Stakeholder perceptions presage holistic stakeholder relationship marketing performance

Brian Murphy, Paul Maguiness, Chris Pescott, Soren Wislang, Jingwu Ma and Rongmei Wang

Department of Commerce, Massey University at Albany, Albany, New Zealand

Abstract

Purpose – To measure marketing performance in a holistic sense.

Design/methodology/approach – To augment the prevailing customer relationship marketing paradigm, a holistic stakeholder relationship marketing paradigm is proposed in which holistic marketing performance is reflected in the delivery of long-term economic, social, and environmental value to customer, employee, supplier, community, and shareholder stakeholders of a business in order to enhance sustainable financial performance. Present stakeholder attitudes are measured in a stakeholder performance appraisal within a stakeholder relationship marketing model, as timely, early warning signals of future stakeholder behaviour and concomitant future business performance.

Findings – Stakeholder performance appraisal results to date indicate that a holistic stakeholder relationship marketing orientation that incorporates triple bottom line philosophy significantly enhances business financial performance beyond that achieved by a customer relationship marketing orientation.

Research limitations/implications – The stakeholder performance appraisal has been applied to only 33 businesses to date providing scope for wider application of this measurement system to demonstrate its practical usefulness in measuring holistic marketing performance and future financial performance.

Practical implications – The stakeholder performance appraisal provides a perceptual overview of holistic marketing performance and concomitant business financial performance from stakeholders in terms of quantitative ratings of economic, social and environmental performance, and qualitative strengths, weaknesses, opportunities and threats. These data enable a business to plan stakeholder relationship marketing strategies to enhance performance and to predict future financial performance.

Originality/value – The stakeholder relationship marketing model and the stakeholder performance appraisal are new, unique, managerially useful additions to existing stakeholder models and metrics.

Keywords Stakeholder analysis, Perception, Relationship marketing

Paper type Research paper

Introduction

Relationship marketing evolved in the 1980s from the transactional marketing of the 1960s and 1970s. As practised in the 1980s and 1990s relationship marketing had a strong emphasis on business to customer relationships (Berry, 1983; Grönroos, 1997; Gummesson, 1999; Kotler and Armstrong, 1999). However, many commentators (Freeman, 1984; Arrow, 1988; Murphy, 1988; Verbeke, 1992; Polonsky, 1995; Murphy et al., 1997, 1999; Payne et al., 2001; Polonsky et al., 2002; Christopher et al., 2003) have expressed the view that a business is a coalition of stakeholders including employees, suppliers, shareholders, the community, as well as customers, and thus the scope of relationship marketing should be expanded to embrace business to stakeholder...
relationships. Other commentators have recognised that business financial performance is influenced by more stakeholders that just customers, e.g. Porter (1985) in his five environmental forces model, and Kaplan and Norton (1996) in their balanced scorecard model.

Parallel to the movement to augment relationship marketing with a stakeholder orientation, the triple bottom line (TBL) business philosophy was developing, emphasising that the traditional single business objective of achieving a single bottom line of maximum economic returns to shareholder stakeholders requires augmentation to a tripartite sustainable business objective of achieving optimal economic, social, and environmental returns to all stakeholders, as promulgated by Elkington (1997). A further movement in the late 1990s was the increasing requirement that marketing performance be linked to business financial performance (Coviello et al., 2002).

Kotler and Armstrong’s (1999, p. 550) definition of Relationship Marketing is noteworthy:

THE KEY: CUSTOMER RELATIONSHIP MARKETING

Relationship marketing involves creating, maintaining, and enhancing strong relationships with customers and other stakeholders. Relationship marketing is orientated to the long term. The goal is to deliver long-term value to customers, and the measure of success is long-term customer satisfaction.

Kotler and Armstrong acknowledge the existence of stakeholders other than customers in their definition of relationship marketing but revert to the older, myopic concept of customer relationship marketing when stating relationship marketing outcomes as customer only orientated. The marketing performance measure in the Kotler and Armstrong definition is long-term customer satisfaction. This could be considered as an intermediate outcome measure along the way to achieving sustainable business financial performance in terms of return on investment, a crucial end point marketing performance measure (Matear et al., 2003). Moving from the Kotler and Armstrong customer orientation to a stakeholder orientation has been demonstrated to improve business return on investment (Berman et al., 1999; Caulkin, 2002). A stakeholder orientation implies that the ultimate objective of a business is to create value for all of its stakeholders beyond Kotler and Armstrong’s long-term value for just customers. Elkington’s (1997) TBL business philosophy implies that the holistic objective of a business is to create sustainable economic, social and environmental value for all stakeholders with each value component being given equal emphasis in the business.

