

Holding sway: How to get stakeholders on your side

November 3, 2010

New research indicates that entrepreneurs may be able to boost the bottom lines of their young companies by displaying behaviors that impact others on an emotional level.

When Christine attempted to start up a new brewery in the U.K., she ran up against a reluctant private investor. Rather than beg, she praised him for his own business acumen, drawing parallels between herself and his experience of founding a business a few years before her.

"That's what clicked," she says. "The next morning, he was trying to buy me and the team. It changed so fast, from being 'Who are you?' to 'Are you up for sale?'."

Research on social persuasion shows that Christine's tactic is often effective: Lavishing praise on someone's achievements while drawing parallels with your own situation is almost certain to generate respect and empathy from the listener.

Christine's story exemplifies the type of actions that professors Quy Huy and [Christoph Zott](#) believe can make or break a business.

The authors examined the relationship between the founders and stakeholders of six London-based start-up firms over a four-year period. Their study builds up a realistic picture of what types of sense-giving and trust-building actions are effective among stakeholders, including employees, investors and suppliers.

It takes more than passion

During its early days, a company's success largely hinges on the abilities and personalities of its founders. Research has shown that decision makers in the movie industry, for example, are more likely to be persuaded by screenwriters who seem passionate about their projects.

But passion alone is not enough to convince potential stakeholders to part with their much-valued time, energy or money.

Instead, the authors identify three sets of sense-giving actions, which they say hold the key for swaying others.

The first set encompasses socially valued entrepreneurial behavior, which includes being able to relate with and gain the confidence of potential stakeholders, like Christine did. Other qualities are total commitment, high personal energy, excitement and confidence. In Christine's case, one industry expert also highlighted her ability to keep a cool head. Like a duck, he said, Christine is calm on the surface, but paddling furiously underneath.

The second set relates to genuine personal caring for the stakeholders. Sam, the founder of a start-up consultancy, realized that organizing social events, such as taking clients to a soccer match or employees out to dinner, generally had an uplifting effect.

"It makes them feel they are really part of what is going on. They can come and talk to us, genuinely, about how the firm is doing."

In a similar vein, James, the founder of a hotel company, made a concerted effort to visit all the firm's hotel managers regularly. By doing so, he was able to find out about their individual problems and help to resolve them.

"Just by being there and talking to them, they then start to treat you as an individual, rather than simply as the guy who runs the business."

Once formed, beliefs that a young firm and/or the founders will value and protect all stakeholders make employees feel more secure in their positions, despite the uncertainty that working for a nascent company usually entails.

Give it to them straight

The third effective means of garnering stakeholder commitment and support is by being

honest with people. Instead of papering over the business risks, be upfront about them.

Surprisingly, the authors found that the more honest the founders were about the risks, the more that potential employees and investors wanted to get involved. Rather than scaring them off, the frankness of the founders effectively served to calm them down. In this way, they could begin to build relationships based on trust.

Some took this a step further by fostering an atmosphere of inclusiveness among the workforce. They involved new employees in projects that gave them an opportunity to shape their own futures.

James noted that when employees see they're not going to get beaten up for making mistakes, they begin to relax. Then they start to open up and become more confident about expressing their ideas.

Such a transparent and inclusive environment creates a strong perception among stakeholders that the founder, and by association the firm, possess integrity. This, in turn, makes stakeholders more willing to trust the founders and commit to the long term.

These findings suggest that those who carry out affective sense-giving actions, like those just mentioned, are better at mobilizing resources for their firms, especially during times of high uncertainty and economic instability.

This provides a ray of hope for resource-poor entrepreneurs. They can still create something from next to nothing, using their most valuable assets: existing and prospective stakeholders.

www.iese.edu/insight