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Yilmaz, Burcu Selin and Gunel, Ozgur Devrim

Dokuz Eylul University, Dokuz Eylul University

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## THE IMPORTANCE OF STRATEGIC STAKEHOLDER MANAGEMENT IN TOURISM SECTOR: RESEARCH ON PROBABLE APPLICATIONS

**Burcu Selin Yilmaz**  
*Dokuz Eylul University*

**Ozgur Devrim Gunel**  
*Dokuz Eylul University*

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*The main object of this study is to explain the importance of strategic stakeholder management in tourism sector. In today's turbulent and chaotic business environment all businesses have to operate under the pressure of different interests and influences which management has to assess and evaluate to adjust them with corporate objectives. Therefore strategic stakeholder management practices could be considered as useful tools in dealing with the stakeholder interests in order to achieve corporate objectives. In making important corporate decisions, it is necessary to know about expectations and impacts of different stakeholders. In this study by examining former studies, the importance of the concept of stakeholder for organizations, the reasons why organizations should respond to their stakeholders and the need for managing stakeholders strategically, its importance and practices in tourism sector are demonstrated. In addition, the tourism sector managers' opinions and attitudes towards strategic stakeholder management are examined by interviews with managers of some tourism enterprises in Izmir.*

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**Keywords:** *stakeholder theory, stakeholder management, strategic stakeholder management, tourism sector, tourism enterprises*

### INTRODUCTION

The interaction between global economic growth and global social transformation has resulted in changes in character and behaviour of organizations and in public expectations about the role and responsibility of corporations within society. Today, these rapid evolutionary



developments have created a need for redefining corporation by re-examining of the means by which the benefits of corporate activity should be generated and distributed in the 21<sup>st</sup> century (Post, Preston and Sachs, 2002).

Organizations have to deal with not only the needs of their shareholders, but also various other groups including employees, suppliers, public interest groups like environmental organizations, customers, strategic partners, media people, public monitoring bodies, financial institutions, governmental bodies, competitors, intermediaries, and unions. Therefore, the first step of strategic stakeholder management is to determine the important stakeholders of the organization which can influence the organization and be influenced by the organization.

From tourism sector's perspective, which is a leading economic sector for many countries for their growth and survival, it is clear that stakeholder management issues are very important in gaining business success. As widely known, tourism is a labour-intensive service sector which produces and sells mostly intangible products. Tourism enterprises carry out their businesses based mostly on relationships. Similar to other industries, stakeholders have great importance in tourism sector.

It is also necessary to state that all organizations in tourism sector should be more responsive to strategic management issues in different fields related with the sector's growth and success. Although the importance of and the need for successful and strategic relationships between the organization and its stakeholders is mentioned frequently for tourism sector, it can be said that there still exist some deficiencies in practice. In this paper, strategic stakeholder management concept -which can be considered as one of the neglected issues in tourism sector- is examined and consequently some suggestions are made in order to improve strategic stakeholder management practices in the sector.

## **THEORETICAL BACKGROUND**

A stakeholder is classically defined as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984; Mitchell and Cohen, 2006; Mitchell, Agle and Wood, 1997). The symmetrical phrase "can affect or is affected by" opens the idea that "outside" individuals or groups may consider themselves to be stakeholders of an organization, without the organization considering them to be stakeholders (Friedman and Miles, 2006).

It was an internal memorandum at the Stanford Research Institute in 1963 where the term “stakeholder” first appeared in order to generalize the notion of stockholder as the only group to whom management need be responsive. The term “stakeholder” -referring to the various interests who participate in a business- has commonly been used since 1980s from the landmark book in the business literature of Freeman’s *Strategic Management*. The stakeholder concept was defined as “those groups without whose support the organization would cease to exist” and originally includes shareowners, employees, customers, lenders and society. The most famous and frequently cited definition was given by Evan and Freeman in their essay namely that the “stakeholders are those groups who have a stake in or claim on the firm.”

