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# Stakeholder Management in Risk Management – Considerations on the ISO 31000 Standard

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## Abstract

*Risk management can be compared to a defence system through which the organisation responds to the uncertainties impulse by internal and external stakeholders. The strength of the "defence system" stems from the organisation's capacity to foresee uncertainties, understand them in its own context and develop robust and adapted mechanisms relative to each uncertainty. The current paper will explore the contribution of stakeholder management to risk management, in the particular case of the implementation of the ISO 31000 standard. Following a literature review, the paper shall review the imbrication of stakeholder management in risk management for the implementation of the ISO 31000. The result is the identification of stakeholders that managers should approach and include as early on as possible when implementing the ISO 31000, and the identification of stakeholder alliances that mangers should monitor in order to ensure the sensibility and accurateness of the risk management system.*

**Keywords:** Stakeholder management, Risk management, ISO 31000

## INTRODUCTION

Throughout their journeys "*Organisations of all types and sizes face external and internal factors and influences that make it uncertain whether they will achieve their objectives*" (ISO 31000, page v). Relative to the organisation, this statement points out to two notions: uncertainty and internal/external factors. On the one hand, uncertainty alters the organisation's ideal functioning scenarios in relation to both internal structure and external dealings and can impact positively or negatively the objectives it has set. On the other hand, Freeman (1984) defined stakeholders as groups that affect or are affected by the organisation's behaviour. Consequently, the influences of internal and/or external factors mentioned in the introductory lines of the ISO 31000 take us to another stream of management literature: stakeholder theory. With this conclusion in mind, the present research sets on the path of analyzing the ISO 31000 standard so as to better understand the imbrication of stakeholder management in risk management.

## LITERATURE REVIEW

The ISO 31000 standard defines the impact or "*effect of uncertainty on objectives*" as risk. Although the definition proposed in the introduction of the standard seems quite nebulous, the standard latter lists reasons, drivers and characteristics of risk management and which are resumed in Table 1.

**Table 1: Reasons, Drivers and Characteristics of Risk Management**

| | | |
|---|---|---|
| Risk Management | Is | iterative |
| | | fundamental to how the organisation is managed at all levels |
| | | part of all activities associated with an organisation |
| | | part of governance and leadership |
| | Assists | organisations in setting strategy, achieving objectives and making informed decisions |
| | Considers | the external and internal context of the organisation, including human behaviour and cultural factors |
| | Contributes | to the improvement of management systems |
| | Includes | interaction with stakeholders |

Adapted from ISO 31000 (2009).

Approaches for engaging with risk are regrouped under the concept of risk management. It is important to underline that we selected the term "engage" carefully so as to encompass, in line with the ISO 31000 standard, negative effects, that the organisation will tend to minimize or eradicate, and positive effects, that the organisation will tend to maintain or enhance. As the declared intent of the ISO 31000 is to approach risk in all its forms, risk management relies on consistent and dependable decision-making.

Literature is not unanimous regarding the benefits of the ISO 31000 regarding risk management. If Purdy (2010) considers it a welcome step forward as it seeks to simplify and unify risk management both in terms of language and approach, Leitch (2010) adopts a rather critical stance proceeding from the generality of the standard and its departing from traditional/already-acknowledged definitions and approaches. Moraru (2016) and Purdy (2010) both point out that the ISO 31000 standard proposes a shift in the paradigm of risk management, from event-focusing to effect-focusing. In doing so, the standard opens risk management to the understanding that risk in itself is to be managed as an opportunity, a potential catalyst for flexibility or adaptability (Moraru, 2016) or market strengthening (Polonsky, Schuppisser, and Beldona, 2002).

For any organisation, decision-making is oriented towards attaining the organisational objectives and, is embedded in all internal and external action, reaction or interaction. Consequently, it is a truism that, through each decision, risk is altered to the benefit or detriment of organisational objectives. Upon closer consideration of the postulations in Table 1, risk management assists organisations in strategy definition and decision making, considers internal and external factors and includes interactions with stakeholders. These specific aspects are also driven in stakeholder theory. Indeed, Jones and Wicks (1999) have reminded that scholarly work has concluded that stakeholder theory is concerned with the nature of the organisation's relationships in terms of both processes and outcomes for the firm and its stakeholders and focuses on managerial decision making.

