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Stakeholder Management - Long term business success through sustainable stakeholder relationships

Abstract: Stakeholder Management is decisive in determining whether or not a company is, or will remain, successful. It has a direct impact on the competitive market environment and bottom line results of an organisation. Profitable companies have strong relationships with the relevant stakeholder groups in their business, be it customers, employees, distributors or shareholders. Yet, most managers lack a simple, accurate measure of the health of their business relationships across multiple channels. Stakeholder Management is concerned with actively and effectively managing these important relationships. Strong customer relationships, committed employees and successful relationships with suppliers, shareholders and other stakeholder groups define the winners in today's global economy.

To achieve sustainable stakeholder relationships, organisations need to first define who their key stakeholders are. Secondly plan the implementation of a stakeholder management system. Finally break down the management system in clear and defined steps.

1. What are Stakeholders and how to identify them?

The term 'stakeholder' received rising attention within the last years – who didn't hear about the shareholders vs. stakeholders debate and about the growing demands for companies - produced by stakeholder pressure – to not only watch the balance sheet but balance the interests of its' various stakeholders in order to become a "good" and responsible company. Much has been said in this debate which – this may wonder some people – is almost as old as the shareholder orientation.

Wasn't the term 'stakeholder' founded in the early 1960s as a reaction to the "too focused shareholder orientation" in that time? But this discussion is in some way misleading as it pushes the stakeholder approach solely in the Corporate Social Responsibility (CSR) perspective, which is only one of the manifold views one can choose to look on it (or through it). The origin of the stakeholder approach lies in the area of strategic management and organisational theory.

Let's go to the essence of the stakeholder approach – who or what is a stakeholder?

The basic and most cited definition by R.E. Freeman (1984) says that a stakeholder is *"any group or individual who can affect or is affected by the achievement of an organization's purpose"*. Hence stakeholders are all relevant groups of people who are important for the organisation's value creation, as their input (work, capital, resources, buying power, word-of-mouth etc.) is vital for the organisation's success. Some have a direct, short term relevance, others tend to be more important in the long run. Without employees, for instance, a company wouldn't be able to run any operations. Without suppliers – dependent of the company's amount of storage – it could probably survive for some time. And without journalists even much longer.

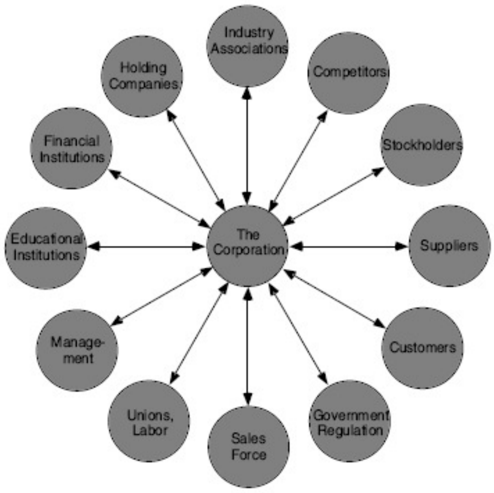

Figure 1: Stakeholder model of the firm

The basic stakeholder model by Freeman (1984) (see Figure 1) gives you some idea what stakeholders are – the concrete identification and importance evaluation has to be done company specific. Some of the most important stakeholders in most of cases are: Employees (including management & sales force), customers, shareholders, suppliers, distributors, financial institutions, financial analysts, media, NGOs etc. Stakeholder Management as a consequence is about the management of the relationships with all these groups by serving their interests efficiently and thus profitably in order to sustain and improve the contributions (resources) they provide for the company's value creation. It's all about relationship and experience management – and business excellence (Scharioth and Huber, 2003). The manifold processes constituting and serving the various stakeholder relationships have to be defined & structured optimally to serve the stakeholders' interests profitably. What makes this task so complex is the very varying and sometimes even seemingly contradictory nature of the interests of the different stakeholders: For instance, customers want high quality products and good service for a cheap price, shareholders high returns on their stocks and general public is claiming for corporate social responsibility.

Hence, one of the key challenges of stakeholder management from the company's perspective is to balance these various interests under the restriction of limited company resources (time, budget, man power etc.) in order to reveal the optimal support for lasting success.