In order to encapsulate the modern consideration of an holistic business as a coalition of stakeholders with a TBL objective of achieving sustainable economic, social, and environmental value for all stakeholders, we propose an augmentation of the prevailing customer relationship marketing paradigm to an holistic stakeholder relationship marketing paradigm. We postulate the Stakeholder Relationship Marketing Model as a framework for measuring marketing performance in an holistic sense.

The Stakeholder Relationship Marketing Model
We have augmented Kotler and Armstrong’s (1999) definition of customer relationship marketing to provide the following definition of stakeholder relationship marketing as the foundation for the Stakeholder Relationship Marketing Model:

Stakeholder relationship marketing involves creating, maintaining, and enhancing strong relationships with customer, employee, supplier, community, and shareholder stakeholders of
a business with the goal of delivering long-term economic, social, and environmental value to all stakeholders in order to enhance sustainable business financial performance.

The five broad stakeholder groups above are derived from the pioneering stakeholder relationship work in the 1980s by Charles Exley Jr chairman and chief executive officer of the NCR Corporation, assisted by Professor Rosabeth Moss Kanter of Harvard University and Professor James O'Toole of the University of Southern California, who jointly developed the NCR Mission Statement which promulgates NCR's intention to create value for all of its customer, employee, supplier, community, and shareholder stakeholders through mutually beneficial relationships based on integrity and respect (Exley, 1988, p. 10):

Our primary mission is to create value for our stakeholders. We believe in conducting our business activities with integrity and respect by building mutually beneficial and enduring relationships with all of our stakeholders.

We take customer satisfaction personally: we are committed to providing superior value in our products and services on a continuing basis.

We respect the individuality of each employee and foster an environment in which employees' creativity and productivity are encouraged, recognised, valued and rewarded.

We think of our suppliers as partners who share our goal of achieving the highest quality standards and the most consistent level of service.

We are committed to being caring and supportive corporate citizens within the worldwide communities in which we operate.

We are dedicated to creating value for our shareholders and financial communities by performing in a manner that will enhance returns on investments.

The five stakeholder groups have a vital stake in the operation of a business without whose sanction and support the business would cease to exist (Murphy et al., 1997):

1. Customers – provide patronage and revenue support.
2. Employees – provide human talent resources support.
3. Suppliers – provide materials and services resources support.
4. Community.
5. Human – provide legal sanction.
6. Natural – provide ecological sanction.
7. Shareholders – provide financial sanction.

It is commonsense to consider the five stakeholder groups as being indispensable in the functioning of a sustainable business. The business is financed by shareholders, is allowed to exist by the community, has suppliers providing materials and services, for employees to create goods and services, which customers purchase in preference to competitors’ goods and services. Reciprocally, stakeholders can rightfully expect a sustainable business to create economic, social, and environmental value for them by exhibiting excellence in customer service, employee relationships, supplier partnerships, community corporate citizenship, and shareholder investment returns, based on ethical values of affirmation (respect), integrity (morality), efficiency (stewardship), equity (fairness) (Murphy et al., 1999). Achieving these stakeholder expectations is the function of stakeholder relationship marketing strategies with the ultimate outcome being holistic marketing performance reflected in the following collective stakeholder
behaviour which is inherent in sustainable business financial performance: optimal revenue (from customer purchases and community reputation) minus optimal costs (from employee and supplier productivity) equals optimal profit divided by shareholders’ investment equals optimal return on investment (ROI) incorporating optimal economic, social, and environmental returns to all stakeholders.

The holistic contribution of stakeholders to sustainable business financial performance as measured by an optimal ROI reflects the TBL philosophy of holistic business performance incorporating equally emphasised economic profitability, social responsibility, and environmental preservation (Elkington, 1997). To help manage a business towards the goal of an optimal ROI, a stakeholder relationship marketer needs to understand the determinants of stakeholder behaviour through an appropriate measurement system. In 2002, the Future Research Group (FRG) in the Department of Commerce at Massey University, Albany in Auckland, New Zealand, in conjunction with Research Consultants Ltd, an Auckland-based stakeholder research consultancy, developed the Stakeholder Performance Appraisal as a measurement system to operationalise the Stakeholder Relationship Marketing Model. The Stakeholder Performance Appraisal is a refinement of the Stakeholder Relationship Audit (Murphy et al., 1999), an earlier stakeholder measurement system developed by Research Consultants Ltd in 1991 and administered by them until 2001.

