

FACTORS INFLUENCING COMPANY RELATIONS WITH MARKET STAKEHOLDERS, IN THE FACE OF CRISES IN COMPANY DEVELOPMENT

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ABSTRACT

Crises in company development are a particular subset of management crises. They emerge on various stages of company development, as a result of gradual depletion of effective management solutions. Crisis situations in companies have varied impact on company stakeholders. The paper presents results of empirical studies of factors influencing company relations with market stakeholders and those that facilitate the process of restoring and maintaining any relations that suffered in the course of crises in company development. The authors' intention was to identify such factors and evaluate their importance, in relation to various stages of company development and the associated types of crisis situations faced by companies. Empirical studies suggest that certain factors may facilitate conflict resolution in matters concerning company relations with market stakeholders, and that the impact of these factors varies depending on the phase of organizational development and the type of the associated crisis situation. It must be noted, that one of the most important factors to influence problem resolution is the perceived honesty of the exchange participants. Moreover, research suggests that opinions on the significance of organizational dependence of exchange participants in the resolution of problems in relations with market stakeholders are varied.

KEYWORDS

crises in company development, phase of organizational development, market stakeholders, relations with market stakeholders, factors influencing company relations.

Introduction

In the highly volatile and largely unpredictable environment of the modern economy, companies are more susceptible to crisis situations. Market participants find it increasingly hard to cope with problems – both those caused by external or environmental factors, such as the challenges of globalization, global financial crises, new inventions, etc., and those of internal origin. This inability typically results in management crises. Crises in company development are a particular subset of management crises. They emerge on various stages of company development, as a result of gradual depletion of effective management solutions. Survival of such a crisis offers com-

panies the chance of entering the next phase of their development.

Crisis situations in companies have varied impact on company stakeholders. In particular, they strongly affect company employees (lay-offs, withheld wages, etc.) and market stakeholders, i.e. suppliers and recipients of company products or services. Crises endanger the existing company relations with market stakeholders and accelerate conflicts. However, conflicts may serve as catalysts for curative measures, particularly if both conflicting parties have strong interest in maintaining the cooperation and negotiating agreement.

The paper presents results of empirical studies of factors influencing company relations with mar-

ket stakeholders and those that facilitate the process of restoring and maintaining any relations that suffered in the course of crises in company development. The authors' intention was to identify such factors and evaluate their importance, in relation to various stages of company development and the associated types of crisis situations faced by companies.

Crisis in company development

Company development may be interpreted in dialectical, teleological, evolutionary and life-cycle perspective [1]. Each of the above approaches employs its own distinct set of explanations for the causes and the course of development changes. This study is based on the company life-cycle concept postulated by Greiner [2], and popularized by Kimberly and Miles in organizational context [3]. The concept is based on the assumption that the life cycle of an organization is a process characterised by a succession of distinct development phases, with their duration closely related to the character of qualitative and quantitative changes observed in company development [1]. According to Greiner [2, 4], company development is interspersed with crises, caused by the accumulation of problems and conflict phenomena of internal origin, resulting from management inabilities and failures, particularly in the face of adverse environmental conditions. Successful coping with a crisis situation offers the organization an opportunity to enter the next, qualitatively distinct growth phase. In this context, the crisis constitutes a turning point between two separate phases of organizational development – the former and the subsequent phase. Greiner distinguished the following phases of organizational growth (and the associated crisis situations):

- growth through creativity. The main factors of growth in this phase are: creativity, enthusiasm, managerial skills and the leadership potential of the founder. When the limits of personal control over the organization are reached due to the increased scale of operation, the existing management practices are found lacking. Symptoms of a leadership crisis emerge, typical for small, start-up enterprises,
- growth through formalization (direction) occurs typically at some place after the company has successfully coped with the leadership crisis, and is related to the expansion of the organizational structure. The experiences gathered in the course of the leadership crisis, together with the growing complexity of organizational structures, force companies to increase the formalization of duties and competences of both management personnel

and the employees, with the view of counterbalancing the organizational chaos and demarcation disputes. The increased formalization leads to autonomy crises,

- growth through delegation of responsibilities involves decentralization of management for the purpose of stimulating independent decision-making, particularly in the context of innovation and competitiveness. Excessive delegation of responsibilities may result in loss of control and decentralization crises,
- growth through coordination of previously decentralized activities, requiring careful examination of their cross-relations and negotiation of effective cooperation. This stage is observed mainly in large, complex structures, often spatially dispersed. Excessive coordination tends to increase bureaucratic trends and may result in bureaucracy crises,
- growth through collaboration – the last phase of Greiner's concept, in contrast to the previous phase involving coordination through formal systems and procedures, is characterized by flexible and behavioural approach to management. The main emphasis is put on teamwork, social control, and self-discipline.

