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Stakeholder engagement by South African businesses: Identification and prioritisation of stakeholders

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Abstract. The term "stakeholder engagement" has gained increasing prominence over the last few years. This prominence is fueled by a range of issues such as an increased dissatisfaction with business's focus on stockholder/shareholder interests and the demands for greater transparency from business following major business scandals. A perceived response to this issue in South Africa has been the inclusion of guidelines on stakeholder engagement in the King II Report on Corporate Governance.

Despite this growing interest, there has not been clarity on how companies engage with their stakeholders and specifically with how they identify and prioritise their stakeholders. The study sought to establish the reporting practices of South African business in relation to stakeholder identification and prioritisation through a content analysis of their annual reports. The findings are discussed and recommendations on the two aspects of stakeholder engagement presented.

Key words: Business ethics, stakeholder engagement, stakeholder identification, stakeholder prioritisation, managing stakeholders

Background

The concept of stakeholder engagement has increasingly been used in South African business circles, especially in the sphere of corporate governance. In this regard, there has been an increase in emphasis on an inclusive approach to corporate governance (incorporating all stakeholders), as opposed to an exclusive approach (excluding stakeholders other than shareholders) (IoD, 2002). The King II Report on Corporate Governance recommends an inclusive approach to corporate governance where "stakeholders such as the community in which the company operates, its customers, its employees and its suppliers among others need to be considered when developing the strategy of a company ... the stakeholders relevant to the company's business should be identified ... the relationship between the company and its stakeholders should be mutually beneficial" (IoD, 2002:98). The rationale provided for this inclusive approach is that "stakeholders have a direct bearing on ongoing corporate viability and financial performance" (IoD, 2002:98). It has also been suggested that "the process of non-financial measurement has to be informed by stakeholder engagement" (Rossouw, Van der Watt & Malan, 2002:301).

The emphasis on stakeholder engagement in South Africa has taken place within the wider context of a global business environment dominated by the spirit of capitalism. The latter, however, has increasingly been blamed for the growing dissatisfaction with business by a range of business stakeholders (Kennedy, 2000; Novak, 1982). The negative implications of capitalism have resulted from the emphasis on increasing shareholder wealth at the cost of the interests of all other stakeholders. This has subsequently resulted in short term management practices that impact negatively on the firm's stakeholders (Kennedy, 2000).

Despite this increasing interest in the stakeholder approach and stakeholder engagement, it has not been established whether businesses in South Africa have clear strategies to engage with their stakeholders and what practices are recommended in this regard. This paper arises out of a broader study on stakeholder engagement that identified eight components of stakeholder engagement (Mwangi, 2004). It will focus on two of these components, namely stakeholder identification and prioritisation. An attempt will be made to analyse companies' reporting practices in relation to stakeholder identification and prioritisation and to develop recommendations on these two aspects.

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Introduction

The growing interest in stakeholders is inextricably linked to the evolution of business (Freeman, 1984; Halal, 2000). Freeman (1984) emphasised the shift from the "production view" of the firm to the "managerial view", where he suggested that business has evolved over time from simple entities, usually owner-managed, to larger, more economic firms which have a wider range of interest groups or stakeholders. Also in relation to business evolution, Halal (2000) suggested that business has evolved from an emphasis on profits to an emphasis on social responsibility and eventually to an emphasis on collaborative working relations with stakeholders. He referred to this model of business as "The Corporate Community Model (CCM)" (p. 2). The growing interest in stakeholders also dovetails with a variety of business and societal trends such as the changing expectations of business, increased stakeholder scrutiny, an increasing demand for transparency, new and emerging issues requiring the attention of business, growing investor pressure, the rise in stakeholder advisors and the growth of information technology and the Internet (BSR, 2002).

There has also been a realisation that a business's performance is linked to its relationships with its stakeholders and hence the conclusion that effective management of relationships with various organisational stakeholders will impact positively on business performance (Sirgy, 2002). According to several authors, the management of stakeholders impacts on business reputation and success (Donaldson & Dunfee, 1999; Gillis & Spring, 2001; Howard, 1996; McLarney, 2002; Ogden & Watson, 1999; Rossouw & Van Vuuren, 2003; Spekman & Isabella, 2000).

