Notes on organisational stakeholders

By Alan Stretton

INTRODUCTION

In 2010 I wrote a paper in *PM World Today* on "Identifying and classifying program/ project stakeholders" (Stretton 2010e), which attracted significant attention. That paper is reproduced in this edition of *PM World Journal* as a Second Edition. These notes extend the topic of that paper into the somewhat broader canvas of business organisations at large, and the ongoing challenge of attempting to balance the often conflicting needs and expectations of a very wide range of involved and interested parties.

Two broad types of interested parties are first identified - 'stakeholders' are those who have a positive interest in the organisation's prosperity; and 'constituencies" are those who don't, but have the potential to disrupt, or even veto, some organisational activities.

We first look at a balancing process which Peter Drucker called 'satisficing', as applied to both constituencies, and shareholders. We then look at prioritizing key stakeholders needs/ expectations in a general context. Key stakeholders are typically clients/customers, employees and shareholders. Discussions about balancing their needs then mainly focus on what happened in Lend Lease Corporation in these contexts, with commentary. Some of the findings are related back to the project management context.

INTERESTED PARTIES OF BUSINESS ORGANISATIONS

We start with identifying two types of interested parties – stakeholders and constituencies.

Stakeholders

In these notes, I will define stakeholders in a narrower sense than used in my Second Edition paper. In the following, stakeholders will mean only those interested parties who have a direct positive stake in the business, and in its prosperity.

Such stakeholders will normally include:

- the people who <u>invest</u> in it – shareholders and other providers of finance
- the people who <u>work</u> in it – employees, including managers
- the people who <u>buy</u> from it – clients and customers
- the people who <u>supply</u> it – vendors, providers of goods and services
- the people who <u>live near</u> it – immediate neighbours; some other community group

Constituencies

I will call the other type of interested party constituencies, following an old definition by Peter Drucker (Drucker 1981). This definition was not widely adopted by others, but is useful in the context of these notes. Drucker defined constituencies as

> … groups accepted as entitled to a say, or at least a veto, even though they may have little or no say in the institution's primary mission and purpose.

In Australia, constituencies may include trades unions, regulatory authorities, and some special-interest community groups.

Managers of business organizations are commonly concerned about finding a balance between the various, and often conflicting, demands and expectations of the organisation's stakeholders and constituencies. Several different approaches to establishing such a balance can be identified.

'SATISFICING' APPROACH TO BALANCING INTERESTS

Drucker 1981 said that managers try to 'satisfice' (a term he says was originally coined by Simon in 1962) – that is, they try and find the minimum acceptable results to which enough of the stakeholders and/or constituencies can acquiesce.

'Satisficing' constituencies

In the case of constituencies, Drucker says that, with the 'satisficing' approach,

> One tries to find a solution that will not create opposition, rather than one which will generate support.

It is certainly a common-sense strategy to 'satisfice' constituencies, so that they are less likely to disrupt or torpedo the proposed solution.

Evidently 'satisficing' strategies are equally applicable to constituencies of projects.

'Satisficing' shareholders

With regard to stakeholders, Drucker focused on shareholders, and discussed 'satisficing' shareholders (representing the capital market) as follows.

> [Most businesses] ask: 'What is the minimum return which will enable us to cover the cost of capital and to attract the capital resources we need?' The textbook question: 'What is the optimum return on our capital' is rarely taken seriously. Therefore, businessmen tend to proceed on the assumption that if they can optimise results in the market, they can satisfice the expectations of the capital market.

I doubt that everyone would have agreed with Drucker even then. However, subsequently there emerged quite a sea change when it came to 'satisficing' shareholders, which is quite well expressed by Wagner 2000:

> The radical notion that a business should exist in order to increase value to stockholders swept the corporate world in the 1980s, ….

The dominance of shareholder considerations over those of other stakeholders does not appear to have abated in more recent times. However, in practice there are other balancing considerations to take into account, irrespective of whether shareholders' interests are seen as dominant, or not.

OTHER CONSIDERATIONS IN BALANCING INTERESTS

Shareholders' interests will normally need to be balanced against the needs and expectations of the organisation's other stakeholders and constituencies. For example, if the organisation does do not satisfy its customers, its profitability will be adversely affected, and thence also its shareholders' interests. Similarly adverse consequences could arise from reduced effectiveness in managing suppliers, employees, and external pressure groups, to name a few.

Although many business organisations allocate top priority to shareholders (either implicitly or explicitly), some organisations have set different priorities. In the following discussions I draw largely on materials accumulated during my years with Lend Lease Corporation (1961 through 1987). I also make some more personal observations about some of the topics discussed.

PRIORITISING STAKEHOLDERS

In Lend Lease we put clients, employees, and shareholders on an equal footing, as described by a long-time director of Lend Lease, Milton Allen, (in Clark 2002: 220) as follows:

> One of Dick [Dusseldorp]'s major principles in running his companies was that there are three groups of people who must be *equally* cared for: clients, employees, and shareholders. Not one, not the other, but all three. This was pertinent to everything he did.

In the mid-1980s I came across a publication by Johnson & Johnson, entitled "Our Credo". This document nominated users of Johnson & Johnson products and services as having first priority, followed by employees, community and stockholders, but with the latter three not in any particular order (Levering et al, 1984).