According to stakeholder theory, stakeholders are groups with which the organisation has relationships and which impact and are impacted by the organisation's decisions (Freeman, 1984) which is coherent with the approach of the ISO 31000. The connection between stakeholders and risk has also been explored by Clarkson (1994, cited in Mitchell, Agle and Wood, 1997), who proposed a definition of stakeholders in relation to risk-bearing.

**Table 2: Stakeholder Typology - Adapted from Mitchell et al. (1997)**

| Stakeholder | Attribute(s) and Description |
|---|---|
| **Latent Stakeholders** | Possess only one relevant attribute. Given the resource constrained environment, managers either do not recognize them or do not engage with them. Consequently, the stakeholder-manager relationship is latent. |
| ***Dormant*** | *Relevant Attribute: Power (coercive, utilitarian, symbolic)*<br><br>*Description*: They have little or no interaction with the firm, but management should pay attention to these stakeholders as they can, at any time, acquire another attribute.<br><br>*Example:* Former employee who was fired, Bank, Well-Off Private Investor |
| ***Discretionary*** | *Relevant Attribute: Legitimacy*<br><br>*Description:* Management can engage with these stakeholders on a voluntary basis, especially as they represent the stakeholders focusing on corporate social responsibility.<br><br>*Example:* Non-profit organisations |
| ***Demanding*** | *Relevant Attribute: Urgency*<br><br>*Description:* lacking another attribute, managers shall perceive this claim as noise.<br><br>*Example:* Individual protester with non-legitimate claim |
| **Expectant stakeholders** | Possess two relevant attributes. Have an active stance which makes them moderate-salience stakeholders |
| ***Dominant*** | *Relevant Attributes: Legitimacy and Power* |

| | |
|---|---|
| | *Description:* Their claims matter and thus, stakeholders have a real influence of the organisation through, expect and receive much managerial attention, often translated through a formalization of the relationship.<br><br>*Example:* Board of directors, Government Agencies, Courts of Law |
| ***Dependent*** | *Relevant Attributes: Legitimacy and Urgency*<br><br>*Description:* Such stakeholders need the alliance of other stakeholders or the voluntarism of management to obtain a response to their claims.<br><br>*Example:* Neighbouring inhabitants, the natural environment |
| ***Dangerous*** | *Relevant Attributes: Power and Urgency*<br><br>*Description:* Such stakeholders can be coercive as in the absence of legitimacy, obtaining one's way goes through coercion. They require particular attention to mitigate dangers to the organisation and managers.<br><br>*Example:* any stakeholder engaging in "outside the bounds" actions |
| **Definitive stakeholders** | Possess all three relevant attributes: *Power, Urgency and Legitimacy*. Managers shall consider these claims as top-priority. Expectant stakeholders can easily become definitive stakeholders by acquiring the missing attribute.<br><br>*Example:* Investors confronted with inadequate response from the board |
| **Non-stakeholders or Potential stakeholders.** | Possess neither relevant attribute |

Mitchell et al. (1997) proposed a stakeholder classification according to three criteria: urgency, legitimacy and power. As stakeholder identification itself is not sufficient to predict a certain response from the organisation as relationships are complex and seldomly mono-criteria, they introduced the concept of stakeholder salience - the degree to which managers give priority to competing stakeholder claims. By knowing whether a stakeholder has power to influence the organisation, legitimacy in relationship to it or the urgency of its claim, it is possible to understand why managers consider certain entities as stakeholders. By introducing the notion of salience, it is also possible to understand why and under what circumstances do managers respond in a given manner. The classification of stakeholders and their characteristics are summarized in Table 2.

