Managing Stakeholder Relationships

Lesson 4

WESTON COLLEGE | Mindful Education

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Measuring the Impact of Stakeholder Engagement

How organisations measure the impact of engagement on their performance

Types of impact engagement may have on the company

How this impact may be monitored and measured

Engagement Impact on Performance

So far in this unit we've looked at how engagement techniques can affect stakeholder relationships. In this, our final lesson, we'll consider how engagement impacts the organisation itself - its performance.

You'll remember the example of Facebook in lesson 2, which illustrated the costs of poor engagement. The company's reputation was tarnished, which resulted in lost millions in ad revenue, and a lower stock price. This illustrates how important it is to actively engage with stakeholders so that the impact on the company is a positive one.

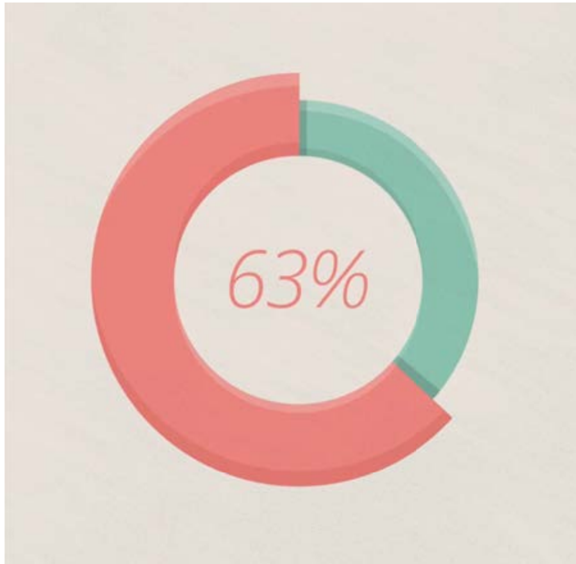
Engagement Impact on Performance (cont.)

There is evidence that good engagement practice does have a positive impact on performance. For example, a 2009 study of US firms found that companies with good stakeholder relations tended to recover faster from financial difficulties, and had better long term results than companies with poor relations.

The non-profit organisation Business for Social Research argues that, 'engagement done well is like a savings fund. The value adds up over time and acts as a cushion in times of reputational or fiscal distress.'

Building Trust

As we saw in lesson 2, high quality engagement is key to building loyalty among stakeholders. This is because active engagement encourages trust, which is the foundation of stakeholder loyalty.



A stakeholder who doesn't trust an organisation is unlikely to become a loyal customer, supplier or employee. In one global customer survey, 63 percent of respondents said they refused to buy products or services from companies they distrusted.

Building Trust (cont.)

Engagement that cultivates trust can impact companies both internally and externally.

Internally, it can improve the commitment of employees to the organisation. A report by the Harvard Business Review Analytic Services found that innovation, productivity and profit all increase when companies actively engage employees. Committed employees are less likely to leave a company, so the level of engagement may also directly influence employee turnover and retention.

Building Trust (cont.)

Externally, trust and loyalty are key to maintaining mutually beneficial relationships with shareholders, suppliers and customers. Engagement with these stakeholders has been linked to a company's 'valuation' - or what it is worth.

For example, an analysis by global consultancy McKinsey found that 30 percent of corporate earnings are affected by the company's reputation with external stakeholders.

Tangible Engagement

As you can see, the impact of engagement on companies can be remarkably varied. To make sense of this variety, it's helpful to group impact by how 'tangible' it is - that is, how visibly it affects the company's operations and finances.

Some methods of engagement have a direct effect on the company's 'bottom line' - a general term for its net earnings or overall profit.

Tangible Engagement (cont.)

For example, a coffee shop that implements a customer loyalty scheme will expect to see average customer spend increase. This will be reflected in increased sales revenue if the engagement strategy is successful.

A firm that actively engages employees, consulting them on the future of the company and their own work, is likely to see lower turnover. This will have a tangible impact on costs related to recruitment and training, and therefore overall profit.