Following are some notes on the common elements of these two sets of stakeholders, namely customers/clients, employees, and shareholders.

Customers/clients

We have just seen that Johnson & Johnson put customers first. Lend Lease put them on an equal first ranking with shareholders and employees. Lend Lease's client orientation has been expressed in several different ways. One of the more generalised of these comes from the early 1980s, when Chairman Dusseldorp said (Clark 2002: 92).

> …. our approach has always been to seek out what the market place wants. Most companies tend to be product-oriented. We are not like this. We seek the market place needs and then design a product to suit this need.

He also made a more directly client-oriented comment as follows (Clark 2002: 40).

> The 'correct solution' was the best *value* situation for the client.

I have frequently lamented the lack of focus on clients and their needs in the project management literature. Most of the companies of the Lend Lease group were basically projectised, and one of the reasons why the organisation was so successful was that its companies did indeed focus on finding and delivering the best value situation for the client. It is impossible to emphasise too strongly how important this is, both with organisations at large, and with projects.

Employees and shareholders

With regard to employees and shareholders, Lend Lease's Dusseldorp was very much concerned with finding a community of interest between these two key stakeholders, and particularly with balancing rewards between employees and shareholders. One of his initiatives was to distribute increases in profit equally between shareholders and employees. Such arrangements had to be approved by the shareholders, and invariably were, because shareholders recognised the logic of sharing increased profits with those who were responsible for generating them. It hardly needs to be said that the employees of Lend Lease responded as you would expect, and that this additional motivation benefited most of the organisation's other stakeholders as well, particularly stakeholders of the projects which the organisation delivered.

But the fact that shareholders held such a dominant position in the decision process illustrates how difficult it is to move away from the traditional approach which puts shareholders first. It could be observed that it appears to be entirely unreasonable that custom (and indeed some laws) should still give so many rights to the providers of capital, the shareholders, and so few to those who provide their labour, the employees.

This imbalance is particularly evident when companies are taken over. The Lend Lease Chairman put it this way (Dusseldorp 1984)

> We have for some time been amazed at the ease with which grave injustice and inequity can be bestowed on employees of companies that are being taken over. The companies and take-over acts are totally biased in favour of shareholders and in fact barely mention employees. Employees are lumped in with machinery, patents, inventory, goodwill: in other words, they are sold as chattels.

The subordinate position of employees is also rather starkly reflected in the financial accounts of business organizations, which show property and machinery as assets, while the people who make these capital assets productive are recorded as costs! Only people can make property and machinery productive – so which are the company's real assets?

In real terms (as opposed to financial accounting terms) the business organisation's real assets are, of course, its own people. Thurow 1996 calls employees, *"The firm's only significant asset".* As he says,

> … the technologies that can give a firm a competitive edge are not embedded in unique equipment that competitors cannot afford, but in the minds of the firm's employees who know how to use that equipment in unique or enhanced ways.

Perhaps automation and other emerging technologies may modify this in the longer term. But, in the meantime, people are still the key to organisational success, and this applies equally to the project domain.

The importance of people in organisational performance has long been recognised, and indeed many efforts have been made to account for people as assets in companies' financial accounts. These generally went under names such as Human Resource Accounting and the like. I remember seeing quite a few examples of regular financial accounts and parallel Human Resource accounts, but they never really "took off". In the late 60s or early 70s I got quite involved in trying to develop something for Lend Lease, but could not come up with anything convincing.

Perhaps one of the reasons why Human Resource accounting has never taken off is that people are so mobile. Of course this has traditionally been very much the case in the project management industry, and may account for their relative neglect in the project management literature. However, for larger project-based organisations like Lend Lease, it makes sense to keep employees in the organisation for as long as possible, and thus retain their skills, rather than having the latter transferred to a potential competitor.

Concluding this section on employees and shareholders, I have deplored the fact that shareholders are traditionally seen as having pre-emptive rights over employees in many circumstances, and that they are not recognised as assets in accounting processes. We can do little about the latter, but project-based organisations can take initiatives in relation to the former, if they have the conviction and will to do so.

SUMMARISING

These notes on organizational stakeholders have extended discussions of project stakeholders into some aspects of stakeholders of business organisations at large, and have related some of these back to the project context.

I first differentiated between 'stakeholders' who have a positive stake or interest, and 'constituencies' that don't, but who can adversely influence the organization's work. We then looked at a 'satisfycing' approach to balancing potentially conflicting interests, and (amongst other things) noted that the 'satisficing' approach to an organisation's constituencies appears to be equally applicable to those in the project context.

It was noted that the claims of an organisation's shareholders have generally come to be regarded as having top priority. However, there are other key stakeholders whose interests must be considered, who typically include clients/ customers, employees and shareholders. I noted that Lend Lease put all three on an equal footing, whilst Johnson & Johnson placed clients/customers first. Project-based Lend Lease emphasised providing best value solutions for the client, which is particularly key in project contexts.

With regard to employees and shareholders, I outlined how Lend Lease distributed increases in profit equally between the two, and how it publicly deplored the (often mandated) subordinate position of employees in so many situations such as in take-overs, and in financial accounting traditions (being represented as costs rather than assets). The mobility of people is undoubtedly a contributor to the latter, but larger project-based organisations can, and do, make strong efforts to retain employees.

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