

Navigating stakeholder risks

A study into stakeholder risk management through exploring the application of
open strategizing

~ Master Thesis ~

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Abstract

Previous research has sought to improve either risk management or stakeholder management, overlooking the integrated concept of stakeholder risk management. Additionally, prior research has hypothesized the application of open strategizing as a relevant and effective form of stakeholder risk management. This study attempts to expand the research field of stakeholder risk management and test the set hypothesis by examining if open strategizing can pose as an effective form of stakeholder risk management through its proposed mitigation of stakeholder risks bearing on organizational legitimacy. Using primary data obtained from interviewing executives operating in eight different and varying organizations, it was found that open strategizing can pose an effective form of stakeholder risk management through the mitigation of legitimacy risks stemming from stakeholders. Despite the accrued authority of the executives interviewed, the results are not generalizable, given the small research population used in this case study. This study's findings can be used by managers who face stakeholder risks in, for example, projects or the formation of strategy. Through open strategizing stakeholder risks can namely be more effectively managed and accounted for.

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1. Introduction

1.1 Cause

Through a relentless surge of responsibilities imposed on today's organizations, a burden is established that permeates all decisions (Fu et al., 2019). In the current information age, stakeholders are namely more and more empowered to publicly put pressure on organizations to adopt, for example, more sustainable attitudes (Shubham et al., 2018). It is therefore becoming unequivocally clear that organizations must take their contextual position into account when making decisions. Directors can no longer ignore the interests, expectations, norms, and values of stakeholders (Peters, 2022). By way of illustration, stakeholder pressure has been regarded as crucial for companies adopting the latest green management concepts and practices, such as green supply chain management (Sarkis et al., 2009). Consistent with this, it is stated that there is a positive relationship between stakeholder pressure and green innovation (Guoyou et al., 2011). This, commonplace at today's companies, has led to the implementation of activities geared towards managing the specific risks accruing from stakeholders (Beasley & Frigo, 2007) (stakeholder risk management).

Regarding the concept of stakeholders, much research has been done. The subsequent result of this has been the emergence of stakeholder theory in the mid- 1980s which revolved around the important role of stakeholders in the general development of the corporation (Keremidchiev, 2021). The theory states that for any business to be successful it needs to create value for customers, suppliers, employees, the community, investors, shareholders, banks, and others who hold capital (Sachs & Maurer, 2009). Because of these new extra 'players' the process of corporate governance is complicated, and problems arise with managing conflicts between these stakeholders and the company. At the same time, studies have shown that paying more attention to stakeholders improves an organization's performance (Amankwah-Amoah et al., 2018).

From the managerial point of view, certain stakeholders are of more apparent significance to a company than others. This segmentation of significance may be explained based on a bundle of attributes that can be assigned to each stakeholder that eventually culminate to its salience (Mitchell et al., 1997). It is argued that stakeholders are to be labeled salient when, and to what extent, they possess the attributes of power, legitimacy, and urgency. This assessment of salience cultivates a particular perception of risk revolving around the company's legitimacy since stakeholders thus have the power to impact an organization in this respect (Mitchell et al., 1997). Organizational legitimacy is linked closely

with business survival, in which illegitimacy or lack of legitimacy results in the mortality of the company (Carroll & Hannan, 1989). Therefore, it becomes apparent that for a company to survive, it must manage the risks ensuing from its stakeholders.

The concept of open strategizing is defined as practices that enable the participation of various stakeholders in the strategizing process. This involves the planning, communicating about, and monitoring of strategy execution (Dobusch et al., 2017). By searching internal and external stakeholders' opinions through active engagement and involvement, the strategic analysis is sharpened which leads to the co-production of strategy (Doeleman et al., 2021). Open strategy focuses on creating greater value by including a range of stakeholders that have been excluded from the strategy formulation process previously (Adobor, 2019). While one of the most important benefits of open strategizing through the involvement of stakeholders is the possibility of deepening the repertoire of ideas that may be generated (Adobor, 2019), Lavarda & Leite (2022) hypothesize the use of open strategizing as an effective way to proactively cope with uncertainty in an organizations environment. Environmental uncertainty originates from the external environment of a company (Lavarda & Leite, 2022), which consists of the factors outside the organization that can influence the business a.o. stakeholders (Helfat, 2022).

The non-negligible legitimacy risk stemming from stakeholders has led organizations to apply stakeholder risk management as a way of dealing with this. Because the concept of stakeholder risk management; risk management specifically focused on stakeholders, has not been researched extensively, there has been no consensus formed on what is the best way to perform this stakeholder risk management (Xia et al., 2018). Adding to this, recent literature addresses the possible application of open strategizing as a way to cope with environmental uncertainty stemming from stakeholders. Central to this study is therefore the concept of stakeholder risk management in relation to company legitimacy and, most importantly, the inquiry of whether open strategizing can pose a form of stakeholder risk management and with that successfully alleviate stakeholder risks.

To investigate the problem posed, a choice has been made to perform a comparative case study conducted with executives operative in different organizations varying in sector, type, and size. This primarily considering that organizations, based on their contextual environment and size, experience different stakeholder interactions (Fobbe & Hilletoft, 2021) and that to therefore holistically research the posed problem a diverse research field is needed. The choice to conduct this case study with executives emerges from the notion of Kumar (2020) that strategy, with that (inter alia) accounting for stakeholders, in today's

organizations is primarily formed and coordinated by its executives. Therefore, these subjects can provide well-grounded insight into the process of stakeholder risk management and the possible implementation of open strategizing to mitigate the legitimacy risk stemming from stakeholders. The set research scope thus provides this study with specific actors, namely people operative in executive positions, and active in a wide range of possible subject organizations. Providing an adequate research base for this study.

1.2 Research question

The objective of this study reads:

To provide insight into stakeholder risk management by assessing if open strategizing poses an effective form of stakeholder risk management and with that mitigates the legitimacy risk stemming from stakeholders. This will be researched by conducting interviews with executives operative in organizations varying in sector, type, and size.

To meet the above objective, the research question of this study reads:

How does stakeholder involvement through open strategizing pose a form of stakeholder risk management and how does it influence company legitimacy?

1.3 Relevance

The relevance of the posed research question, and with that, this study, can be expressed on a both scientific and practical level. The scientific relevance finds its root in a knowledge gap that exists regarding the management of stakeholder risk. Xia et al. (2018) state that existing literature mostly endeavors on investigating and improving either risk management or stakeholder management, whereas the integrated management of stakeholder risks is an overlooked and under-researched area. In addition to this, Xia et al. (2018) state that there has been no consensus formed on what is the best way to give form to stakeholder risk management. This provides a possibility to examine whether open strategizing can pose a relevant and effective form of stakeholder risk management as hypothesized by Lavarda & Leite (2022). Additionally, research conducted by Adobor (2019) states that utilizing open strategy formulation poses certain benefits and risks but that its success in managing stakeholder risk is always dependent on an organization's degree of appreciating key

challenges and developing capabilities to overcome them. These key challenges and capabilities are not yet fully explored and defined and can thus be determined further.

