Stakeholder Leadership Practice[1]

In complex dynamic environments, leadership will need to continuously re-assess the net value derived by each key stakeholder from the exchanging value with the organisation given the risks and costs borne by each party to the exchanges. In turbulent contexts this requires the support of automation and artificial intelligence and organisation are now emerging to provide such services. Irrespective stakeholder leadership practice involves the following steps:

- **Step 1 - Identifying Key Stakeholders;**
- **Step 2** - **Understanding Key Stakeholders;**
- **Step 3 - Segmenting Key Stakeholders;**
- **Step 4 - Structuring Value Propositions; and**
- **Step 5 - Positioning Value Propositions;**

Step 1 – Identifying Key Stakeholders

Over the last several decades the number of stakeholders that can influence or be influenced by organisational action has been steadily increasing. To monitor all stakeholders would be demanding and questionable from a resource allocation perspective, where stakeholders have both low potential to impact and low probability of activating their potential to impact then these stakeholders can, for now, be safely ignored. Key stakeholders are those with high potential to impact and high probability of activating that potential to impact given current conditions. Some form of broader on-going monitoring would be appropriate for all other stakeholders.

Diagram: Stakeholder Categorisations

	Low probability of activating their potential to impact	High probability of activating their potential to impact
High Potential to Impact	Monitor these Stakeholders	Key Stakeholders
Low Potential to Impact	Ignore these Stakeholders	Monitor these Stakeholders

Key stakeholders typically include customers, staff, suppliers, regulators and shareholders. It is important to note that not all stakeholders are obvious and visible.

One major Australian construction company that placed emphasis on identifying and researching expectations of all key customer decision stakeholders discovered in a contract review meeting after losing a major contract that a key influencing stakeholder on the customer's decision-making team had been missed; this stakeholder was a backroom advisor accountant that the MD always gave major proposals for final review. This turned out to be an omission that cost a $10 Million contract in

[1] Fayed R., *Stakeholder leadership Practice*, AGSL Working Paper 8, (2018)

the late 1970s. It is advisable to periodically undertake reviews of stakeholders; by asking for example; Are we missing any key stakeholders? How have recent developments impacted key stakeholders? Do any monitored stakeholders need to be re-classified?

Step 2 – Understanding Key Stakeholders

Understanding key stakeholders involves acknowledging that each stakeholder is embedded in their own unique stakeholder relational network that determines and shapes their expectations and their likely assessment of other significant competitive relationship options, where such options exist. Detailed understanding of the stakeholders' relational network also facilitates understanding what a stakeholder is likely to regard as an equitable value proposition and facilitates building a trusting relationship that minimises the cost of uncertainty for both parties to the relationship.

Ward and Sturrock, [2] have proposed several perceived risk dimensions that should be considered in dealing with relationship uncertainty and its potential adverse relationship consequences. The risks they identified included social, financial, physical, psychological, temporal, and economic risks that can potentially contribute to uncertainty. These key relationship risks should be identified and mitigated. Risks can vary over time and need to be reviewed; this in turn may necessitate a rethink of the current business model. It is never enough to just understand current stakeholder expectations and aspirations. Asking the question: "How are these likely to change in the period ahead?" and being pre-emptive is essential.

Step 3 - Segmenting Key Stakeholders

Once key stakeholders have been identified and their individual expectations and inter-relationship understood, it is likely that each key stakeholder group will be made up of stakeholders with diverse range of expectations and requirements. Decisions will need to be made regarding each stakeholder group as to which sub-group(s) will be targeted with what specific value offers. We shall refer to these targeted sub-groups as the selected key stakeholder segments. In selecting stakeholder segments to address it is important that an overall logic drives this selection process, so a set of mutually compatible stakeholders is addressed.

For example, some equity investors seek dividend returns and typically have lower risk propensities while others invest for short or long-term capital growth having higher risk propensities. If a high growth-oriented shareholder segment is selected, this decision has consequences for the commercial strategy pursued, the key employee appointed, the suppliers selected to do business with.

Organisations with high growth strategies based on a significant commitment to innovation will seek to secure diversity amongst their employees that will need to be reflected in recruitment policy and value proposition offered. These organisations will also require flexible rapid response suppliers. Segmentation facilitates the design of business model relevant value propositions exchange mixes.

[2] Ward P and Sturrock F (1998) '"She knows what she wants…": towards a female consumption risk-reducing strategy framework.' *Marketing Intelligence and Planning 16*(5):327-336

Further, an array of value propositions targeted at selected key stakeholders needs to be aligned in support of the requirements of the customer stakeholders.

Many historical examples of segmentation applied to individual stakeholders attest to its usefulness. In the 1920s, GM gained significant market share from the Ford Motor Company by offering a range of vehicles at a range of prices to different segments with different preferences as the alternative to Ford's single Model T.

In the 1950s, the importance of segmenting markets was acknowledged in the emerging literature of marketing and became a significant driver for how marketing was undertaken. Most marketing textbooks provide guidance on segmentation procedures and outline the many ways in which segmentation can be undertaken in consumer markets; from these, an appropriate procedure can be selected for each stakeholder group.[3] The aim is to secure the engagement of mutually compatible stakeholder expectation groups whose collective contributions support the realisation of the agreed business model.

Step 4 - Structuring Value Propositions

Business models can be viewed as the composite consequence of the value propositions exchanged with stakeholders in return for their contributions. To successfully implement a business model therefore requires securing the ongoing engagement and trust of the relevant network of stakeholders whose individual interests can conflict with each other. Organisational performance, therefore, requires that different stakeholder offers be both individually and collectively feasible. Organisational leadership must ensure that each stakeholder's net gains (the organisation's value contribution less the stakeholder's value contribution)[4] justify in their perception the effort, resources, flexibility and risks they are expected to contribute in exchange for what they are offered.