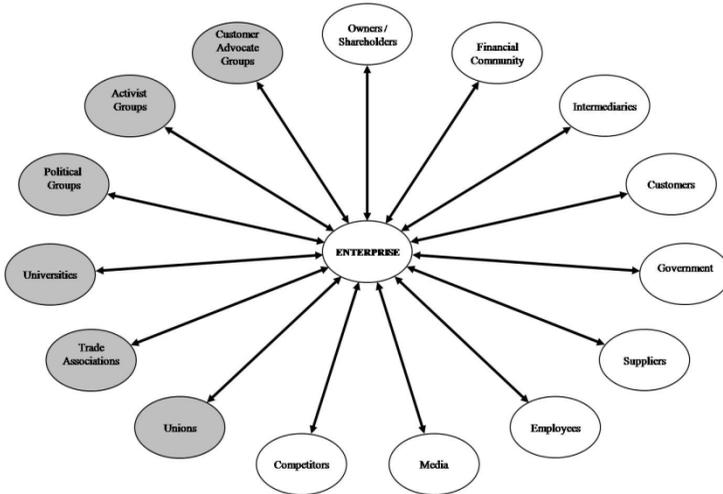
The stakeholders of an organization can be divided into primary stakeholders and secondary stakeholders, according to the relationship between their interests and the company. They can be also divided into the internal and the external stakeholders depending if they are those who are members of the company (Zhao, 2006).

The stakeholder groups of any organization represent a wide and diverse range of interests, given that each stakeholder group has its own unique set of expectations, needs, and values. The most common way of classifying stakeholders is to consider groups of people with a distinguishable relationship with corporations. The probable stakeholders to be considered for an organization are as seen in Figure 1 (Friedman and Miles, 2006).

These stakeholders are shown in a two-coloured way. White ones refer to the stakeholders which the organization has to deal primarily with in strategic stakeholder management whereas grey ones reflect secondary stakeholders. While organizations have to give priority to former ones interests, the latter ones’ situation could alter from time to time according to the organization’s activities, environmental conditions, and needs. In other words, organizations do not have to respond to all of their stakeholders’ interests at the same time.

Every organization’s stakeholder priorities are determined by organization’s conditions and vary from one organization to another. In addition these priorities can change within an organization from time to time. Therefore, in stakeholder theory one cannot claim that there exists one and constant stakeholder list for an organization.

**Figure 1.** A Simplified Version of Stakeholder Map of an Organization



Source: (Adapted from Freeman, 1984: 55)

### Stakeholder Theory: Normative, Instrumental, and Descriptive

Theoretically, the stakeholder concept has been identified with normative, instrumental, and descriptive emphasis. Donaldson and Preston (1995) offer three central theses related to stakeholder theory (Friedman and Miles, 2006: 28-29).

- **Normative:** This thesis is based on moral or philosophical guidelines for the management. This thesis assumes that stakeholders are identified by their interests in an organization whether / or not the organization has any corresponding functional interest in them.
- **Instrumental:** This thesis is based on establishing a framework for identifying the relationship between the practice of stakeholder management and the achievement of different organizational performance goals.
- **Descriptive:** This thesis is based on describing specific organizational features such as the nature of firm, the managers' perspectives of management, management styles, and managers' attitudes towards stakeholders' interests.

Stakeholder analysis is a means of identifying socio-political aspects of organizational decision making by recognizing, classifying, and managing different stakeholder interests. Stakeholders are individuals or group of people with an interest in an organizational issue who influence the way it is devised and resolved. There exist three premises which underline stakeholder theory (Simmons, 2004: 602):

- organizations have stakeholder groups that affect and are affected by them,
- these interactions impact on specific stakeholders, and
- the organization, and perspectives of salient stakeholders affect the viability of strategic options

The management of conflicting stakeholders can offer several benefits to organizations. Managers should examine the business's progress to establish connections with these stakeholders. Several authors have categorized stakeholders into different types (Lim, Ahn and Lee, 2005: 832):

