

## **Public Relations and the New Stakeholder Management Environment**

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### **Abstract**

Management ideology has evolved over the years and has moved from a manager-worker relationship to a business-society relationship. This has led to key stakeholders for organizations to come from diverse perspectives, and has changed the focus for stakeholder relations. This paper looks at literature on management to identify the range of stakeholders, and how these stakeholders' relationships are best managed by the modern organization.

**Key Words:** Stakeholder Relationships, Management, Public Relations

### **1. Introduction**

This selective literature review paper will analyse contemporary literature in relation to the business-society relationship and the roles stakeholder management plays in this relationship. It also reviews the responsibility for stakeholder relationship management and the role the public relations profession has in this strategic process. The paper compares the evolution of management theories and philosophies to identify key stakeholders for organizations and the key considerations to effectively managing these relationships.

### **2. The need for stakeholder management**

Business has become more accountability to society as many nations move to democratic models of government and conduct operations embedded in a macro-environment, which typically involves functioning in a pluralistic society that disperses power among many groups and people (Carroll & Buchholtz 2014). This has led to the evolution of organizations (and government) being accountable to multiple publics, systems and stakeholders, as opposed to business seeing its primary concern as just looking after shareholders (Carroll & Buchholtz 2014; Dickie & Dickie 2011) Today's businesses seek to obtain a social license to operate in their community, in contrast to the pre-classical management theories that focused on the business maximizing its output from within the environment it existed (Dickie & Dickie 2011; KPMG 2013).

Business has progressed to be accountable to a range of stakeholders, beyond those who have a financial stake in the organization. Expectations have evolved for business around

providing value for multiple stakeholders, many of whom do not benefit financially and directly from the organization's profits (KPMG 2013; ACCSR 2014). According to the CSRIO (in KPMG 2013, p. 4) "...an operation is said to have a social license when it achieves ongoing acceptance or approval from the local community and other stakeholders who can affect its profitability." Business now needs to manage a range of publics that have a multitude of stakes, or interests, in a specific business. Therefore, stakeholder management has become an integral part of business strategy planning (Carroll & Buchholtz 2014; Harrison 2011).

As the business world advances further towards a global village with the help of electronic communication and the internet, social and environmental expectations and responsibilities have broadened beyond the surrounding physical environment to encompass being responsible across borders, nations and continents (ACCSR 2014; Audi 2009). As a result the range of stakeholders who can influence an organization has expanded to include new levels of stakeholder influence (for example: global NGOs, international associations and membership, trade agreements, international business law, and global consumer networks), all of whom must be managed at various levels in some way (Carroll & Buchholtz 2014, Lehman, Dufrene, Cameron-Dow, Barret & Murphy 2012). This has forced business, particularly large organizations and corporations, to make stakeholder management a key focus of their operations (Harrison 2011). The list of stakeholders' needs now may include: addressing employee working environments, government regulation, United Nations membership agreements, industry codes, association guidelines, non-government organizations (NGOs), and shareholder activist-groups' demands (Audi 2009; Carroll & Buchholtz 2014).

At the centre of stakeholder management and relationship building is the exchange of knowledge (Harrison 2011; L'Etang 2008). The relevance of this information can be specific to the identified group of stakeholders, or may need to be structured in order to connect at the appropriate level so that new knowledge can be effectively realized. Identifying the characteristics of key stakeholders is significant to identifying their needs and wants, and establishing knowledge sharing essential to fostering positive relationships (Johnston & Sheehan 2014; Harrison 2011; L'Etang 2008).

### **3. History of management ideas**

In order to better understand how stakeholder management has progressed over the years a review of the evolution of the management ideas provides insight into the expanding demands of stakeholder relations as a result of diverse needs.