It can be concluded that stakeholder theory and management theory are no strangers to one another. Yet, to the knowledge of the authors there has been no study regarding such connections within the context of the ISO 31000 standard. Consequently, the current research focuses on clarifying how organisations reinforce their risk management by knowing which stakeholder typology to target when implementing the ISO 31000.

## METHOD

The methodology of Mitchell et al. (1997) for stakeholder classification was used as basis for or research. It was chosen as it is constructed from the focal point of managers' perception. Although Eesley and Lenox (2006) argued that this made the classification subjective, we argue that the inclusion of managerial perception is a major strength of this classification. The organisation's decisions are those of its managers; managers take decisions based on information, data, knowledge, but also hypothesis and scenarios that are envisioned based on personal and professional knowledge. Consequently, there is always a part of subjectivity and therefore, perception in the decision-making process. Secondly, Mitchell et al. (1997)'s theory has a dynamic component which reflects a very strong characteristic of today's world: change, often perceived as swifter, faster and more preeminent than in the past. To support out statement, it is sufficient to consider the evolution of the car industry at the time of the commercialization of the Ford T in 1908 and that of the car industry of today at a time when consumers can choose not just the brand of the car, but also fuel type, equipment, colour, financing etc. Finally, this classification allows the identification and ranking of stakeholder claims by considering that salience is proportional to the presence of relevant attributes, i.e. the higher the salience the more importance the claim has to managers.

We argue that from a managerial standpoint, the implementation of any standard, an in particular the ISO 31000 standard, needs to take into account stakeholder claims early on so as to include the claims that count in a timely, efficient and effective manner. The ISO 31000 standard proposes a list of 11 principles for effective and efficient risk management. These constitute the steppingstone for risk management throughout the organisation and are completed by a second list of attributes in the annex of the standard which are supposed to contribute to even more advanced risk management. Thus, there is a real necessity to correlate these principles to the most appropriate organisational stakeholders so as to ensure the correct influx of information for risk managing and the establishment of the necessary manager-stakeholder relationships so as to comply with the ISO 31000 standard.

In reference to Freeman's question "which stakeholders really count?", we have reviewed the ISO 31000 principles and defined the attributes inferred from each principle. Followingly, by referring to the model of Mitchell et al. (1997), we have associated the stakeholders that possess the inferred attributes. This association was done in two steps: firstly, were identified those stakeholders that possess all or more of the attributes inferred by the ISO 31000 principle; secondly, were identified possible stakeholder alliances which would lead to the possession, within the alliance of all or more of the attributes inferred by the ISO 31000 principle. Alliances are created through the voluntary association of two or more stakeholders. The main motivation behind entering alliances is that alliances are a means for stakeholders to acquire one or two missing attributes so as to weigh (more) heavily in the balance of interests and decision-making. For instance, if Dominant stakeholders will enter an alliance in order to "do the right thing", Dormant Stakeholders could do it for self-interest, while Dangerous stakeholders could do it with the intent of damaging the organization.

## RESULTS

Accepting that organisations operate in a constrained environment, managers need to distil the most appropriate course of action for their activities. Regarding risk management, the adoption and implementation of the ISO 31000 standard requires consequent managerial efforts so as to attain effective risk management. So as to ensure that risk management is precise and wholesome both in risk understanding and risk criteria, managers need to identify, from the starting blocks, both internal and external entities that can influence risk. Therefore, managers need to address the question of which stakeholders really count with regard to the adoption and implementation of the ISO 31000. In order to identify, as early on as possible, those stakeholders that managers need to have a relationship with, we have reviewed the principles of risk management defended by the ISO 31000 standard, and in reference to using the attributes proposed by Mitchell et al. (1997), inferred relevant stakeholder attributes. Followingly were established stakeholders and stakeholders' alliances that should be involved or monitored for risk management purposes. The results are summarized in Table 3.