The Stakeholder Performance Appraisal

The Stakeholder Performance Appraisal is a variant of the Foresight Model where foresight has been defined by Slaughter (1995) as a process of future sensemaking, “a human capacity that can be harnessed to facilitate desirable individual and social change”. The foundational Foresight Model for the Stakeholder Performance Appraisal shown in Figure 1 has been derived from earlier work on Attitudinal Management Planning Models by Murphy (1980).

This model embodies attitudes as an intermediate state between successive behaviour states in a behaviour → attitude → behaviour continuum over time (Ajzen, 2001) implying that past behaviour influences present attitudes which then influence future behaviour. The model also implies that macro societal behaviour and attitudes influence micro business behaviour and attitudes and vice versa. In this model, attitudes is a multi-component construct (Ajzen, 2001) comprising cognitive elements (awareness, knowledge, beliefs), Affective elements (feelings), and conative elements (behavioural intentions). Attitudes are analogous to the concept of early warning signals promulgated by Ansoff (1979).

Within the micro business context, managers do not know what the future will be, but they can attempt to make some sense of it by measuring present attitudes through a Foresight Model and interpreting these early warning signals to assist their foreseeing of future business behaviour/performance as manifested in stakeholder behaviour. The Stakeholder Performance Appraisal incorporates the behaviour → attitude → behaviour continuum over time of the Micro Business Context Foresight Model implying that future stakeholder behaviour and business performance is
influenced by present stakeholder attitudes which are influenced by previous
stakeholder behaviour:

\[
\text{Stakeholder Behaviour}_{t-1} \rightarrow \text{Stakeholder Attitudes}_t \rightarrow \text{Stakeholder Behaviour}_{t+1}
\]

\[= \text{Business Performance}_{t+1}.\]

The Stakeholder Performance Appraisal focuses on the measurement of present
stakeholder attitudes (influenced by past and present marketing activity) as timely,
early warning signals of future stakeholder behaviour and concomitant future
business performance.

The FRG has established the FRG Stakeholder Performance Appraisal (SPA)
Benchmark Project to enable businesses to benchmark their stakeholder perceptions of
business performance against other businesses. Business CEOs have been invited to
participate in the FRG SPA Benchmark Project. The CEO of each Project participant
business is asked to classify the business as mainly a provider of goods or mainly a
provider of services, then to classify the business as small, medium, or large (the size
and type classification is not defined to avoid inter-country differences in size/type
classifications), and then to rate their perception of the business’s future ROI (next 12
months) in relation to the average percentage return in the financial market on a 0-10
numerical rating scale (to provide a standardised measure of perceptual future
business financial performance).

In each project participant business questionnaires are sent to a representative
sample of their customer, employee, supplier, community, and shareholder
stakeholders which reflects the constituent subgroups of the five stakeholder groups
(e.g. type of customer, employee etc). The questionnaires are accompanied by a
supporting letter from the CEO. The stakeholder questionnaire asks stakeholders to
rate their perception of the present performance of the business on a 0-10 numerical
rating scale based on their impressions, feelings, experiences, or what they have heard
about the business, in terms of the following single item economic, social and
environmental performance indicators:

- **Economic**: provision of value for money products; profitability; ROI.
- **Social**: customer, employee, supplier, community, shareholder relationships;
  ethical standards.
- **Environmental**: environment preservation; sustainable resource use.

These indicators have been chosen to reflect core business performance issues
underpinning an holistic, TBL business orientation and are a refinement of indicators
measured in the precursor Stakeholder Relationship Audits (Murphy et al., 1999).

Stakeholders are also asked to rate their perception of the overall performance of
the business on a 0-10 numerical rating scale, and qualitative perceptual strengths,
weaknesses, opportunities and threats (SWOT) of the business are also asked for.

The perceptual performance data are analysed as follows:

(1) The means of the rating distributions for each performance indicator for each
stakeholder group are calculated.

(2) Within each stakeholder group the means for customer, employee, supplier,
community, shareholder relationships, and ethical standards are averaged to
obtain Social Performance; the means for preservation of the environment and
sustainable use of natural resources are averaged to obtain environmental performance; the means for provision of value for money products, profitability, and return on investment are averaged to obtain economic performance.

(3) Within each stakeholder group social performance, environmental performance and economic performance are averaged to obtain the stakeholder performance index (SPI).

(4) The five stakeholder group results are averaged to obtain total results.