Company crises differ with respect to level, extent, and consequences [5]. Deterioration of relations with company stakeholders is regarded as one of the most important consequences of management crises.

Crisis situations in company development and their impact on company relations with market stakeholders

Literature studies suggest that crises exert direct impact on the operation of the whole network of commercial partners [6]. After realising that the enterprise is struggling with a crisis, stakeholders undertake actions aimed at minimising the exchange risk. For example, consumers stop purchasing products from said companies [7], employees resign from their jobs [8], investors withdraw their investments [9]. Hence, the initiated crisis influences also the operation of other entities on the market [6]. Yu, Sengul, and Lester confirmed that the negative impact of a crisis situation in one organisation may exceed the borders of a given industry and affect other organisations in the same supply chain [6]. Therefore, it is necessary for the stakeholders to assess the probability of the expansion of the crisis and to reflect more deeply on the undertaken actions [10]. The

role played by the crucial entities in the chain of exchange, the behaviour of which determines the continuation of or end to the relations with the enterprise experiencing crisis, should not be underestimated [11]. It was noticed, however, that the crisis in the organisation is one of the situations perceived by stakeholders as a violation of the adopted exchange principles. Thus, the crisis in the organisation, in the stakeholders' approach, entails the necessity to redefine the relation attributes (e.g. loyalty, trust, partnership). They allow for identifying the actions which are indispensable for eliminating the unfavourable situation and overcoming the crisis [12]. Hence, on the one hand, stakeholders have the power to form and restrict the activities of the organisation [13]. On the other hand, they are themselves subject to the influence of the enterprise, which results in the changes in the formation of the relations between the exchange participants.

Early problems related to the leadership crisis emerge in the initial phase of the organisation's life. The current orientation on entrepreneurship and production, coupled with informal trends in management and the expanding enterprise, often results in organizational chaos. Company stakeholders have trouble identifying persons responsible for the decisions and actions taken. The intensity of conflicts between leaders of the enterprise is mounting. Simultaneously, the number and frequency of contacts with market stakeholders is growing. Relying on the dominance of informal internal and external communication results in misunderstandings between the participants of the exchange. This, in combination with the lack of a particular vision of forming relations on the enterprise-market stakeholders plane, may cause the occurrence of crisis situations in relations. In order to resolve the leadership crisis in relations with the exchange participants, a clear concept of further formation of relations is needed. The role of a powerful manager, capable of employing new relation management techniques, is particularly important here. This phase also involves the need to introduce formal solutions.

Introducing a certain level of formalization to company transactions leads to centralization and hierarchization of the organizational structure. Specialists, including employees responsible for forming relations with market stakeholders, are introduced to the company. They are subject to a formal control by senior managers, which restricts their freedom to undertake initiatives in relations with market stakeholders. Further organizational development results in the top management not being able to influence the formation of relations with the exchange

participants in a centralized manner. On the other hand, formalization hampers the fulfilment of the needs and requirements of market stakeholders by the front-line employees who possess the relevant knowledge. Employees feel beset with procedures and take initiatives to form the relations on their own, which are approved by junior managers. However, the top management is not set on that, and the front-line managers are not ready to assume complete responsibility for the decisions made with this respect. The entities of the exchange struggle in this situation. This leads to an autonomy crisis, recovering from which requires decentralization with respect to taking decisions and forming relations with market stakeholders.

As a result of delegating rights and responsibilities, profit centres are developed. This motivates front-line and regional employees and managers. The greater flexibility of transactional solutions results in the increase of the effectiveness of the formed relations on the enterprise-market stakeholders plane. Further development of the organization causes the top management to feel the lack of control over the growing independence of profit centres. The attempts to return to the centralized formation of exchange relations are usually unsuccessful, due to the achieved complexity of the organization and market relations. It becomes indispensable to seek new solutions, i.e. to apply special exchange coordination techniques.