Dickie and Dickie (2011) consider five developmental stages for management: pre-classical, classical, behavioural, quantitative and contemporary. Pre-classical focuses on workers' conditions and specialization. Classical management theory refines efficiency in the workplace by advancing workers' performance and operating procedures. The behavioural management theories focus on motivation for workers through working conditions and cooperation from staff. Towards the end of the twentieth century the development of quantitative management theories centered on the science of controlling resources and production efficiency. In the 1960s to 1970s contemporary management theories (contingency, systems and structural design) began to relate to the external environment the organization operates in, and the use of the organization's resources to deal with forces and conditions that occur in the broader business environment. This momentum of evolving management theories towards a stronger management of sub-systems that influence the efficiency and productivity of an organization - referred to as the *Open Systems View* – has identified many diverse stakeholders who mandate attention (Dickie & Dickie 2011).

Dunford (2001) describes the evolution of management practice as going through the scientific, welfare, human relations and motivation phases. Scientific Management philosophy, most strongly associated with Frederick Taylor, Frank Gilbreth and Henry Gantt, and focuses on the organizational improvement through systematic analysis and standardizing equipment, systems and work activities. It identifies the worker-manager task assignment as a scientific process implemented by the *functional foremen*. The Welfare Movement involved the provision by employers of services to improve working conditions, and thus directed the focus to employee needs and enlightenment in order to produce a loyal workforce. In the late 1920s the Human Relations movement pioneered by Elton Mayo was fundamentally based on the social code that defines workers relationships to their tasks and their fellow workers. The premise is that workers actions are governed by sentiments guiding workplace behaviour. Content theories used to characterise Motivation Theory focus on the idea that people have some core set of basic needs that motivate their actions, typified by Maslow's hierarchy of needs.

Agarwala (2007) in her book Strategic Human Resource Management states that liberalisation and privatization have brought changes to the business environment that has heightened competition. The competitive advantage of a firm is no longer defined by traditional factors such as management of resources, technology and economics, but how well the business managers human relations into the business strategy to meet community needs.

Carroll and Buchholtz (2014) suggest that the evolution of management functions incorporates the way they deal with social and ethical concerns and manage this in the public sphere (e.g. media and social media) in a similar way to managing traditional business functions involving marketing, finance, operations, risk management and so forth. Sustainability has become a managerial frame of reference.

The above philosophies on management development are just a representation of theories on management evolution, but they do indicate a common theme that management ideas have evolved from a manager-worker focus to an organization-society focus. Therefore, management now identifies organizations typically do not operate in a closed system and that diverse stakeholder groups from the macro-environment need to be considered and carefully managed in order to foster cooperative and positive relationships to advance the organization's goals (Lehman et al. 2012). New stakeholder groups have become relevant at each stage of the management theories progression explored above. Key stakeholder groups identified from the above literature include: employees (workers), owners (shareholders), government (regulators), communities (suppliers and customers) and the media. Meaningful relationships between organizations and all stakeholder groups are now acknowledged as crucial to effective management practice and achieving business objectives (Bovee & Thill 2010).

#### **4. Stakeholder Engagement**

Contemporary literature advocates the use of engagement through communication to create and foster meaningful relationships that are mutually beneficial between organizations and their stakeholders (see for example: L'Etang 2008; Audi 2009; Bovee & Thill 2010; Lehman et al. 2012; Carroll & Buchholtz, 2014). Managers have come to understand that particularly in the open system of engagement with external stakeholders they can advance the goals and/or minimize the risk to efficiency for their organization through meaningful relationships that endeavour to recognize and address the needs and wants of all their stakeholders (Audi 2009). Therefore, stakeholder engagement promotes positive outcomes for all parties involved in the relationship.