- Freeman (1984) originally investigated stakeholder groups in terms of government, political groups, shareholders, financial community, activist groups, consumers, consumer advocacy groups, unions, employees, trade associations, competitors, and suppliers.
- Morgan and Hunter (1994) noted four basic types of organizational stakeholders: internal, buyers, suppliers, and lateral.
- Lerner and Fryxell (1994) highlighted five major stakeholders: customer, community, stockholders, government, and employees.
- Donaldson and Preston (1995) categorized stakeholders into governments, investors, political groups, suppliers, customers, trade associations, employees, and communities.
- Clarkson (1995) addressed two major stakeholder groups: primary and secondary.
- Henriques and Sadosky (1999) introduced four groups: regulatory, community, organizational, and media.
- Sirgy (2002) categorized stakeholders into three groups: internal, external, and distal.

Although stakeholder theory mentioned about includes various perspectives of different theorists, management of stakeholder relations successfully is at utmost importance for organizations. Fortunately, scientific debates on stakeholder management are not as complex as stakeholder theories.

## Stakeholder Management

The concept of stakeholder management depends on the mechanisms by which organizations understand and respond to the needs and demands of their stakeholders. As the main purpose of stakeholder management is accepted to be protecting the organization from the negative impacts of stakeholder activities, organizations should use some techniques such as; issue analysis, consultation, strategic communications, and formal contracts or agreements (Svendsen, 1998: 2).

In today's complex business environment most of the organizations' efforts are directed to establish the trust of key stakeholders. Stakeholders have great influences on organizations and there exist strong interactions between organizations and their stakeholders (Huber, Scharioth and Pallas, 2004). In practice, for any organization gaining financial success is regarded as the most critical aim and in order to reach this aim organizations use any tools at the expense of employees, the environment, and/or local communities. This socially irresponsible attitude generally results in not only shareholder losses rather than gains, but also irreversible damages on relationships. It is proposed two critical assessment variables for the organization's decision about stakeholders: their potential to threaten the organization, and their potential to cooperate with it. Similarly, it is suggested two relationship variables, such as cooperative potential and competitive threat. Cooperative potential and competitive threat reflect stakeholders' capacity for cooperation and threat in a particular issue confronting the organization. Typically, companies can adopt four possible postures for stakeholder management: reactive, defensive, accommodative, and proactive (Lim, Ahn and Lee, 2005: 832). According to stakeholder's potential for threat and potential for cooperation, companies determine their postures and strategies for stakeholder management such as leading, collaborating, involving, defending, educating, and monitoring (Lim, Ahn and Lee, 2005). The Clarkson Centre for Business Ethics developed a list containing the critical attributes of stakeholder management (1999). The first principle emphasizes the need of recognizing stakeholders' legitimate interests. After realizing their interests it is at utmost importance for organizations to use these findings in decision making processes. The second principle in the list refers to the necessity for communication between the organization and its stakeholders. In this step stakeholder engagement is provided in order to reduce stakeholder conflicts. The third principle reflects the idea that stakeholders could have differences in their involvement with the organization. Whereas the organization has formal

relationships with some of its stakeholders –such as governance mechanisms- other stakeholders are reached by unofficial ways –such as through direct contact, advertising, or press release-. The fourth principle underlines the importance of balancing risks and rewards among different stakeholders fairly and remarks the necessity of distributing benefits apparently to all parties. The fifth principle highlights the requirements for cooperation with public and/or private entities with the aim of reducing risks related to corporate practices. The sixth principle is related to respect to human rights which can be threatened by the organization's present and future activities. The last principle takes attention of managers to recognize their own conflicts of interests to regulate stakeholder relationships in a way that can increase credibility of organization.

