Stakeholder orientation

What it is, how it’s measured, and what it’s worth

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Our priorities are the opposite of our large competitors. Convention dictates that a company should look after its shareholders first, its customers next, and last of all worry about its employees. Virgin does the opposite. For us, our employees matter most. It just seems common sense to me that, if you start off with a happy, well-motivated workforce, you’re much more likely to have happy customers. And in due course the resulting profits will make your shareholders happy.
Not your typical CEO
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A more typical CEO?

- James Burke
- CEO of Johnson & Johnson for 13 years
- Awarded Presidential Medal of Freedom, 2000
- Named one of the ‘Ten Greatest CEOs of All Time,’ Fortune, 2002
• We believe our first responsibility is to the doctors, nurses and patients, to mothers and fathers and all others who use our products and services.

• Our suppliers and distributors must have an opportunity to make a fair profit.

• We are responsible to our employees, the men and women who work with us throughout the world.

• We are responsible to the communities in which we live and work and to the world community as well.

• Our final responsibility is to our stockholders.
What is stakeholder orientation?

• Treating stakeholders as ends *as well as* means
• Creating ‘value’ (social as well as economic) for all stakeholders – not just shareholders alone
• Listening and being responsive to stakeholders, i.e. engaging in true dialogue
• Dialogue is about communication *spirit* or orientation not specific techniques
  – It requires a commitment to open, two-way communication
  – A willingness to change practices where appropriate, and
  – An atmosphere of mutual trust
Who is a stakeholder?

- Classic definition by R. Edward Freeman
- *Any group or individual who can affect or is affected by the achievement of the firm’s objectives*
- Too broad – terrorist stakeholders?
- Hence only those who can *legitimately* affect or be affected by a company should be considered stakeholders
- My research is limited to primary stakeholders: customers, employees, suppliers, the community, and shareholders
Three faces of the stakeholder debate

• Does the stakeholder concept reflect the reality of business life apart from a few special cases?
• *Should* companies adopt the stakeholder concept on grounds of corporate social responsibility?
• Do companies that adopt the stakeholder concept make more money?
### Branson is right about his competitors

<table>
<thead>
<tr>
<th>Orientation</th>
<th>Score</th>
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<tbody>
<tr>
<td>Shareholder orientation</td>
<td>5.45</td>
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<tr>
<td>Customer orientation</td>
<td>5.42</td>
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<td>Employee orientation</td>
<td>5.26</td>
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<td>Supplier orientation</td>
<td>5.04</td>
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<tr>
<td>Community orientation</td>
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- Mean scores on a 7-point scale
- The stakeholder concept does *not* appear to reflect business reality in Australia
**Should business adopt stakeholder orientation?**

- A question of values and ethics which can’t be answered with statistics
- According to Milton Friedman, the one and only social responsibility of business is to increase its profits
  - Pursuing any other objective amounts to a breach of fiduciary responsibilities and the ‘theft’ of shareholders’ funds
- But what if evidence shows stakeholder orientation actually *increases* profits?
STAKOR: An instrument for measuring stakeholder orientation

- ‘If you can’t measure it, you can’t manage it’
- STAKOR is a 17-item questionnaire designed to measure orientation towards employees, customers, suppliers, and the community in a valid and reliable manner
- In addition, shareholder orientation, perceived stakeholder satisfaction, and financial performance were measured using separate sets of questions
Data collection

• Questionnaires were sent in two waves to every Australian company with more than around 100 employees
• 626 organisations responded
• Chief financial officers were targeted
  – Less likely than PR/Marketing to hold biased views about stakeholder management
  – Better able to comment on financial performance
The impact of stakeholder orientation on corporate financial performance

• Orientation to employees, customers, suppliers, and the community correlate strongly with each other but relatively weakly with shareholder orientation
  – i.e. stakeholder orientation and shareholder orientation are different in kind

• Stakeholder orientation by itself was found to contribute positively to CFP and accounts for some 12% of the reported variance
  – Shareholder orientation by itself accounts for only 3%
Satisfaction: the link between stakeholder orientation and profits

- Not surprisingly, stakeholder orientation was found to have a massive influence on perceived stakeholder satisfaction accounting for 72% of the variance
- Stakeholder satisfaction, in turn, accounts for 17% of the variance in CFP
Which stakeholders count most?

• In a word, employees
• In the type of analysis used, the $R^2$ statistic is a measure of the contribution made by an individual variable to the total model
• In the full model, the $R^2$ values were employees (.84), customers (.36), suppliers (.35), communities (.32), shareholders (.08)
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• Any questions?