Stakeholder engagement begins productively with employee relations, where employees respect the pathways of communication between staff and management, and employees feel they are part of the planning process for an organization (Harrison 2011; L'Etang 2008). Staff are seen as the window view into the organization for external stakeholders, so the way in which employees interact with customers/clients, business partners, providers, contractors and the community will have a significant effect on the way the organization is perceived by such stakeholders (Lehman et al. 2012; Bovee & Thill 2010). Employees who are comfortable with the organization's brand will reflect this through their outward interactions that in turn considerably contribute to the external reputation for the organization (L'Etang 2008). Doorley and Garcia (2011) state it is important that internal staff are aligned with the *intrinsic identity* for their organisation, which is characterised and nurtured through relationships with management. The business-society relationship is shaped through the various communities' interactions with the organisation, typically through the experiences and dialogue stakeholders have with staff from that organisation (Harrison 2011; L'Etang 2008). Therefore, stakeholder engagement has become more critical to the organization and strategic planning. Many large organizations include roles that have the responsibility of reaching out to all stakeholders in an effort to engage and establish two-way relationships that will benefit both the business and the stakeholder. Such roles often are part of the public relations responsibilities and involve staff skilled in communication and relationship management (Doorley & Garcia 2011; Harrison 2011; L'Etang 2008).

### **5. Public Relations and Stakeholder Management**

Many theorists and writers suggest that stakeholder management is a strategic function of public relations (see for example: Johnston & Sheehan 2014 Doorley & Garcia 2011; Harrison 2011; L'Etang 2008). But other theorists would also strongly argue that broad management responsibility plays a key role in ensuring stakeholders are engaged, informed and have a sense of importance to an organization (Carroll & Buchholtz 2014; Dickie & Dickie 2011; KPMG 2013, Audi 2009). On deeper investigation, both positions are based on the same objective relating to keeping stakeholders in a positive relationship with the organization in an effort to advance outcomes and achieve the organization's goals (Carroll & Buchholtz 2014)

Relationship management skills are an interdisciplinary function and form the basis for knowledge transfer between management and staff, with traditional communication responsibilities managed through public relations, either through consultancy or in-house capacity (Johnston & Sheehan 2014; Audi 2009; L'Etang 2008). Many of these stakeholder management roles have evolved into sub-roles for public relations practitioners, and typically include: employee engagement, community engagement, government relations, investor relations, and media relations (Johnston & Sheehan 2014; Harrison 2011; L'Etang 2008).

Employee engagement essentially endeavours to align employee behaviour and performance with the reputational interests of the organization, and is primarily achieved through open and strategic organizational communication, according to Doorley and Garcia (2011). As previously explored, outside engagement with many stakeholders primarily occurs through connections and relationships established at the *coal face* interaction with employees (Harrison 2011). As a stakeholder group in an organization, employees must be part of the process of driving performance through two-way and open communication with management, which reflects the ethics and culture for the organization (Audi 2009). This creates meaningful work and valuable measures employees can align their performance against.

Community engagement has a heightened importance due largely to the advancement in communication technology globally. As Demetrious states in Johnston & Sheehan (2011, p.259), “online global communities are massing, shifting the social and political contours of the twenty-first century, producing new ways of conceiving power and change”. Communities and their influence are not restricted to the surrounding environment, and now stretch across borders and continents, especially as many environmental and financial issues can create reverberations across the globe and have implications for people thousands of kilometres away from the physical operations for an organization (Carroll & Buchholtz 2014). A case in point is the recent Deep-Water Horizon oil rig explosion in 2010 that affected oil production globally, created an ecological disaster in the Gulf of Mexico, restricted aquatic industries in the area, and imbalanced family existence for people in north and central America, along with substantial negative impacts for BP employees and investors around the world (Freudenburg & Gramling 2011).

Getting the right balance for acceptance with and contribution to the communities who have a stake in the organization has become a major determinant in gaining the social licence to operate within these communities (KPMG 2013; Carroll & Buchholtz 2014). Community engagement can include many sub-communities, including: customers, clients, residents, regions, towns and cities, activist groups, and industry networks. Organizations belong to communities and thus are part of something bigger than their own organization, and this belonging brings responsibility (Audi 2009). Communicating how an organization works to fulfil this responsibility as part of its citizenship is an important strategic management process (Johnston & Sheehan 2014; Harrison 2011; L’Etang 2008).