The practical relevance of this study resides in the further exploration of the key challenges and related capabilities needed for successfully managing stakeholder risk. Through the assessment of open strategizing as a possibly effective way of performing stakeholder risk management, organizations can gain insights that can contribute to successfully managing stakeholder pressure and adapting their strategic orientations accordingly. In addition, companies can gain an understanding of safeguarding and accounting for stakeholders by involving them in the strategy formulation process.

1.4 Reader guide

The remainder of this study will consist of an elaboration of the theoretical framework relevant to this research. Next, the methodological choices will be discussed. The following section will consist of the research findings. The report will conclude with a conclusion and a discussion wherein the results are interpreted, its contribution to the research field is discussed, and practical and managerial implications and limitations, and directions for future research are given.

2. Theoretical framework

To understand if open strategizing can pose a relevant and effective form of stakeholder risk management and mitigate the legitimacy risk stemming from stakeholders, a theoretical framework must first be outlined. This theoretical framework will elaborate on the main concepts of the objective as formulated in the introduction. These concepts are stakeholder theory, stakeholder risk management, open strategizing, and company legitimacy. These concepts will be further elaborated from different viewpoints and using different scientific sources.

2.1 Stakeholder theory

Among the first definitions of the term stakeholders is the one by Freeman (1984): “*These are groups without which the organization will cease to exist*”. These groups include shareholders, personnel, clients, creditors, and society. This definition, through time, evolved into:

“*...stakeholders are those groups, which have stakes in the firm*” (Freeman & Evan, 1990).

The result of this novel definition has been the emergence of stakeholder theory in the mid-1980s which revolved around the important role of stakeholders in the general development of the corporation (Keremidchiev, 2021). The theory states that for any business to be successful it needs to create value for customers, suppliers, employees, the community, investors, shareholders, banks, and others who hold capital (Sachs & Maurer, 2009).

Defining the term stakeholders based on the definition by Freeman & Evan (1990) further revolves around the word ‘stake’, which is most often considered as something of interest. More specifically the term consists of three categories: interest, right, and ownership (Buchholtz & Carroll, 2012). An interest is present when a person or group of people can be affected by the activities or decisions of a company. An example of this interest is when a company for instance decides to open a new production facility. This decision will affect employees, the community in which the facility is placed, clients, suppliers, and many more. The stake someone or something has can be both legal and moral (Buchholtz & Carroll, 2012). A legal stake expresses itself when a person or group has the right by law to be treated in a certain way or has defined legal protections. For example, the legal right of suppliers to cash claims in case of bankruptcy of a company. The moral right expresses itself in case a group of people have the idea they should be treated in a certain way. This is then regulated by unwritten but applied moral norms and principles of society and the company itself. An example of this is when a company applies decency and honesty in making business deals.

Then there are stakes based on ownership when a person or group has a legal right of ownership over a certain asset or property of the company. An example of this is contracts, the share of a company, or trade interrelations.

In summary, a stakeholder can be impacted by actions, decisions, policies, or projects of the company, its resources, and results. The contrary is also true, in that a stakeholder can also influence the actions, policies, or projects of the company. Thus, there is an interaction possible between stakeholders and the company in both directions. Considering the stated definitions of the concept of stakeholder, the aggregated definition that is used in this study can therefore be depicted as every physical person or group with the ability to influence or be influenced by the actions, decisions, policies, practices, or prices of the organization. A stakeholder thus has a literal or figurative stake in the company by which it is affected or by which it can affect the company. Given this broad definition, the need arises to categorize and classify stakeholders by their respective levels of significance for the subject organization. Namely, not every person or group with the ability to influence or be influenced by the company is as relevant for its respective strategies and resulting operations.

This division in relevance can be brought back to what stakeholders bring with them a high cost of resolving potential conflict, something that can be very high for an organization (Bettinazzi & Feldman, 2020). Therefore, a tool that allows companies to identify what specific stakeholders deserve to be the object of management might be useful to mitigate these potentially high resolution costs. Mitchell et al. (1997) state that all stakeholders can be divided into qualitative groups based on managerial perceived possession of three attributes. *“(1) The stakeholders’ power to influence the firm, (2) the legitimacy of the stakeholder’s relationship with the firm, and (3) the urgency of the stakeholder’s claim on the firm”* (Mitchell et al., 1997). From the combination of these three attributes, a degree of stakeholder salience can be derived. Converging from these attributes Mitchell et al. (1997) infer that the degree of this stakeholder salience is positively related to the cumulative number of stakeholder attributes perceived by managers to be present. *“Stakeholder salience represents the degree to which managers give priority to competing stakeholder claims and thus what stakeholders are most important for a company to consider in its operations”* (Mitchell et al., 1997).

Eight classes can be logically analyzed from the combination of the three attributes (power, legitimacy, and urgency). However, not all of them combine the three attributes. Of the eight categories, three have only one attribute, three have two attributes, and one has all the attributes. Managers, generally with limited time and resources, are unable to take care of

the interests of those with one or zero attributes, and sometimes, they cannot even identify them (Mitchell et al., 1997). In this research, the relevance of a stakeholder for an organization is based on its respective level of salience, constituted by the three attributes, as perceived by managers. This managerial point of view will be used to determine what stakeholders ought to be considered in the practice of open strategizing in the continuation of this study.

2.2 Stakeholder risk management

Given the different stakeholder groups and their relative possession of salience, raises the question of how to adequately deal with these groups. As stated, the salience of stakeholders is directly related to the risk that they pose to an organization. By for example, missing information, overlooking stakeholders' concerns, or failing to uncover and address stakeholders' opinions, a risk emerges that can cause damage to the organization (Jardine, 2008). Be it in the form of loss of customers, reduced access to raw materials, or difficulty in attracting employees. Given these examples and the notion of Bettinazzi & Feldman (2020) that the potential costs of resolving stakeholder conflicts can be very high, it becomes clear that companies and their managers must try and manage the risks accruing from stakeholders; stakeholder risk management.

