far higher (81%), than in the whole sample (60%). In the group of "Generally stakeholder oriented" firms we have more "Leading companies" (36%) than in the whole sample (26%), but we also have more "Lagging behind" companies (26% vs 22%). Among the "Market- and operations oriented" firms we had found less "Lagging behind" (18% vs 22%), and more "Leading performers" (31% vs 26%) than in the overall sample. [23].

Orientation toward shareholders and managers brings about an average performance in all aspects of business performance or connected to a good market and operations performance while lagging behind in financial performance. The ratio of these groups in the latter cluster are higher than in the general sample. This refers to shareholder orientation being less fruitful without a market orientation.

We conclude that the lack of stakeholder orientation is related to weak or average perceived business performance on a higher scale than the average result. On the other hand, general stakeholder orientation without a focus is not necessarily enough to achieve good business performance. [23].

4.2 Business education connotations

After describing the various perceptions and approaches of stakeholders let us turn our attention to management education. The mission of the businesss school the authors do teaching and research at focuses on the education of responsible leaders. Thus, understanding stakeholder theory and developing skills and competences of engaging stakeholders must be an integral part of our teaching and learning. Both CBS reports [3], [6] and research [13] have intended to explore activities, processes, outcomes and impacts of management education in this regard. Stakeholder approach has become a mainstream topic that cannot be missing from the curriculum of any business school today. It is embedded in various courses both explicitly an implicitly. We have even witnessed the positive change of moving away from stakeholder amangement toward stakeholder engagement.

(i) One of the major questions is whether the notion of stakeholder approach is also translated into the teaching of actual management tools of stakeholder orientation and engagement or this topic is left on the theoretical level. (ii) And if this knowledge regarding tools is transferred to students are we as educators also engage ourselves in developing the skills and competences for that in order to let student meaningfully practice these tools in their professional lives? (iii) Let us mention a final layer of questions here, which, actually can be connected to the 3rd element of intended learning outcomes: besides knowlegde and competences there are the attitudes. The question we are raising finally here is one of the major challenges even for the flagship schools in responsible management education. How well is stakeholder approach embedded in the curriculum? Namely, how mixed those messages regarding stakeholders are for the students?

Conclusions

Our major conclusion about business decision making regarding stakeholders in Hungary is the highly instrumental nature of it. This actually goes in line with the enlighted value creation approach: the relations with stakeholders need to serve the value creation on the coporate as well on the stakeholder levels. Companies in our sample, however, have a constrained view on stakeholders. Eventhough the focused and relatively strong interest in the opinion and expectations of stakeholder pays of – the positive relationship of buisness performance and stakeholder orientation exists to a certain extent –. not many companies are engaging in an open stakeholder orientation.

Our survey – due to its questionnaire based methodology – is limited in exploring the content and nature of stakeholder relationship in an in-depth way. However, what is a strikingly unequivocal research finding here:the imbalanced corporate view on expectations toward and from stakeholders.

When taking research findings into educational considerations, our main conclusion is teaching stakeholder orientation has been mainstreamed by now. Introducing the theories and management tools of stakeholder orientation and engagement in management education shall be more paralleled with developing relevant skills, competences and attitudes of future business decision makers.

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