Four approaches for managing stakeholders

By ***Pushpika Vishwanathan***

As the pressure and need for firms to perform socially as well as financially grows greater than ever before, managing the balance of power between stakeholders becomes an increasingly delicate exercise. However, new research shows that firms have much to learn from philanthropic organisations and the ways in which they deal with their own stakeholder groups.

Firms of all types are constantly faced with a common challenge – how to create value that is of mutual interest to all, meaning the owners of the firm and the recipients of its end product or service. This is anything but a new situation. However, the increased responsibility to perform and report upon the social outcomes of a firm's activity as well as its financial gains means that this balancing act between the various stakeholders involved in a firm's core business is an even more complex affair.

Stakeholder management has been traditionally viewed as something exclusive to the corporate world but a look at how philanthropic organisations, albeit under different conditions, involve actors in the process could point the way forward for all.

Managing without owners

The social objectives and benefactors of a philanthropic organisation are clear to see, as are those providing financial or logistical backing. That said, the contributors to philanthropic initiatives (in the form of financial donors) are sometimes less visible, which increases the emphasis placed upon the good that such initiatives do to society rather than more traditional business concerns such as sales figures and return on investment (ROI). Of even greater significance to philanthropic organisations themselves, and as a potential learning opportunity for firms, is the fact that the former operate within a climate where no official owner exists.

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This gives them greater freedom to operate with stakeholders as they see fit but also increases the importance of balancing the interests of both donors and beneficiaries. They enjoy the liberty to pick and choose which stakeholders they wish to prioritise but must remain wary of the potential consequences of their decision.

By contrast, firms have to function and apply strategy within the context of shareholder pressure, to whom they must ultimately bow in terms of producing positive financial results. That said, they also need to try to maintain a "happy family" both within the firm and in terms of those benefitting outside the firm.

It is therefore because philanthropic organisations have no ownership, and thus no stakeholder group whose interests ultimately dominate decision-making, that they can act with greater independence than firms. This enables them to adopt all kinds of interesting and creative stakeholder involvement practices to improve their governance that firms have not even begun to explore. So companies can gain insights into *how* to manage and balance stakeholders by looking at philanthropic organisations, rather than simply concentrating on end results.

Keeping everyone happy

"Mediation" is the buzzword for stakeholder management within philanthropic organisations – because donors are traditionally less visible than their equivalent in the corporate world and performance can be less easily illustrated via sales figures, it is doubly important to not upset the apple cart between those helping to fund projects and those intended to benefit from them. They are also faced by additional challenges – business language between management and beneficiaries can create problems, whilst the geographical dispersion of those benefitting from philanthropic projects can make stakeholder management an extra challenge.

So in short, philanthropic organisations represent a very special case: they are not strictly owned by someone, are financially backed by one stakeholder group but for the entire social profit of another. How does this work? Do they seek to keep everyone happy or do different approaches to stakeholder management exist? Balanced involvement is the key.

Four main types

A recent empirical study of 34 Dutch philanthropic organisations, performed via interviews, focus groups, and archival data, has succeeded in identifying four main approaches to stakeholder management within philanthropic organisations, as well as the potential outcomes (positive or negative) of each set-up and potential solutions for redressing the balance between donors and beneficiaries. The results make for fascinating reading, including for the corporate world.

The first type identified by the study is labelled "free spirits" – stakeholder pressure is low, which may seem a comfortable situation but also represents a higher risk for donors and beneficiaries if targets are not met. Such a set-up requires significant self-discipline. The second type to emerge is the so-called "gold minder", whose primary focus is firmly placed upon generating funding opportunities, at the potential risk of presenting projects to beneficiaries that do not interest them. Whilst such a set-up provides financial security, if those to receive the end product are not interested then such a model is not sustainable.

In short, donors are over-involved, whilst beneficiaries find themselves lower down the pecking order. In such a scenario, it is recommended that central programme management and fundraising be separated to ensure that resources are allocated regionally and with greater relevance according to needs.

The third category, known as "peacekeepers", play things softly. Negotiation and decision-making are crucial, but almost to the extent that projects do not get off the ground. They are engaged in a constant battle of balancing the interests between both donors and beneficiaries. Sometimes one prevails, sometimes the other, and sometimes even none. In order to avoid endless debate with few results, centralising the project approval process could potentially solve such situations.

Finally, the "caregivers" operate primarily in relation to their beneficiaries but at the risk of presenting projects to donors that they do not wish to fund. More detailed and adapted reporting is recommended by the study as a possible way of better convincing those with the funding to support projects.

Lessons to learn

For the philanthropic sector, the study is revealing in the extreme as it underlines the diversity of approaches taken, challenges faced and solutions available to organisations. However, on a broader scale, what could firms have to gain from examination of a sector that has to deal with similar but different stakes? The key lies in involvement and, above all, how to balance involvement between stakeholders. Firms manage stakeholders like any other organisation but do not necessarily perform the same balancing act between them as philanthropic bodies do with their donors and beneficiaries. Until recently, research into corporate governance strategy has focused far more on the outcomes of the strategies adopted than the processes involved in order to apply them in the first place. There are lessons to be learnt from how the interests of all are weighed up in the philanthropic sector. Sometimes it is the donor who prevails, sometimes the beneficiary, and sometimes genuine parity is achieved. The key issue is in understanding what the outcomes will be depending on the approach taken.

Another major contribution of the study is to show that stakeholder management is not only about increasing involvement of some of the actors. Firms do this as well by communicating with stakeholders via social media, organising events, and conducting surveys and research. However, stakeholder management is also about *restricting* the involvement of certain stakeholders by adopting practices that deliberately reduce the extent of influence an actor has on managerial decision-making. Effective stakeholder management is revealed to not always be about more dialogue, more connection, and more relationships. Sometimes it is about less.

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What the recent study into philanthropic organisations also succeeds in doing is to make the following point – regardless of sector or the nature of the organisation, the results achieved are directly impacted by the way in which all those contributing to and benefitting from a product or service operate together. Everyone wants to have their say and it is down to the firm or organisation to decide how to balance power. However, by only listening to those who are stumping up or the cash or, alternatively, those "consuming" the end result, the firm or organisation will inevitably achieve very differing results.

The philanthropic sector may represent an entirely different ball game in terms of the end product or service and the level and nature of accountability, but it faces very similar governance pressures as the corporate world, one from which the latter could learn. ■

This article draws its inspiration from the PhD thesis *Governing for Stakeholders – How Organizations May Create or Destroy Value for Their Stakeholders*, written by Pushpika Vishwanathan. It can be freely downloaded at WEB http://repub.eur.nl/pub/93016

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