In attempting to explain the basis of benefits from stakeholders, it has been suggested that benefits arise because "companies strengthen the social bonds between the business, its employees and the community and the company builds reputation capital and enhances its ability to negotiate more attractive contracts with suppliers and the government, charge higher prices for its products and reduce its cost of capital" (Fombrun & Gardberg, 2000:1). Companies have also been urged to pay attention to stakeholders so that they continue to be willing to do business with the firm and contribute to its success (Ogden & Watson, 1999) and that forging close and selective relationships with major stakeholders (partners, suppliers, customers and countries) maximises joint value (Spekman & Isabella, 2000). Empirical research carried out in relation to employees as stakeholders demonstrates that potential employees use a company's corporate social performance as a criterion for selecting employment opportunities (Gillis & Spring, 2001). It has further been recognised that there is mutual benefit when employers foster long-term relationships with their staff (Volpe, 1999) and responsible business are more profitable in the long run because they attract employees who stay longer (Cowe, 2000).

Literature still rarely contains specific references to the concept of "stakeholder engagement". However, it does refer to interrelated concepts like stakeholder management (Carroll, 1991), the stakeholder approach (Freeman, 1984; Taylor & Hussey, 1982; Weiss, 1994) and stakeholder inclusion (Wheeler & Sillanpaa, 1994) which contribute to the understanding of stakeholder engagement. The literature surveyed has also provided insights into the basis for the growing interest in stakeholders due to the benefits expected from effectively managing stakeholders and some insights into what constitutes stakeholder engagement. A platform from which to better understand stakeholder engagement, may be stakeholder theory.

Stakeholder theory

Stakeholder theory has received extensive scrutiny in literature. "Stakeholder theory is based on the principle that the firm takes into account all of those groups and individuals that can affect or are affected by the accomplishment of organisational purpose" (Polonsky, 1995), and that "a firm has obligations not only to shareholders and customers but to all individuals and organisations with which it has transactions and relationships" (Taylor & Hussey, 1982:26). A core precept of stakeholder theory is that the company usually interacts with five interest groups namely shareholders, customers, employees, suppliers and the community at large (Bucar, 2001).

"Stakeholder management" is a concept that appears regularly within stakeholder theory literature and which appears to be a practical manifestation of stakeholder theory. It is described as a process by which "managers reconcile their own objectives with the claims and expectations being made of them by various stakeholder groups" (Carroll, 1991:6). Stakeholder management manifests as methods of mapping and managing complex moral relationships between the corporations' strategic activities and those that are affected by such actions (Weiss, 1994). The challenge of stakeholder management is to ensure that the firm's primary stakeholders achieve their objectives while other stakeholders remain satisfied (Carroll, 1991).

The stakeholder

"The term stakeholder appears to have been invented in the early 1960's as a deliberate play on the word "stockholder" to signify that there are parties having a "stake" in the decision-making of the modern, public-held corporation in addition to those holding

equity positions" (Goodpaster, 199:205). It has, however, been observed that there is no single definition of stakeholders supported by a widespread consensus, but that there are competing approaches (Donaldson & Dunfee, 1999). It has also been suggested that there has been a lack of clarity in the definition of stakeholders with a barrage of definitions being used by various scholars (BSR, 2002).

Within the plethora of different definitions (Table 1), a number of emphases have been identified in the definitions. Firstly, there is the emphasis on stakeholders being groups or individuals who can *affect* or are *affected* by the organisation (Freeman, 1984; Polonsky, 1995; and Hitt *et al.*, 2001). Secondly, there is the emphasis on stakeholders being those who *depend* on the company and the company also depends on *them* (Rhenman cited in Freeman, 1984). Thirdly, there is the emphasis on stakeholders being those upon whom the organisation depends for resources and support (Pfeffer & Salancik cited in Freeman, 1984). Fourthly, there is the emphasis on stakeholders being "those groups *without whose support* the organisation would cease to exist" (D'Souza & Williams, 2000). Fifthly, there is the emphasis on stakeholders being "those whose relations to the enterprise cannot be completely contracted for, but upon whose *cooperation and creativity it depends* for its survival and prosperity". (Slinger & Deacon cited in IoD, 2001:110). Finally there is the emphasis on stakeholders being those who have a *direct or indirect investment* in an organisation (Hiles & Barnes, 2001:52)

A review of the definitions and their different emphasis suggests that there are two main categories of definitions. One referring to stakeholders affecting or being affected by the company (Freeman, 1984; Hitt, Ireland & Hoskisson, 2001; Polonsky, 1995) and the other referring to stakeholders depending on the company and the company depending on them (Rhenman cited by Freeman, 1984; Pfeffer & Salancik cited by Freeman, 1984; Slinger & Deacon cited in IoD, 2001). The definitions that refer to stakeholders affecting or being affected by the company seem more accommodating of those groups who should be recognised as stakeholders than the definitions that refer to stakeholders depending on the company. This is because there are some individuals or groups who may not necessarily depend on the company but are affected by the company and should thus be included as stakeholders. An example of such stakeholders is a community living close to a factory that releases waste water into the rivers used by the community. The community may not depend on the factory for anything, but the pollution of their drinking water could affect their health.