2. The importance of Stakeholder Management - luxury or necessity?

A vast amount of research has been conducted on the importance of stakeholder management and there's large evidence that effective and efficient stakeholder management is crucial for long term (financial) business success and sustainability. Let's choose a simple example: It's widely known (and has been empirical proved) that it's five to six times more expensive to win new customers instead of retaining the ones you already have (and extending business with them). Hence managing your processes with customer touch points in a way they provide an excellent experience to your customers is key for long term profitable business in order to secure the resource they're offering: buying power (money). The empirical evidence shows that the direct influence of customer retention on profitability is surprisingly high, at 10-20% (Huber, Scharioth and Pallas, 2004).

Most advanced companies have implemented systems for customer orientation and customer satisfaction / retention measurement is already standard in many (advanced) regions and sectors. But there's always potential for improvement and competition is becoming harder. As many different resources will become even more rare in future (i.e. highly talented employees due to demographic changes in some regions like Europe and the US) other stakeholder

relationships will become the next areas where you have to secure your competitiveness. And if you are fast you can even foster hardly imitable competitive advantages, as strong stakeholder relationships show all characteristics necessary for sustainable competitive advantages: Causal ambiguity and especially social complexity (Barney 1991).
Who wouldn't agree that highly motivated and loyal employees don't enhance the success of your company? And they affect customer retention, as their way of doing their jobs affects the process quality of cooperation between company departments, the so called internal service quality. This internal service quality itself has a direct impact on the way how customers are served, through the perceived quality of process outcome at customer touch points. Truly committed employees can push even companies with insufficient processes to a high customer retention. On the opposite, demotivated staff will probably scupper even the best processes.
It's very important to understand these interactions between different stakeholder groups in order to fully grasp the importance of a single stakeholder group and stakeholder management as a whole. See Figure 2 for having an overview about the links between a selection of very important stakeholder relationships of a company (employees, departments, customers) and competitive advantage.

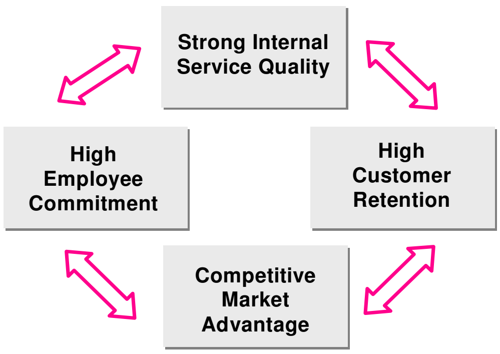

Figure 2: Links between internal stakeholder relationships and competitive advantage (Based on service profit chain model reviewed by R.S.M. Lau, Industrial Journal of Service Industry Management, 2000)

Similar logic can be applied to almost all kind of stakeholder groups, also if they are not that directly linked with the business and financial success of a company and their interactions tend to be much more of long term relevance. Take media – don't you think that their reports about your company in whatever media channel don't affect your reputation among other stakeholder groups who are influenced by the newspapers they read or the TV channels they watch? The relationship quality with relevant journalists of important media channels can strongly affect your company's reputation, as media is an important multiplicator with high potential influence on all other stakeholders of a corporation.

3. Implementation process of a stakeholder management system

After having realised that stakeholder management is not a luxury but a necessity of staying competitive in today's demanding business world where only the fittest will survive, it's about to plan the implementation of a stakeholder management system. But where to start? Most companies have at least two or three stakeholder groups included in their company's mission, commonly shareholders, employees and customers. This can be a first orientation which stakeholder groups to start with. If there are no stakeholder groups integrated in your company's mission, you should strongly think about changing this!
See Figure 3 to get an idea how you can integrate stakeholder management in your company's mission and what concepts have to be considered accordingly For instance, in order to become an employer of choice as one important objective in the company's mission in order

to be competitive in the "war for talents", it's crucial to achieve a high level of employee commitment as your employees are your strongest ambassadors and to evaluate your management in order to secure a leadership culture that enables your employees to fully use their potential.