Government relations have moved beyond lobbying the public office on behalf of the organization’s financial interests to encompass citizenship responsibilities involving advocacy, policy direction, legal interpretation and industry feedback (Carroll & Buchholtz 2014; Doorley & Garcia 2011)). Politics has often been called the art of compromise, and a variety of stakeholders can be independently represented by governments (e.g. constituents, regulators, consumers and international partners) and business (e.g. shareholders, employees, executive, and industry associations). Addressing the interests of all these groups, particular when their needs and wants may come from opposites covets can be a management of negotiation (Doorley & Garcia 2011). Organizations lobby the government to influence policy, laws, regulations, grants, funding and town planning to their advantage (Johnston & Sheehan 2014). However, with the heightened awareness relating to being a citizen of a community, there are elevated expectations for organizations to work with government around their obligations to the environment and communities influenced by its operations and products, the industry body, national policy and business ethics (KPMG 2013; Carroll & Buchholtz 2014). This information needs to be effectively communicated and collaborated between government and public interests (Johnston & Sheehan 2014; Audi 2009).

Media relations involve the relationship the organization enjoys with various media outlets and identities, and has expanded to include interaction through social media networks and platforms (Johnston & Sheehan 2014; L’Etang 2008). Media relations traditionally refers to building long-term, two-way, productive and trusting relationships with influential people in the mass media (Doorley & Garcia 2011). But with the advent of citizen journalism, where the topical agenda is set by conversations between people engaging through social networks, media relations now also encompasses persuasive management of opinions and reputations

regarding business brands (Johnston & Sheehan 2014; Lehman et al. 2012). This new vision, referred to as *Open Source Branding*, is where citizen stakeholders become co-builders of the brand through the social media eco-system, a system not regulated like traditional media (Vernuccio 2014). Many larger organizations are directly employing social media technicians, known commonly as social media officers, to engage with the social networking communities and inject *posts* that positively reflect on their organizations, and work towards achieving business objectives – a concept seemingly at opposites with the notion of social media (Johnston & Sheehan 2014; Lehman et al. 2012).

Once the sole focus on the stakeholder list by the notorious economist - Friedman, investor relations has expanded its principals to accommodate shareholders (stockholders), financiers and investors with diverse interest beyond profit, share price and dividend returns to include ethical investment, long-term sustainability and ethical ownership rights (Carroll & Buchholtz 2014; KPMG 2013; Audi 2009). Logistics dictates that is difficult for investor to influence management, but management need to engage with shareholders and the like to ensure their needs and wants are being considered, otherwise investors may let their concerns known through withdrawing their money from stock (Audi 2009). Apart from investor legislation giving shareholders a voice through proxy votes for company boards, managers need to understand the current investors' concerns and reassure investors of the health and wellbeing of the business (Carroll & Buchholtz 2014; Lehman et al. 2012). This information is often peculiar to investors as it involves a delicate balance of highlighting profit focus and ethical/sustainable operations. Managing the investor stakeholder has become more complex as business success has moved further away from a sole focus on profit.

## **6. Conclusion**

The relationship between business and society has evolved considerably over the past decades, as indicated by the theorists above, due largely in part to the advance in communication technology and the sharing of knowledge to a more advanced level. Business is now accountable to a range of stakeholders beyond those who invest in the business, including employees, communities, government and the media. Management theory evolution has introduced the perspectives that there are a range of influential stakeholders to a business. As all these stakeholders can influence the success and effectiveness of an organization, so the sustainability of a business is reliant upon strong, positive and meaningful relationships between the business and stakeholders. Management needs to take ownership of these relationships.

The reviewed literature in this paper has identified key reasons for why a strong management relationship between the many diverse organizations and the business can be beneficial to the ongoing success of the business. These include knowledgeable stakeholders engaged with the operations of the organization, two-way beneficial relationships between organizations and their stakeholders, and a stronger reputation for the organization.

Stakeholder management has moved from addressing issues and risks with shareholders to an approach of creating ongoing relationships with a varied group of stakeholders to sustain operations and maintain community involvement from the organization. The key responsibility for stakeholder management is a whole-of-business concern, as indicated above, but planning and strategy typically is aligned with public relations roles.

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