Based on this observation, this study suggests that Freeman's definition be used as a preferred definition for stakeholders as it includes all those stakeholders who can affect and are affected by the firm. It also includes those who depend on the firm as they can only depend on the firm if they are affected by it. This definition states that the stakeholder is "Any group or individual who *can affect* or **is affected** by the achievement of the organisation's objectives" (Freeman, 1984:46).

TABLE 1
Definitions of stakeholders

Definition	Source
"Any group or individual who can affect or is affected by the achievement of the organization's objectives."	(Freeman, 1984, p. 46)
"All of those groups and individuals that can affect or are affected by the accomplishment of organisational purpose."	Polonsky (1995)
"The individuals or groups which depend on the company for the realization of their personal goals and on whom the company is dependent", e.g. employees, owners, customers, suppliers, creditors	Rhenman cited by Freeman (1984)
"Those organisations in the environment that make a difference to the organisation in question."	Thomson cited by Freeman (1984)
"Interest groups upon whom the organisation depends for resources and support."	Pfeffer & Salancik cited by Freeman (1984)
"Those groups without whose support the organization would cease to exist."	D'Souza & Williams (2000)
"Those whose relations to the enterprise cannot be completely contracted for, but upon whose cooperation and creativity it depends for its survival and prosperity."	Slinger & Deacon cited in (IoD, 2001, p. 109).
The individual and groups who can affect or are affected by the strategic outcomes achieved and who have enforceable claims on a firm's performance.	Hitt, Ireland & Hoskisson (2001, p. 28)
All those people who have a direct or indirect investment in an organization.	Hiles & Barnes (2001, p. 52)

Stakeholder engagement

Diverse viewpoints have been provided by various sources on the issue of engaging with the stakeholder (Donaldson & Dunfee, 1999; Freeman, 1984; Goodpaster, 1991; IoD, 2002; Weiss, 1994 and Wheeler & Sillanpaa, 1994). All these views contribute to a better understanding of stakeholder engagement that this study sought to achieve.

The King II Report on Corporate Governance in South Africa asserts that stakeholders need to be identified and that the relationship developed with them should be mutually beneficial. "Engaging actively with stakeholders helps inform strategic planning and risk management. Companies should adopt a process for the identification and, if necessary, prioritisation of key stakeholders having a legitimate and relevant interest in its operations" (IoD , 2002:99).

The ideas proposed by Donaldson and Dunfee (1999) also alluded to stakeholder engagement when they suggested that managers need to: "1) identify the full range of stakeholders for a given firm and decision, 2) identify the stakes at issue in the decision, 3) assess the legitimacy of the stakes, 4) allocate priority among conflicting stakeholder claims, 5) identify strategic options for responding to the legitimate stakes having priority, 6) assess the viability of the options within the framework of corporate governance, including any special consideration to be given to the interest of stockholders, and 7) make a final decision" (p. 236).

Freeman (1984) identified the characteristics of organisations with high "stakeholder management capability" as those that design and implement communication processes, negotiate with stakeholders, apply the marketing approach to serve different stakeholders, integrate an appropriate personnel strategy formulation process, anticipate stakeholder concerns, allocate resources in line with stakeholder concerns and ensure managers work with stakeholder awareness. This stakeholder management capability has similarities to Wheeler and Sillanpaa's (1994) concept of stakeholder inclusion which refers to "processes of diagnosis, dialogue and audit aimed at securing the effective participation and active inclusion of stakeholders in the affairs of the company" (p. 180).

Weiss (1994) suggested that the stakeholder analysis process is a framework that enables users to map and then manage corporate relations (present and potential) with groups who affect and are affected by the corporation's policies and actions in order to create a win–win situation. The framework consists of seven distinct steps that include: "mapping stakeholder relations, mapping stakeholder coalitions, assessing the nature of each stakeholders' interests, assessing the nature of each stakeholders' power, constructing a matrix of stakeholders' moral responsibilities, developing specific strategies and tactics, and monitoring shifting coalitions" (p. 34). The different descriptions of stakeholder engagement are summarised in Table 2.