The SPI incorporates TBL philosophy by equally weighting Social, Environmental, and Economic Performance, and incorporates the commonsense indispensability of each stakeholder group in the functioning of a sustainable business by equally weighting each stakeholder group. The SPI can be considered to be a perceptual measure of holistic stakeholder relationship marketing performance in terms of perceived business performance outcomes. The SPI is implicitly a relative measure of perceived business performance reflecting a host of perceptual influences, including the perceived past and present performance of the business and its performance relative to other businesses. The SPI is benchmarkable over time and against other businesses. The SPI and associated SPA analysis is complementary to other relative measures of business performance such as the Baldrige Performance Excellence Assessment based on the Baldrige Quality Awards discussed in Gale (1994), and the Balanced Scorecard (Kaplan and Norton, 1996).

Example quantitative SPA data for a business from the FRG SPA Benchmark Project database are shown in Table I.

The total SPI of 6.2 indicates that stakeholders perceive the performance of the business to be fairly good. The Community, Suppliers, Shareholders and Employees rate the business performance as fairly good, while Customers rate the business performance as only adequate. The CEO’s future ROI rating is 6.0 indicating that ROI is predicted to be slightly above the average percentage return in the financial market in the next twelve months.

Social and economic performance are rated as fairly good but environmental performance is given an adequate rating. Among the stakeholder groups, the highest performance rating is 7.0 from the Community for social performance and the lowest rating is 5.0 from Shareholders for environmental performance.

Stakeholder perceived greatest performance strengths and weaknesses are:

- **Customers**: strength provision of value for money products; weakness sustainable use of natural resources.
- **Employees**: strength provision of value for money products; weakness supplier relationships, profitability.
- **Suppliers**: strength provision of value for money products; weakness sustainable use of natural resources.
- **Community**: strength employee relationships, provision of value for money products; weakness preservation of the environment.
- **Shareholders**: strength customer relationships, provision of value for money products; weakness preservation of the environment, sustainable use of natural resources.
- **Total**: strength provision of value for money products; weakness sustainable use of natural resources.
Following on from a pilot study reported in Murphy et al. (2003), there are 33 businesses in the FRG SPA Benchmark Project database to date comprising 32 New Zealand businesses and one Australian business. Benchmark norms for the 33 businesses are shown in Table II.

The business in Table I is slightly below the norms for its category in both SPI and future ROI rating in Table II. This comparative information, plus the quantitative strengths and weaknesses rating data supplemented with the qualitative SWOT comments from the Stakeholder Performance Appraisal, provide useful planning information for the business to develop stakeholder relationship marketing strategies to enhance strengths, correct weaknesses, exploit opportunities, and counter threats in order to enhance sustainable business financial performance. In so doing, the business will be actively managing environmental forces in order to improve business performance as advocated by Polonsky (1995), rather than passively buffering the business against environmental forces as advocated by Mezner and Nigh (1995).

Using the FRG SPA Benchmark Project database we have tested the efficacy of “old world” customer relationship marketing outcome measures against “new world” stakeholder relationship marketing outcome measures. The customer relationship marketing measures are customers’ perceptions of customer relationships (CCR) and customers’ perceptions of the overall performance of the business (COP). Both these measures would be found in “old world” customer satisfaction surveys with COP reflecting the standard overall customer satisfaction measure. The stakeholder
Relationship marketing measures are stakeholders’ perceptions of stakeholder relationships (SSR) which is the average of each stakeholder group’s perception of the business’s relationships with them, total stakeholder perceptions of the overall performance of the business (SOP), and the aggregate stakeholder perception of business performance (SPI). These variables were correlated with perceptual ROI to test the relative efficacy of the relationship marketing outcome measures. The results are shown in Table III.

These results indicate that a stakeholder relationship marketing orientation significantly enhances business financial performance beyond that achieved by a customer relationship marketing orientation. An holistic stakeholder relationship marketing orientation that incorporates TBL philosophy provides a significant additional enhancement to business financial performance.

In order to provide additional managerial insights from the FRG SPA Benchmark Project database, we have regressed ROI against SPI with the following result:

\[
\text{ROI} = -4.65 + 1.68\text{SPI}(r^2 = 0.34, \text{significant at the 0.001 level}).
\]

The equation indicates that present SPI (reflecting stakeholder perception of stakeholder relationship marketing outcomes) is a significant explainer of future ROI (reflecting future business financial performance). The 34 per cent of variance in ROI explained by SPI indicates that there is a worthwhile financial payoff to a business in improving stakeholder relationship marketing performance by addressing internal strengths and weaknesses perceived by stakeholders. At the same time the 66 per cent unexplained variance reflects the very significant impact external opportunities and threats will have on a business, pointers to which will be evident in the qualitative perceptual opportunities and threats comments collected in the Stakeholder Performance Appraisal. By factoring stakeholders’ perceived opportunities and threats into stakeholder relationship marketing strategies along with perceived strengths and weaknesses the business will be well positioned to enhance sustainable business financial performance.

