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STAKEHOLDER RELATIONSHIP MANAGEMENT: ADDRESSING THE DILEMMAS OF COMMERCIALISED GOVERNMENT.

ABSTRACT

The paper reviews the application of stakeholder management principles within the strategy process of commercialised government. It also attempts to address the common dilemmas facing agency leaders in Australia, New Zealand and European social democracies—How to balance commercial imperatives with social responsibility?

Contemporary notions of ‘stakeholders’ and ‘stakeholding’ are examined along with recent studies of stakeholder management as an ‘instrumental’ and ‘normative’ or ‘ethical’ device.

Principles of stakeholder relationship management derived from: the Berman et al (1999) study of 82 major corporations in the USA; European case material; and the author’s consulting experience are then reviewed and captured in a conceptual model. The model is intended as a guide for agency director’s seeking to use stakeholder relationship management programs as both a positioning device to build reputation; and a means to achieve balanced financial, social and environmental outcomes.

INTRODUCTION: THE COMMERCIALISATION OF GOVERNMENT AGENCIES IN AUSTRALIA

By the end of the twentieth century the inevitability of an increasingly commercialised government sector appeared to be widely accepted by a Australian and New Zealand politicians and senior public servants at all levels of government. The broad political debate over the merits of private versus public ownership had shifted towards a case-by-case approach to determining the fate of government entities. Politicians of both a conservative and social democratic persuasion were capitalising on a corporatisation and privatisation agenda characterised by: the introduction of new management practices focused on efficiencies; cost cutting; and revenue raising from the sale of government assets in banking, telecommunications and the major utilities. (Spiers, J. Daily Commercial News, 28/2/95:3); (Evans, S. The Australian Financial Review, 25/6/98:50; (Southwell, M. The West Australian, 28/8/99:11).
The introduction of these ‘managerialist’ practices and conventions formed part of a broader corporatisation process defined by Howard (1994:7) as “The incorporation of statutory authorities,” and “Restructuring into government owned companies whose legal and accounting codes conform to the codes of listed and unlisted companies”.

In the same year Muetzelfeldt (1994) observed that—“Market mechanisms in politics, public administration and policy making (are) transforming the state and notions of citizenship and democracy that are associated with state practices.”

The corporatisation of Australian Federal and State government agencies continued throughout the late 1990s, following an earlier trend in the UK, Europe and New Zealand, towards the commercialisation or full privatisation of government services. In each of these cases energy, telecommunications, and water utilities were the favoured candidates for privatisation. These measures proved contentious with significant sections of the voting public, and factions both within government and opposition parties. In Australia and New Zealand respective government ministers were accused of short term thinking and ‘cashing in’ on the sale of valuable public assets, based on the assumed efficacy of private sector models and deregulated markets. Wiltshire(1987); Boston (1987); Hilmer (1993) Stace and Norman(1997). Eby and Hazan(1998).

The privatisation debate continues in Australia and New Zealand in 2001, with respect to varied 3-10 year performance outcomes from the incorporation and sale of government utilities based on: profitability, ‘share value’, cost and quality of service delivery; and customer satisfaction. Quiggan(1997);Bellamy and Goldfinch(2000). However there is little evidence of incumbent governments seeking major reversals of commercial arrangements, previously put in place for former state utilities. Given this reality and reductions in
government spending on key service delivery agencies, the question of how best to reconcile commercial objectives, with the interests of diverse publics or stakeholders becomes imperative?

**OBJECTIVES AND METHODOLOGY**

This paper aims to assist the leaders of commercialised government in Australia, New Zealand and European social democracies to make more informed decisions about the priorities and positioning of specific service agencies with respect to diverse stakeholder groups, in order to achieve more balanced financial, social and environmental outcomes.

To support this objective: Stakeholder theories, their applications and potential benefits are explored in relation to empirical and case evidence drawn from recent US and European literature. Lessons from the research are incorporated into the stakeholder relationship management model for public sector corporations, outlined in section four.