Advocacy

However, not all engagement results in direct or visible impact. Some impact is ‘intangible’- it’s more difficult to draw a relationship between it and the company’s operations or finances.

This kind of impact may include the strength of a company’s reputation, its brand recognition or the extent of its customer ‘advocacy.’ Advocacy refers to whether a customer would recommend a company to someone else.

Although it’s possible to measure each of these elements, it’s not as easy to see how they affect the company.

For example, advocacy can be measured by means of a Net Promoter Score. This is the result of a survey question which asks customers: ‘how likely are you to recommend the company to a friend?’ The answer is then given on a scale of 1 to 10.

Interpreting the Net Promoter Score

While the Net Promoter Score can tell us whether the company has a high advocacy rate, it doesn't necessarily tell us how this affects the bottom line - often more interpretation is required to understand this relationship. This is also true of brand recognition and reputation. In many cases, their importance becomes obvious only when a public scandal makes it clear - as with Facebook's sudden share price drop.

Of course, companies hope that all their engagement will have a tangible impact, which is why they take the time to study and measure it.

The Balanced Scorecard

The Balanced Scorecard is one model that can simplify this process. Developed by consultants Robert Kaplan and David Norton in the 1990s, it helps managers view performance from four perspectives.

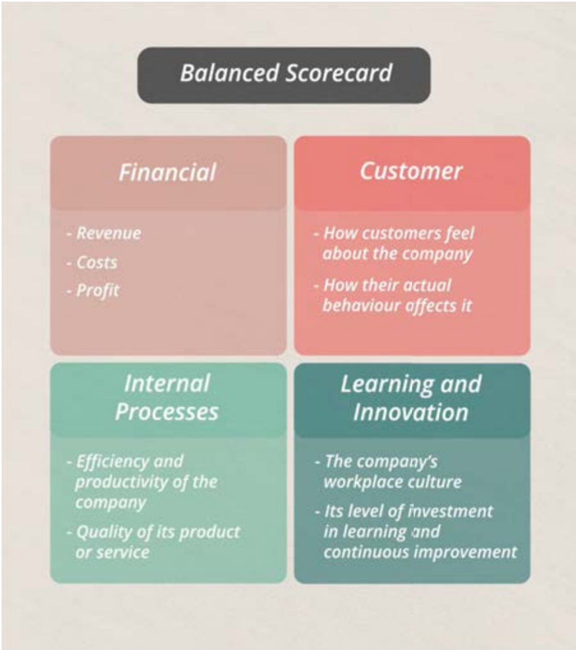
The Financial perspective concentrates on the health of the company's finances - its revenue, costs, and profit.

The Balanced Scorecard (cont.)

The Internal Processes angle focuses on the efficiency and productivity of the company, and the quality of its product or service.

The Customer perspective considers how customers feel about the company, and how their actual behaviour affects it.

And finally, the Learning and Innovation angle covers the company's workplace culture and its level of investment in learning and continuous improvement.