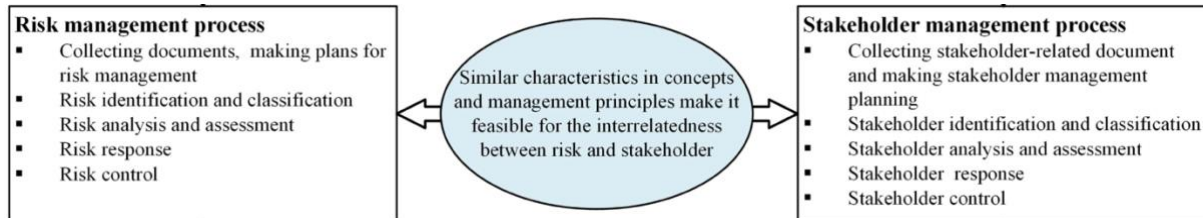
This stakeholder risk management is a combination of the concepts of stakeholder management and risk management (Xia et al., 2018). Therefore, these two concepts should be elaborated on first. Stakeholder management aims to identify and address the concerns of stakeholders, mitigate, and prevent conflicts, and win support from them (Bourne & Walker, 2005). Traditionally, the process of stakeholder management involves the following steps: collecting stakeholder-related documents and making stakeholder management planning, stakeholder identification and classification, stakeholder analysis and assessment (assessing stakeholder interests/attributes and relationships in a qualitative and/or quantitative way), developing strategies for managing stakeholders and executing and controlling stakeholder management strategies (Aaltonen et al., 2005).

Risk management is defined as undertaking measures to increase the likelihood and impact of positive events, and reduce those of negative events (Arashpour et al., 2017). Risk refers to the probability that an undesirable event, situation, or condition will occur. Beck defines risks as, "*risks are always future events that may occur, that threaten us*" (Beck, 2008, p. 9). There are many types of risks in an organization's environment and these change constantly. These risks include the risks deriving from stakeholders but also consist of, for instance, environmental uncertainties like COVID-19 or product obsolescence (Settembre-Blundo et al., 2021). Thus, risks can come from various sources in the environment, including uncertainty, human error, natural causes, and disasters. Risk management involves processes for the identification, analysis, and evaluation of these risks. Given this definition, risk management is normally characterized as a systematic process of collecting documents and making plans, identifying, classifying, analyzing and assessing, responding, and controlling risks (Wang et al., 2016). The analysis and assessment of risk is the essence of risk

management which involves analyzing the causes and consequences of risks and making judgments about how large or small the risk is. In organizations, the metric for risk assessment is most often centered around financial risk (Birkel et al., 2019).

Given the definitions of both stakeholder management and risk management, it can be concluded that both concepts encompass similar characteristics. Because the concept of risk management entails much more than only managing stakeholder risks, an aggregated concept of stakeholder risk management can be established, as also proposed by Xia et al. (2018). This aggregated concept provides a focused model for dealing specifically with stakeholder risks. The large interrelatedness between the two concepts makes it so that the process of stakeholder risk management can be based on the combined processes of both. Therefore, stakeholder risk management consists of five components (Xia et al., 2018). These are; collecting stakeholder risk-related documents and making stakeholder risk management plans, stakeholder risk identification and classification, stakeholder risk analysis and assessment, stakeholder risk response, and stakeholder risk control. The practical implementation of the described five components varies across organizations.

Figure 1, Xia et al., 2018



Among researchers, it is argued that to apply effective stakeholder management a close relationship with stakeholders may help, as it enables strengthened performance (Amankwah-Amoah et al., 2018) and value creation (Jones et al., 2018). Given the notion that maintaining a close relationship with stakeholders is a frequently returning concept in relation to the effective management of stakeholders and the described similarities between stakeholder management and risk management, it can be hypothesized that these practices also pose an effective form of stakeholder risk management. What ensues from this hypothesis is the question of how to give substance to the development and maintenance of a close relationship with stakeholders. Jardine (2008) mentions that the engagement of stakeholders in the process of risk management is a way to develop a close relationship with them and that this engagement may pose an effective solution to managing the risks accruing

from stakeholders. Additionally, Dobusch et al. (2017) introduce open strategizing as a way of stakeholder engagement aimed at better strategy formulation. Lavarda & Leite (2022) propose that this concept of open strategizing can proactively cope with environmental uncertainty. Onward, this study investigates whether open strategizing, a way to cope with environmental uncertainty and of engaging stakeholders in the strategy formulation process, can pose an effective way of managing stakeholder risks.

2.3 Open strategizing

Given the concept of stakeholder risk management and the various components of this process, stakeholder engagement is proposed by various researchers as an effective form. Stakeholder engagement in the risk management process is becoming increasingly recognized as a means of producing decisions that are responsive to varying interests and values (Jardine, 2008). The benefits of engaging stakeholders are many and include a better understanding of the risk, building trust and credibility as stakeholders feel involved in decision-making and actions affecting their future, and stakeholders feel that their interests are taken seriously by the organization. Dobusch et al. (2017) introduce open strategizing as a strategy practice that enables the participation of various stakeholders in the strategizing process. Sequel to this, Lavarda & Leite (2022) propose open strategizing as a way to proactively cope with environmental uncertainty.

Open strategizing is seen primarily as a process that enables companies to widen the search for strategy ideas beyond the usual top management team (Adobor, 2019). Despite the dominance of this idea about strategy formulation, the recent recognition of broadening the strategy process beyond top management can benefit organizations in several ways. These benefits include a greater variety of ideas, enhanced employee engagement, aligned strategy formulation and implementation, and competitive advantage (Adobor, 2019). Research has shown that, due to the openness and transparency envisaged under this new approach, both internal and external stakeholders can play a key role in strategy formulation (Whittington et al., 2011).

Open strategizing has been defined in terms of two dimensions: (1) the transparency of the process and (2) inclusiveness in terms of the number of stakeholders involved in the strategy formulation process (Whittington et al., 2011). *Transparency* refers to how visible an organization's strategy is during its formulation. An organization that has a transparent process allows both internal and external stakeholders to take part in the strategy formulation or at least enables them to decipher what the strategy is as it evolves. *Inclusiveness*, on the other hand, refers to the extent to which an organization accepts the input of stakeholders during strategy formulation. Organizations that inclusively approach strategy formulation normally engage in strategic conversations in which views are exchanged to shape how strategy evolves (Mantere & Vaara, 2008).