**Table 3: Stakeholder Management in Risk Management for Iso 31000 implementation**

| ISO 31000 principle | Attributes Inferred from the Principle | Stakeholders to Involve | Stakeholder Alliances to Monitor |
|---|---|---|---|
| Create and protect value | Power and Legitimacy | Dominant<br>Definitive | Dormant and Discretionary<br>Dependent and Dormant |
| Be an integral part of all organisational processes | Legitimacy | Discretionary<br>Dependent<br>Definitive | |
| Be part of decision making | Power and Legitimacy | Dominant<br>Definitive | Dormant and Discretionary<br>Dependent and Dormant |
| Explicitly address uncertainty | Legitimacy | Discretionary<br>Dependent<br>Definitive | |
| Be systematic, structured, and timely | Legitimacy | Discretionary<br>Dependent<br>Definitive | |
| Be based on the best available information | Legitimacy | Discretionary<br>Dependent<br>Definitive | |
| Be tailored | Legitimacy | Discretionary<br>Dependent<br>Definitive | |

| | | | |
|---|---|---|---|
| Take into account human and cultural factors | Legitimacy | Discretionary<br><br>Dependent<br><br>Definitive | |
| Be transparent and inclusive | Legitimacy | Discretionary<br><br>Dependent<br><br>Definitive | |
| Be dynamic, iterative, and responsive to change | Legitimacy | Discretionary<br><br>Dependent<br><br>Definitive | |
| Facilitate continual improvement of the organisation. | Power and Legitimacy | Dominant<br><br>Definitive | Dormant and Discretionary<br><br>Dependent and Dormant |

## DISCUSSION AND CONCLUSIONS

The present research has tried to establish which stakeholders really count for the implementation of the ISO 31000 standard. To this end, it was proposed to use existing stakeholder classifications to narrow the list of stakeholders to those to be involved early on in the implementation of the ISO 31000 standard. The selection was conducted by identifying, for the risk management principles defined by the ISO 31000 standard, those relevant attributes that stakeholders need to possess. Consequently, following the model of Mitchell et al. (1997) were identified: stakeholders to be involved and alliances of stakeholders to monitor.

Firstly, the results point out that, urgency is not a relevant attribute to be possessed by stakeholder claims in relation to ISO 31000 principles. This finding is coherent with the fact that the implementation of the ISO 31000 standard is a preventive procedure and, is therefore by construction, to be constructed in a timely and posed manner. This in mind, the authors recognize that the organisation can undergo a degree of urgency to attain results through the implementation of the ISO 31000 standard.

Secondly, legitimacy stands out in all principles of the ISO 31000. This is coherent with the fact that risk management is often perceived as a matter of protection and diminishment of adverse events and therefore those involved in the process must possess legitimacy in terms of professional knowledge, experience, training, environmental or OHS preoccupations etc. All in all, legitimacy is part of the principles relating to action and approach (inclusion, continuity, structure or coherence), whereas power is involved in action-related principles – continuous improvement implementation, decision making or value creation and protection. This result is coherent with the main preoccupation of the organisation, which is attainment of organisational aims. If claims can be considered and take into account on a voluntary basis, based on their legitimacy within consultative or distillation processes, decision-making regarding value, improvement or any other organisational aspect, managers should include early-on those stakeholders that can influence the decision so as to ensure and reinforce legitimacy of the risk mitigation measures.

Finally, where both power and legitimacy are relevant attributes of stakeholders involved in risk management, managers should monitor possible alliances among stakeholders possessing one or more of the necessary attributes. Through such alliances, stakeholders can shift position and change the balance of organisational risk through the integration of new or reinforced claims and new or reinforced decision-making criteria.

Although the present research is purely theoretical, it is an emerging solution for stakeholder management with regard to risk assessment which, moreover, is permeable to the dynamics of stakeholders gravitating around the organization. Consequently, future research should investigate the validity of the theoretical model, for instance through a qualitative study among manager perception. The current research would also benefit from research into the specificities of risk management related stakeholder claims. From the perspective of the ISO 31000 standard, risk management is a preventive undertaking, and therefore further consideration should be given to the replacement of the stakeholder attribute of urgency with another one that would respond better to the specificities of preventive risk management. Furthermore, the research remains general in construction, and therefore the identification and integration of contextual factors both regarding the organization and risk management constitute new avenues of work.

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