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# Your Stakeholders Know Your Business Better Than You Do Yourself…

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*Most market research only focuses on a narrow range of people, whereas there are actually five groups of stakeholders who are indispensable in the realistic functioning of a sustainable business – customers, employees, suppliers, the community, and shareholders. Put together, they also know so much more than is commonly realised. In fact, we know that if the right research tool is used, they'll have a more accurate idea of a company's future performance than its own CEO!*

*This research tool has been developed over the last decade by Professor Brian Murphy, Adjunct Professor of Marketing at Massey University. The success of his Stakeholder Performance Appraisal research technique has been immense, with a European Journal of Marketing reviewer saying that the technique is "probably the best current source of stakeholder opinions about corporations".*

*High praise indeed, and it's now available through Research Solutions – who have added some key features and entitled it "InsideOut".*

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**We usually only discover what we set out to learn – what are you missing?**

One of the perennial truths of market research is that only those subjects deemed worthy of the cost of the research get researched. It's only logical after all – why spend money to research issues of low importance? As a result, most research-friendly senior executives probably think they're doing all that they need or at least can afford to do – commissioning ad hoc research projects to answer pressing questions, and sometimes also conducting tracking research to keep a feel for what's happening amongst their markets, products, brands and service. This might even be complemented by staff surveys when a more introspective view is required.

However, the question that seldom gets asked is – what about the issues that are 'below the radar', that might be having quite a serious impact upon the current or future health of your company, yet which are somehow overlooked? Yes, regular research reviews and exploratory qualitative research might provide reassurance that nothing's being missed, but that's only of relevance to the types of people and subjects covered by that research.

How can a company possibly be managed to its optimum level when there is no accurate, all-encompassing view of the company's performance in all areas? Boards of Directors may think they get to see all aspects of a business, but that's filtered through the lens of their executive team, with their own agendas, who investigate, measure and report upon what they think is important, but which may still be missing something.

In summary, we usually only discover what we set out to learn.

## Access All Areas – Why isn't Your Research *Really* Holistic?

A manager might console him or herself in the fact that their company commissions enormous amounts of market research, but still be completely overlooking some home truths that could be having a severe current or likely impact upon company performance. This isn't just about marketing, it's about a company's performance across all areas.

To this, many readers will cite the more holistic views of their businesses that they or their seniors may have. After all, the good business practitioner has a view of business purpose that is much wider than the view of Milton Friedman, who declared that the only purpose of a business is to make as much money as possible for shareholders. For example, many readers will be in companies that use the Triple Bottom Line reporting system introduced by John Elkington in 1997, when he stated that the purpose of a business is to create sustainable economic, social and environmental value for all its stakeholders. While the need to provide a sustainable return to shareholders is an obviously vital purpose for a business, it's now commonly accepted that more than shareholder approval alone drives 'good' business.

In fact, there are five groups of stakeholders who are indispensable in the realistic functioning of a sustainable business – customers, employees, suppliers, the community, and shareholders. And they know so much more en masse than is commonly realised.

Yet if this is so logically correct, why do companies so seldom research the impressions that all these groups have of their very business itself, and in a logical, comparable way? Yes, the good business practitioner will plan for optimal stakeholder behaviour and monitor it over time in the annual business plan. Yes, this business plan will contain an assessment of the internal strengths and weaknesses of the business and the external opportunities and threats facing the business. The plan might even incorporate market research data and possibly also a Balanced Score Card.

However, what is really needed is the systematic coverage of the five stakeholder groups (customers, employees, suppliers, the community, and shareholders) in the business planning process. It's time for managers to realise that market research can come full circle, providing key insights on their business itself, not just its customers, brands, advertisements etc. The value of researching markets is undisputed – so why not provide those key insights into the businesses themselves, in their entirety?

## Making the Hard Questions Easily Answered

If this seems too hard and too idealistic, then think again. In 2002 Professor Brian Murphy, Adjunct Professor of Marketing at Massey University, launched the Stakeholder Performance Appraisal (SPA) to complement existing sustainable business planning tools. Over ten years in development, the success of this has been immense, with a *European Journal of Marketing* reviewer saying that the SPA is *"probably the best current source of stakeholder opinions about corporations".* High praise indeed.