Considering the determination that the engagement of stakeholders is an effective way to reduce the risks that accrue from them, its potential place in the practice of stakeholder risk management becomes apparent. As a way to shape this engagement of stakeholders, Dobusch

et al. (2017) point out the concept of open strategizing, which as described is predominantly used for better strategy formation. Consequently, in recent research open strategizing is referred to as a way to proactively cope with environmental uncertainty (Lavarda & Leite, 2022). This together reveals the possibility that open strategizing, given its engagement of stakeholders and ability to cope with environmental uncertainty, can pose an effective form of stakeholder risk management. This would imply the addition of 'an effective form of stakeholder risk management' to the proposed benefits of open strategizing by Adobor (2019). What follows from this is the examination of whether open strategizing, through its components of transparency and inclusiveness, effectively reduces the legitimacy risks accruing from stakeholders and thus forms a part of stakeholder risk management.

2.4 Organizational legitimacy

As can be concluded from the elaboration of the concepts of stakeholder theory, stakeholder risk management, and open strategizing, organizations often collaborate or work directly with stakeholders to pursue goals that would otherwise be difficult to achieve internally. These collaborations vary in forms, ranging from strategic alliances or joint ventures to collaborative engagements with more distributed groups of stakeholders such as customers, communities, and other third-party groups (Estelles-Aroles & Gonzalaz-Ladron-de-Guevara, 2012). The engagement with groups of stakeholders by, for example, applying open strategizing is characterized by diversity and increasing prevalence in practice (Desai, 2018). For instance, organizations may collaborate with customers and other diverse groups to market and distribute new products, engage in social media campaigns or viral marketing efforts, crowdsource for new ideas or novel information, collectively create or refine software, manage their reputation among distributed outsiders, or facilitate access to external resources, as well as for a large variety of other reasons (Estelles-Arolas & Gonzalez-Ladron-de-Guevara, 2012).

Gaining, preserving, or repairing organizational legitimacy is a frequently researched motivation for these types of collaborative involvements (Lamin & Zaheer, 2012). A generalized view or assumption that *"the activities of an entity are desirable, proper, or suitable within any socially constructed system of norms, values, beliefs, and definitions"* is what is meant by legitimacy in this context (Suchman, 1995, p.574). Many studies have shown that access to essential resources is often provided by external stakeholder groups and that organizations that appear legitimate to outside observers are more likely to receive these resources (Crilly et al., 2012). Research conducted by Tsai et al. (2014) states that 'stakeholder satisfaction', in other words, high company legitimacy, has proven to increase the probability of an organization's long-term success. Additionally, the legitimacy that is perceived by stakeholders has been found to increase positive evaluations of a company (Suchman, 1995). With that, organizational legitimacy becomes a valuable asset for organizational success and survival.

Organizational legitimacy that is perceived by stakeholders is mostly measured through its pragmatic, moral, and cognitive dimensions (Alexiou and Wiggins, 2019). Díez de Castro et al. (2018) state that these dimensions are the most common ones found in previous empirical studies. Pragmatic legitimacy can be measured by analyzing if the activities developed by the organization fulfilled the stakeholder's interests and expectations. Moral legitimacy can be measured by asking stakeholders questions related to business ethical

activities. To measure cognitive legitimacy questions regarding the comprehensibility and appropriateness of the organization's activities can be asked.

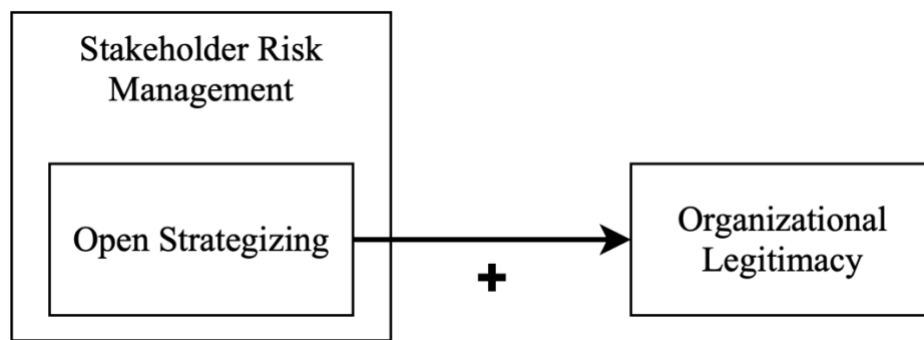
While there are a variety of methods for managing organizational legitimacy (Suchman, 1995), collaborative engagements with stakeholder groups offer greater transparency and make it easier for these outsiders to monitor and assess organizational activities. This may give organizations with socially desirable practices particularly enduring legitimacy (Hawdon, 2008). Alternatively, there are several instances of organizations engaging in socially unacceptable behavior that try to maintain their legitimacy by keeping those practices hidden from outsiders, further demonstrating the importance of open collaboration (or its avoidance) to organizational legitimacy (Piazza & Perretti, 2015).

The organizational legitimacy perceived by stakeholders thus poses a determining factor to organizational success through its influence on access to resources, and evaluations of the company. With high legitimacy perceived by stakeholders as being equivalent to a valuable asset for survival and success, it constitutes the main goal of stakeholder risk management. Furthermore, collaborative engagements with stakeholders are labeled as a way to effectuate enduring legitimacy (Hawdon, 2008). Organizational legitimacy provides this study with the principal dependent variable of open strategizing and with that stakeholder risk management.

2.5 Conceptual model

Based on the posed research question and the elaboration of its central concepts, a conceptual model can be established. This study focuses on the question of whether open strategizing can pose a form of stakeholder risk management and with that mitigate the legitimacy risks stemming from stakeholders. Therefore, a hypothesized positive relationship is made between open strategizing and organizational legitimacy. Additionally, open strategizing is placed in the 'box' of stakeholder risk management considering the proposition that it may constitute a form of stakeholder risk management.

Figure 2, Conceptual model



3. Methodology

This chapter details and justifies the methodological choices for this study. The first section discusses the research strategy used in this study and the rationale for it. The second section covers the context where this research is being conducted and its foundation. Subsequently, the research methods will be discussed, which consists of the research methods used, forms of data collection, and method of analysis. The fourth section discusses the reliability and validity of this study and how these quality criteria will be ensured. The final section covers ethical justifications.

3.1 Research strategy

For this study, a qualitative research strategy was chosen. Qualitative research generates data based on linguistic material, not numbers as in quantitative research (Myers, 2020). Whereas quantitative research starts with a certain theory that is then tested, qualitative research takes ideas, opinions, and behaviors as the ground material for research (Vennix, 2019, p.199). The choice for a qualitative research strategy resides in the fact that this study seeks to determine whether open strategizing can pose an effective form of stakeholder risk management and with that mitigate the legitimacy risks stemming from stakeholders based on the ideas, opinions, and experiences of the parties involved.