In order to achieve a high level of value creation for your customers, to name a second example, three concepts have to be considered: Customer retention to cover the relationship between your customers (in a B2C as well as in a B2B context, e.g. wholesalers or manufacturers) and your company, Consumer Experience if the relationship between private consumers and your product is in the focus (i.e for a FMCG manufacturer) and Internal Service Quality as a basis for efficient processes with high quality process results.

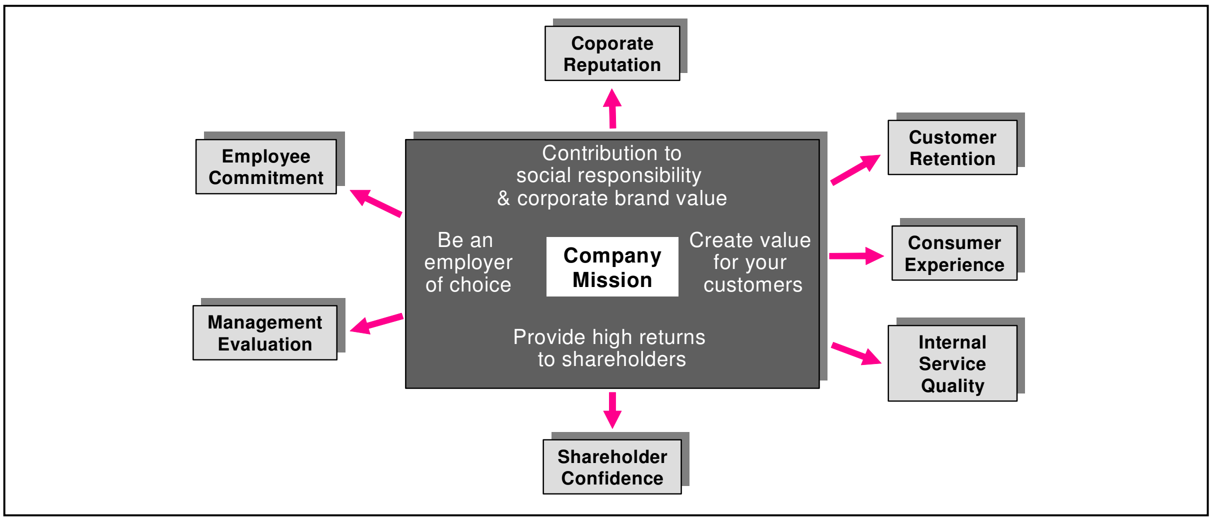

Figure 3: Integration of stakeholders in a company's mission (example)

In this example about the integration of stakeholders in the company's mission, not all potentially relevant stakeholder are considered and the underlying process for implementing a stakeholder management system is not covered. Hence it's advisable to start from a broader management perspective, following a process model.

From a more general management perspective, the integration of stakeholder management in the company's overall management should follow several steps with individual tasks and challenges.