The various descriptions of stakeholder engagement as captured in Table 2 identify specific components that could contribute to a stakeholder engagement process. These components include: 1) stakeholder identification (Donaldson & Dunfee, 1999; IoD, 2002:) assessment of stakeholder interests or stakes (Donaldson & Dunfee, 1999; IoD, 2002; Weiss, 1994:3)

TABLE 2
Summary of illustrations of stakeholder engagement in literature

Author and process	Description
Stakeholder engagement – IoD, (2002)	Stakeholders need to be **identified** and the relationship developed with them should be mutually beneficial... "process for the **identification** and, if necessary, **prioritization of key stakeholders** having a legitimate and **relevant interest** in its operations" (IOD, 2002, p. 99).
Stakeholder engagement – Donaldson & Dunfee (1999)	Managers need to:1) **identify** all stakeholders for the firm and for a decision, 2) identify the stakes, 3) assess legitimacy of the stakes, 4) allocate **priority** among conflicting claims, 5) identify strategic options for responding to the stakes having priority, 6) assess viability of the options within the framework of corporate governance, 7) make a final decision.
Stakeholder Inclusion – Wheeler & Sillanpaa (1994, p. 180)	Processes of diagnosis, dialogue and audit aimed at securing the effective participation and active inclusion of stakeholders in the affairs of the company.
Stakeholder analysis, Weiss (1994)	Includes seven steps namely 1) mapping stakeholder relations 2) mapping stakeholder coalitions 3) assessing the nature of each **stakeholder's interests** 4) assessing the nature of each **stakeholder's power** 5) constructing a matrix of stakeholders' moral responsibilities 6) developing specific strategies and tactics 7) monitoring shifting coalitions.
High stakeholder management capability (Freeman, 1984)	Organisations that design and implement communication processes, negotiate with stakeholders, apply the marketing approach to serve different stakeholders, integrate an appropriate personnel strategy formulation process, anticipate stakeholder concerns, **allocate resources in line with stakeholder concerns** and ensure managers work with stakeholder awareness.

assessment of legitimacy of stakeholders stakes (Donaldson & Dunfee, 1999:4) prioritisation of stakeholders and their claims by assessing their power (Donaldson & Dunfee, 1999; Freeman, 1984; Weiss, 1994:5) identification of strategic options for responding (Donaldson & Dunfee, 1999; Goodpaster, 1991:6) assessment of viability and implications of options (Donaldson & Dunfee, 1999; Goodpaster, 1991:7) selection and implementation of specific options and strategies (Donaldson & Dunfee, 1999; Goodpaster, 1991; Weiss, 1994).

Arising out of these components Mwangi (2004) defined stakeholder engagement as "A process that involves the engagement of stakeholders at a generic level for the entire firm and on an issue by issue basis, taking into account both ethical and strategic considerations and including processes of stakeholder identification and prioritisation (Phase 1); engagement planning (Phase 2); and process implementation" (Phase 3) (p. 97). This paper will specifically focus on Phase 1 of the stakeholder engagement process, namely identification and prioritisation.

Stakeholder identification

It has been observed that "Stakeholder theory is often unable to distinguish those individuals and groups that are stakeholders from those that are not" (Phillips, 2000:185). The process of identification begins with an agreement on the definition of the stakeholder. The literature review analysed the various stakeholders identified by different authors (Table 3). Freeman (1984) suggested that there are at least 11 groups that qualify to be called stakeholders. These are: owners, consumer advocates, customers, competitors, media, employees, Special Interest Groups (SIG), environmentalists, suppliers, governments and local community organisations.

Within the corporate social responsibility literature, Freeman and Liedtka (1991) suggested that stakeholders include "suppliers, community, employees, customers and financiers" (p. 6). McWilliams (2001) noted that "managers continually encounter demands from multiple stakeholder groups. These pressures emerge from customers, employees, suppliers, community groups, governments and some stockholders" (p. 117). Closely related to these Tuleja (1985) suggested that there are six stakeholders whose needs deserve recognition by responsible corporate management. These are: "shareholders, employees, customers, the local community, society at large and competing companies" (p. 1). A variant of this is provided by Karp and Weaver (1991) who identified six social responsibility models that emphasise recognition of stakeholders including: stockholders, employees, customers, the community, the government and the society at large.