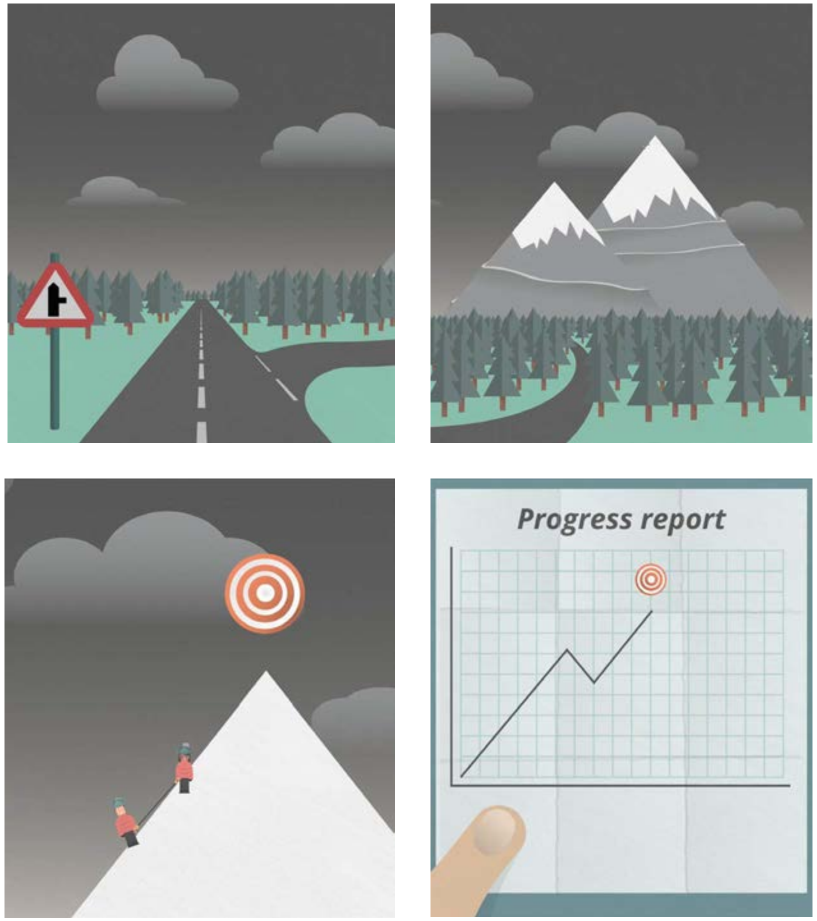


KPIs

All of these areas are impacted by the quality of engagement, and the particular strategy taken towards it.

When a change of direction is needed, the manager will typically set a target that represents success in one or more areas, and then monitor progress towards it over a period of time. Progress is commonly measured with 'key performance indicators' or KPIs.

To be useful these indicators should be narrowly defined, and 'quantifiable' in some way.



Quantitative and Qualitative Data

So a company planning a new engagement strategy might set KPIs for 'rate of employee turnover' or 'level of customer satisfaction.' As the approach is implemented, it will produce data, which managers will need to interpret to see if the strategy is working.

These data may be either 'quantitative' - expressed in numbers, or 'qualitative' - expressed in words.

Both types are often necessary because some KPIs are easier to quantify than others. For example, the rate of employee turnover is easier to put into numbers than level of customer satisfaction. This is because 'satisfaction' is an internal state - a feeling - and therefore subjective.

Quantitative Data

Impact in the Financial area is easily quantified, because it's external and can be objectively verified.

For example, managers may create KPIs that address financial elements like sales revenue, operating costs and profit margin. These measures relate directly to the bottom line.

There are also a few easily quantifiable forms of impact in the other areas.

Quantitative Data (cont.)

In the area of Internal Processes, managers may track data on employee turnover and productivity rates.

In the Customer area, they may assess rates of customer acquisition or retention, and the company's market share.

And in the area of Learning and Innovation, they may track the number of employees with particular skills, or new products launched in a defined period of time.

Inspections

Managers will use different methods to collect and assess these data, depending on which aspects of performance are being studied.

If the data are external and objectively verifiable, the manager may use ‘inspection’ and ‘auditing’ to compile and interpret them.

An inspection is a periodic check-up of a product or process. It tends to take place in the middle of a production cycle, and it’s fairly narrow in scope, asking a simple yes or no question: does the performance at this stage meet our standards?

Most inspections are quick and informal, involving observation and a few notes jotted down by the manager. But when combined with KPIs like ‘number of errors’ or ‘time to delivery’ they can help managers see how an engagement effort affected team performance.

Audits

An audit, on the other hand, is a systematic review of an aspect of the company's operations. It has a wider scope than an inspection - often asking why a process functions the way it does. For this reason, auditing typically takes place at the end of the production cycle, when managers can evaluate performance in a more holistic way.