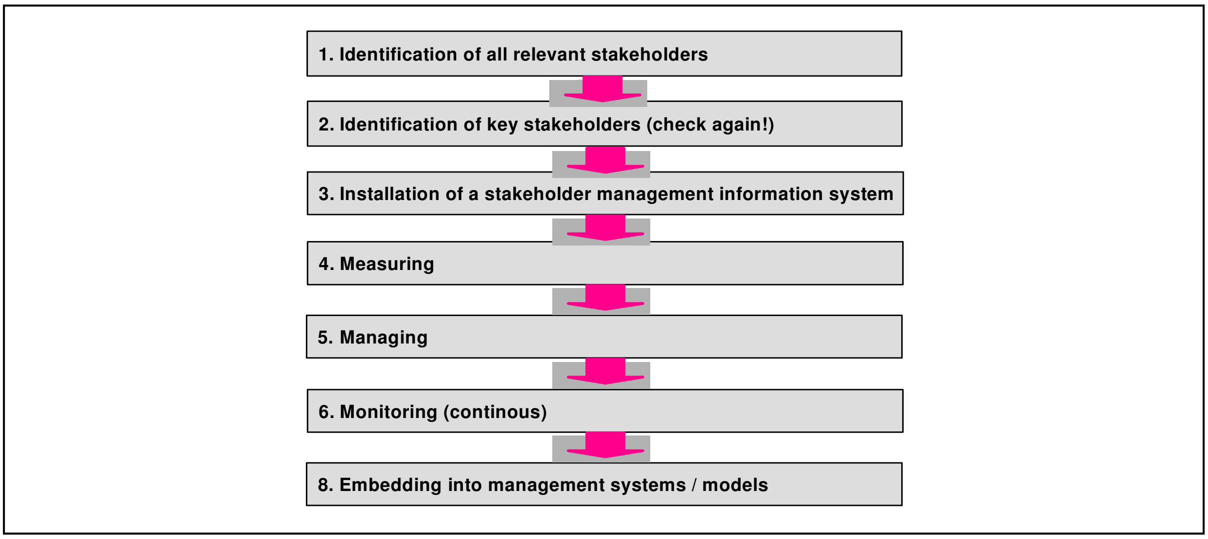

Figure 4: Stages of the stakeholder management process

The stakeholder management process can be ideally structured in eight stages, as shown in Figure 4. In reality these stages of course might be redundant and some stages will be done parallel or repeated. In the following section the single steps are described more in detail.

4. The individual steps of the stakeholder management process

Step 1: Identification of all relevant (business) stakeholders
As outlined above the concrete identification of stakeholders has to be done company specific, as every company has a very unique set of stakeholders according to its individual situation and position. There's also a regional perspective in it, as it's obvious that a global player deals with different stakeholder groups on a global or local level than a small national company. Also the demands are different and of course the awareness of the company plays an important role in calling the attention of special stakeholder groups, like international NGOs looking for cases with high publicity potential.
For the first approach a general stakeholder model (see Figure 1) will help to search for relevant groups. In this process different senior management functions have to be involved, like board members, PR/communication department, marketing, investor relations, CSR / sustainability department, finance, plant managers etc. It can be very helpful to further structure the "stakeholder universe" in in- and external stakeholders and these external ones further in business and society stakeholders:

- Internal Stakeholders: Employees, management, control organs, internal shareholders (e.g. owners for privately owned companies)
- External stakeholders:
    - Business stakeholders: External shareholders, customers (B2B & B2C), suppliers, distributors/wholesalers, strategic partners, industry associations etc.
    - Society stakeholders: General public, media, politicians, public authorities, education, NGOs, unions etc.

At the end of this step there should be a set of stakeholder groups that serves as a basis for the definition of key stakeholders and their prioritisation in the next step.

Step 2: Identification and prioritisation of key stakeholders
After having defined a set of relevant stakeholders the next step is about to select the most important key stakeholders from these, give them priorities weights and order them in a ranking according to their relevance. A practicable possibility is to use a heuristic approach (similar Hermann 2005):

a) Overall set of stakeholder groups (from step 1)
b) National relevance: Which countries and / or number of countries
c) International relevance: I.e. specific NGOs or unions
d) Relevance according to industry sector of the company: I.e. Services vs. manufacturing or chemical industry
e) Relevance according to their PUL-scheme: Evaluation of their power, urgency and legitimacy (Mitchell et al. 1997)
f) Relevance according to company situation: Market situation, strategy and available / needed resources
g) Relevance for specific corporate functions: I.e. finance, production, marketing, PR

It consists of 7 stages (a-g), that start on a broad and general level (a - overall stakeholder set) and go down to a company specific level (g - relevance for specific corporate functions). Each stakeholder group can be relevant for only one, several or all stages of this heuristic. For each stakeholder group in the relevant set collected in step 1 (see above), the stages of this heuristic have to be gone through in order to focus the selection and priority weighting of the

stakeholders according to their company specific relevance. According to the number of relevant stages for each stakeholder group the representing score can be assigned to the individual group and hence can be ranked according to the score achieved.
After having gone through all stages for all stakeholder groups you should receive a ranking of your company specific stakeholder groups according to their relevance and an evaluation how specific and/or general their relevance is, i.e. for specific countries and /or company functions. Unnecessary to mention, it's advisable to start your stakeholder management with the most important ones, but not forgetting the ones with similar high relevance of course!