The decentralized units are organized into divisions. They follow the market relations guidelines designed by the top management, and are subject to control by the headquarters with this respect. The divisions are perceived as investment centres. Therefore, the formation of relations with market stakeholders is treated as a specific investment, determining the permanence and development of the organization in the future. The new market exchange coordination system appears to be useful in achieving the enterprise growth and enhancing relations with market stakeholders due to the greater effectiveness in allocating the limited resources of the organization. This leads to the growth of the organization, at the cost of comprehensive market relations management. This leads to the emergence of a new crisis – the red tape crisis. In order to overcome it, the company needs to introduce cooperation between the employees of the investment centres. This results in the establishment of teams, where various interpersonal skills of employees are used. Formal control is replaced by self-control and self-discipline. Hence, the matrix structure usually emerges. Managers responsible for forming relations with market stakeholders are appointed. They cooperate to find a common so-

lution for the crucial problems related to forming relations.

Such an approach may ultimately lead to the appointment of teams responsible for relations management, representing both the enterprise employees and market stakeholders' agents. This is a manifestation of full partnership in market relations, based on close cooperation, loyalty and trust.

Factors supporting the resolution of problems in relations with market stakeholders in the context of development crises – a theoretical perspective

In business practice, sooner or later, every form of business relation will face undesirable events. These may result in conflicts. Even in close partnership settings, this scenario is unavoidable. Research suggests that the upkeep of relations is determined, among other things, by the parties' approach to conflict solving [14, quoted after 15]. The task is difficult, since both the premises and the methods of solving conflicts are widely varied. In professional literature, this area of research is largely fragmentary. Studies focus on selected aspects, such as reconciliation of trust, reducing the negative effects of conflicts, renegotiating the positive exchange, etc.¹ An interesting approach to relation-mending is presented by K. Dirks, R. Lewicki, A. Zaheer [15]. The authors distinguish three dimensions of the relations-mending process: the attributive, the structural, and the social equality dimension.

The attributive dimension refers to reconciliation of trust resulting from conflicts. The degree of lost trust is individual, and largely determined by behaviours of the parties involved. Research suggests that parties willing to voluntarily admit to errors on their part are perceived as more trustworthy [16]. Reconciliation of trust is based on the defaulting party's willingness to show their good faith and restore proper relations with others. This may involve apologies, penance, readiness to bear full consequences of the party's defaults, etc. [15].

In the case of relations characterized by large social disproportions (inequalities), new relational forms should be sought, ones that are shared and observed by all participants of the exchange. For this purpose, it may be necessary for the defaulting party to admit to their negligence or to bear full consequences of their actions (penance, pun-

ishment), which in turn form the basis for forgiveness [17].

The structural dimension of the relation-mending process involves preventive or curative measures, as well as measures that limit the extent of past or potential defaults (such as relation-monitoring, forming incentives for continued collaboration, setting up joint structures). However, preventive measures may be costly. Therefore, the upkeep of relations is largely determined by the evaluation of their profitability [15]. Obviously, relations found to be unprofitable do not require any curative measures.

Lastly, K. Dirks, R. Lewicki, and A. Zaheer emphasize the relations-mending potential of behavioural and organizational activities that may improve the economic effects of the exchange. Therefore, it may be concluded that resolution of problems with respect to company relations with market stakeholders, as caused by crises in company development, may be supported and facilitated by factors of behavioural and organizational character.

It is commonly believed that the approach presented by K. Dirks, R. Lewicki, and A. Zaheer does not exhaust the problem at hand. The quest for additional factors that may facilitate conflict resolution was inspired by the concept of relation values, postulated by D. Wilson and S. Jantrania [18]. The authors postulate that relations with market stakeholders have tangible values, and those values should be examined in three perspectives, i.e. not only from behavioural viewpoint, but also from economic and strategic viewpoint [18]. The economic dimension applies to financial aspects of the exchange. The behavioural dimension involves immaterial aspects, most notably the relation norms, relation risks, trust, and the culture of relations. Lastly, relations should also support and facilitate the attainment of strategic objectives, both for the company, and for market stakeholders. The exchange participants, by applying their key competences and improving their relation exchanges, may improve their market position and competitive advantage over others.

In this context, and for the purpose of the study, let us assume that the resolution of relational problems resulting from crises in company development is facilitated by the following factors:

- in strategic approach: intentionality of behaviours on the part of relation participants (most notably, the convergence of objectives), mutual support in conflict resolution, flexibility in relations,

¹For a comprehensive study of the latter, see: Dirks K., Lewicki R., Zaheer A., *Repairing Relationships Within and Between Organizations: Building a Conceptual*, Academy of Management Review, 31 (1), 69–71, 2009.