Sirgy (2002) identified three major groups of stakeholders whom he referred to as external, internal and distal. He suggested that external stakeholders are those with whom the firm exchanges vital resources and these include customers, share/bondholders, distributors, suppliers, creditors, employees, the local community, the mass media and the environment. Internal stakeholders are a firm's departments, divisions and functional units and the firm's distal stakeholders are those who indirectly influence the survival and growth of the business firm through influence exerted on the firm's external groups and they include consumer and environmental advocacy groups, government agencies, industry leaders, professional and trade associations, and higher education. The King II Report on Corporate Governance identified four stakeholder groups namely shareowners, parties that contract with the enterprise, e.g. customers, employees, suppliers, subcontractors and business partners, parties that have a non-contractual nexus, e.g. civil society, local

TABLE 3
Table of generic stakeholders identified by author

Author and Field	Share-holders	Custo-mers	Em-ployees	Society at large	Sup-pliers	Industrial/ Political system/ media	Chari-ties/ the arts	Local commu-nity	Compe-titors	Finan-ciers
Freeman (1984)	X	X	X	X	X	X	X	X	X	X
Tuleja (1985) – CSR	X	X	X	X				X	X	
McWilliams (2001) – CSR	X	X	X	X	X	X				
Karp & Weaver (1991) – CSR	X	X	X			X	X			
Freeman & Liedke (1991)	X	X		X	X					
IoD (2002)	X	X	X	X	X	X	X			
Sirgy (2002)	X	X	X	X	X	X		X		X
Total	7	7	6	6	5	5	3	3	2	2

communities and other special interest groups, and the state as policy maker, legislator and regulator of the economy (IoD, 2002:97).

The three most frequently identified stakeholders in the literature reviewed above are shareholders, employees and customers. These are followed by society at large, suppliers and the industrial/ political system. The stakeholders identified by a number of authors are summarised in Table 3.

Stakeholder prioritisation

Considering that a company has a range of possible stakeholders, it is likely that the company will need to prioritise these stakeholders. Literature sheds light on prioritisation from two points of view.

The first analyses prioritisation from the point of view of categorising stakeholders into primary and secondary stakeholders (McLarney, 2002; Weiss, 1994). Weiss suggested that primary stakeholders are considered to be of primary importance to a firm's survival and include owners, customers, employees and suppliers while McLarney described primary stakeholders as "those who have a formal, official or contractual relationship with the firm" (2002:259). On the other hand secondary stakeholders are considered less important in relation to a firm's survival (Weiss, 1994) and include all other interested groups such as the media, consumer organisations, lobbyists, courts, the government, competitors, the public and society (McLarney, 2002).

The second point of view attempts to provide insight into the basis for prioritisation. Prioritisation can either be based on the stake that a stakeholder has in a business (Weiss, 1994) or on the stakeholders attributes (Mitchell, Agle & Wood, 1997). Weiss (1994) defined a stake as "Any interest, share or claim a group or individual has in the outcome of a corporation's policies, procedures or actions towards others" (p. 32). He suggests that stakes can be based on legal, economic, social, moral, technological, ecological, political or power interests and they can also be present, past and future oriented. Mitchell, et al. (1997) identified urgency, legitimacy and power as the key attributes that determine how important a stakeholder will be to management. These views are consistent with Freeman's (1984) observation that strategies for dealing even with groups well beyond the fringe will be put in place if those groups pose a threat to the firm. They are also consistent with Weiss's (1994) assertion that stakeholder analysis involves "assessing the nature of each stakeholder's power" (p. 39). He suggests that power can be voting power, political power or economic power.

A different angle is provided whereby it is suggested that the importance of specific stakeholder groups is determined by a combination of the manager's intuition and the stand that the stakeholders themselves display to the company (Harvey & Schaefer, 2001). Harvey and Schaefer's study established that stakeholders with an institutional power base such as government and industry regulators tended to be more important than customers and the general public.

Apart from the strategic rationale for prioritising stakeholders, the literature suggests that there is a normative dimension to stakeholder engagement. McCarty (1987) suggested that business can be carried out benevolently by avoiding selfishness. McCarty defined selfishness as "giving overriding importance to satisfying one's desires and attaining one's goals when doing so conflicts with proper desires and goals of others" (p. 47). It has also been suggested that firms have moral duties such as mutual aid, non-malfeasance and respect for others (Michelman, 1983). The process of identification and prioritising cannot ignore the normative imperative and companies should thus take into account the goals and rights of others and priority should be given to those who may be violated by the actions of the company.