Step 3: Installation of a stakeholder management (information) system
Management needs an information system to manage the relationships with key stakeholders efficiently. A profound system needs to consists of three major elements: Measuring, managing and monitoring. These elements are essential for a working stakeholder management system and continuous improvement due to the following reasons: 1. Measurement: At first you need to receive information about the quality of your stakeholder relationship, the drivers and your strengths and weaknesses, as you can only manage what you measure. 2. Managing: The second element is about managing, hence to translate measurement into action, by implementing change based on the information you received through your measurement. 3. Monitoring: The third element is about the continuous evaluation of cause and effect, which is key to ensure actions have the desired impact and take further corrective actions if necessary.
The management system itself has to be based on direct, reliable information from the stakeholders themselves (i.e. from standardised surveys) what could be best described as "voice of the stakeholders" and the system should provide easy to interpret actionable results in order to be able to directly derive quick decisions that lead to actions. Commonly a one-number score as key performance indicator (KPI) of the stakeholder relationship is needed for receiving a fast information about your status and for benchmarking (over time, across units, across stakeholders, compared to competition) as well as an in-depth diagnosis of drivers, strengths & weaknesses in order to analyse causes and derive prioritised actions. Generally it's advisable to choose a holistic system as information basis, that can be used to create, organise and implement an operative stakeholder management system with the flexibility to accommodate organisational change.

Step 3: Measuring
For all selected stakeholder relationships management relevant information (KPI, drivers, strengths & weaknesses, priorities) needs to be gathered. For this all relevant information can be used, be it from internal- or external, secondary or primary sources. The main external primary information source and also probably the most important overall source are the stakeholders themselves, who should be asked about their evaluation of the company and their relationship with them. For each of the groups a special survey needs to be designed and carried out with an appropriate method, be it via phone, online or even via personal interviews or paper & pencil. The survey for each of the stakeholder groups and the concepts and elements measured has to necessarily reflect the particular interests (stakes) of the focal stakeholder group and the appropriate concept (i.e. customer retention and customer interests for customers, employee commitment and employee interests for employees, Corporate Reputation for media, general public and others etc.) for evaluating the relationship quality with this group. Additionally the specific business and situation of the company has to be reflected thoroughly in order to tailor the survey design appropriately. It's advisable to choose an experienced partner for stakeholder management research and consultancy for this process as its complexity and pitfalls can be amazingly demanding for starters and will probably cause non-specialised inexperienced staff to struggle with this task.

After having received the hopefully easily interpretable output results, you can start to analyse the quality of the different relationships with a key performance indicator (KPI) in order to get an idea about your status. If available, use benchmarks to compare your scores with standard, top or low scores in your sector, region and the specific stakeholder group.
After having a basic idea about your status and deriving the urgency for implementing change in order to improve, you can go on to diagnosis. This diagnosis in general should contain the identification of relationship drivers and your strengths and weaknesses among these, recommendable also compared to relevant competitors. All these elements should be understood as a fact based decision support. You should know now where you stand with your stakeholder relationships.

Step 4: Managing
After measuring you are ready to start managing. It's essential to use the information you received for decision making in order to improve your relationships (if necessary, what is very likely!), i.e. the level of your customer retention or employee commitment. Based on the results from diagnosis you can identify and prioritise areas for improvement, set targets in these areas and hereafter implement actions in order to reach your targets. For setting operational targets, these should always consist of four elements: Content, level, time and probably region. Let's make an example in the area of customer retention. You have measured a current level of customer retention (KPI) in Western Europe of let's say – 65. Your hardest competitor has a level of 70, what means that its' customer retention is significantly higher and he will probably outperform you in terms of profitability. You can now set a target like: Increase the KPI level of customer retention (content) to 75 (level) within 2 years (time) in Western Europe (region). That would be an operational target for which you could now define actions and which achievement you can control. A note of cautiousness: Set realistic targets that you can reach, taking under consideration the resources (budget, man power etc.) you are able and/or willing to invest, the market situation and your industry, the region and – last but not least – possible competitive activity (e.g. with different scenarios: 1. Ideal scenario; 2. normal scenario; 3. worst case scenario).
Just to have it mentioned: For reaching your targets you of course have to wisely choose the appropriate actions that have the strongest potential to bring the wanted effect. You surely don't want to waste money on useless activities that only steal your time and resources without really improving your stakeholder relationship, because they don't have a real impact on relationship quality. Focus on the strongest drivers of the specific stakeholder relationship you have got from the diagnosis (measuring) and work on eliminating your dangerous weaknesses among these drivers first, while maintaining (or even further improving) your most important strengths.
Step 5: Monitoring
Some time after you implemented the defined actions and gave them enough time to work out, it's very advisable to control the effects of these actions. Controlling is important to know if your actions were the right and/or were implemented in the right way in order to reach your set targets. For receiving facts on action effects a next wave of measurement is necessary (step 3) that provides you with actual data about your relationship quality. Depending on the results you might choose to adapt your targets if you consider them to be not realistic anymore under eventually changed conditions or to change the actions you want to implement or the way they were implemented. If carried out ideally you will do a continuous loop of measuring, managing and monitoring with specifically defined intervals. Only a continuous cycle ensures ongoing improvement, what is recommendable as competition never sleeps and stakeholder are becoming more and more demanding on the fulfilment.