- in behavioural approach: honesty of exchange participants, mutual trust, reliability, credibility, loyalty,
- in economic approach: profitability of relations,
- in organizational approach: adjusting the exchange processes (IT systems compatibility, standardization and synchronization of exchange standards, integration of supply chains).

Assuming the above and taking into account the conventionality of the adopted phases of company development, the study presented below will be conducted in accordance with the cyclic organizational development concept postulated by Greiner [2, 4]. The main research question can be formulated as follows: “does the impact of individual factors supporting problem resolution with respect to relations with market stakeholders vary in relation to phase in company development and the associated type of crisis situation?”

Factors supporting the resolution of problems in relations with market stakeholders, in the light of empirical findings

The research was based on pilot studies in the form of interviews with the representatives of five different types of enterprises, representing all of the individual phases identified in Greiner’s concept of the organisation development cycle [2]. The phases were identified based on the perceived needs: – the need to organise the operation of the enterprise (growth

through creativity), – the need to introduce greater control (growth through management), – the need of decentralisation (growth through delegation), – the need to coordinate the activity (growth through coordination), – the need to cooperate (growth through cooperation).

The interviews were focused on determining whether the factors identified using literature studies may be seen as contributing to the solving of problems in relations with market stakeholders, caused by company crises, and on evaluating their significance. The interviews were conducted with the top management representatives responsible for marketing, sales and supply.

The interview study confirmed that crises occurring in various phases of the organization development cycle contribute to the changes in forming relationships between the exchange participants. The interview study confirmed that the factors which contribute to the solving of relationship’s shaping problems caused by crises in company growth should be analysed in the strategic, behavioural, economic and organisational dimensions.

The second step was the research on a larger sample of enterprises. The authors were able to enlist 99 enterprises for this purpose. Therefore, the research sample may be regarded as convenient. Since the sample is not representative, the results obtained may not be generalizable. The research was based on electronic surveys. The number and structure of enterprises participating in the research is shown on Fig. 1.

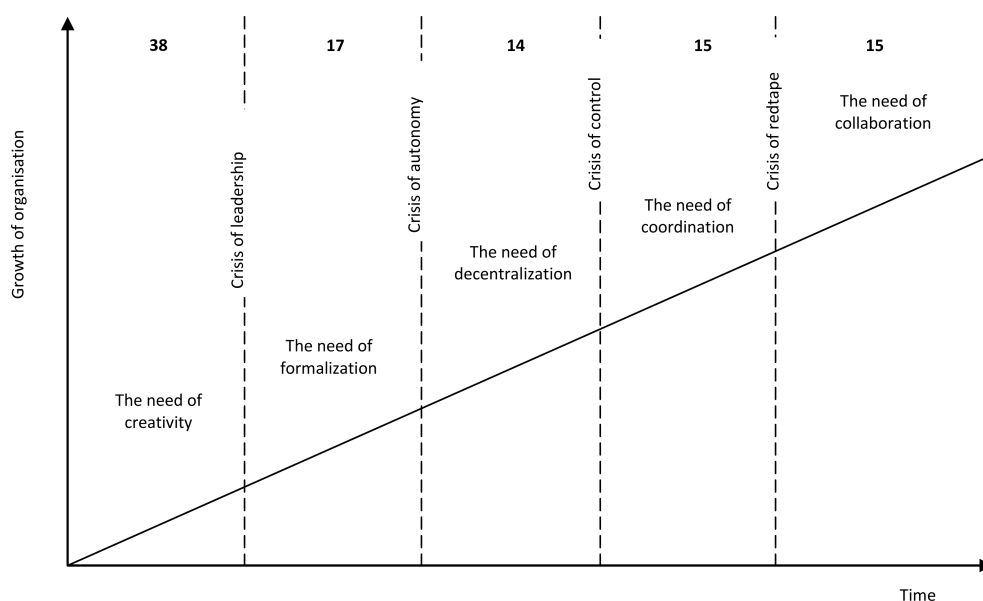


Fig. 1. The number and structure of enterprises participating in the research.

