STAKEHOLDERS AND STRATEGIC MANAGEMENT

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This presentation was given as part of a panel at the US Academy of Management Conference held in Atlanta on 11-16 August, 2006.
The topic and panel's participants were:

Stakeholders: The Keys to Effective Strategy and Performance Measurement

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Participant:	Russell Coff; Emory U.
Participant:	Thomas Donaldson; U. of Pennsylvania
Participant:	Amy Hillman; Arizona State U.
Participant:	Matthew Kraatz; U. of Illinois, Urbana Champaign
Participant:	Joseph Mahoney; U. of Illinois, Urbana Champaign
Participant:	Kathryn Pavlovich; U. of Waikato
Participant:	Christos Pitelis; U. of Cambridge
Participant:	Sybille Sachs; U. of Applied Sciences, Zurich

Panel Brief

Many existing frameworks and much management practice overlook "stakeholders" when it comes to strategy development and performance measurement. The dominant framework in strategy texts, for example, focuses on customers in business organisations. The reality is that strategies need to be developed not just for "customers" but also for all of an organisation's key stakeholders, e.g. suppliers and employees. This is true for organisations in all sectors – private, public and not-for-profit. The purpose of the workshop is to propose frameworks that bring stakeholders centre stage in strategy development and performance measurement.

STAKEHOLDERS AND STRATEGIC MANAGEMENT

My presentation is different from several of the others. As an ex-professor, while I know the theory, I hope, and keep abreast of the literature, constantly, the real challenge for me lies in focusing stakeholder theory on *management* and *consulting practice*. My role with organisations is to assist them to produce effective *strategic plans* and linked *performance measures*. So today I'll leave the theory to the other speakers.

How then did we come up with a method based on stakeholders – one we call the *Strategic Factor System*. Here's our journey with some observations and suggestions.

Business Turnaround

It started some years ago, when I and my family left the US, where I was at that time a professor, and returned to Sydney, Australia.

On my return I was asked to "take a look" at a business that made timber trusses and frames for houses. Frames are the pre-fabricated walls of houses, and trusses are the triangular sections that sit on top of the frames and hold the roof up. The request was for me to see if I could "turn the business around." The company's customers were mainly professional builders, many of them large home-building companies – among Australia's largest.

I took the job and in the weeks and months that followed we started to make some significant changes. I say "we" because four of us, myself, as General Manager, the Financial Controller, Sales Manager and Manufacturing Manager would meet to make decisions. Then, after I'd been in the job for a few months, it hit me. *It was my moment of truth.*

I thought: we've been making all these changes in the business – to staffing numbers, to stock levels, to product lines, to closing the milling operation, and so on. But it was really important that I could clearly articulate on the fingers of one hand what were the ingredients of success in the industry. And I wasn't sure that I could. We'd been busy making changes – all of which made sense to us, *as managers*. But how well did we know what our customers *really* wanted? And, what would it take for us to meet those needs in such a way as to beat our competitors? As I said, it was a moment of truth.

I really had to consider these questions and think *strategically*. So I put some work into discovering what those few things were that could lead a business like ours to having a *competitive advantage*. The answers came back slowly over time that what our customers, the builders, were really looking for from firms like ours was to do well on *price*, *trade terms* (in other words, when they had to pay, discounts for early payment, etc.), *product quality* (that is, consistently meeting specifications), *range of products* (ideally a one-stop-shop), *customer service* (this is, handling of inquiries, dealing with complaints and technical advice) and *delivery* (that is, orders in-full and on-time).

I also saw that much of what we'd been focusing on as a management team was concerned with cost cutting and cost containment – in short, *operations*. Good to do I thought for the company's survival, but of no *direct* benefit to the customer. In fact, cutting costs could *impair* our competitive advantage by narrowing our product range, by lessening our customer service and so on.

This realization helped me to re-focus my thinking and that of my management team and the company's activities. And, although I didn't appreciate it at the time it was the birth of, what we now call, *strategic factors*. But the label came later.

Strategic Factors

Soon after this assignment, management consulting became my full time occupation – as it is today. In my roles as seminar presenter and consultant I encounter a variety of organisations from the three major sectors – private, public and not-for-profit. The problem is how to cope with this diversity by providing a framework for developing strategy and performance measures in *each and every case*. It's not easy, as some of you know.

We had the concept, *strategic factors* – those few things that an organisation needs to get right in order to succeed with *customers*, for example customer service, product quality and so on. But more was needed in the framework.