**STAKEHOLDERS AND STAKEHOLDER RELATIONSHIP MANAGEMENT**

The term ‘Stakeholder’ has been subject to a range of definitions in the academic research produced over the past two decades many of which were reviewed by US researchers Mitchell, Agle and Wood (1997); and more recently in Australia by Greenwood (2000).

Freeman’s ‘broad’ and ‘narrow’ definitions’ are the most widely cited in the current literature as “Any individual or group who can affect the achievement of an organisations objectives,” (1984:1) and “Those groups on which an organisation relies for it’s survival”. In their influential text tracing the emergence and current status of European stakeholding and the benefits and practical applications of ‘inclusive’ corporate strategies Wheeler and Sillanpaa
(1997:p x) offer an extended definition of stakeholders as- “Individuals and entities who may be affected by business and who may in turn bring influence to bear on it.” They identify typical ‘Primary stakeholders’ as: “Investors; employees; customers; suppliers; and the local community where the firm is based; or trades,” and Secondary Stakeholders as: Regulators; civic institutions and pressure groups; media and academic commentators; trade bodies and competitors”. Finally they suggest that businesses with sufficient foresight, environmental and social concern may include: “The environment; nonhuman species; and future generations,” within their broader stakeholder universe. The work of Freeman(1988); Carroll (1989); Weiss(1994); McKenna(2000) and several other writers on business ethics complements Wheeler and Sillanpaa’s view that managers should exercise social and moral responsibility towards stakeholders. This view is explored in the discussion of stakeholder management concepts, theories and applications below.

The practice of ‘Stakeholder Management’ is according to Freeman (1984) captured within a broader approach to “Mapping and managing the complex moral relationships between a corporation’s strategic activities and those who affect and are affected by such actions.” Freeman in Weiss (1994:29). Freeman’s notion of management paying systematic attention to stakeholder needs as a means to ensure the firm’s financial success and ethical credibility, has been developed in subsequent stakeholder theories and typologies. Reidenbach and Robin (1991); Langtry (1994); Weiss (1995); Wartick and Cochran(1995); Donaldson and Preston(1995); Mitchell, Agle and Wood(1997).

The notion of ‘Stakeholder relationship management’ is premised on the adoption of a managed or strategic approach to stakeholder relations and in it’s most instrumental form resembles traditional ‘public relations’ or the neat packaging and careful targeting of persuasive messages—commonly labelled as ‘spin’. This ‘asymmetrical’ or one-sided
approach to stakeholder relations is considered to be normatively questionable by management ethics writers such as Weiss(1988); McKenna (1999); and Greenwood (2000); and ineffective by public relations strategists such a Grunig (1996): both stress the need for genuine dialogue or ‘symmetrical’ communication with stakeholders.

A dialogue driven model of stakeholder relationship management is proposed in this paper as practical device, to mediate between the politics of economic rationalism and the philosophy, policies and practices of traditional public sector management. It aims to help agency directors clarify agency values and positioning in the minds of the publics or stakeholders which they are contracted to serve.

Agency positioning: The Instrumental v Normative Continuum

In their influential paper on stakeholder relations, Donaldson and Preston(1995) discuss the “Normative” / “Instrumental” and “Descriptive/Empirical” approaches to examining stakeholder relationships. Whilst the normative approach focuses on the moral commitment that the firm (or organisation) has to it’s stakeholders; the ‘Instrumental’ approach relates to the consequences of treating stakeholders in a specific manner; and the “Descriptive/empirical” approach based on investigation of existing stakeholder approaches to support a deeper understanding of the nature of stakeholder relationships. (See Berman et al 1999:1). In common with much of the previous research into stakeholder theories and approaches, Donaldson and Preston’s findings emphasise the normative or intrinsic worth of stakeholder relations as a reflection of the organisational values and identity. Corporate ‘identity’ and associated ‘image’ and ‘reputation’ are direct products of the relationships which an organisation has with it’s stakeholders. According to key writers in the field of strategic communications ‘identity’ captures the “values, strategy structure and culture of the
organisation” ‘image’ is “the immediate mental picture that individuals or stakeholder groups have of an organisation” Balmer and Gray (1999) and is more temporary and frequently manipulated than ‘reputation’ — “An overall estimation of the company closely related to performance.” Formbrun (1996). These concepts are elaborated in figure 1 below, and figure 2, the conceptual model of stakeholder relationship management for government corporations, presented in the final section of the paper.