Step 6: Integration into (existing) management systems
One of the best way to ensure the ongoing use of stakeholder metrics is their integration into management models / systems that are already used and accepted in the company. Not all systems / models are equally applicable for this purpose, though. A basic premise for their usability is their composition, that has to include non-financial elements like customer retention, employee commitment, process quality (internal service quality), management quality, supplier / distributor relationships and/or concepts that span various stakeholders like reputation.
To name only two, the EFQM Excellence model® and the Balanced Scorecard (BSC) from Kaplan & Norton are management models that integrate financial as well as non-financial elements and call for appropriate measurement of these elements in order to receive comparable metrics in form of KPIs. The BSC for instance includes besides traditional financial metrics like cash flow, turnover and profit customer, employee and process centric (non-financial) metrics – the so called intangibles. They represent the link between a stakeholder management (information) system and other management models which helps to interconnect these management fields and ensure that stakeholder issues are permanently embedded in company management. If a company already uses such a management model partially, the process could be briefly outlined as follows: At first include the stakeholder relationship performance measures into existing KPI-systems and/or used management models. Second link the beneficiation of responsible managers to the level of these stakeholder metrics (KPIs) and include them into the strategic target setting of the company. Third define intervals of measurement/monitoring (see above).

5. Conclusion

As you probably have realised during going through this process and the whole article, Stakeholder Management is a complex management task with far reaching strategic, organisational and investment impacts. It's advisable to choose an experienced partner by your side and to go through this journey step by step, not starting at once with an integrated approach covering all stakeholder groups and being overwhelmed by the complexity and diversity of the different demands and requirements. For instance, start with customers, then include employees, then probably corporate departments (internal service quality), then maybe extend to measure, manage and monitor Corporate Reputation (a concept covering the image of your company in all kind of mostly external stakeholder groups) and so on.
It's not only worth the way - long term business success in the future won't be possible without sustainable stakeholder relationships. If you want to be on the winner's side, effective and efficient Stakeholder Management is obligatory.

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About the TRI*M™ - our solution for stakeholder management and the company TNS

TRI*M™ – The Business Solution for Stakeholder Management

Our vision: To be a learning organization that is the world's premier client driven partner for Stakeholder Management.

TRI*M™ stands for **m**easuring, **m**anaging and **m**onitoring. The TRI*M™ management information system incorporates three key dimensions:
1. Measuring: you can only manage what you measure
2. Managing: translating measurement into action, by implementing fact-based change
3. Monitoring: continuous evaluation of cause and effect

About 1000 companies worldwide already rely on the TRI*M system in order to improve their business processes for building sustainable relationships with their relevant stakeholders – many continuously and since several years. They are striving for long term financial success through business excellence, profitably managing the experiences of their stakeholders with them.

