



# Technical Notes

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## Stakeholder Analysis: A Vital Tool for Strategic Managers

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The recognition of the key role played by stakeholders in the determination of policy, its implementation, and outcomes has made stakeholder analysis a vital tool for strategic managers. The term stakeholder analysis encompasses a range of different methodologies for analyzing stakeholder interests and is not a single tool—a fact that has led to some confusion about what it is and how one does it. The purpose of this note is to help clarify the notion of stakeholder analysis by exploring a series of alternative methods, their advantages and potential limitations. A common analytic methodology for use by the IPC team and developing country managers in reconnaissance and other diagnostic activities will also be suggested.

### What is it and Why do it?

The purpose of stakeholder analysis is to indicate whose interests should be taken into account when making a decision. At the same time, the analysis ought to indicate why those interests should be taken into account. How do we know when a group's or actor's interest **must** be given specific and serious consideration? First, if an actor or group is in a position to damage or weaken the authority or political support of the decision maker or the organization, then it should be taken into account.

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For instance, the urban industrial import substitution sector in many developing countries is opposed to reforms to facilitate a more export-driven economy. Since this sector is often the most economically powerful sector, it is generally in a position to weaken political authority should it actively oppose the government.

Second, if the group's presence and/or support provides a net benefit or strengthens an organization and/or enhances the decision-maker's authority (and capacity to secure compliance to decisions), then it should be given close consideration. For example, if a group can bring new resources, provide entry into a new market or otherwise enhance the organization's strength, it should be taken into account.

Third, if a group is capable of influencing the direction or mix of an organization's activities, it needs to be counted as a stakeholder. Consumers are often viewed as stakeholders in organizations charged with the delivery of public services. But since public utility organizations in LDCs are frequently monopolistic, and since most consumers are poor and have little, if any, capacity to mobilize, the decision maker can safely exclude them from the decisional calculus. But in other cases even amorphous groups can be powerful stakeholders, particularly if they are large; the influence of the comparatively affluent American teenager on the music and fashion industries of the United States is a case in point.

Generally, stakeholder analysis focuses on two key elements: groups or actors are analyzed in terms of: a) the interest they take in a particular issue and, b) the quantity and types of resources they can mobilize to affect outcomes regarding that issue. However, the way in which and the degree to which each of these elements is analyzed varies considerably. Overly inclusive approaches run the risk of turning the analysis tedious without a great deal of added value. As a rule of thumb, one might apply the following: only those groups or actors with real and mobilizable resources that can be applied for or against the organization and its interests to the issue at hand should be included. They are the ones that have the capacity to directly influence policy outcomes.

### **Approaches to Stakeholder Analysis:**

Certain schemes are quite limited in what they expect to achieve with stakeholder analysis, while others are considerably richer both in data and analytic requirements. By applying the criteria noted in the paragraphs above regarding which groups ought to be included in a stakeholder analysis this note will explore some of the dimensions of these schemes, ranging from one of the more simple forms of stakeholder analysis to much more complex frameworks.

Brinkerhoff's (1991) approach to stakeholder analysis focuses upon use of the tool for managing programs. This focus highlights identifying what a program needs from its stakeholders to be effectively implemented. These needs are framed in terms of types of exchanges between the program and its key stakeholders; e.g., financing, physical inputs, political support, approvals, policy support, technical assistance, and so on. Stakeholders are identified and classified according to the resources they control, their interests in the program's activities and outputs, and their importance to the different types of exchanges. Brinkerhoff then summarizes the analysis in a matrix in which actors concerned about a particular issue are arrayed along a vertical axis, while the horizontal axis illustrates certain types of exchanges (or resources) the actor can bring to the issue.

There are a couple of characteristics of this approach and in the matrix that might limit its usefulness for certain analysts. First, while exchanges or resources are noted, the degree to which such resources are in fact salient to issue outcomes is not easily perceived in the matrix itself. Second, neither the matrix nor the narrative analysis indicate the degree to which the

group has the capacity to mobilize the resource or exchange noted. Nevertheless, the approach does quickly communicate who has what—important elements for strategy development.

Honadle and Cooper (1989) take a slightly different and more limited approach to stakeholder analysis than Brinkerhoff. Their matrix arrays the primary actors or stakeholders across the horizontal axis, and on the vertical lists a series of problems upon which those stakeholders might have some impact or capacity to help resolve the issue. The matrix, however, is not clear about how stakeholders can actually help in resolving the problem indicated, merely that they might be able to. Perhaps more importantly, the matrix does not really indicate the level of interest of the stakeholder in the problem nor the direction of that interest. Is the stakeholder for the policy or against it? How strongly does the actor feel about the issue? However, as a "first cut" mechanism for illustrating the array and range of problems and actors, Honadle and Cooper's approach is quite useful.