**Figure 1: Value Based Communication: Spin v Social Responsibility**

<table>
<thead>
<tr>
<th>Traditional PR focus</th>
<th>Strategic Communication</th>
<th>Social Responsibility</th>
</tr>
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<tbody>
<tr>
<td>Manipulation</td>
<td><strong>Dialogue and inclusion</strong></td>
<td>Participation</td>
</tr>
<tr>
<td></td>
<td>Image and reputation</td>
<td></td>
</tr>
</tbody>
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Figure 1. captures the tension that exists between traditional public relations and normative models of stakeholder and associated reputation management. Operating at either extreme is neither a particularly desirable, or practical for agency directors and managers, as neither position fully acknowledges the political complexities and dilemmas which characterise life for the 21st century public life. Instead a dialogue based or inclusive approach to stakeholder communication is advocated as an effective means to complement the strategy process and the delivery of balanced corporate or agency outcomes.

The role of stakeholder relations or communication programs within the strategic planning and broader strategy process for corporatised government agencies is outlined below.
STAKEHOLDER RELATIONSHIPS AND CORPORATE STRATEGY

Strategy, planning or dialogue?

In the introduction to his influential book “The Rise and Fall of Strategic Planning,” Henry Mintzberg sets the tone by suggesting that “There must be a better ways besides planning to make strategy.” Mintzberg (1994:3).

The conventional strategic planning cycle undertaken by government agencies and corporations, is justified on the basis of — Setting corporate and business unit objectives; aligning and coordinating activities; managing performance; ensuring accountability at all levels; and communicating intent and direction to stakeholders. However following Mintzberg(1994), it can be argued that this mechanistic and essentially two dimensional approach to strategy, does not provide an effective means to integrate organisational activities or the intelligence required to inform effective executive (top team) decisions.

Stakeholder relationship management strategies complement the corporate, business, and program planning processes by adding flexibility and contextual ‘depth of understanding’. This is achieved by moving the organisation towards an increasingly rich but carefully managed dialogue with stakeholders to produce positive change in key areas including: employee and external stakeholder relations; increased levels of trust; increased public awareness of socially responsible corporate activities; better integration of information and organisational knowledge; more informed and timely decision making; and the possibility of better financial, social and environmental performance linked to a positive reputation with key publics.
Establishment of an effective stakeholder relationship management programs can also help to overcome two of the most pronounced limitations of strategic planning—Inability to gather and channel information fast enough to support a dynamic executive decision making process; and the tendency to overload managers with multiple and conflicting goals or performance targets.

**Dynamic decision making:** By setting up a network of key internal and external stakeholders and defining the nature of the conversation which the organisation wants or needs to have with defined groups or individuals, agency intelligence and knowledge can be fast tracked to decision makers from any point within organisation. A managed stakeholder relations program also helps agency executives and managers to listen to, anticipate, and respond in an orchestrated manner, to the needs and concerns of their key primary and secondary stakeholders. (Typically staff, customers, suppliers, politicians, other government agencies, local and national media, community groups and other opinion shapers and influencers).

