

# Design Your Organization around Stakeholder Relationships

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by Paul R. Dannar

It was once argued that organizations arose in order to control the diverse range of individuals contained in every activity within an economic goal (Ouchi, 1980). While bureaucracies and hierarchical organizational structures may have succeeded in this control for a time, it was found to be an illusion, because control meant that organizations were closed systems. Since then, organizations have undergone rapid and significant change, not the least of those changes have been the variety of influences and the range of values that the organization affects and are affected by (Johansson, 2008). To survive in this volatile, often ambiguous, and always uncertain environment, the contemporary organization must satisfy a number of stakeholders whose wants and expectations are disparate, often in conflict and subject to change (Johansson, 2008).

This article argues that the relationships developed between an organization's leaders, employees, and various stakeholders are the key to its success even more than an organization's strategy or structure. This is not to say that structure and strategy are not important, rather, it is possible to attain the same desired results (Nadler & Tushman, 1980) with different designs. The optimal structure depends on the firm's mission and how it can best "fit" the particular environment in which the organization operates (Lysonski, Levas, & Lavenka, 1995). This then must be integrated into the overarching focus on relationship development with all stakeholders. Obviously, this type of structure will increase the overall amount of challenge, autonomy, skill variety, task identity, task significance, (Oldham & Hackman, 1981) responsibility, and weight of the decisions required of each member of the organization as demanded by any number of possible stakeholders.

### Synergy Not Just Structure

It has been said that strategy defines structure (Drucker, 1998). However, the strategy and thus the tasks for marketing, manufacturing, or finance are not the same because each function has a different set of customers. Moreover, the ever expanding number of stakeholders an organization must deal with continues to expand. No longer do organization's deal only with customers, employees, shareholders, and local government, now they must consider suppliers, the community at large, the media, certain non-affiliated groups, and perhaps most daunting, that unknown stakeholder of the future. An organization cannot have several structures within the overarching enterprise can it? Perhaps it can if synergy is the driving force behind the organization rather than strategy alone. In fact, it makes little sense for the chief executive of an organization to limit herself to only one type of structure. It would be like limiting your wardrobe to only the color black; the only person ever to pull that off was Johnny Cash. Unless your organization is a one of a kind, like Johnny Cash, why not use all the tools available?

Synergy derives from the relationships developed between employees and the stakeholders they deal with on a daily basis. It is not just a matter of knowing they are "out there," rather, leaders need to develop new theories and models about these new groups in order to really understand how they operate, how issues arise, the importance of these issues to them, and their willingness to expend their own resources to help or hurt the firm (Jonker & Foster, 2002).

Organizations are not closed systems. They are, as Sanders (1998) points out, created and continuously reshaped by a vast network of connections, relationships, and patterns of interactions. Understanding that organizations are no longer "pieces of engineering," as Handy (1998, p. 89) would phrase it, allows for a redefinition of what an organization most closely resembles; groups of people, with very different expectations, managed differently, paid differently, and organized differently (Handy, 1998.) Acceptance of this system's view of organizations acknowledges that people must interact with their environment, and this interaction has an impact on the behavior and effectiveness of an organization (Jonker & Foster, 2002). Figure 1 provides a depiction of what this interaction might look like. Note that some of the relationships may be thought of as more important (size of the bubbles) than others.

