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# Managing Stakeholders: A Case Study on Small Scale Industries

## ABSTRACT

All businesses operate within a complex system of interests and influences, those people and groups that may affect the company and, in turn, be affected by the company's actions and decisions are its stakeholders and managing the same is stakeholder management, further the stakeholder management is emerging as an important theme in small scale sector, which is a vital constituent of India's industrial sector contributing significantly to the countries GDP and exports earnings besides providing the employment opportunities. It has been estimated that an investment of 1 million rupees in fixed assets in the SSI sector produces 4.62 million rupees worth of goods or services with tremendous value addition. The number of small-scale units has substantially increased from an estimated 0.87 million in 1980-81 to over 3 million in 2000. The direct exports from the SSI sector account for nearly 35% of the total exports. Besides direct exports, it is estimated that small-scale industrial units contribute around 15% to exports indirectly. The non-traditional products account for more than 95% of SSI exports. The product groups where the SSI sector dominates in exports are sports goods, readymade garments, woolen garments & knitwear, jewelry etc.

### 1. INTRODUCTION

Almost all businesses face the interest and the impact of different people and groupings, like employees, public interest groups (environmental organizations, strategic partners, journalists, public monitoring bodies) etc. According to each company's individual situation, this list could easily be extended or reduced. Thus we can say that all businesses operate within a complex system of interests and influences. Management has to assess and evaluate these external forces in order to adjust them with corporate objectives. These individuals and groups who depend on the organization to fulfill their own goals and on whom, in turn, the organization depends, are its stakeholders. Different stakeholders have different expectations, therefore for strategic decisions it is advisable to determine, up to what extent they could and would exert an influence. The concept is further explained with narrow and wide perspective by Freeman & Reed 1983:91; Wide: "can affect the achievement of an organizations objectives or who is affected by

the achievement of an organizations objectives". Narrow: "on which the organizations is dependent for its continued survival"

### 2. DEFINING STAKEHOLDER

Persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity (Donaldson & Preston). Stakeholders are those people and groups that may affect the company and, in turn, be affected by the company's actions and decisions. (Post et al 2002).

### 3. DIFFERENT INDUSTRIES HAVE DIFFERENT STAKEHOLDERS

When identifying stakeholders it is not enough to focus on the formal structure of the organization rather it is necessary to have a look at informal and indirect relationships too. A useful model for this purpose is to visualize the stakeholder environment as a set of inner and outer circles. The inner circles stand for the most important stakeholders

who have the highest influence figure 1 shows various categories of stakeholders and their expectations, these includes owners, managers, employees customers etc.

Owners: The stakeholders, promoters and owners expect a fair return on heir investment; unless lucrative dividends are paid, they do not want to supply venture capital business

Managers: The salaried managers likewise expect a work remunerative packet of pay and perks, otherwise they do not find any incentive to work hard and long for their business concern.

Employees: The employees expect fair wages and bonus, otherwise they feel exploited when they produce output more in value then they input.

Customers: The customers expect a quality product and service at a fair prices, otherwise they feel cheated.

Suppliers: The suppliers expect a prompt settlement of their bills.

Distributors: The distributors expect, after sale service as well as fair comission on sales, otherwise they donot find incentives to promote sales.

Government: The government expects business to pay taxes and to accountable for subsidies.

Social Groups: There are others who are not directly concerned with business, yet have a lot of expectations from it. These could be ordinary citizens forming themselves into clubs or association of some type, expecting charitable donations for promoting education and culture; the ecologists who want business to minimise, if not avoid totally degradation and pollution of the physical enviornment, the social workers who want business to adopt backward villages and undertake all round development of housing, health and

sanitation. There is no end expectations of these various expectation.

#### 4. THE IMPACT OF STAKEHOLDERS

In a stakeholder analysis, impact or power of a stakeholder is defined as the extent to which they are able to persuade, induce, or coerce others into following certain courses of action. This can be done by direct authority, lobbying or exerting a dominant market position.

##### A brief introduction to industries under study

i) Pharmaceutical industry - India is amongst the largest & cheaper producers of therapeutic drugs in the world; It stands foremost among the third world and has excellent technology, R&D and Production facilities; a wide range of quality medicines are made locally for most medical conditions ranging from common fever to specialized antibiotics & vaccines. Traditionally the industry has been only excelling in reverse engineering & tweaking of drugs focused to sell in the domestic market. However, with the product patent rights regime going into effect from 2005, the major players in this industry are forcibly undergoing a strategic shift in their business models to move higher in the value chain of the industry and towards internationally patentable New Chemical Entities (NCE) to retain competitiveness.