**Setting strategic priorities:** The stakeholder relationship management process when combined with issues management can help executive teams establish short term resource allocation priorities relating to the needs of relevant stakeholders at given points in time. Under conventional strategic planning, priorities, key result areas and performance indicators are set in a yearly cycle, with some provision for tactical adjustments for unforseen contingencies and events. This approach is often slow and cumbersome. It is also frustrating for managers at all levels, who are expected to produce outcomes relating to key performance indicators which hold marginal relevance to the core problems of their business unit. Carefully conceived and well executed stakeholder management strategies can help overcome this, by ensuring that time, resources and management attention support dialogue with those
stakeholders who are most relevant to the core tasks or problems of the business. These groups and individuals are identified in the literature as ‘salient’ stakeholders’ or those who can ‘most affect’, or are ‘most affected by’, the organisation at a given point in time. Mitchell et al (1997).

**STAKEHOLDER SALIENCY: ESTABLISHING ‘WHO’ AND ‘WHAT’ REALLY COUNTS.**

Since its beginnings in the domain of economics writers on stakeholder theory have had problems developing effective stakeholder typologies to guide the practical task of sorting out “Who or what really counts” or “To whom (or what) do managers pay attention”. Galbraith (1967); Freeman (1994:409). This is a difficult question as the answer relates to the specific circumstances confronting organisations and their agents (managers) at any given time. Mitchell et al (1997:874) tackled this problem by devising a typology of overlapping stakeholder categories (allowing the same stakeholders to wear a number of different hats over time). This concept of ‘saliency’ acknowledged that the significance of various stakeholders to management, will vary over time. They identified eight principal stakeholder categories: ‘Dormant’; ‘Discretionary’; ‘Demanding’; ‘Dominant’; ‘Dangerous’; ‘Dependent’; ‘Definitive’; and ‘Non – stakeholder’. These categories each related to a particular combination of three key elements — ‘power’, ‘legitimacy’, and ‘urgency’. The relative saliency of each stakeholder is determined by the manager’s perception of how many of these attributes are present at a given point in time. To hold ‘Definitive’, status the stakeholder must be seen to hold power and legitimacy within a context, that requires the urgent attention of the manager or executive team.
Whilst several other attempts have been made in the literature to categorise or establish a hierarchy of stakeholders, (see Greenwood 2000), the model presented by Mitchell et al (1997), combined with the ideas of Mitroff and Pearson (1993) and Mitroff (1998); provide the most comprehensive and carefully constructed reference points for agency top teams wishing to identify and classify and their stakeholders. 

**STAKEHOLDER RELATIONSHIP MANAGEMENT AND ORGANISATIONAL PERFORMANCE**

**Stakeholder relationships and corporate performance.**

Whilst numerous indices, frameworks, and international precedents for stakeholder focused reporting exist, it is still very hard to make a direct link between the relationships that an organisation (or it’s managers) develop with specific stakeholder groups and financial performance. Becker and Gerhart’s (1996) study of resource based human resource (HR) strategies (focused on building human capacity within organisations) makes this elusive connection in relation to ‘internal stakeholders’ Citing findings from empirical studies by Davidson et al (1996); Huselid and Becker, (1995), (1996); and Welbourne and Andrews (1996); they note that an appropriately configured HR system can effect a firm’s market value by US$ 15,000- 45000 per employee and influence the survival prospects of a new company by up to 22%. Becker and Gerhart (1996:9).

Berman et al (1999) built on these observations in their detailed longitudinal study of 81 US Fortune 500 firms over a six year period. This study focused on the direct and indirect impact of management/ stakeholder relationships on firm performance.

Relationships between management and stakeholders were identified across five categories: ‘Employee relations’; ‘diversity’; ‘local communities’; ‘the natural environment’; and
‘product safety/quality’. These were indexed against two major performance indicators defined by Hambrick (1993) as ‘Cost leadership’ and ‘Differentiation’. The former was defined in three components: Cost of goods sold to total sales; Capital intensity (total firm assets divided by number of employees); and Capital expenditures (net annual capital expenditures divided by sales). Differentiation was singularly defined as “The ratio of selling and general expenses to sales”. Berman et al (1999:6).