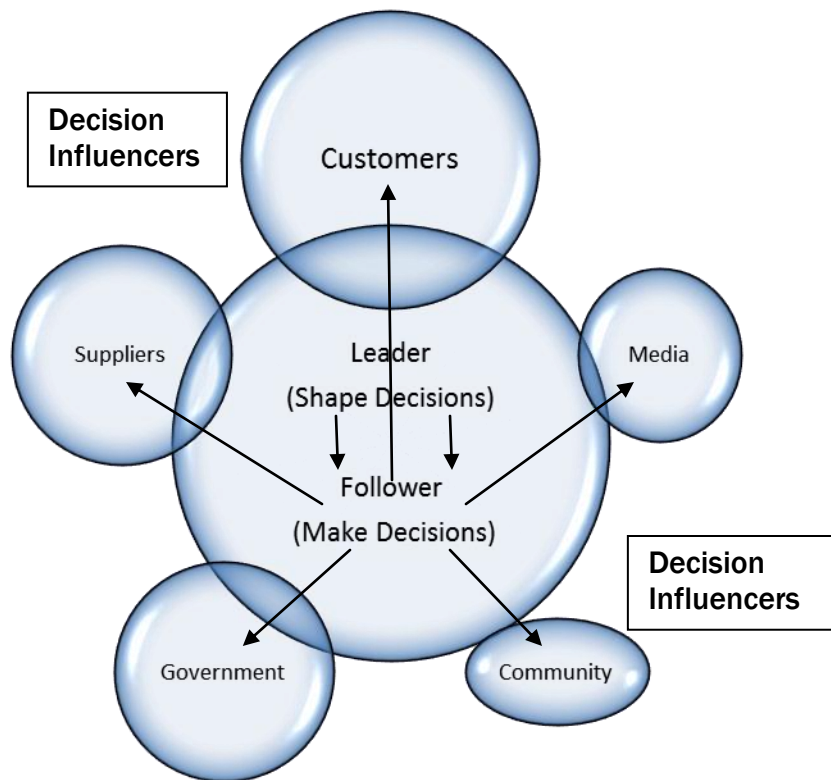


Figure 1. Systems Approach to Stakeholder Relationship

The question of who is a stakeholder and what are their stakes is difficult to answer and varies according to the organization and its context (Jonker & Foster, 2002). The power of the model is that it highlights the changing roles of the leader and follower in the new relationship oriented structure. What are these new roles you may ask? A leader cannot possibly have enough information to make all of the decisions, because no sooner is a decision made than the situation changes, requiring leaders to relearn and re-decide (Galbraith, 2002). The combination of variety, multiple dimensions, and change causes the company to make still more decisions, more frequently, thus, they must assume a facilitator role with followers and begin to shape decisions (Galbraith, 2002) rather than attempt to make every decision. The role of decision maker falls to each follower who utilizes their specific knowledge of each stakeholder in order to make quality decisions for the organization. Of course, as intimated above, this approach will impact the roles, responsibilities, and corresponding behaviors of everyone in the organization; thus, we must identify and learn new critical skills and behaviors and then work to institutionalize those behaviors in order to sustain high performance (Morley & Garavan, 1995). Creating the need for a new workforce in which everyone will be required

to lead and follow will have a significant impact on the workforce. Let us take a deeper look at this changing requirement.

### **Impact on the Workforce**

An organization that views the relationship between itself and each stakeholder as critical to its success requires a holistic and decentralized approach in which to operate. The whole thrust behind decentralization is to create local nodes of activity that can flourish by tapping local resources, meeting the needs of stakeholders, and adapting to the variations of local environments (Morgan, 2005). Members of the organization can no longer be only leader, follower, technician or manager; they must be able to perform several roles depending upon the needs of the organization as defined by stakeholders.

In this new environment, the leader's role changes from controller and decision maker to facilitator and mentor so as to empower others to make the necessary decisions for the organization. Leadership should then be envisioned as "a subtle process of mutual influence fusing thought, feeling, and action to produce cooperative effort in the service of purposes and values of both the leader" and follower (Boleman & Deal, 1997, pg. 296). The leader serves as the model for each follower showing how to build relationships with stakeholders, assisting with conflict when it arises, and providing a safe environment in which to discuss issues or concerns that the follower may have to deal with. In essence, good leaders create and become leaders of other leaders (O'Toole, 1992). At the same time, the leader utilizes the time allotted by each follower making more and more decisions to create a vision for the future of the organization and to create focus and direction for their collective efforts (Kouzes & Posner, 1997). Much of this visioning should include the search for congruency or "fit" between the firm and its stakeholders (Key, 1999). It should not be unreasonable to expect the quality leader to devote at least one-fifth of their time preparing themselves for a different and better future for the organization (Handy, 1998).

The follower's role in this new environment also changes, and through continuous mentorship from various leaders, the follower becomes the primary decision maker and relationship developer with the organization's many stakeholders. This role requires many advanced skills not the least of which is comfort with ambiguity and the desire to assume responsibility for themselves and the organization (Chaleff, 2009). One of the more important contributions the follower will make is to remain focused on the purpose of the organization rather than the needs of the leader. Followers

will still meet leader expectations indirectly through their focus on the purpose that they co-created. Better still, this allows the follower to assist the leader if they see that the leader has drifted away from the purpose of the organization. It is sort of a check-and-balance for the business.

Perhaps the most significant behavior required of followers in this relationship oriented organization is to be a continuous learner. Acquiring information and then being able to organize, interpret (Martinez-Leon & Martinez, Garcia, 2011), and apply it to create products and services for current and potential stakeholders is critical for future of organizations and will be the primary role required of all employees if our organizations are to be successful in the future. These “intelligent” organizations will look like universities of sorts, pursuing truth, creating theory to explain organizational dilemmas, running learning cultures, growing new knowledge (Handy, 1998), and developing people so they will not only be able to handle discontinuous change, but thrive in it.

### **Conclusion**

This article does not advocate for any one particular organizational design, as many different structures can lead to success. Rather, it seeks to highlight the expanding requirements for organizations in that they must meet the needs of a vastly expanded stakeholder population. No longer is it sufficient to only worry about customers, employees, and shareholders. Now, organizations have a multitude of stakeholders to deal with who all have disparate needs and wants. Whichever form of organizational structure is chosen; matrix, shamrock, or a combination of hierarchy and adhocracy, it must allow for decision making to be made at the right point and at the right level. This decentralization and the lateral communication that comes with it is best suited for complex tasks performed in turbulent, fast-changing environments (Boleman & Deal, 1997). This lateral communication allows for what some call “span of coordination,” this span of coordination incorporates omni-directional relationships (Quinn, O’Neill, & St. Clair, 2000, p. 50) rather than the traditional top-down version. In other words, creating relationships is preferable to attempting to assert control, noting that control is an illusion anyway.

### **About the Author**

Paul Dannar has more than 16 years of experience as an internal consultant concentrating on organization development for various military organizations at the operational and strategic level. He most recently served as a special assistant to the Supreme Allied Commander of Europe and NATO. He is pursuing his doctorate in strategic leadership at Regent University (Virginia).

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