The majority of the respondent enterprises state they are prepared for crises in their relationships with market stakeholders. Moreover, the enterprises try to find common solutions. It is worth noting that 20% of the enterprises under study, while stating their readiness for crisis in the relationship with market stakeholders, emphasize that their main reason for doing so is to protect their own business. The research showed that the factors of strategy and behaviour are, in general, fairly important for the enterprises in the phase of growth through creativity (Fig. 2). The most important factors were: profitability of relationship's shaping and honesty of exchange's participants. The opinions gathered in the

course of the study suggest that organizational dependence of exchange's participants is not important in the solving of the crisis situations in relationship with market stakeholders. This could be related to the fact that the creativity phase is characterized by the lack of organizational dependence.

Moreover, the research showed that – for the enterprises in the phase of growth through direction – the factors of economic, strategy and behaviour were perceived as rather important (Fig. 3). What should be stressed is the fact that, for the majority of enterprises under study, the honesty of the exchange's participants was perceived as very important in the solving of crisis situations in relationships.

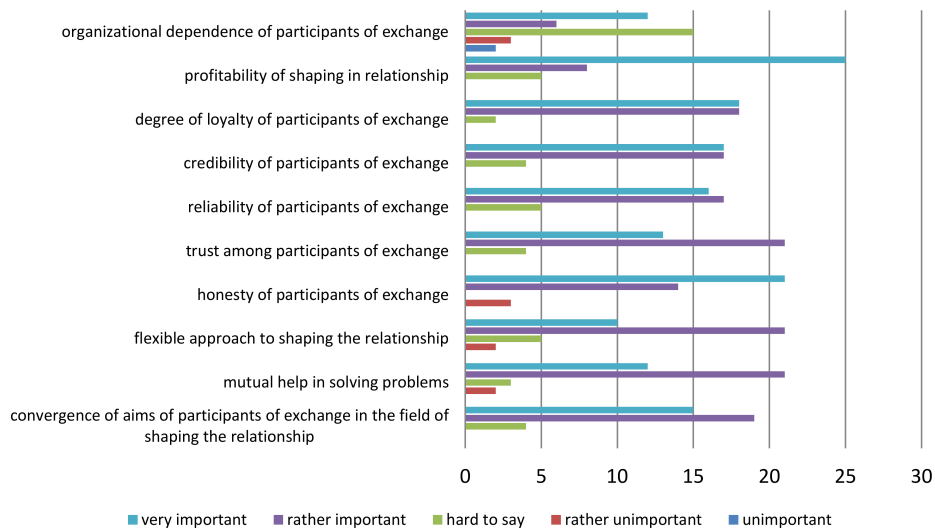


Fig. 2. The importance of the factors in the solving of crisis situations in relationship with market stakeholders for the enterprises in the phase of growth through creativity (Source: results of empirical studies).

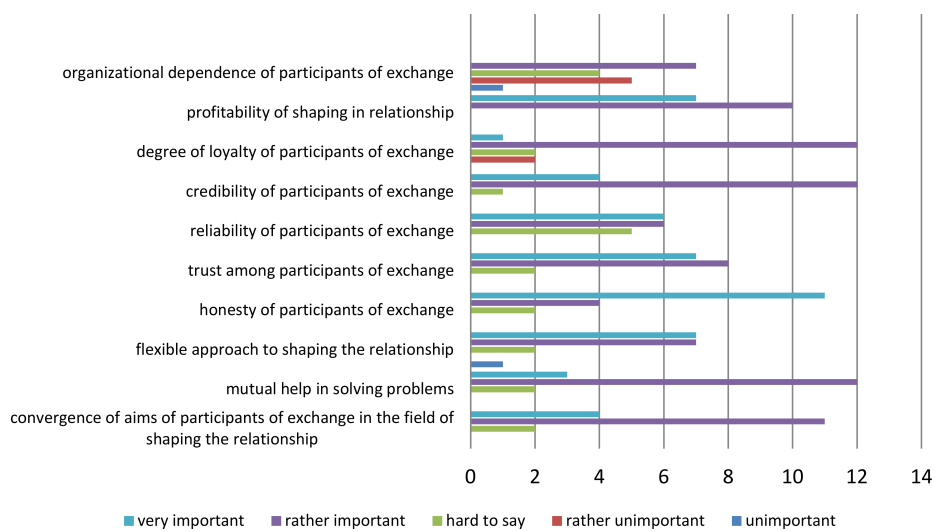


Fig. 3. The importance of the factors in the solving of crisis situations in relationship with market stakeholders for the enterprises in the phase of growth through direction (Source: results of empirical studies).