Other interpretations of stakeholder analysis go much further than the two approaches just described. Gamman's approach (1991) is much more descriptive and analytically is quite comprehensive. However, his approach is keyed into aiding the analyst in strategy design—and is therefore necessarily more complete in his analysis. Unlike the earlier approaches, it not only lists the important actors but also attempts to gauge their relative importance, their interests and/or objectives, how these interests are in conflict with others, and the leaders of each group.

While the main strength of Gamman's approach lies in its comprehensiveness, it is also the source of some potential problems—especially with respect to how many and which groups are or ought to be included in the discussion. To be complete, Gamman suggests that the analyst look beyond the range of obvious actors or groups and determine which unmobilized and/or unorganized groups might be affected in some manner by the policy (regardless of whether they are in fact affected by the policy), and how they might feel about that policy. When the policy focus is fairly broad, then the number of groups that could be included under that criteria mounts rapidly, and can quickly turn the analysis into a somewhat burdensome exercise (at least from a busy manager's point of view). Another potential difficulty with Gamman's approach is that he does not examine the nature of stakeholder resources nor their capacity to mobilize those resources. Without some clarity regarding

resource levels and capacity, judging stakeholder impact on policy issues will be difficult.

The level of effort required to carry out the sorts of activities suggested by Gamman is substantial. Thus, before proceeding, managers should weigh the potential gains from the analysis. Also, Gamman's approach requires a degree of sophistication and familiarity with the environment that a short-term consultant seldom has. If this type of analysis is desired, then, effort should be made to obtain assistance from local knowledgeable or informants. These caveats notwithstanding, Gamman's approach can provide a wealth and richness of information to aid both in the policy design and implementation process.

A fourth approach is that utilized by Lindenberg and Crosby (1981) in conjunction with their political mapping techniques, and is that which has been suggested for use by the IPC project. This approach develops a matrix in which information for each group is arrayed according to the group's interests, the level of resources it possesses, its capacity for mobilization of resources, and the group's position on the issue in question.

In the first cell (Table 1) are listed those interests that will be affected by the policy or decision to be taken. What are the group's specific interests in the policy? The analyst should be careful to select only those two or three interests and/or expectations that are most important. In the second cell are noted those resources that the group possesses that could be brought to bear in the decision making or implementation of the

policy. Can the group offer some special knowledge or information? Would the group's status and presence on one side of the issue be key to its implementation or blockage? If the group appears to have resources that can be brought to bear, it is important to know whether the group is capable of mobilizing those resources quickly or only slowly. Quickly mobilizable resources are advantageous if the issue has immediacy, but less so if the impact of the issue is further out into the future. If the group cannot mobilize or make effective use of its resources, then they are not really resources in any meaningful sense of the word. The analyst's judgment regarding mobilization capacity should be noted. Finally, the group's position regarding the issue should be examined and noted. Judgment should be more discrete than a simple for or against. If a group is barely in favor of an issue, a convincing argument could be enough to change its position.

In some respects this approach is similar to Gamman's, but with the difference that the analyst need not go beyond the range of obvious actors. Only those actors with a position on the issue and resources that can be brought to bear need be considered. Nevertheless, the level of effort, analysis and inclusiveness of this approach is much broader (and time consuming) than recommended by either Brinkerhoff or Honadle and Cooper. As with the Gamman approach, the analyst should carefully weigh the benefits to be achieved from the analysis against the costs of carrying it out.

**TABLE ONE**

<b>GROUP</b>	<b>GROUP'S INTEREST IN ISSUE</b>	<b>RESOURCES</b>	<b>RESOURCE MOBILIZATION CAPACITY</b>	<b>POSITION ON ISSUE</b>

While stakeholder analysis is certainly helpful to gain a better understanding of the interests and resources of the important players for policy decision-making and implementation, it is even more so when used in conjunction with other strategic management tools

such as political mapping, forcefield analysis, and the environmental analysis matrix (see IPC note, "The Political Environment for Implementation of Policy Change: Tools for Analysis", 1991). With political mapping, stakeholder analysis can help to refine the

placement of political groups on the map. In the case of forcefield analysis, it helps clarify a group's position as well as the comparative importance or salience of the group on the forcefield. Indeed, stakeholder analysis is generally a more interesting and powerful tool if used in combination with others.

### **How to Conduct a Stakeholder Analysis for a Reconnaissance Visit:**

There are several reasons why an external analyst might carry out a stakeholder analysis. First, for identification of the client and where he/she sits in the environment (who he/she is, what he/she is supposed to do, the importance of the position in relation to others) and to understand some of the pressures and expectations regarding his/her role. Second, the analyst should acquire a broad understanding of the environment and how stakeholders interact with the environment and the organization in order to play a more effective role with the client. A knowledge of who's who and why will produce a more effective interaction with the client. Third, managers can sometimes hold strong opinions about stakeholders which conflict with generalized perceptions in the environment. The external analyst can play a valuable role as an "independent auditor" of those stakeholders. Finally, given that some approaches to stakeholder analysis can be quite time-consuming, the external analyst can provide at the very least an initial cut to be reviewed by the client.