The type of research design that will be used in this research is a case study, which is the main design within the qualitative tradition (Vennix, 2019, p.211). Other types of research designs include a survey or experiment. A survey is used to collect information from a large group of the same units. With this design, however, there is no room to go in-depth on certain topics and the boundaries of research should be clearly defined (Vennix, 2019, p.211). A case study, on the other hand, is defined as a design that is suitable for investigating a phenomenon in its context where the boundaries are not clearly visible and multiple sources of information are used (Vennix, 2019, p.211). Case study research in business uses empirical evidence from one or more organizations where an attempt is made to study the subject matter in context (Myers, 2020). A case study is thus the desired research design because this study attempts to make a statement about open strategizing in relation to stakeholder risk management where possible overlaps between these concepts are not excluded. Additionally, outcomes of strategic risk management may exceed organizational legitimacy in which case this also wants to be included. The case study will follow a multiple-case study approach wherein two or more cases are used to investigate the same phenomena (Yin, 2018).

Research can be either inductive, deductive, or abductive in nature (Vennix, 2019, p.26). Where an inductive character means creating a new theory, a deductive character focuses on testing an existing theory, and abductive research is similar to inductive and deductive research in that it tries to make logical inferences and construct theories but it tries to create a hypothesis that can explain an empirical phenomenon (Vennix, 2019, p.29). This study is abductive in essence, but it also consists of components with a deductive character. For there are concepts and certain relationships borrowed from scientific literature and tested on concrete cases of stakeholder risk management, meaning deductive research. The abductive character of this research is reflected in the fact that it tries to form a plausible hypothesis or best prediction regarding the posed research question based on what is observed in the data collected.

3.2 Research context

To be able to adequately investigate if open strategizing poses an effective form of stakeholder risk management and with that mitigates the organizational legitimacy risks stemming from stakeholders, a suitable research context needs to be defined. In this study, a choice has been made for eight varying medium- to large-size organizations. This primarily considering that organizations, based on their contextual environment and size, experience different stakeholder interactions (Fobbe & Hilletoft, 2021) and that to therefore holistically research the posed problem a diverse research field is needed. Within these companies executives will be interviewed, primarily considering the notion of Kumar (2020) that strategy, with that (inter alia) accounting for stakeholders, in today's organizations is primarily formed and coordinated by its executives. Therefore, these subjects, active in the described organizations, can provide well-grounded insight into the process of stakeholder risk management and the possible implementation of open strategizing to mitigate the legitimacy risk stemming from stakeholders. Lastly, a choice has been made to study stakeholder risk management and open strategizing only in relation to stakeholders that are labeled as 'salient' by the focal executive. As this salience is equivalent to the degree of priority managers give to competing stakeholder claims and thus assess their importance (Mitchell et al., 1997), these are the most relevant to include in this research. To conclude, the research context consists of executives active in eight varying medium to large size organizations facing wide-ranging stakeholder claims and interactions.

3.3 Research method

The three main forms of data collection that apply to qualitative research are interviews, observations, and document analysis (Vennix, 2019, p.216). This study will use two of these forms: document analysis and interviews. In case studies, namely, multiple sources of evidence are used although most of the evidence comes from interviews and documents (Myers, 2020). The data collection method of document analysis is a method in which documents are studied with the goal of finding out what message the author is trying to give to the document (Myers, 2020). The documents analyzed for this study cover stakeholder theory, risk and stakeholder management, open strategizing, and organizational legitimacy. The second form of data collection that will be used is interviews. Through an interview, data is collected based on a conversation. This form of data collection is flexible and important for the research method case study (Vennix, 2019, p.216). Semi-structured interviews are chosen for this study, which use an interview guide wherein a list of topics and questions are prepared (see appendix chapter 1). The interviewer determines the order of and the way the questions are asked (Vennix, 2019, p.216). This interview format provides the opportunity to ask in-depth questions on certain topics and cover things not included in the interview guideline (Myers, 2020). This ‘freedom’ in interviewing offers the opportunity to ask clarifying and deepening questions about the central concepts of stakeholder risk management, open strategizing, organizational legitimacy, and potential relationships. For this research, observations are not used given with this form of data collection you cannot learn anything about the past (Vennix, 2019, p.226). To get a complete picture of stakeholder risk management and the possible application of open strategizing, the full context needs to be considered including the past.

The interviews will be conducted with executives who work for a company fitting the description outlined in the research context. The aim is to conduct an interview with one or more stipulated actors, per company chosen as a subject for this study, which amounts to a total of 8 interviews. This distribution will ensure representative results that can be compared with the other cases. All interviews will be transcribed by means of intelligent verbatim transcription, meaning distracting fillers and repetitions will be left out but the transcription will be in line with the intended tenor and meaning of the interviewed. This ensures tonality and possible underlying messages will be considered (Brooks, 2021). The verbatim transcriptions are in the possession of the declared supervisor of this study. All the interviewed have given consent to the use of and reference to personal titles in the processing of the interviews in this report. The data collected will be analyzed using coding. Coding is

the process of assigning keywords to collected material to interpret the information and arrive at insights (Vennix, 2019, p.228). The codebook used for this study is included in chapter 2 of the appendix.

3.4 Reliability and validity

Research is subject to quality criteria, the two major ones are reliability and validity (Vennix, 2019, p.138). The reliability of research methods is found in the degree to which they are accurate and consistent (Vennix, 2019, p.140). To ensure the accuracy with which the variables are measured, the variables are defined as precisely as possible in the theoretical framework (chapter 2). The second point of reliability is the consistency of the research methods i.e., reproducibility. This means that a subsequent study, under the same conditions and using the same methods, will produce the same results and conclusions. This is difficult to ensure in social sciences (Myers, 2020). Although the interviews have been conducted under as many of the same circumstances as possible, differences will most likely still be present. To still ensure consistency as much as possible, an interview guide has been used. This ensures that a large number of questions and topics are similar in the different interviews. This increases consistency and thus reliability (Myers, 2020).

The validity of a study can be divided into internal and external validity. The internal validity of a study is the extent to which the researcher measures what he wants to measure (Vennix, 2019, p.138). Case studies are generally strong on internal validity. This is because, for example, an interview guide can be used and the variables can be adequately formulated (Vennix, 2019, p.139). In case studies, internal validity can be reduced when only one form of data collection is used (Vennix, 2019, p.139). Applying different forms of data collection counteracts this. Furthermore, the theoretical framework attempts to define the variables as specifically and clearly as possible. This also increases internal validity because it allows any potential relationships to be indicated more convincingly (Vennix, 2019, p.138). External validity involved the extent to which the results of a study can be generalized. Normally, external validity is ensured by choosing as large a population as possible (Vennix, 2019, p.139). In a case study, however, this is not possible because the population is as large as the number of cases (Myers, 2020). In the case of this study, as outlined, there are eight cases. This makes the sample too small for standards that generally apply to externally valid research. Therefore, the remark to be made about this study is that the results will not be readily generalizable.