Also, the profitability of relationships was generally regarded as important. Otherwise, it can be seen that, for the enterprises in the phase of growth through direction, the organizational dependence of participants of exchange was regarded as more important in the solving of the crisis situations in relationships than for the enterprises in the phase of growth through creativity.

In the case of enterprises in the phase of growth through delegation, the most important factor in the solving of crisis situations in relations with market stakeholders was mutual help (Fig. 4) The behaviour factors, in the opinion of respondent enterprises, were fairly important. What should be stressed is the fact that enterprises perceive profitability as fairly important in the solving of crisis situations in relations with market stakeholders, but it should be noted that some respondents perceived this factor as unimportant. In addition, the research showed that the organizational dependence of participants of exchange was perceived as important, but also – and equally often, seen as fairly unimportant.

In the case of enterprises in the phase of growth through coordination, the results of the research were fairly difficult to interpret. Opinions of enterprises were varied (Fig. 5) The most important factors in the solving of the crisis situations in relationship with market stakeholders were: honesty and credibility of the exchange’s participants. These factors can be used as basis for future collaboration. In the opinions of the majority of respondent enterprises, the profitability of the relationship’s shaping was per-

ceived as important, but some respondents saw it as fairly unimportant. However, the importance of the organizational dependence in the solving of the crisis situations in relations with market stakeholders was interesting. For the majority of the enterprises under study, the organizational dependence was not seen as an important factor. This observation leads to the following question: if the enterprise strives for growth through coordination, will the organizational dependence of exchange’s participants disturb the solving of the crisis situations in the relations with market stakeholders? To answer this question, further research is needed.

However, for the enterprises in the phase of growth through collaboration, the organizational dependence is rather important – probably because the enterprises in this phase have already achieved the coordination of activities that influence the shaping of mutual relations (Fig. 6). This can signify that the organizational dependence of the mutual processes of exchange has already been in place. However, it should be stressed that, for some enterprises, it is hard to evaluate the importance of organizational dependence of participants of exchange. The research showed that, in this phase of company growth, the profitability and the factors that influence the intentionality of the behaviour of the exchange participants were considered fairly important. The most important factors in this context were: honesty and trust between the exchange participants, and the remaining behavioural factors were considered fairly important.

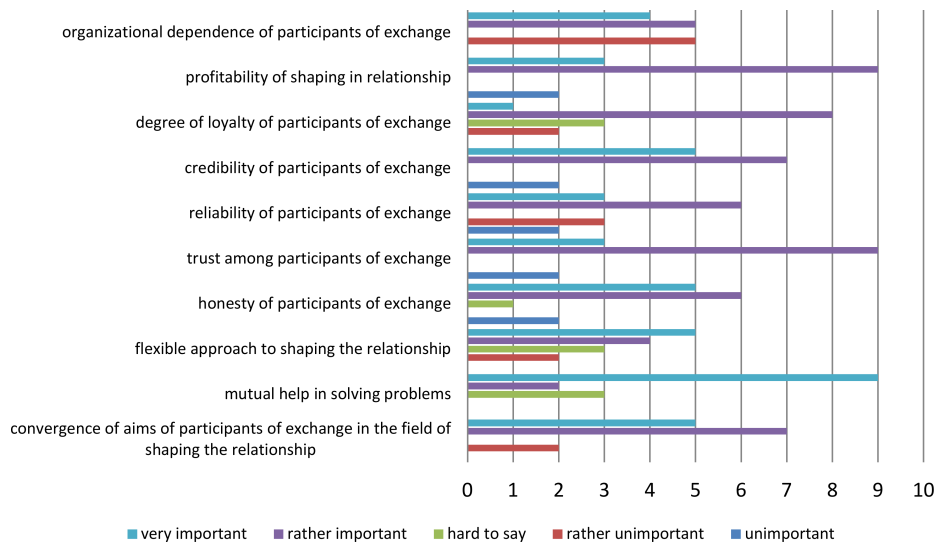


Fig. 4. The importance of the factors in the solving of crisis situations in relations with market stakeholders for the enterprises in the phase of growth through delegation (Source: results of empirical studies).