Arising out of this literature review, it appears that there are a range of authors that address the issue of stakeholder engagement and specifically the issue of identification and prioritisation. However, the literature does not lend itself to practical application by business as they tend to lack systematic integration. To inform this process, empirical evidence was obtained with a view to integrate this evidence with information produced by the literature study to facilitate the development of meaningful recommendations on stakeholder identification and prioritisation.

Methodology

The main objective of the study was to develop recommendations that would enable companies to identify and prioritise their stakeholders as a prerequisite to a systematic stakeholder engagement process. In order to arrive at the recommendations, the study established the practices for stakeholder identification and prioritisation from a sample of listed South African businesses by carrying out a content analysis of their annual reports. The outcome of this content analysis along with the insights obtained from the literature was used to arrive at the recommendations.

Selection of the sample

In order to obtain stakeholder engagement data from business, a sample of South African businesses whose annual reports served as the source of data was selected. The sample selection was based on a purposive sampling method which involved selection based on existing

knowledge of the population and the nature of the aims of the study (Babbie, 1992). The sample selected included a group of 22 listed South African businesses across various sectors of the JSE Securities Exchange including general industrials (5), financials (5), resources (4), basic industries (3), cyclical services (3), non-cyclical services (1) and non-cyclical consumer goods (1) [the numbers in brackets indicate the number of companies in each sector].

The selection across sectors was done to obtain insights relating to differences across sectors, if any. The listed companies were selected to ensure accessibility to annual reports which are already in the public domain.

Method of analysis

The method of analysis used was content analysis of annual reports. "Content analysis is an unobtrusive research method where researchers examine a class of social artefacts, typically written documents" (Babbie, 1992:312). It can be used in studies that analyse the content of texts or documents such as letters, speeches and annual reports (Mouton, 2001). It is considered to be a favoured method to use as "it is an unobtrusive (non-reactive) method which minimises errors associated with interaction between researchers and subjects (such as observation effects)" (Mouton 2001:166). It is also considered to be economical (time and money) and safe (easier to repeat a portion of the study compared to other research methods) (Babbie, 1992). The study adopted this method due to its unobtrusive nature and in light of the availability of annual reports of listed companies. In order to ensure efficiency and to maximise the usefulness of the content, the study analysed particular sections of the annual reports. These were the sections focusing on: 1) the Chairman's statement; 2) corporate governance 3) sustainability and 4) risk management.

Coding of content was carried out to capture the contents of the reports for effective interpretation. Coding is defined as "the process whereby raw data are systematically transformed and aggregated into units which permit precise description of relevant content characteristics" (Holsti, 1969:94). The study analysed the reports in light of the need to understand practices in relation to stakeholder *identification* and *prioritisation*. In order to achieve this two code categories namely stakeholder identification and stakeholder prioritisation were used. Each of the four sections of the 22 annual reports was content analysed and their contents coded by identifying the references to stakeholders in them and classifying the references within the two code categories identified.

Results

The overall results of the content analysis are summarised in terms of the two code categories.

Stakeholder identification

The companies identified at least 11 different categories of stakeholders. These include: employees (21), shareholders (16), the community (14), customers (10), suppliers (9), government (8), investors (6), intermediaries and business partners (5), regulators (5), future generations/ environment (3) and NGO's (2) [the numbers in brackets indicate the frequency with which these stakeholders were identified in the reports]. The four most frequently identified stakeholders were the employees, the shareholders, the community and customers. The second most frequently identified stakeholders were the government, the suppliers and the regulators.

Stakeholder prioritisation

Stakeholder prioritisation involves categorising the stakeholders in a hierarchy of importance to the firm. Importance to the firm may depend on the size of the stake (Weiss, 1994) or it may depend on the stakeholders' attributes in terms of urgency, legitimacy or power (Mitchell, *et al.*, 1997). In order to establish whether the companies conducted stakeholder prioritisation, the content analysis identified the specific references that indicated which stakeholders the companies deemed to be more important than the others. The analysis identified 12 companies that had specific references relating to stakeholder prioritisation. These references suggested that the companies gave greatest priority to shareholders/investors (4), employees (3) and the customers who make it possible for them to make a profit (4) [the numbers in brackets indicate the frequency with which these stakeholders were identified in the reports as being of primary importance]. The shareholders, the staff and the customers were also the three stakeholders most frequently identified in the literature review excluding the community.

