Brief

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Who is on your side? Is managing stakeholders the most valuable thing a leadership team can do?

In a world of damaged trust, we are more dependent than ever on the goodwill of others. The better connected the leadership is to the rest of the world, the better the team performance

Traditionally, the first priorities of a CEO have been to manage the top team, manage the relationship with the Board and ensure a coherent strategy. All essential, of course.

Recent research suggests, it is relationships with stakeholders of all kinds that have been the long-term issue on the rise for senior executives. So no surprise that the recent Conference Board annual global survey of CEOs confirms that issues around their people, customers and regulators are the ones that rose up their top 10 priorities. (to numbers 1, 4, and 6). Much of this is built on the back of eroded trust in leaders and organisations (as shown by the Edelman Trust Barometer survey over many years).

The true power of an executive team does not come from its own deliberation and decision-making – while it stays 'inside the room' it remains only as potential. Recent studies show quite how much that harnessing the full power of the top team – and delivering true high performance – requires executives using their stakeholder relationships above all else.

The most effective top teams use the formal and informal networks of their members and are committed to make the most of these connections – they organise themselves as the senior hub of the enterprise, managing a web of external and internal relationships.

Proactive choice of stakeholders

Most leaders engage stakeholders. Very often, despite the good intent, this consists of people keeping in touch with people they know from the past. The key question is whether the leadership team as a whole, takes a more deliberate, proactive and targeted approach to stakeholder management, focused on what is needed by the business as a whole. This is best done using criteria for assessing stakeholders such as:

- *Power*: how much influence or control they have over progress in achieving goals
- *Legitimacy*: how much the stakeholder's view or interest is desirable or appropriate
- *Urgency*: where there is a reason why speed of engagement would accelerate progress

Four key themes for leaders to think about on stakeholder engagement

We looked at both recent and some classic standard material to summarise the key themes about leadership and stakeholder management. Sources include Katzenbach's recent work in *The right role for top teams*, and some of the academic studies on the financial return on stakeholder management (for a full list of sources, see the end of the article).

1. ***Why is it so important? To better implement decisions, and to be better informed***

   Top teams make decisions. But the effectiveness of those decisions stems from how well they get implemented, supported or blocked by others – both internally and externally. Research suggests that the better connected an executive team (beyond just the area of the business each of them manage themselves), the more they will minimise failed decisions and execution. The research shows there is a relationship between failed decisions and the lack of effective networks.

   In addition, when it comes to the information leaders receive – despite all the powerpoints and project proposals they are sent for their formal meetings - up to 90% comes from informal sources through their networks of stakeholders. The more wide-ranging the sources the better informed they (and their decisions) are.

   Research shows that if you want to improve the performance of a leadership team you can generate this from looking at committee structures, at decision-making processes and at agenda management. But even more benefits are reaped by improving the links between each member and a wide range of internal and external networks.

   Of course these benefits are directly driven by how well chosen and targeted the stakeholders are. Some leaders simply stick to their long-standing network of acquaintances – often people they were at University with, or worked closely with early in their career – instead of actively seeking out a range of people with different perspectives.

2. ***Two types of purpose with stakeholders – to manage risk, or support growth***

   The core purpose of managing stakeholders will vary with each organisation – it will depend on history, context, industry and the strategy of the business. Research shows that stakeholder management can be seen to be on a spectrum. At one end is the need to protect freedom to operate and minimise risk. At the other end is the goal of unlocking new avenues, increase support for growth plans and overall improving the 'likelihood to recommend'. Effectiveness of the approach to stakeholder management requires clarity about which is the dominant driver for the business and its strategy: managing risk or supporting growth – both will be required but one will be more important.

Another study shows that approaches to external stakeholder management by businesses can be characterised by how much they positions themselves as pursuing self-interest or pursuing public interest. It is also clear that as the trust in the power of leaders and organisations continues to decline, businesses are having to shift towards more, credible, public interest.