The Berman et al (1999) study revealed a complex set of associations between each firm’s management of stakeholder relations, corporate strategy (or resource allocation decisions) and financial performance. However all five stakeholder relationship variables were found to have a moderating effect on performance. More significantly a strong direct correlation between ‘employee relations’ and customer relationships with particular regard to ‘product quality and safety’ and positive financial performance was confirmed across 486 data samples, obtained over six years from the 81 companies. Whilst this reinforces the stance of quality management writers and consultants such as Beckford (1998), and Oakland (1999), it also represents a considerable breakthrough for those attempting to demonstrate the efficacy of strategic approaches to the management of corporate stakeholders. This point is clearly reinforced by the authors who conclude that—“Relationships with stakeholders have a direct impact on financial performance”. “Fostering positive connections with key stakeholders can help firm profitability. More importantly, stakeholder relationships and resource allocation decisions are inseparable, because how managers distribute resources has implications for the strength of the stakeholder relationships, and these sets of variables interact to affect firm performance”. Berman et al (1999: 12).

Case study evidence: Stakeholder inclusion
Whilst various US and Canadian studies have offered useful cameos of companies adopting varying degrees of stakeholder consultation as part of their business strategy, the notion of stakeholder ‘inclusion’ finds it’s origins in Northern Europe and Scandinavia. (Clarke 1998).

In their definitive text “The Stakeholder Corporation: A blueprint for maximising stakeholder value,” Wheeler and Sillanpaa (1997) capture the history of stakeholding in Europe and illustrate the key dimensions of stakeholder inclusion through various case examples. They cite examples from stakeholder oriented companies across various industry sectors including—a major UK publishing house (not named); the high profile Body Shop (Cosmetics); the Cooperative Bank; Scandia Life(a Swedish Insurance company); Siemens (the German based telecommunications, electrical and electronic engineering multinational); and IBM (the computer hardware giant, which lost a major component of it’s worldwide market in the 1990s through failure to listen to it’s external stakeholders throughout the 1980’s). These studies are used to highlight the significance of stakeholder trust and reputational capital as essential investments in the future value and sustainability of any organisation’s operations. Wheeler and Silanpaa (1997;162); Shockley-Zalbach et al (2000).

4-DEVELOPING AN EFFECTIVE STAKEHOLDER RELATIONSHIP STRATEGY FOR COMMERCIALISED GOVERNMENT.

Overview

Throughout this paper an attempt has been made to set out a rationale for the adoption of a strategic approach to stakeholder relationship building by the leaders of commercialised
public sector agencies. Various arguments have been presented relating to the limitations of conventional strategic planning and corporate decision making processes— notably the need to create a dynamic stakeholder intelligence network to support informed top team decision making and effective use of management time and resources.

Evidence has been presented from empirical studies of major US corporations and cases drawn from Europe and Scandinavia, to support the position that systematic management of stakeholder relationships can improve corporate financial performance directly or indirectly.

The research presented supports the author’s proposition that the adoption of a strategic approach to managing stakeholder relationships supports effective governance of public sector corporations. In figure 2 an attempt has been made to capture the defining characteristics, roles and relationships of a stakeholder management framework for public corporations. The framework or system depicted is intended as a guide for senior public sector decision makers, who are encouraged to interpret the contents for practical application within their own agencies.

**Figure 2: Government Corporation: Stakeholder Relationship Management Framework**

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<table>
<thead>
<tr>
<th>Executive Team S &amp; RM group</th>
<th>Stakeholder database</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate/Agency Identity</td>
<td>SRM program integrates and orchestrates external communications</td>
</tr>
<tr>
<td>Internal communication of culture, values, strategic direction and key messages</td>
<td></td>
</tr>
<tr>
<td>Externally focused stakeholder communication</td>
<td></td>
</tr>
<tr>
<td>Targeted messages</td>
<td></td>
</tr>
<tr>
<td>Corporate Image and Reputation with all stakeholders</td>
<td></td>
</tr>
<tr>
<td>Stakeholder feedback / intelligence gathering</td>
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</tbody>
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Adapted: Balmer and Gray (1999).