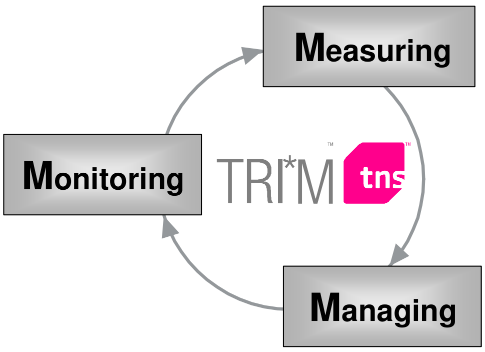

Figure: What TRI*M stands for: Measuring, Managing, Monitoring

TRI*M™ - the solution for Stakeholder Management .. is replicable worldwide and applicable for all companies whether in the business-to-business or business-to-consumer markets. TRI*M™ is the globally most successful management information system for organisational improvement in the Stakeholder Management area.

See the figure below for the various stakeholder relationships that can be measured, managed and monitored with TRI*M™: Management, employees, strategic partners, company departments (process optimization), B2B & B2C customers / consumers, distributors, shareholders, suppliers and all of the above and other stakeholder groups (like General Public, Media, Analysts etc.) with Corporate Reputation management.

TRI*M™ is also the perfect solution for customer retention in Retail and Category Management, as well as for Public Service Quality in public institutions and Consumer Experience Management in FMCG.

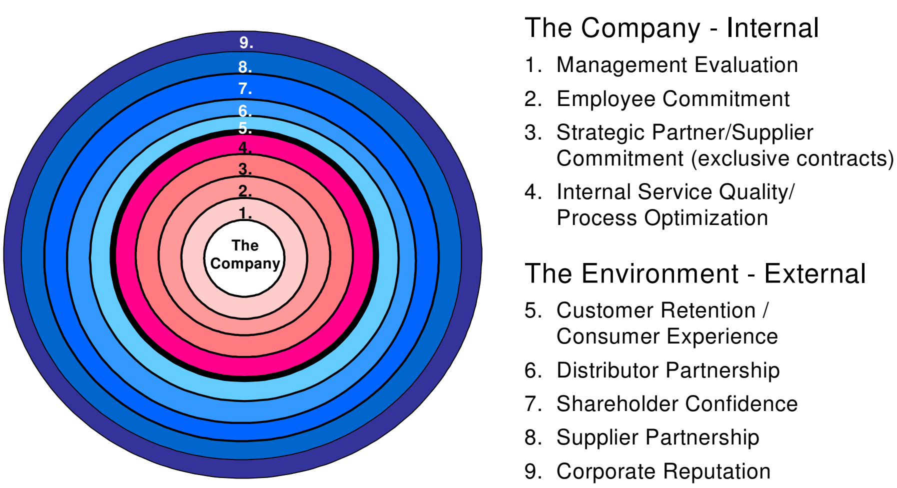

Figure: Covered stakeholder groups with TRI*M

The benefits of TRI*M™
TRI*M is tailored to your individual needs. Every company is provided with its own unique programme, designed specifically to be in tune with its business environment and management objectives. It is particularly unique in that it:

- is a truly actionable Management Information System
- offers a one-number tool that enables continuous monitoring and benchmarking, providing key metrics for the Balanced Scorecard
- has extensive benchmarking capabilities, drawing on over 9,000 TRI*M studies worldwide
- offers a TRI*M Typology for determining customer management strategies or Human Resources policies
- provides a key driver analysis which helps discover 'Motivators' for the relationship and
- 'Hidden Opportunities' which can be developed to become USPs (Unique Selling Points) for the future
- delivers individual reports for action planning across different areas of responsibility
- shows the personal commitment the brand has in customers' minds using TRI*M-Conversion Model
- can offer a Global Leadership Guarantee from the Global TRI*M Centre

About TNS

TNS – Fact based consultancy for the 6th sense of business.

TNS is a leading global provider of market information. We collect, analyse and interpret information to help our clients better understand the needs and wants of their customers and other stakeholders. We provide research, advice and insight on motivational research, market segmentation, new product development, advertising and communications, brand performance and stakeholder management. We are also one of the leading providers of social and political polling and global market leader in stakeholder management.
From our global network, which spans 70 countries, we provide local expertise and knowledge, together with internationally consistent information and analysis to multi-national organisations.

TNS is listed on the London Stock Exchange (TNN).

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