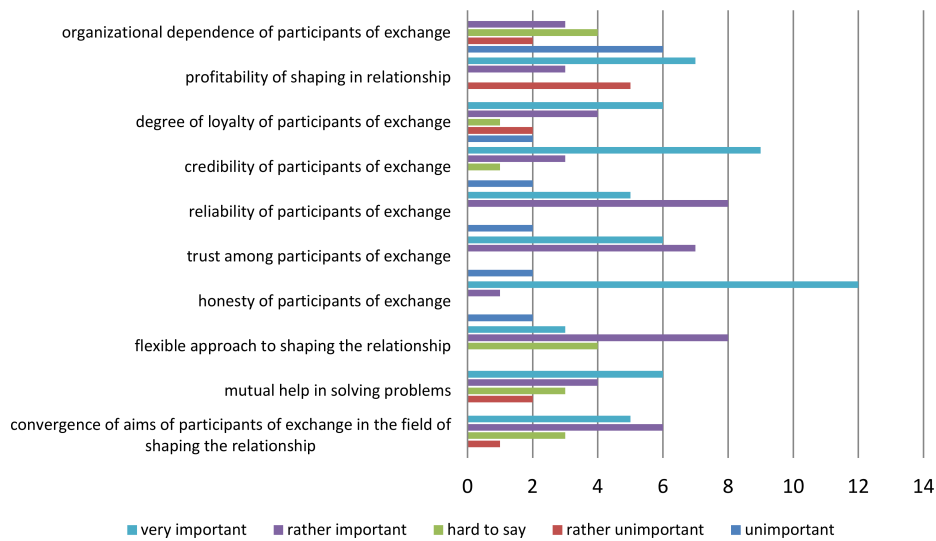


Fig. 5. The importance of the factors in the solving of crisis situations in relationship with market stakeholders for the enterprises in the phase of growth through coordination (Source: results of empirical studies).

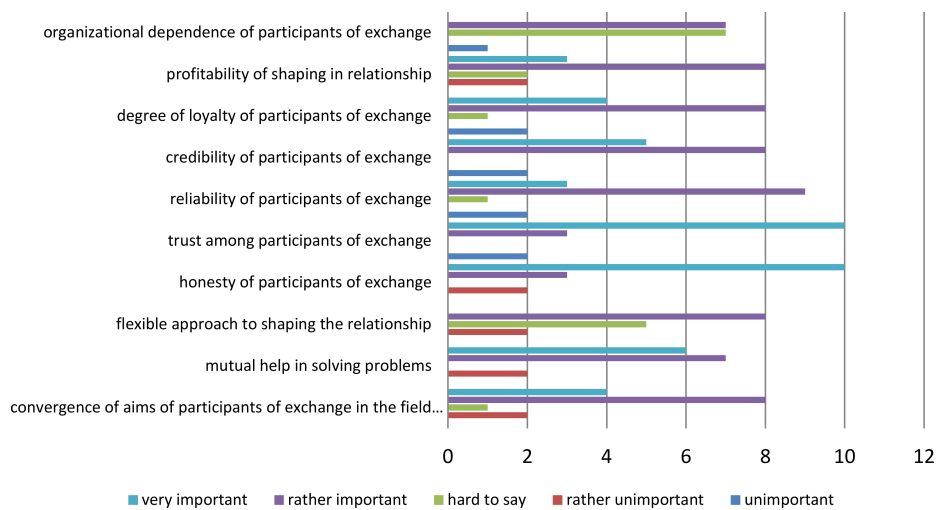


Fig. 6. The importance of the factors in the solving of crisis situations in relations with market stakeholders for the enterprises in the phase of growth through collaboration (Source: results of empirical studies).

Conclusions

Resolution of conflicts and the associated crisis situations with respect to company relations with market stakeholders requires careful identification of sources of the problem at hand, followed by admission to default, contrition, expressing concern, affirming the intent to mend the relations, and willingness to bear the consequences of the default [19]. The effectiveness of the above behaviours is determined by the nature of the relations under study. Empirical studies suggest that certain factors may facilitate conflict resolution in matters concerning company relations with market stakeholders, and that the im-

portance of these factors varies depending on the phase of organizational development and the type of the associated crisis situation. It must be noted, however, that – irrespective of the current phase of the organizational growth – one of the most important factors to influence problem resolution is the perceived honesty of the exchange participants. Moreover, research suggests that opinions on the significance of organizational dependence of exchange participants in the resolution of problems in relations with market stakeholders are varied. This particular factor was often perceived as less important or outright unimportant, compared to other factors under study. Thus, the analysis of empirical results poses another question:

does the organizational co-dependence of exchange participants in fact detriment crisis resolution with respect to relations with market stakeholders? This question requires further studies.

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