3. ***What drives stakeholders to recommend? Clarity of intent, relevant added value, strong feedback loop and consistency***

   One benchmark study included data about what it was that engages stakeholders when they interact with the leader of an organisation. There were four drivers of engagement:

   a) *Leaders being very clear about the purpose of their organisation and where it is going*

      This confirms other research that clearly shows that a key part of a business being recognised as 'world class' is that it is very clear what it wants to be famous for. It can't be all things to all people, or position itself as just a bland generic organisation. Stakeholders expect leaders to have a clear, focused and distinctive sense of purpose. Of course this needs to be matched by being able to talk about how they are meeting their goals – it cannot just be 'talk'.

   b) *Leaders talking to stakeholders with an agenda relevant to them*

      Clear self-interest will no longer engage stakeholders. A leader has to show empathy, and start any interaction with some understanding of the stakeholders' needs and experience. This takes a strong combination of preparation and judgement.

   c) *Leaders showing they really listened, and acted as a result (or explain why they did not), report back actions and progress*

      Psychologists have shown that people are much more likely to listen to us if they believe we are listening to them – it is basic Darwinian efficiency, and we are programmed that way. It is also increasingly the case that stakeholders need evidence that their discussion with you will not be a waste of time, and that it is an ongoing relationship (however occasional) and not just a box-ticking transaction.

   d) *Consistency between what leaders say and the experience on the ground*

      Most external stakeholders, however senior, have direct experience with your organisation, or they ensure - through mystery shopper programmes or more informal routes - that they know. If their experience (or reports) does not align with what a leader says to them, it is damaging. The same consistency is equally important internally. If a leader visits a company site and tells people (for example) "My door is always open" and those in the room have second reports that this is not true, it damages engagement.

The actions, consistency and credibility of leaders are always under the spotlight – magnified many times compared to an average employee. So little things can count as much as big things.

4. ***Leaders can use stakeholder meetings to break down barriers, create networks***

   As a leader you will have a more joined-up view of the world – you are meeting a cross section of people with different information, experience and perspectives. You can spot and encourage collaboration and networks across silos, internally and externally and help speed up progress in the interest of your business, as well as in the interest of the individual stakeholders. The more wide-ranging the stakeholders you meet, the more you will be able to make valuable, innovative and helpful connections.

5. ***Are you measuring the impact on the performance of the business?***

   In the short term, this means having simple success measures about approach and process:

   – Have you proactively identified and assessed stakeholders?

   – Do you have an engagement plan with clear roles and accountability?

   – Is that plan being effectively led and delivered by leaders and are you tracking that?

   Research show that stakeholder engagement measurably improves operational efficiency and business growth through the way in improves speed of decisions and implementation in complex, contentious or other areas.

   One recent study looked in particular at how businesses with tarnished reputations (such as banks in recent years) can regain some their financial value by strong, proactive stakeholder management backed up by acts of relevant and appropriate goodwill. Those companies in the study that did this following a crisis had, within a year, share prices higher than those that did not. The point being here that shareholders notice and care if companies do this properly.

   In the longer term, research shows you can measure 'reputation capital', as part of market capital – showing for example the differences between you and peer group market capitalisation and how much of the difference is reputation driven. One well-respected study suggested that corporate reputation accounts for nearly 35% of the FTSE 350's combined market value, an increase of 16% over 2011. Shell, BG, Diageo and Unilever head the table with combined reputations worth £136bn. Deeper analysis can show which stakeholders are driving this. A few businesses use this as a key performance measure.

All the evidence is that the communication and engagement role of top teams continues to grow in importance and in difficulty. Some experts estimate that effective CEOs and other leaders spend between 30 – 50% of their working time doing this – more than in making decisions, or in 'running the company'.

Sources

Sources used for this article include: Berman, Wicks, Kotha, Jones: *Does stakeholder orientation matter? The relationship between stakeholder management models and firm financial performance* (Academy of Management Journal); Cross, Katzenbach: *The right role for top teams* (Booz & co, University of Virginia); Groysberg, Slind: *Leadership is a conversation* (Harvard); deHaan: *Reputation repair after a serious restatement* (Stanford); Henisz, Dorobantu, Nartey: *Spinning Gold: The Financial Returns to External Stakeholder Engagement* (University of Pennsylvania); Jones, McIntire: *Financial returns on stakeholder management* (Sinclair Knight Merz); Karim, Rahman, Berawi, Jaapar: *Issues and strategies in stakeholder management* (University of Malaysia); Understanding your stakeholders (Ipsos MORI); *The 2012-13 Reputation Dividend Study of Corporate Reputations in the US/UK* (Echo/Reputation Dividend)