It's important to note here that the concept "strategic factors" is a very different one from "critical success factors" and "key result areas" with which you may be familiar – very different. With critical success factors and key result areas management hunkers down and thrashes out a *single* set for an organisation. It's *management's view* of what's important. Whereas with strategic factors there's a set for *each* key stakeholder, that is one for customers, one for employees, one for shareholders etc. And the factors themselves are validated not by management but by *stakeholders*.

Stakeholders

We worked on developing our method and the pieces started to take shape:

- first, identify an organisation's or business unit's *stakeholders*
- second, choose those that are really *key*, that is those that have or will have a major impact
- third, identify the *strategic factors* for each key stakeholder such as customers and employees
- fourth, develop *positions* on one or more of these strategic factors for each key stakeholder to produce a competitive advantage. (These positions are the organisation's strategies.)

Perfect! We thought. And it was very good for a few years.

But what we noticed was a difficulty in tracking the success of *each set* of strategies, i.e. those for each key stakeholder. In other words: how does an organisation trace *directly* the strategies for customers, then those for employees and so on? Sure you might see the effect on an organisation's *overall* financials. But that's very *indirect*. How directly?

The answer came by looking at lists of objectives produced by organisations. These, as we all know, are usually large with items from the broad, "to achieve sustainability", to the specific, "to increase sales by 10 per cent per annum". But the more we looked, the more we saw a basic pattern in these lists. It was in the relationship of objectives to *stakeholders* – revenue-related objectives belonged with customers, productivity and innovation-related objectives belonged with employees, supply-related objectives belonged with suppliers, funding-related objectives belonged with owners and so on.

What we also observed was that "objectives" were what an organisation wanted *from* a key stakeholder, for example revenue from customers. And strategic factors were what a key stakeholder wanted *from* an organisation, for example product quality. The concepts "exchange", "transactions" and "power-dependence" seemed highly relevant here.

So, we added a fifth step to our four-step sequence – straight after the previous number two. Our five-step method then became:

— first, identify an organisation's or business unit's *stakeholders*
— second, choose those that are really *key*,
— third, develop *objectives* and *targets* classified by key stakeholder
— fourth, identify the *strategic factors* for each key stakeholder
— fifth, develop *positions* on one or more of these strategic factors for each key stakeholder to produce a competitive advantage *and which achieves the targets on objectives*.

Now we were looking at both sides of the stakeholder situation. And this is how we work with organisations to develop strategies today.

Conclusion

In conclusion I'd like to make a few points concerning what we've learnt about stakeholders:

— Firstly, identifying them even for the simplest of organisations isn't easy. A management team can chew up several hours identifying its *key* stakeholders.

— Next, competitors are *not* stakeholders. They're the antithesis of stakeholders. They're competitors precisely because they want to take an organisation's stakeholders away. Yet you still find competitors identified as stakeholders in some formulations.

- Next, stakeholders can be subtle. While I've talked today in stereotypes – customers, employees, suppliers and so on – in practice we identify a much broader range, e.g. customers *and* non-customers. We may also pinpoint regulatory bodies as stakeholders as well as a Minister of the Government whose role is a policy-making one.

- Next, we don't distinguish between *external* and *internal* stakeholders. An example of "external" would be shareholders and "internal" would be employees. To us they're all stakeholders and they're all involved in exchanges and transactions.

- Next, everything we do from analysing an industry, to developing and writing strategy, to designing scorecards of key performance indicators is built on a clear identification of an organisation's *key stakeholders*.

- Next, measuring performance is measuring *relationships* – relationships with the key stakeholders of an organisation. This leads to a focus on outcomes.

- Next, there are two sides to *outcomes*. Outcomes for key stakeholders *and* outcomes for an organisation. Any effective measurement system must track both sides.

- Next, stakeholders take on multiple roles – in a credit union, members-as-customers, members-as-owners; in a dairy cooperative, farmers-as-suppliers, farmers-as-shareholders. Not recognising these multiple roles leads to incomplete strategies and performance measures.

There is, of course, more to our framework that I've had time to outline here today. It sounds so simple in its telling, yet it was so difficult in its production – and it took nearly 16 years.

I believe that we need a fresh start in Strategic Management. I'd argue that the "field" of Strategic Management has never really been established. What we have is "business strategy management", as most of the developed tools and techniques are specific to business organisations. A "field" of Strategic Management must address the needs of government and not-for-profit organisations as well.

The only way I can see to cover this diversity of organisations is through a stakeholder framework.

Thank you.