3.5 Research ethics

Ethical considerations play a paramount role in conducting research (Roth & Unger, 2018). In line with the American Psychological Association (APA) guidelines, this study prioritizes the protection and well-being of its participants by adhering to certain ethical guidelines. Informed consent has been obtained from all participants, ensuring they have a clear understanding of the study's purpose, procedures, potential risks, and benefits. Confidentiality measures have been implemented to safeguard participants' personal information. All participants have consented to the use of and reference to personal titles and background, furthermore, it has been agreed on if certain information should remain confidential. In this light, the principles of beneficence and non-maleficence have been upheld, aiming to maximize benefits and minimize harm to participants. The research has been carried out with integrity, honesty, and transparency, adhering to scientific standards, and avoiding any form of misconduct. The rights, dignity, and cultural sensitivities of participants have been respected throughout the research process. This study ensures that reporting and dissemination of findings are accurate, unbiased, and respectful of intellectual property rights. The results and inferences of this study have been confirmed by those interviewed and the report, after assessment, will be shared with everyone involved. By embracing these research ethics, this study aims to uphold the highest standards of ethical conduct while contributing to the advancement of knowledge in the field.

4. Results

In this chapter, the results of this study are presented as the main findings from the data collected during the research. This section provides a comprehensive analysis of the data and aims to answer the research question and objective. By examining and interpreting the data, the results offer valuable insights into the various concepts, (proposed) relationships, and patterns observed in this study, contributing to a deeper understanding of stakeholder risk management. The results of this research will be presented in a logical order based on importance and inference. The first part discusses the process of general strategy, amounting to the process of strategy formulation, its antecedents, and considerations. It then examines what stakeholders, for the different companies involved, are deemed most important and why. What follows is an exposition of the process of stakeholder risk management discussing its various components, dependencies, and turnouts in practice. Finally, the findings regarding the concept of open strategizing in relation to stakeholder risk management and its potential positive effect on organizational legitimacy are addressed.

4.1 General strategy

To answer the research question and objective of this research, the concept of stakeholder management was first questioned. Hypothesized up front was that this was a stand-alone concept that in that light was easy to separately explore. Examining the concept of stakeholder risk management by means of interviewing executives though, so it turned out, can only be done by first explaining and elaborating what the general strategy formation process is in the companies concerned. The reason is that there prevails a universal consensus among the questioned executives that stakeholder management is in principle strategy formulation. Ronald van Gerwen, CEO at FMI ImProvia, denotes this as follows;

“Forming strategy is taking into account everything that can have a significant impact on your business, in that light I think stakeholders are very important to consider in this process and cannot be seen separately.” (Interview 3).

Hans Heijmans, Managing Director at Lightyear Layer, shares this point of view;

“We form strategy by considering our customer landscape, supplier landscape, competitive landscape and our own competencies. These things, more or less, reflect different stakeholder groups and thus are taken into account in forming our strategies.” (Interview 5).

Therefore, to unpack the concept of stakeholder management in practice and assess the concept of stakeholder risk management and possible application of open strategizing, it becomes necessary to first examine what role stakeholders thus play in the general process of strategy formulation. To examine this, the interviewed executives have been asked to describe their process of strategy formulation. From this, an attempt is made to infer how exactly stakeholders are managed and accounted for.

When asked to describe how strategy is formed in their respective organizations, the interviewed executives unanimously stated that it all starts with mapping all things that need to be considered. Among others, these things include market trends and needs, product developments, the competitive landscape, the supplier landscape, and internal competencies. This full outline of dependencies then constitutes the basis for the formation of strategic objectives. Though formed at a distinct moment in time throughout the subject organizations, objectives are continuously adjusted or changed when internal or external factors demand so. However, predefined models and frameworks like OGSM and Hoshin Kanri are almost always, be it in some cases not explicitly, used to help the strategy formation process. These models try to take the organizational dependencies into account and form objectives and goals accordingly. In every company, the responsibility for forming and monitoring this strategy lies with the organization's management team. Though in several companies there is active participation from stakeholder used, particularly from employees but occasionally also from other stakeholders like customers and suppliers. Ruud Coppens, director at Interduct Group, even indicates that the keyword in their strategy formation process is *"together"* (Interview 6). The interviewed argue that this engagement is beneficial or even necessary for formulating sound strategy;

"You have to ask stakeholders what is your issue, what do you see in the market? So, it's a continuously gathering of information in that holistic world to look at what gives us the right to exist for the future. Where can we make an impact and where do I especially not want to play a role?" (Interview 6).

Based on the above findings, it can be stated that stakeholders play a distinct role in the strategy formulation process by reflecting some, or sometimes all, of the organizational dependencies that need to be taken into account to form strategic objectives and goals. The example proves the usefulness of open strategizing as it is intended, in that it provides a greater variety of ideas, enhanced employee engagement, aligned strategy formulation and implementation, and competitive advantage. However, this does not yet say anything about whether open strategizing can be used as an effective form of stakeholder risk management.

4.2 Stakeholders

As defined in the theoretical framework, determining the most significant stakeholders for a company is subject to their level of salience and thus the relative possession of the attributes of power, urgency, and legitimacy. Before we can look at what exact stakeholder groups are labeled as important by the various executives interviewed, it is important to determine whether Mitchell et al.'s categorization is recognized in practice. Generally, the interviewed agree with the determination of salience as determined by Mitchell et al. (1997). *"I am quite comfortable with this division!"* (Interview 7). However, it is noted by all that in practice the individual attributes are not explicitly looked at but it is more of a natural process where determining the importance of a stakeholder happens unconsciously, be it according to the components described. *"We just don't explicitly look at these components. We look at stakeholders and of course these attributes are always hidden in there."* (Interview 3). What has already been touched upon briefly in the previous findings is that stakeholders can be found in the entire contextual environment of an organization and can thus be classified by salience through the attributes of power, urgency, and legitimacy.

The recognized salient stakeholder groups are employees, customers, shareholders, suppliers, competitors, certifying bodies, governments, and banks. The most salient stakeholders in this overview can, based on the data collected, clearly be reduced to two groups: employees and customers. However, the exact distribution of these two groups is organization-dependent given the respective position in the market and type of product sold. The executives active in the smaller organizations studied tended to categorize customers as their most important stakeholders. *"If I have to say it now, my main stakeholders are always my customers, without them my employees have nothing to do."* (Interview 4). For executives active in larger organizations employees tend to be their most important stakeholder. *"The most important stakeholder is our people, then nothing comes for a long time and then customers follow."* (Interview 6). This can be explained by the fact that customers at larger companies have less power relative to smaller companies. With a broader customer base and thus less dependency, employees prevail as the most salient stakeholders. Essentially, it is a 'chicken and egg' situation in that a company has no need for customers without employees and vice versa.