Discussion

This section integrates the insights provided by the literature review and the insights obtained from the content analysis in relation to the two components of stakeholder engagement (stakeholder identification and prioritisation). The discussion is thus structured in relation to the two components. The results indicate that the sample of companies have a definite emphasis in terms of the stakeholders they have identified. It is also clear that their emphasis tends to be on those

referred to as primary stakeholders consistent with the literature review. In relation to stakeholder prioritisation, the content indicates that the shareholders, staff and the customers are the priority stakeholders. The prioritisation is ultimately based on meeting the goal of maximising shareholder returns and the emphasis on staff and customers is based on the recognition that these stakeholders are essential elements towards maximising the goal of realising financial returns for shareholders.

Stakeholder identification

From a practical point of view, stakeholders can only be identified by a company after they have been defined. An emphasis of the difficulty associated with stakeholder identification is illustrated by Philip's (2000) observation that "Stakeholder theory is often unable to distinguish those individuals and groups that are stakeholders from those that are not" (p. 185). The literature indicated that there are at least nine definitions of stakeholders (Table1). These definitions fall into two main categories of those that relate to stakeholders affecting or being affected by the company (Freeman, 1984; Hitt, Ireland & Hoskisson, 2001; Polonsky, 1995) and those referring to stakeholders depending on the company and the company depending on them (Rhenman cited by Freeman, 1984; Pfeffer & Salancik cited by Freeman, 1984; Slinger & Deacon cited in IoD, 2001).

Once companies are clear on their definition of the stakeholder, they are in a position to identify their stakeholders. The content analysis identified 11 stakeholders identified by the 22 companies in the sample. Of the 11, there was a definite emphasis on four of the 11 stakeholders identified. These were employees, shareholders, the community and customers. These represent stakeholders who are more instrumental in the strategic objectives of the business and are consistent with Weiss's (1994) suggestion that primary stakeholders are considered to be of primary importance to a firm's survival and they include owners, customers, employees and suppliers. It is also consistent with Bucar's (2001) observation that a core precept of stakeholder theory is that the company usually interacts with five interest groups including shareholders, customers, employees, suppliers and the community at large. The inclusion of the community as a more important stakeholder seems to be consistent with the current imperative in South Africa for companies to contribute towards the reduction of past inequalities.

The findings of the content analysis are consistent with the findings of the literature review as the three most frequently identified stakeholders in the literature are shareholders, employees and customers followed by society at large, suppliers and the industrial/ political system. This does suggest that companies view their shareholders, employees and customers as their most important stakeholders and this has implications for ensuring that they prioritise engagement strategies for these stakeholders. The fact that some stakeholders have consistently been identified more frequently in the literature and in the content analysis, suggests that these stakeholders are also more highly prioritised than those less frequently identified.

Considering that there is a range of possible definitions for stakeholders identified in the literature, this study would recommend that it is advisable for companies to adopt a single definition. The definition recommended is the one suggested by Freeman (1984) who identifies stakeholders as all those individuals or groups who can affect or are affected by the company achieving its objectives. This definition is recommended as it also inadvertently takes into account all those who depend on the company and it ensures that both the stakeholders interests are covered as well as the companies interests. In identifying stakeholders, there are those obvious ones such as shareholders, employees and customers. Based on the definition of stakeholders, the less obvious stakeholders can be identified. Following clarity in the definition of stakeholders, and the subsequent identification of the stakeholders, the next stage of engagement would be the prioritisation of the stakeholders.

Stakeholder prioritisation

Twelve companies out of 22 provided some insights into which stakeholders they prioritise. The trend was for shareholders (four companies), customers (four companies) and people/staff (three companies) to be given priority over other stakeholders and one reference indicating priority for the regulator. The stakeholders prioritised in the content analysis are consistent with those stakeholders most frequently identified in an in-depth literature review (Mwangi, 2004, Table 5, p. 102) and consistent with the stakeholders identified as primary stakeholders in the literature.

