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Evaluation of Stakeholder Relationship Marketing: A Paradigm in Practice

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CHAPTER 1 INTRODUCTION

The evolution of competitive economies in the early 20th century saw the rapid development of the marketing discipline as organisations sought to secure their share of burgeoning demand in the face of increased competition and consumer sophistication. Corporate success was measured by return on investment and shareholders were the critical stakeholders in the business environment.

While internal business systems focused on operational efficiencies and economies of scale, external activities focused on sales volumes and revenue generation. In an environment where competition for sales was intensifying and more players were entering the market, critical importance was placed on the exchange process and the successful completion of transactions between provider and customer.

In an era with a seemingly limitless growth in consumer demand, and with corporate success measured by immediate returns on investment, the single transaction became the focus of marketing. Transactional marketing strategies, and thinking, dominated marketing theory and practice from the 1940s until the 1970s.

By the 1970s, the increasing cost of competition, a maturing market environment and more sophisticated and selective consumers was putting increasing pressure on organisations to change and adapt to meet market needs. This placed extreme pressure on profitability and added considerable risk to the corporate equation.

A simple transaction was no longer sufficient to ensure corporate sustainability and there was a growing awareness of the importance of building longer-term relations with customers. While organisations could measure and budget for the cost of acquiring new customers, there was substantial hidden cost in the non-retention of existing customers and it was increasingly clear that the transaction was only the beginning of the marketing process.

The continual, and extremely rapid, change in social, political, economic and competitive forces in the market environment was placing extreme pressure on organisations. Given the considerable investment made in building market share it

became increasingly clear to marketers that they had to consider more than just simply completing a transaction.

The refocusing of marketing from a philosophy based on the act of exchange, to one based on building long term sustainable relationships, emerged through the 1980s and has become the basis of current marketing theory and practice.

While Berry (1983) is credited with first coining the phrase “relationship marketing” the concept, if not the terminology, had been touched upon in a number of behavioural scientists including Hirschman (1970), Homans (1961) and Skinner (1953) over the past 50 years.

The growing acceptance of relationship marketing, as a new marketing paradigm, has been supported and reinforced by a considerable body of theoretical and empirical work over the past 25 years. However, this emergent field appears to have a single minded, silo like focus on the dyadic, bi-polar relationship between the organisation and the customer.

This silo approach is understandable given that relationship marketing has, as its base, the fundamental concept of marketing as an exchange process between two parties, the supplier and the consumer.

Recent research by Murphy et al. (1997, 2004) has highlighted the economic and social benefits to an organisation of a more holistic approach based on stakeholder relationship marketing. This challenges the dyadic approach and questions whether the current narrow view of the role of marketing is sustainable in the future.

In the broad field of management theory, the role of stakeholders has long been a critical area of focus. The word ‘stakeholder’ was first recorded in 1708 as “a person who holds the stake or stakes in a bet” (Batterley, 2004, p. 1). This definition has since evolved to mean a person who has a financial stake in an organisation as an owner or shareholder. The modern corporations that grew from 19th century individual and family based business operations historically focused on this single stakeholder group.

While profits, and return on investment to shareholders, were seen as the sole purpose of emergent corporations, from as early as the 1930s, this focus was questioned and challenged by Berle and Means (1933), and by Barnard (1938). They argued that the corporation has responsibilities to other stakeholders, not just shareholders.

The impact, and therefore the importance, of other stakeholder groups was increasingly recognised by practicing managers. This growing awareness was stimulated by the emergence of organised labour and competition for economic resources in the early years of the 20th century. This required organisations to recognise and react to the need of other stakeholder groups. Initially in the fields of labour relations, then in service and supply, organisations began to develop a broader stakeholder focus.

Through the 1970s and 80s the increasing complexity of business, and turbulent nature of markets, resulted in the evolution of more inclusive, stakeholder based approaches to management. Planning had to become more inclusive of organisational stakeholders, both internal and external, as organisations struggle to make management decisions that were both timely and sensitive to change.

Increasingly stakeholders are accepted as key figures in strategic management, and their critical role is recognised in the associated fields of operations management, services management, project management and change management. Hierarchical management has been replaced by team solutions and stakeholder theory has emerged as the basis for an analytical and practical approach to strategic planning across a range of disciplines.

At first glance, the holistic, inclusive, stakeholder approach to strategic planning is at odds with the bi-polar, silo approach of relationship marketing. While the concept of a wider stakeholder involvement in marketing is noted and discussed in general terms in many publications and articles on marketing the concept of stakeholder relationship marketing has not gained credence in mainstream thinking. There is a tacit acceptance that other stakeholders are important in marketing but the consumer focus still prevails.

In examining case studies, and applications of stakeholder theory, it emerges that holistic stakeholder relationship marketing, as part of the corporate strategic planning process, is a reality in some organisations. Unfortunately, it is not a reality when we examine relationship marketing case studies, where the silo approach continues to dominate.

That the concept of stakeholder relationship marketing has not translated from strategic management to marketing management is concerning when the research conducted by Murphy et al. (1997), Maguiness (2003), and by undergraduate students at Massey University at Albany (Future Research Group, 2004), is considered. This research supports the hypothesis that a statistically significant, positive, impact on an organisation's return on investment (ROI) is causally linked to a stakeholder relationship marketing approach.

There have been a very limited number of stakeholder relationship marketing studies carried out to date yet extensive research has been conducted in the fields of strategic planning, project management, network management, quality control management and human resource management in relation to stakeholder relationships.

Case studies across these fields have a focus on organisational activities and organisational assessments of stakeholder perceptions and they give a clear indication of the key strategies used in establishing stakeholder relationships.