What emerged from the analysis is that precisely these two groups are by far the most frequently mentioned in relation to forming strategy. In light of this finding, it can be considered that when incorporated into strategy based on salience, a certain risk is already recognized and resolved. Indicating the application of stakeholder risk management.

4.3 Stakeholder risk management

This study has so far found that stakeholders play a distinct role in strategy formulation and that a differentiation in stakeholder significance can be made using the concept and antecedents of salience. Additionally, it has been recognized that salient stakeholders, particularly employees and customers, are considered in strategy formulation due to a certain risk that is associated with failing to address their interests. Given these findings, it becomes apparent that the organizations subject of this study engage in the process of managing stakeholder risks. This section of the results presents findings that show how and why this concept is found important and how this process manifests itself.

The employed theory by Xia et al. (2018) defined five distinct components of the stakeholder risk management process. It was tested whether and if so, how all five components find effect in practice. The first component is ‘collecting stakeholder risk-related documents and making stakeholder risk management plans’. This component encompasses the general collection of information around stakeholder risks and making subsequent management plans. As it turns out, every company is doing this in some shape or form. Mark Mollen, CEO at Please describes the outworking of this as follows;

“We mainly ask for input from stakeholders. We collect all the insights and wishes et cetera and we take those and ultimately, we do make our own assessment of this as the course we are going to take.” (Interview 1).

For Frank Huis, this component is important and is performed in the following way;

“We certainly collect information around stakeholder risks, that is very important. But that's not really institutionalized in the sense of sending out a questionnaire or whatever. But it is the commercial people who are at the table with a customer, for example, that they need to be alert.” (Interview 6).

Ronald van Gerwen indicates that at FMI ImProvia this component is in fact institutionalized;

“For example, we conduct an employee satisfaction survey, which we do every 2 years. We also do that with our customers, albeit in a somewhat different form. That's the main instruments we use to, say, put the dipstick into those 2 target groups and gather information.” (Interview 3).

In conclusion, all organizations apply this component, albeit in different forms, and find it important for thoughtful business operations.

The second component is 'stakeholder risk identification and classification', which encompasses the process of recognizing stakeholder risks based on the information collected. Roland Voermans, COO at Aalberts Integrated Piping Systems, describes the execution of this component as follows;

"With the information that you gather, you start looking carefully and thinking what stakeholders and what risks around that stakeholder do we need to consider? We perform a kind of risk analysis on that. These risks can usually be reduced to that it has something to do with how well we are able to do it as a company or that it impacts our legitimacy" (Interview 8).

Ronald van Gerwen also indicates that an estimation should be made based on the information collected; *"What we then logically do next is that we think to ourselves, which of these risks are important and which are not? This is often in line with the significance (salience) of the stakeholder"* (Interview 3). It is indicated by the interviewees that, based on the information gathered, important risks quickly become clear and that the immediate next step is to start looking at how to deal with those risks.

This is what the next component 'stakeholder risk analysis and assessment' encompasses, namely analyzing the considered important risks and determining how to deal with them. Mark Mollen outlines how this is done within his company;

"Sometimes big risks come out, for example for our legitimacy with respect to our employees, which are not good. Then our comment is that we want to have that resolved as soon as possible. Then we will try to solve that neatly and safeguard it in our organization. And so, you get better and better." (Interview 1).

Derk Wilten, managing director at Synchron Lab Automation, describes a similar execution; *"We definitely apply stakeholder risk analysis and assessment. For example, we found that we have a high dependency on certain suppliers, so we saw that was a big risk. We thought about that, and we know now that we always must have somebody else who can do that as well, we are very aware of that!"* (Interview 4)

Based on the data collected, it can be said that this component is also clearly reflected in the managing of stakeholder risks.

The following component is 'stakeholder risk response', which encompasses how a company responds to the stakeholder risks found to be important. What emerges clearly from the data is that responding to the recognized risks is mainly a matter of understanding where the risk emerges from, formulating an appropriate solution and most important involving the stakeholder in this solution. Iwan de Waard, executive director at ExRobotics, denotes this as follows;

"We are the type of company though that if we see risks and things can go wrong, we don't walk away. We always want to resolve that. But then there must be the will on the other side to solve it. For that, it is very important that you involve the stakeholder in question in this process."

(Interview 2).

Ronald van Gerwen also emphasizes this way of responding to stakeholder risks;

"What I do is that I then proverbially stand on the soapbox, then I present what we as a company want with that risk, and then we have to think to ourselves what do we want to do and not to do? I think saying what you do and don't do is a very important element. To also include stakeholders and give feedback on what happens with a claim." (Interview 3).

It thus appears important, in addition to the obvious correct remedy of the risk, to involve the stakeholder(s) related to the risk in this process. This ensures mutual understanding and assures the company of an 'appropriate' solution.

The last component is 'stakeholder risk control', in which attempts are made to control long-term risks found to be important. As it turns out, the interviewed executives emphasize the utility and value contained in a good relationship with key stakeholders, especially since this is a way to address potential stakeholder risks at an early stage. Ruud Coppens indicates this as follows;

"I think very much according to the 'together you will get further' principle. We believe that you always have to have a good conversation with your important stakeholders to just continuously exchange what is going on, what is important to you et cetera." (Interview 6).

Peter Linthorst, CEO and CFO at Modiform, also emphasizes this approach;

"It's really necessary to pull together with your important stakeholders, especially in this changing world. You just have to take steps together. It's better to prevent claims than to fix them, of course, which is why we think it's very important." (Interview 7).

Roland Voermans illustrates some examples of engaging with their key stakeholders aimed at remedying or preventing risks;

“We often really engage with key stakeholders. Last year we visited a customer and said, “hey, when we are 10 years from now, what will your company look like and what are your problems then? Also, just to hear what drives him and what he sees in his future. You get very valuable input from that, of course. But also, for example, with certification bodies, we sit down with them and discuss issues that we have to proactively solve them. To change things and make them better in the future. You really try to think with a stakeholder, that only helps us too.” (Interview 8).

What becomes evident from the data collected is that controlling stakeholder risk is best accomplished by engaging with key stakeholders and truly involving them in your business operations and decisions.