Generally, the analyst can begin the stakeholder analysis before going into the field through perusal of the literature on the case country's politics and economics. In addition to standard sources such as the CIA's annual World Factbook, and professional journal publications, World Bank, AID, and UNDP publications can be helpful. The analyst should make a list of the groups that seem most relevant to the policy issue under consideration. One should not try to be very restrictive at this stage—it would be better to try to develop a fairly ample list and then begin to reduce. If sufficient information is available, the analyst might also consider drawing a political map or working up a tentative forcefield analysis. If possible, experts at local universities or think-tanks or from the country's embassy should be sought out for their opinions. With all this, the analyst ought to be able to generate some early hypotheses regarding the array of stakeholders and their relative importance.

Once in the field, the analyst should seek out local knowledgeable to obtain their opinions regarding key

players and their interests. The analyst is encouraged to use as wide a range of informants as possible since many informants also have particular agendas they wish to promote. Key informants can be quite varied: journalists, top officials in the church, leaders of business groups, congressmen, leaders of political parties, international donor officials, leaders of interest groups, university professors, consultants, embassy officials (other than the US too), labor leaders, radio and TV commentators, local think tanks, management institutes, high ranking military officials or professors at the military colleges, and local and international PVO heads.

Although personal interviews are the standard method of obtaining information, other techniques can be used. For instance, this writer has had success in using informal panel groups and workshops to discuss these issues and work through differences of opinions. The difficulty of this approach is that it generally requires more entree than that enjoyed by most intermittent consultants. This technique is also a good sounding board for testing the analyst's ideas.

Ideally, the developing manager should acquire a solid familiarity with the tool both to diminish reliance on outside advice and in order to gauge the effectiveness and veracity of external advice and analysis when sought. Besides the obvious review of appropriate literature, there are a couple of useful mechanisms that this writer has found for transferring the technology. One useful method is through workshops; first, a brief introduction to the method and second, case studies or exercises to hone skills in using the technique. If several individuals will be expected to work with stakeholder analysis, this method is particularly effective. Care should be exercised to include only those who indeed will work with the technique and who will actually find it useful. Those who will not actually use it will find it quite tedious. Another useful method, especially when only a very narrow group will benefit is through one on one consultation in the use of the instrument. When the number of users is more than three, however, the workshop method will prove more efficient.

### **How can the Developing Country Manager use Stakeholder Analysis:**

In many respects there are parallels in the use and usefulness of stakeholder analysis for the developing country manager and the external analyst/consultant.

However, it can generally be assumed that local managers have the advantage of their own knowledge

(bolstered by a historical view) and usually much readier access to local knowledgeable. Nevertheless, managers should be warned that familiarity with names and groups does not necessarily amount to a strong analytical understanding of the different stakeholders. Often, the manager will know (perhaps intuitively) that a particular group is strong and needs to be taken into account. But he/she may not understand why the group needs to be taken into account. What are the groups resources? How quickly can they be mobilized? What are their interests and why? For purposes of strategy construction, these are important pieces of information.

It is important that the manager confirm his perceptions of stakeholders either through group discussions with associates within his organization or through external analysis. It is only natural that managers will elevate the importance of groups that share their own views and perhaps diminish the importance of others. While not perfect, the consultation process can help reduce bias.

When should the manager undertake the analysis? There are two points at which stakeholder analysis is critical. First, when the policy is being formulated—at the point when decisions regarding who will be favored are taken. While it is true that they often are not taken into consideration at this point, managers

can supply important input regarding critical stakeholders and how they can affect policy outcomes. Since policy makers are often not in direct contact or have little to do with critical stakeholders, information supplied by the manager, who is in much closer and direct contact, can be critical. It is at this point that the manager can help the policy maker avoid erroneous decisions.

The second point is in the formulation of a strategy for implementation. It is at this point where the manager will have greatest input. It is also at this point where decisions become critical in terms of assuring alliances and support. A solid analysis of stakeholder expectations and a keen appreciation of the relative importance of different stakeholder groups can be key input for the design of strategies to handle certain groups, knowing what pieces of the policy should be emphasized, or how to assure future support.

Finally, and perhaps as a warning, since stakeholder exercises can be fascinating, it can be tempting to devote too much time, and worse, too much credence to the analysis. The stakeholder analysis is only a tool, one that helps to understand better the field upon which policy change and the implementation of those changes will be played. It is not an end in itself.

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