### **Strategic Stakeholder Management: Tourism's Perspective**

Tourism is one of the most important revenue generating sectors for all countries besides its special feature as being an important job generator sector. It also serves as a catalyst for development. When development and growth issues are concerned, the tourism sector has achieved great importance just because, like no other sector, tourism is in a position that creates prosperity and economic development opportunities even for places which would not considered and used as an economic resource. In other words, what makes tourism sector special over other sectors is its highly fragmented and diverse structure which requires coordinated actions in order to be successful.

The tourism sector could be thought as a system. As Mill and Morrison (2002) mentioned there are several reasons to see tourism as a system. The first reason is the interdependency in tourism which means that all organizations in tourism sector are interrelated parts working together to achieve common purposes. The second reason behind using system approach for tourism is its dynamic and constantly changing characteristics. In other words, tourism can easily be affected by many external influences such as war, terrorism, political uncertainty, international relations, epidemics, technological developments, and changes in demographic conditions. On the other hand, it is necessary to mention that tourism is a complex sector and consists of different types of activities and organizations. This characteristic of tourism is accepted as another important reason to see tourism as a system. The fourth reason is the competitiveness of tourism. As competition in tourism is intense, tourism organizations of all kind have to compete with each other

globally. The last reason for using the systems approach in tourism is the need for responsiveness. As mentioned before, tourism should be seen as a big machine consists of many elements which are independent. A change in one element of this system causes changes in other parts of the system. Therefore, harmony of all parts is required for overall success of tourism. To create this harmony, stakeholder management practices should be used as a key to create strong relationships between the tourism organizations and their stakeholders.

## **A RESEARCH ON PROBABLE APPLICATIONS OF STRATEGIC STAKEHOLDER MANAGEMENT IN TOURISM**

While priorities of stakeholders in tourism organizations vary, it could be thought that stakeholder relationships and strategic stakeholder management issues are new in the sector and not yet totally understood by managers. In order to examine this view, a research on probable strategic stakeholder management applications is conducted at lodging enterprises (14 managers were chosen for the interviews) and travel agencies (21 managers were chosen for the interviews) in Izmir.

Data are collected by interviews with managers of selected lodging enterprises and travel agencies in order to determine their attitudes towards stakeholder management and stakeholder management practices. Interviews are conducted face-to-face, via phone or via e-mail. The main aim of this research is to determine the perception of the managers about these concepts.

The questions asked to the managers and their answers can be summarized as follows:

- *What do you think about the importance of relationships with your different interest groups? Mention three of them which have priorities in your practices.*

All managers agreed that relationships are the most important means of doing business in tourism sector. Hotel managers emphasized that relationships especially with customers, suppliers, shareholders and the media have greater importance than the other ones. On the other hand managers of travel agencies mentioned that shareholders, suppliers and customers are important in doing business.

- *Have you ever heard about stakeholder concept? What is your opinion about the concept? Do you have any idea about stakeholder management?*

Stakeholder concept has been heard by the hotel managers, especially as a part of recent strategic management applications. Most of them have

thought that the concept has been a little bit complicated and confusing. Similarly, answers of managers of travel agencies were parallel to hotel managers' answers.

- *Do you think that it could be useful for your organization to call all the interest groups as stakeholders?*

Because of the confusing and complex manner of the concept, calling all the interest groups of the organization has been considered as a difficult, complicated, and time-consuming task.

- *According to your management philosophy, which group can be considered as the most important in your decision-making: shareholders or other stakeholders?*

Most of the managers have agreed that the impact of shareholders on decision-making could not be neglected and usually shareholders could be considered as the most dominant groups in decision-making process.

- *Do you think that your organization is responsible to any groups other than shareholders?*

The hotel managers stated that in today's business environment, organizations could not operate in isolation and they have had responsibilities to different interest groups. They have added that customers have gained great power in today's market and if any of these strong interest groups have been ignored, organizations could lose their competitive advantage over their rivals. On the other hand, managers in travel agencies emphasized the importance of relationships with different individuals and groups in doing business such as suppliers, customers, and competitors although they felt the pressure of owners/shareholders.