The concepts, roles and relationships depicted in figure 2 can be elaborated as follows—

• EXECUTIVE TEAM: An agency executive must be in place reporting to a CEO or similar position and operating under the provisions set out in Australia, New Zealand or respective European countries for incorporated statutory authorities or quasi-governmental agencies. The relevant minister may be treated as a primary stakeholder, but should have no direct role in the execution of top team decisions, duties and responsibilities.

• STAKEHOLDER AND RELATIONSHIP MANAGEMENT (SRM) GROUP: A team comprised of designated senior managers, corporate communications specialists and strategic planning staff should meet on a regular basis to: Coordinate the internal and external communications process; identify and categorise key stakeholders; review information from the stakeholder database and network; identify stakeholder needs and emerging issues; and advise the top team on stakeholder saliency, appropriate communication approaches and allocation of resources.

• STAKEHOLDER DATABASE: This can range from a basic database of stakeholder groups, contact details, and position adopted on corporation’s activities or related issues, through to an integrated decision support network capable of tapping into all the organisation’ systems and various points within the broader stakeholder network. The database should be used primarily by the SRM group in consultation with the agency
‘Executive’ to track stakeholder activities and determine their saliency or potential impact on the core tasks or problems of the organisation.

**SRM PROGRAM:** A documented stakeholder relationship management program is used as a tool to integrate all communication with internal and external stakeholders. (In some instances the employee communication program may be captured in a separate but overlapping document). These documents are normally developed and implemented through the Communications function or SRM group in conjunction with the Executive, and representatives from HR, Marketing, Customer Services and other relevant functions or programs. The SRM program should be based on agreed agency values, positioning, and communication principles to ensure coordinated and consistent messages, use of appropriate mediums, and timely and effective dialogue with a range of stakeholders.

**INTERNAL COMMUNICATION:** Focuses primarily on communication of values, corporate direction, planned and ongoing changes, to management and staff or employees. The communication style and behaviours of senior management will strongly determine the credibility and success of internal communication initiatives.

**EXTERNAL COMMUNICATION:** Should be closely integrated with internal communication to ensure a consistent and value-aligned approach to managing communication with, and feedback from, stakeholders at various points in the network. This will also support a strategic dialogue or rich conversations with salient stakeholders, who can most affect, or are most affected by, the policies and actions of the corporation. It is the quality of this dialogue that will determine the short term IMAGE and longer term REPUTATION of the organisation. These in turn result in accrual of the reputational capital.
which is widely identified in the literature as a major contributor to organisational survival and success. Fombrun (1996); Wheeler and Sillanpaa (1997); Balmer and Gray (1999).

• CORPORATE IDENTITY: Following Balmer and Gray (1999) this is everything the organisation is, and intends to be.

Identity includes — Corporate values and purpose; strategic intent and positioning; the supporting structure of roles and relationships; core processes and technologies; human capacity; and the cultural characteristics of the organisation. The challenge for management is to configure these elements in a manner which will maximise the possibility of realising the financial, social and environmental objectives of the agency. Figure 2 highlights the basic arrangements or system required to optimise the achievement of these outcomes through strategic management of stakeholder relationships.

Conclusion:

The challenge of leading commercially focused government agencies in the 21st century is characterised by the absence of the old public sector rules and certainties. Agency heads must now find a way of managing the daily dilemmas associated with achieving commercially acceptable and socially responsible outcomes. (McKenna 2000; Muetzelfeldt 1994). In the context of commercialised government, they must embrace a new conception of the public interest and the core tasks of public administration. These ideas are embodied in the practice of systematic management of relationships with diverse ‘publics’ or stakeholders. This approach has been explored in detail as a strategic tool to clarify resource allocation.
priorities, build reputation, and improve the financial, social and environmental performance of commercialised government agencies.

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