Across all areas of management, two underlying strategies have been identified as critical in an organisation's development of stakeholder relationships. The first is planning involvement where the stakeholder group is involved in the planning phase through meetings, consultation or research. The second is communication that may occur in the pre-planning, planning or post-planning phase.

Planning involvement and communication strategies may involve both formal and informal elements and are seldom mutually exclusive. While there is extensive discussion of the importance of both involvement and communication in management literature, the question of which is more important has not been resolved. This question will be addressed as part of this investigation into stakeholder relationship marketing.

CHAPTER 2 PURPOSE

2.1 Research Aims

The development of a stakeholder based framework to measure stakeholder relationship marketing performance by Murphy et al. (1997) built on earlier exploratory work by Murphy (2002). Murphy et al. (2004) conducted a New Zealand based pilot study where a stakeholder relationship assessment was used to develop an index measuring stakeholder relationships called the Stakeholder Performance Index (SPI).

A critical factor in this study was that it was based on stakeholder perceptions across a range of attributes related to their relationships with the organisation rather than the organisations view of that relationship.

Following the pilot study, a number of studies were conducted by both undergraduate and graduate students at Massey University, Albany that provided the base for a meta-analysis of stakeholder relationships for 59 organisations (Future Research Group, 2004). This verified that a statistically significant correlation and causal relationship exists between strong stakeholder relationships and an organisation's future return on investment (ROI).

Studies using the SPI to date have had a broad industry approach and have been focused on establishing that SPI as an empirically sound predictor of future ROI.

This has now been established and the significant impact stakeholder relationships can have on an organisation's future ROI reinforces the importance of stakeholder relationship marketing as an evolutionary development in relationship marketing.

In 2003 research was carried out into the application of stakeholder relationship marketing, and its impact on change management, across a broad spectrum of businesses in New Zealand (Maguiness, 2003). This study further reinforced the finding of earlier studies that the stakeholder relationship marketing model can be seen to be a significant indicator of future ROI, and that it is a management tool with established validity (Murphy et al., 2004).

Studies to date have been across a wide and diverse range of companies and this has established some general benchmark norms with relation to SPI.

No industry specific studies have been completed yet it is clear, from studies in the broader field of relationship marketing, that significant differences occur between industry areas.

The universal application of relationship marketing is not without its critics. Day observes, "investing in, or building, closer relationships is neither appropriate nor necessary for every market, customer or company" (Day 2000, p. 25).

Day's point is reinforced by Oderkerken-Schroder et al.'s (2003) study which showed that the impact of relationship marketing depended upon the consumers' receptiveness and that the 'relationship proneness' of an industry had a significant impact on outcomes. Their key point was that relationships depend on the propensity to be involved in a relationship.

On a more positive note, Priluck found that where relationship proneness is strong, relationship marketing could have crucial benefits, even to the extent of mitigating for product or service failure (Priluck 2003).

While consumer relationship marketing may not be a general instrument, the more holistic and inclusive approach of stakeholder relationship marketing seems to offer a considerably broader application base.

There are indications throughout both stakeholder theory literature and relationship marketing literature that aspects of stakeholder relationship marketing are being applied by some organisations.

The extent to which stakeholder relationship marketing is being practiced, the involvement and communication strategies used in its application, and the impact of these strategies, are questions the answers to which will extend our knowledge in the field of stakeholder relationship marketing. These answers will provide additional guidance to industry in the application of stakeholder relationship marketing.

2.2 Research Objectives

This thesis has four objectives:

1. To extend the body of knowledge in the area of stakeholder relationship marketing.
2. To examine the extent to which stakeholder relationship marketing is being practiced within a specific industry area in New Zealand; the Information Technology industry.
3. To examine the application of involvement and communication strategies in stakeholder relationship marketing in the New Zealand IT industry.
4. To determine the relative importance of involvement and communication strategies in stakeholder relationship marketing.

2.3 Research Questions

The objectives lead to four research questions:

1. Do organisations in the IT industry with a strong stakeholder relationship marketing focus, as measured by the stakeholder performance index (SPI), perform better in terms of future ROI than organisations with a weak stakeholder focus?
2. Do organisations in the IT industry with high stakeholder marketing planning involvement perform better in terms of SPI than organisations with low stakeholder marketing planning involvement?
3. Do organisations in the IT industry with high stakeholder marketing communication perform better in terms of SPI than organisations with low stakeholder marketing communication?
4. Do organisations in the IT industry with a high level of stakeholder marketing planning involvement perform better in terms of SPI than organisations with a high level of stakeholder marketing communication?

2.4 Research Hypothesis

From the four research questions, four testable hypotheses have been developed.

1. There is a significant positive correlation between stakeholder relationship marketing, as measured by SPI, and Return on Investment (ROI) as measured by CEOs predicted future ROI.
2. There is a significant positive correlation between a high Stakeholder Involvement Index* and a high level of stakeholder relationship marketing, as measured by SPI. (**The Stakeholder Involvement Index is a construct derived from questions on formal market planning involvement and informal market planning involvement*)
3. There is a significant positive correlation between a high Stakeholder Marketing Communication Index* and a high level of relationship marketing as measured by SPI. (**The Stakeholder Marketing Communication Index is a construct derived from questions on formal marketing communication and informal marketing communication.*)
4. There is a significantly higher correlation between a high Stakeholder Marketing Involvement Index and a high level of relationship marketing as measured by SPI, than between a high Stakeholder Marketing Communication Index and a high level of relationship marketing as measured by SPI.