Based on the above analysis of the collected data, it can be stated that all five components of stakeholder risk management, as classified by Xia et al (2018), are reflected across all organizations albeit in an implicit application of the component. Furthermore, the risks recognized and deemed important particularly include implications for overall business operations and legitimacy. Consequently, these are the two main drivers for wanting to actively manage stakeholder risks. Ultimately, it emerges that throughout the stakeholder risk management process, there is actively sought to converse and engage with important stakeholders to provide better resolutions and aid the overall outcomes. This finding indicates the potentially useful application of open strategizing in the stakeholder risk management process.

4.4 Open strategizing

Central to this study is the question of whether open strategizing can pose as an effective form of stakeholder risk management and with that mitigate the legitimacy risk stemming from stakeholders. To explore whether this is the case, executives were asked to assess if the two dimensions of open strategizing can or are already being applied to reduce risk accruing from stakeholders, as was already reflected in the assessment of stakeholder risk management.

The dimensions of open strategizing are (1) transparency of the process and (2) the inclusiveness in terms of the number of stakeholders involved in the strategy formulation process. Based on the data collected, both dimensions were found to be important for managing and even reducing stakeholder risks. Roland Voermans explains; *“Yes, that's a really good way to reduce stakeholder risk! I really think companies that are successful, they just have a very clear strategy that involves stakeholders. That everyone can say yes, I know what the strategy is and what my contribution is to this strategy. As a result, they themselves have some kind of part in the strategy so that legitimacy is no longer really an issue”* (Interview 8). Hans Heijmans also emphasizes the (potential) usefulness of open strategizing for stakeholder risk management; *“I think for internal stakeholders we are really ahead in terms of transparency and inclusiveness. In terms of other stakeholders like suppliers and customers, I think we still have some catching up to do there but that that can be a very good way to reduce those stakeholder risks around legitimacy, for example”* (Interview 5). Peter Linthorst shares both views and adds that it is ‘just’ a regular part of forming strategy; *“To me, open strategizing is very similar to how we normally form strategy. Stakeholders are an inherent part of our strategy, and I think that if you are not transparent and inclusive with stakeholders, you are eliciting stakeholder risks. When you make them part of it, so to speak, the legitimacy issues actually disappear.”* (Interview 7).

Thus, based on these passages and information gathered from the other executives, it can be said that the benefit and thus effective form of open strategizing in relation to stakeholder risk management is reflected. This benefit can be explained in various areas. Primarily, it enables the subject organizations to control, reduce or eliminate stakeholder-related risks by making important stakeholders part of the strategy and formulation process and implicitly making it a fellow result of their desires and interests. This in turn aids the three determined components of legitimacy: pragmatic, moral, and cognitive. This is because the formed strategy through open strategizing fulfills, albeit partially, the stakeholders’ interests and expectations (pragmatic), is in line with their ethical activities (moral), and the organizations’ activities can be found comprehensible and appropriate (cognitive).

5. Conclusion

This chapter answers the main question of this study; How does stakeholder involvement through open strategizing pose a form of stakeholder risk management and how does it influence company legitimacy? To answer this question, the main findings of this study will be presented whereon subsequently, based on reasoning and inference, an answer can be formulated. This study first discovered that stakeholders play a distinct role in the strategy formulation process of organizations by reflecting some, or sometimes all, of the organizational dependencies that need to be considered to form strategic goals and objectives. Additionally, employees and customers were found as the most important stakeholders across the organizations which could be effectively determined by the concept of stakeholder salience. The accounting for stakeholder interests in strategy indicated an acknowledgment of potential stakeholder risks and, thus, stakeholder risk management was critically assessed. Based on the data collected the process of stakeholder risk management, as put forward by Xia et al. (2018), was seen as clearly reflected and valuable across all organizations. Furthermore, the risks recognized and deemed important by executives particularly included implications for overall business operations and legitimacy. It became clear, in addition, that in the process of stakeholder risk management, there is being actively sought to converse and engage with important stakeholders to provide better resolutions and ultimately aid the outcomes. Ultimately, the concept of open strategizing was found as an effective form of stakeholder risk management through reducing stakeholder risks, primarily in terms of legitimacy, by making important stakeholders part of the strategy formulation process and implicitly making it a fellow of their desires and interests.

6. Discussion

Considering the recap of the main results of this study in the preceding chapter, this chapter discusses and interprets these results. Further discussed are the contribution these results provide to the knowledge field on this topic. Additionally, practical and managerial implications as well as a critical reflection on the limitations of this research are discussed. Ultimately, based on these details, directions for future research are provided.

The results clearly showed the hypothesized importance that stakeholders represent for today's organizations. This can be seen by the finding that stakeholder management has become an inherent part of strategy formulation and the numerous activities described that are geared towards the comfort and consideration of important stakeholders. Through practices like stakeholder panels, stakeholder benchmarks, and so-found open strategizing, stakeholder risks are actively sought and reduced. Additionally, as anticipated, open strategizing has been substantiated as an effective form of stakeholder risk management through its reduction in legitimacy risks stemming from stakeholders. This finding may be called foreseeable because the more you engage with stakeholders, in this case through open strategizing, and make them feel heard, the lower the risk of stakeholder-related legitimacy risks. Given the fact stakeholders, as a result, have their share in a company's formed strategies and thereby activities.

The results of this study contribute to the knowledge field of stakeholder management, primarily with respect to the effective reduction of stakeholder-related risks. As was posed in the introduction of this study, the integrated management of stakeholder risks has been an overlooked and under-researched area. Additionally, there has been no consensus formed yet on what is the best way to give form to stakeholder risk management. The finding of this study that open strategizing can pose as an effective form may result in a shift in this discussion. The managerial implication of the results found resides in its provided insight for managers who face stakeholder risks in, for example, projects or the formation of strategy. Through its further exploration of the key challenges and related capabilities needed for successfully managing stakeholder risk and the putting forward of open strategizing, managers can more effectively manage these risks and account for them in their respective organizations.

This study has shown the first signs of the effective application of open strategizing as a form of stakeholder risk management, with that reducing legitimacy risks accruing from stakeholders. The principal implication of this inference is that this study was conducted in

the form of a case study involving eight cases, impacting the external validity of the results as discussed in chapter 3.4. Given the small research population, the posed results of this study cannot be generalized and serve thereby as a substantiated indicator of the possible effective use of open strategizing in stakeholder risk management. This limitation directly encompasses what directions for future research this study provides, namely that further research is needed to further investigate the effective use of open strategizing as a form of stakeholder risk management. This can be done by performing a quantitative study involving a large group of executives, for example, from a particular sector or type of organization. This way externally valid conclusions can be drawn as to the effective application of open strategizing in stakeholder risk management for a specific field.

7. References

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