The content analysis suggests that the greatest priority is given to the shareholders and their goal of wealth maximisation.The prioritisation of people and customers are recognition of the fact that they are necessary elements in ensuring that shareholders' goals are met. This suggests a purely instrumental motive in prioritising the stakeholders and there is no reference that provides a normative consideration for prioritising a stakeholder. This is not surprising given the

traditional focus of business has been profit maximisation and hence the stakeholder priorities mirror this objective. The recognition of the regulator is given by a financial services company which acknowledges that in their industry the regulator is a very important stakeholder. This is not surprising considering that regulation is more pronounced in the financial services industry. The prioritisation of the three stakeholders can be viewed in terms of Mitchell's *et al*. (1997) stakeholder attributes of urgency, legitimacy and power. Each of the three stakeholders can be categorised within these attributes as opposed to a less prioritised stakeholder, e.g. the community, who can be considered to be a legitimate stakeholder, but may not have sufficient power over the company and dealing with them may not require much urgency in the short run.

In terms of practical application, the basis of prioritisation has been based on the single goal of profit maximisation for the shareholders. This may, however, not adequately take into account the long term sustainability of the business which may require priority for other stakeholders other than the three most obvious ones who directly contribute to maximisation of shareholder wealth. Weiss (1994) suggested that power could be derived from sources such as legal, economic, social, moral, technological, ecological or political sources. Prioritisation based on a better understanding of the sources of the stakeholders' power and the implications on the company of the stakeholder exercising that power could be more useful. The practicality of the process is important to companies as it ensures that managers are able to prioritise their stakeholders based on clear criteria that do not leave much room for ambiguity and subjective differences.

Conclusion

The main findings of the study indicate that out of 11 stakeholders identified by the companies, four appeared to be more dominant. These were the employees, shareholders, community and the customers. The identification of the community in the top four can be explained by the current realities in South Africa where there are huge societal disparities and it seems the private sector has consciously taken a decision to address these disparities. In relation to prioritisation, it seems that this is driven by a need to maximise shareholder wealth and the priorities given to employees and customers reflect the importance of these groups in contributing to the primary goal of profit maximisation for the shareholders.

A number of recommendations arise out of this study. Firstly organisations need to be clear about what they mean by the term stakeholder. This study has proposed that stakeholders are all those individuals or groups who can affect or are affected by the company achieving its objectives (Freeman, 1984). Once this is clear, the companies can then identify their stakeholders comprehensively. The eleven stakeholders identified in this study can serve as the bare minimum for possible stakeholders. Once these are identified they can then go on to prioritise them. Priority should be informed by an analysis of the stakeholder's power (Mitchell, *et al*., 1997) and its impact on the company. Companies also need to bear in mind that there will be industry specific differences identified from this analysis. It is also recommended that the management of stakeholders should be considered as a sufficiently important topic for management education in business schools given the increasing pressures for stakeholder management by business and the recognition that businesses' long term sustainability may be addressed through effective stakeholder engagement.

Areas that require future research include the need to obtain a better understanding of a stakeholder's power and the impact this would have on the companies. It would also be important to carry out research on the impact of effective stakeholder engagement. The literature review suggests that there are benefits of effective stake-holder engagement, however the benefits are not quantified. Research to attempt quantifying benefits of stakeholder engagement would be very useful to convince companies to take their engagement practices more seriously. Research would also be useful in relation to establishing the impacts of sectoral differences on the stakeholders identifiedand prioritised. The study suggests that sectoral differences make a difference in terms of stakeholder engagement and it would be important to conduct research in this regard in order to facilitate sector specific strategies rather than generic strategies. Finally: it may be important to carry out research on normative motives for stakeholder engagement in relation to identification and prioritisation – this may shed light on the true motivations of organisations to engage (or not to engage) with stakeholders.

From a research methodology point of view, the study had a number of limitations. Firstly, the respondents were few and not representative of business in South Africa. The conclusions drawn can thus not be extrapolated to the entire business population. Secondly, the methodology relied on content analysis of annual reports and did not use alternative methods of data collection to facilitate triangulation. It would have been useful to use in-depth interviews and focus groups to obtain insights from the companies. Thirdly, it would have been extremely

useful to have been able to scrutinise companies' communication strategies to extrapolate information on the identification and prioritisation of stakeholders. Many of these limitations were, however, not necessarily practical to overcome given access constraints – companies approached were apprehensive about the integrity of their information.

In conclusion, this study was an exploratory study that has suggested a number of areas for future research and has also provided a number of recommendations. It is important to realise that the field of stakeholder engagement is still a relatively under-researched field and the recommendations made in this study have been made mainly to contribute to the strategic needs of the companies. What has emerged is that it is important to have a systematic process of stakeholder identification and prioritisation in order to meet the strategic objectives of the company. The emphasis on shareholder wealth is not surprising and it is clear this can be maximised if the stakeholders are effectively engaged.

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