Increasing pace of change creates greater levels of interdependency between and within areas of activity and consequently a greater need for rapid and effective collaborative responses that need to be based on a level of trust that supports required value proposition flexibility. An organisation's business model should reflect the net consequences of intended exchanges. See the table below – The Contribution/Return Matrix.

Organisational value contributions to their stakeholders include the core value offer made to each key stakeholder, how that offer is competitively augmented, what benefit access is facilitated and what information is provided to each key stakeholder to facilitate the relationship and to sustain engagement.

Value contribution expected by the organisation include the core contributing role made by each key stakeholder, together with how each of these roles is expected to be augmented, the efforts that must be expended to access intended stakeholder benefits and the feedback provided by each stakeholder to the organisation to assist the organisation's adaptive adjustments. Providing value

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[3] See for example chapter 8: Kotler P T, Keller K L, Marketing Management (14th Edition), Prentis Hall, 2012
[4] Who is making what contribution for what return depends on the perspective from which the transaction is viewed.

contributions to stakeholders incurs costs to the organisation that must be offset by the gains derived from the expected stakeholder contributions. To be sustainable, each stakeholder must perceive an equitable net gain, given the resources and effort invested, and risks taken, while the organisation must achieve a surplus that can mitigate the risks it takes and supports its growth. A viable business model from the organisation's perspective should therefore:

- Sustain the engagement of each targeted stakeholder segment;
- Be financially and technically feasible and equitable to relevant stakeholders;
- Have an appropriate life expectancy that allows for amortisation of committed investments with acceptable levels of return considering its cost of capital;
- Align with a business model narrative that is easily understood, excites and inspires; and
- Be ethical in regard to regulatory requirements.

Table - The Generic Contribution/Return Matrix

	Core value Contributions	Augmented Contributions	Access Benefits	Information Benefits
Organisational Contribution to customers	Core functional and emotional requirements addressed	Additional peripheral benefits provided	Offer access facilitated and conditions	Information to assist in deciding, acquiring and using contribution
Stakeholder Expected Contribution	Payment according to agreed terms	Loyalty and favourable word of mouth	Effort necessary to access offer	Positive and negative feedback to support adaptation
Organisational Contribution to employees	Employment package, career opportunity	Sabbaticals, development and assignments	Contribution benefit and access conditions	Induction, briefings and ongoing information support
Stakeholder Expected Return	Core role performance	Preparedness to support initiatives	Employee flexibility	Required feedback
Organisational Contribution to suppliers	Payments/terms, and predictability	Additional support services	Facilitated system interconnections	Forecasts and briefings
Stakeholder Expected Return	Agreed supplies and predictability	Additional service contributions	Systemic collaboration	Positive and negative performance feedback
Organisational shareholders' Contribution	Dividends, capital growth, expected risk	Purchase Discounts, distributions	Ease of purchase and exit	Ongoing performance information
Stakeholder Expected Contribution	Loyal long-term investor	Favourable word of mouth	Effort to acquire/monitor shares	Positive and negative expectations feedback

Step 5 - Positioning Stakeholder Value Propositions

Positioning is about the perceived distinctive contribution relative to perceived alternatives. When any organisation's stakeholder has other feasible value exchange options, investment in positioning is an organisational necessity. However, buyers' markets typically become sellers' markets and vice versa, so it is wise to sustain investment in positioning that supports relationship maintenance.To occupy a distinctive place in the mind, the positions already taken by competitors must be considered and it is not enough to be different; the difference must be believable and of perceived value. In an established stakeholder markets, the organisation faces rivals with defined positions. Thus, from an organisational perspective, in an established sellers' market a gap in the market needs to be identified and a value proposition must be positioned in this gap to engage and profitably sustain desired stakeholders.

In a new stakeholder market, positioning is a more complicated issue. There are no established positions (either those taken by the organisation or by its rivals) and thus it is not possible to establish a distinctive relative position. However, such new markets are usually substitutes for or extensions of an existing market and positioning therefore needs to be undertaken considering what stakeholders can relate to. The initial positioning challenge is to attract stakeholders to consider and try the new contribution offer. For example, early motor vehicle manufacturers positioned automobiles against the technology they were replacing – cars were positioned as 'horseless carriages.' Frozen foods were positioned against fresh food as more convenient and against canned and dried foods as fresher. The challenge of delivering a value positioning in a new stakeholder "market" is often beyond the resources of a single organisation. Consider:

- For automobiles, the need for service stations, roads, car distributors and re-sellers, automotive service mechanics, the road and petrol distribution infrastructure. No single vehicle manufacturer could have created this infrastructure alone.
- For frozen foods, the development of refrigerated warehouses, delivery vehicles and refrigerated display cabinets in retail premises.
- Offering retail superannuation investors, the choice in spreading their investments across a range of 'wholesale' funds involved developing expensive infrastructure, promotional activities and negotiating changes in regulations.

Turbulent conditions resulting from disruptive technologies typically necessitate entry into new stakeholder markets and the above implies a need to collaborate when establishing new stakeholder markets. In these markets initial positioning tends to be generic. When DE Havilland first established an aluminium small leisure boat market in Australia it utilised a generic sex appeal; unfortunately, as the market developed it did not respond to the need to develop more specific usage positionings and consequently lost its market leadership positioning. As previously suggested it is essential that the stakeholder contribution exchanges be continuously reviewed in the light of developments to sustain their competitive viability. A stakeholder marketing approach needs to be adopted across all stakeholders.