For example: Biocon has FDA approved manufacturing capabilities and has filed for more than 100 patents. Similarly Shanta Biotechnics has captured a 46% market share globally for the Hepatitis-B vaccine worth approximately \$3 billion and has contracted with Pfizer for marketing the vaccine internationally. The company is doing research on a wide variety of other segments like: hepatitis-c lung cancer, tissue plasminogen, etc.

ii) *Jewelry industry* - Ever since civilizations have formed, both men and women have these personal adornments in the form of beads, stones, shells, bones, and metals. With the advent of new technology, jewellery has always been a treat for the eyes, but the process by which it is made is extremely intricate and delicate. Jewellery constitutes one of the fastest growing export industries in India today jewelry tradition has been an integral part of India's glorious cultural heritage. The forms, styles, motifs and the accent, of course vary from region to region

The present day Jewelry Industry was well established in its modern shape in the beginning of the 20<sup>th</sup> century. The credit to establish this industry in India goes to entrepreneurs of Europe. Gems & Jewellery comprising diamonds, colored gemstones, gold jewellery, pearls, non-gold jewellery, synthetic stones and costume/fashion jewellery constitute a growth potential export sector. Export of all item of this product group taken together has increased phenomenally during the last fifteen years. Net exports of gems & jewellery amounting to Rs. 1307 crores in 1984-85 rose to Rs. 33,734 crores in 2000-2001, as per the Economic survey, 2001-2002. Diamonds account for 80 to 93 per cent share in the total exports of gems & jewellery. The other two main items, though distantly following diamonds, are gold jewellery and colored gemstones together accounting for 6 to 18 per cent share of the total exports of gems & jewellery.

Indian gems & jewellery are exported to a large number of world markets comprising USA, Japan, Belgium, Hong Kong etc. (74% of India's total exports in 1997-98). All these markets happen to be the thrust markets for export expansion of gems & jewellery. Other important destinations for India's gems & jewellery exports are Israel, UAE, UK, Thailand, Singapore, and Switzerland. While Belgium and Israel are the

leading processing and trading centers, the UK, Belgium and Switzerland constitute the major transit trade centers. International business in diamond is divided into trading, transit and consuming centre. The USA, Japan, Germany and Italy are the important consuming centers. Thailand has also emerged as an important consuming centre. India is considered as one of the major producers and suppliers of handicrafts to the world market. India has a fairly large production base of handicrafts. Production centers of handicrafts are spread all over the country. Few Indian states like Uttar Pradesh, Delhi, Rajasthan, Maharashtra and Gujarat are major production centers of important handicrafts. Reliable statistics relating to production of handicrafts is not available because this industry is being concentrated in small scale and cottage sector

## 5. RESEARCH METHODOLOGY

The present work intends to discuss the potential inclusion of Stakeholders concept in pharmacy and jewelry industry with an objective to find out that whom does the industry under study considers as their stakeholder. Types of data: Primary data is collected by questionnaire while the secondary data including information on stakeholders is collected from the websites books, magazines etc.

A sample of 100 respondents of each industry was taken in order to analyze whom do they consider as stakeholder why and how do they reconcile any issue related to them. A questionnaire is prepared and discussed with the respondents.

## 6. CONCLUSION

The pharma industry considers the customers (45%) as their primary stakeholder, the business partners are considered by 30% respondents while owners by 20%, competitors 16%, investors 15%, suppliers 13% while the community has

been considered only by 9% respondents suggesting that the primary concern of the industry is its customers and community is at the bottom line.

The respondents from the jewelry industry identify the following stakeholder groups in both the industries community is at the bottom and groups which have impact on economy are on the top. The jewelry industry considers the customers (25%), the business partners are considered by 40 % respondents while owners by 17%, competitors 23%, investors 19%, suppliers 35% while the social groups (NGO etc) 11% and community has been considered only by 9% respondents suggesting that the primary concern of the industry is its customers and community is at the bottom line.

The formation of stakeholder groups depends on the individual situation of each corporation. Individuals and groups may behave differently in different situations. Different stakeholder groups often have changeable and sometimes conflicting interests, thus requiring companies to balance these varying demands. The stakeholders can be different for different organizations. These stakeholders could be investors, trade associations, employee, communities, suppliers, NGO's, political groups, pressure groups etc. Companies need to successfully predict and convincingly respond to changing and sometimes volatile stakeholder views and expectations of corporates social responsibility.

The respondents reconcile the conflicting issues mainly through mutual understanding, the respondents of both the industry reply that they do not face any conflict from their stakeholder and if there is any misunderstanding they sought it through mutual understanding and feedback from the market. Further when they have been asked how do they incorporate their voices in

decision making 90% respondent replied they do not and 10% are of view that they listen to them but the final decision is theirs(pharma industry) while in jewelry industry 57% respondents are of view that the feedback from their stakeholder helps them to take better decision while 43% says that they take their own decision .on the basis of above conclusion ,it can be suggested that the industries need to first identify and than analyse its stakeholder groups for better business prospects and smooth running of business operations, the respondent replies of not including stakeholders in decision making is suggestive of poor stakeholder transparency, which is a indication of stakeholder conflict which can be overt at this stage as respondent replied that they are not facing any such issue.

## 7. RECOMMENDATIONS

- 1) The power/interest matrix should be used as it is a useful tool for evaluation the expectations and the impact of particular stakeholders, thus providing valuable information on how to handle particular stakeholder and stakeholder groups.
- 2) Stakeholder analysis helps the organisation to evaluate stakeholder power in terms of their ability to influence of people and developments.
- 3) Community have a direct and indirect impact on organizations operations, thus they should not be considered as least important.
- 4) Stakeholders should be involved in early planning stages in order to find a solution that meets the needs of both parties.
- 5) Stakeholder claims and their relationship with the firm should also be considered while keeping their importance in the firm.

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