The equation shows that ROI = 0 when SPI = 2.8, and ROI = 10 when SPI = 8.7, indicating floor and ceiling boundaries for stakeholder perceptual business

| Business size/type | Goods provider | | Services provider | | Total | |
|--------------------|----------------|----------------|-----------------|----------------|----------------|
|                    | n   | Range | n   | Range | n   | Range |
| Small              | 4   | 6.1-7.7 | 12 | 5.3-7.1 | 16 | 5.3-7.7 |
| No.                | 4   | 7.0   | 6.3  | 5.3-7.1 | 6.5  | 4.0-10.0 |
| Medium             | 9   | 6.8   | 7.2  | 6.3-7.8 | 7.1  | 5.6-7.8 |
| No.                | 4   | 6.8   | 6.9  | 5.0-10.0 | 7.3  | 2.5-10.0 |
| Large              | 4   | 5.0-10.0 | 4   | 6.8   | 4   | 6.5-7.0 |
| No.                | 8   | 6.3   | 6.9  | 5.0-8.0 | 6.3  | 5.0-8.0 |
| Total              | 25  | 6.7   | 6.4  | 5.3-7.8 | 6.7  | 2.5-10.0 |
| No.                | 33  | 7.8   | 6.4  | 5.0-10.0 | 6.7  | 2.5-10.0 |

Note: No. is the number of businesses in the category
performance. Thus, in aggregate terms, a minimum SPI of 2.8 is required for a business to register on the future ROI rating scale, and a target SPI of 8.7 is required to achieve a maximum future ROI rating.

The equation also provides a comparison between stakeholder and CEO perceptions of future financial performance. Applying the equation to the business in Table I results in a predicted future ROI rating of 5.8 which is slightly below the CEO’s perceptual prediction of 6.0. This calculation reveals a gap between stakeholders’ derived assessment of future ROI and the CEO’s direct assessment of future ROI. It could be expected that the CEO, as the overall steward of the business, would have an acute sense of the future financial performance of the business. In effect the gap analysis is a reality check on the CEO’s business foresight (their future sensemaking ability), and also a measure of the effectiveness of the CEO’s dialogue with the business’s stakeholders in communicating the vision and performance of the business. In this case, the CEO expects the business to financially perform better than the financial performance outcome derived from present stakeholder relationship marketing strategies (reflected in SPI). This business needs to work on stakeholder relationship marketing strategies including improving stakeholder dialogue to lift their SPI closer to the top end of the range in order to improve their future financial performance beyond that predicted by the CEO.

As the FRG SPA Benchmark Project database expands over time, it will be possible to undertake correlation and regression analysis within each segment of the matrix to see if different size/type SPI/ROI relationships exist. Also, it may be possible to compare actual ROI with perceptual derived and direct assessment of ROI and perceptual SPI to broaden understanding of the financial performance prediction capabilities of both CEOs and stakeholders.

**Conclusions**

There is an indication that higher stakeholder performance perceptions presage higher holistic stakeholder relationship marketing performance reflected in higher ROI for sustainable businesses, those which have a stakeholder relationship marketing philosophy of being stakeholder and TBL-oriented towards providing optimal returns to stakeholders by delivering long-term economic, social, and environmental value to customers, employees, suppliers, the community, and shareholders.

We offer the Stakeholder Relationship Marketing Model and the Stakeholder Performance Appraisal as managerially useful additions to the existing stakeholder models and metrics as discussed by Polonsky *et al.* (2002). We contend that the Stakeholder Performance Appraisal measurement system within a Stakeholder Relationship Marketing Model is an appropriate *modus operandi* for modern,

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<th>Customer relationship marketing</th>
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<tr>
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<td>COP</td>
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<td>SPI</td>
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Notes: Indicative significance at the * 0.01 level, ** 0.001 level
sustainable businesses which have an holistic stakeholder relationship marketing orientation which includes a synchronicity with TBL philosophy. Based on the significant correlation between SPI and ROI, stakeholders are likely to support and reward such businesses over the long term.

References


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