The engine room for the SPAs is stakeholder engagement consultancy Perceptive Insight Ltd, a division of Massey University, and of which Professor Murphy is a Director. For most commercial clients the suppliers of the SPA research tool are usually partners of Perceptive Insight such as Research Solutions and others spread across Australasia. In some cases the SPA methodology is added to, enhanced, and consequently re-branded (e.g. as 'InsideOut' in the case of Research Solutions).

With occasional exceptions, the SPA surveys are conducted online, and take respondents less than five minutes to complete, making for high response rates from the five stakeholder groups: customers, employees, suppliers, community, and shareholders.

In each SPA study, current perceptual business performance is measured in terms of the Triple Bottom Line categories of economic, social and environmental performance:

- **Economic** measures: provision of value for money products; profitability; return on investment.
- **Social** measures: customer, employee, supplier, community, shareholder relationships; ethical standards.
- **Environmental** measures: environmental preservation; sustainable resource use.

The data is then averaged into Social, Environmental, Economic Performance measures, which are averaged again into the Stakeholder Performance Index (SPI), which indicates the businesses' likely return on investment over the coming year. The SPI incorporates Triple Bottom Line philosophy by weighting the Social, Environmental, and Economic Performance figures equally, and incorporates the views of each stakeholder group on an equal weighting for each. The SPI can be considered to be a perceptual measure of holistic business performance and better yet it can be benchmarked over time and against other businesses.

Of particular interest is the fact that the SPI, which based upon stakeholder perceptions, is usually more accurate than the CEO's estimate, which is also measured as part of the research.

Professor Murphy puts this down to the fact that the SPI is based upon the perceptions of a wide variety of people, with a range of knowledge and perceptions considerably broader than that which could possibly be matched by one person alone. This echoes the solid evidence cited by James Surowiecki in his 2005 business bestseller "The Wisdom of Crowds", which shows how a wide and varied collection of people, making a decision independently of each other, will usually come to an averaged result that is considerably more accurate than that of any experts (e.g. CEOs).

This is also supported by the long-term research that Professor Murphy has conducted with over eighty companies both in New Zealand and overseas. Professor Murphy has seen that a one point increase in the SPI is likely to lead to a one point increase in the ROI rating, which equates to an average 3% absolute increase in actual ROI. Thus there is a very worthwhile financial payoff for a business that creates optimal economic, social, and environmental value for its stakeholders - because stakeholders are likely to support and reward such businesses over the long term.

### Not Just the 'What', But the 'Why' as Well

Of course, businesses need more than Indexes to operate with – there's no point in knowing you need to achieve an SPI increase without knowing *why* and *how*. To provide these insights, the SPA also provides detailed SWOT analysis according to each stakeholder group, as well as the answers to any additional, customized questions added by the client.

A real-life example of the value in having such qualitative depth complementing the SPI is that of a publicly listed company that Perceptive Insight used the SPA on during the research tool's developmental phase. The SPA identified that whilst the company's performance looked rosy across all factors, the shareholders themselves showed disquiet over the company's profitability and ROI. Investigations into their verbatim SWOT analysis revealed shareholder concerns over financial reporting and internal management. These attitudes were eventually acted out three months later, when the company's shares began being dumped and the share price significantly dropped.

Traditional market research just wouldn't have picked this up. The SPA served as a vital tool in bringing the research initiatives of the business together, and only by asking all stakeholders the same questions was the company able to identify issues that would not have been visible through their current research activities.

**In Conclusion: It's Research for the Whole Company's Good**

One of the most challenging aspects about the Stakeholder Performance Appraisal lies in the very advantage it has over traditional means of assessing a company's performance. The research and guidance it provides is so very holistic that it fulfills a much wider brief than traditional product, service or market-oriented research. This can be irksome for marketing managers used to controlling research budgets, for the research provides considerably more in-depth information about an overall company than any separate projects into price, product, people or promotion - only those willing, and brave enough, to see the big picture, should consider a Stakeholder Performance Appraisal.