- *According to you, what should be the main objective of an organization? Profit? Or, should organizations have social responsibilities and deal with interests of other groups?*

Profit maximization has still been seen the most important and the main objective of organizations. However, changing society has forced companies to deal with different interest groups (even with ones which did not exist in the past such as NGOs (environmentalists, customer advocate groups etc.). Concepts of social responsibility and ethics, ethical considerations about doing business have been thought to become very significant. However, social responsibility issues have still been overlooked in tourism sector.

- *Do you think that stakeholder management could be a useful management tool for your enterprise in gaining competitive advantage?*

Most of the managers have claimed that they have not got any idea about the theoretical background of stakeholder management whereas

some managers of travel agencies suggested that if the concept has been supported by governmental bodies and managers have been educated on the subject, the stakeholder management would become more popular and be adopted by many organizations in the sector.

- *Do you think that stakeholder management practices facilitate and support strategic management processes?*

Most managers have accepted that stakeholder management has been a powerful management tool in gaining competitive advantage. Even they did not apply stakeholder management in their enterprises, they have known about the importance of relationships with different stakeholders and the impact of managing these relationships on business success. They have added that relationships with employees have been the task of human resources department; relationships with customers could be managed by different tools such as CRM, public relations etc.

Generally looking, it could be said that even stakeholder management is not applied in the lodging enterprises and travel agencies in Izmir, the managers have realized the importance of managing relationships, and they have tried to manage interests of different groups in order to gain competitive advantage.

## **CONCLUSION**

Different stakeholders with their conflicting interests make businesses complicated and confusing in today's business environment. Therefore, in order to be successful managers need to have the ability to harmonize heterogeneous expectations into a comprehensible whole which supports overall corporate aims and objectives. To concentrating solely on maximizing returns to shareholders cannot be considered as the main and the only responsibility of managers. Instead, resolution of the inevitable conflicts between stakeholder groups is the most important and strategic responsibility of managers.

In the tourism sector, where an intangible product is sold to customers and relationships create the foundation of business applications, stakeholders should be considered as the main actors in achieving success and gaining competitive advantage. Although the importance of relationships in business practices and success have been accepted by managers in tourism enterprises, it should be kept in mind that in today's changing society and business environment organizations need more comprehensive methods and practices in order to achieve a good position in the market.

It can be said that in tourism sector successful face-to-face relationships with customers are the most significant determinants of maximizing profits and gaining success. Managers of tourism organizations should take all stakeholders' interests into consideration in their decision making processes. Limiting stakeholders' interests into shareholders' interests and building all business on the objective of maximizing returns to shareholders could possibly end with failures in business, loss of market share and competitive advantage.

Although including stakeholders in the planning process is often accepted as a difficult and time-consuming activity by organizations, this partnership may create significant benefits for the successful and sustainable growth of tourism (De Araujo and Bramwell, 1999).

On the other hand, it is observed that employees as stakeholders are usually neglected by managers of tourism organizations. In tourism, as being a labour-intensive service sector, employees play a very critical role in an organization's success. Therefore, relationships with employees should not be limited only to activities of human resources management department of the organization. Moreover, in tourism overlooking employee relations dramatically results in decreasing customer satisfaction.

Last but not the least, managers in the tourism sector should be given knowledge on stakeholder management. Further and comprehensive researches at other business areas in tourism and on different stakeholders are needed in order to get a broader knowledge on stakeholder management practices in tourism sector.

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**Burcu Selin Yilmaz** (selin.yilmaz@deu.edu.tr) is an assistant professor at Dokuz Eylul University, Faculty of Business, Department of Tourism Management, Tinaztepe Campus, 35160, Buca, Izmir, Turkey.

**Ozgun Devrim Gunel** (devrim.yilmaz@deu.edu.tr) is a graduate assistant (PhD Candidate) Dokuz Eylul University, Faculty of Business, Department of Tourism Management, Tinaztepe Campus, 35160, Buca, Izmir, Turkey.