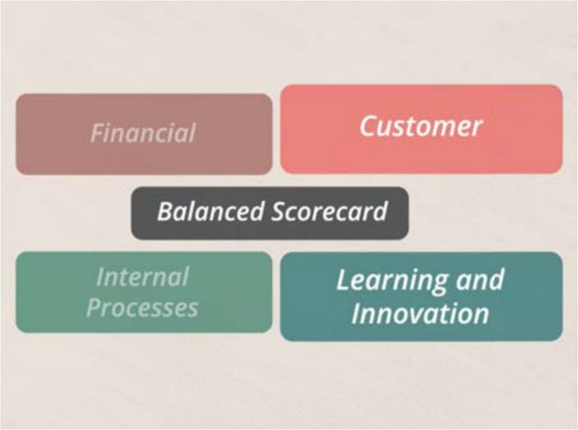
Although we often think of auditing in a financial context, almost anything can be audited. For example, a manager may audit contracts with suppliers to see how their terms have changed over time. If the terms have become less favourable to the company, this may be the result of lower engagement with suppliers.

Qualitative Data

The aims of both the inspection and auditing are to see whether standards of performance improve with better engagement of stakeholders.

However, as we mentioned earlier, not all impact is so straightforward to measure. This is especially true in the areas of the Balanced Scorecard relating to Customers, and Learning and Innovation.

Tracking some KPIs in these areas requires gathering both quantitative and qualitative data, because they cover aspects that are difficult to interpret with numbers alone.



Measuring Engagement

These may include measures of stakeholder feelings, like customer satisfaction, or other internal states, like ‘engagement.’

Engagement in this sense doesn’t refer to interaction, but to a stakeholder’s inner perception. We often say someone is ‘engaged’ in an activity when they display focus and commitment to it. In our context, engagement refers to the stakeholder’s sense of involvement with the company - something every organisation will wish to cultivate.

Of course the practice of engagement is related to this state of mind - good engagement tactics will typically lead to ‘engaged’ stakeholders.

Surveys

In the more subjective areas covered by the Scorecard, data will often come in the form of ‘feedback’ from internal or external stakeholders.

We saw earlier that surveys are one popular means to solicit feedback.

For internal stakeholders, they commonly include ‘employee engagement’ surveys, which address how committed employees are to their roles, and whether they feel the company supports their development. Some questions on these surveys also ask employees to rate how open their teams are to new ideas. This is a way to measure the level of innovation in the company.

Surveys (cont.)

The most common form of external stakeholder feedback derives from the customer satisfaction survey. These surveys gauge the overall feelings customers have about the company. They may also ask them to rate particular products or services the company offers.

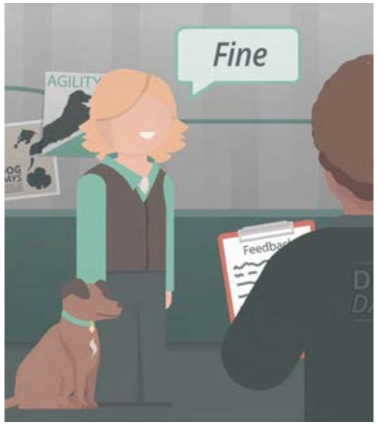
While it’s possible to quantify a state like engagement or customer satisfaction - for example, with the Net Promoter Score - to truly understand survey responses, employers need qualitative data. Giving stakeholders the opportunity to express how they feel in words gives a fuller picture of the strategy being evaluated.

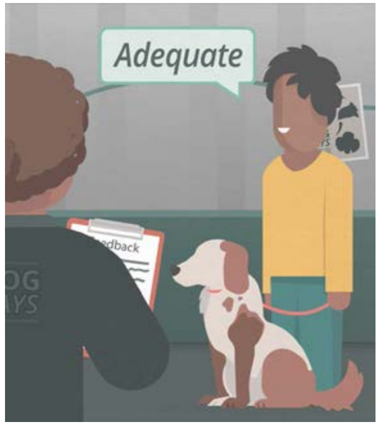
For this reason, it’s good practice to include a comment box in a survey - this allows the respondent to expand on reasons for the quantitative answers. Surveys may also benefit from a selection of ‘open’ questions, which require the respondent to contribute thoughtful written responses.

Focus Groups and Interviews

Other primary research methods, like focus groups and interviews, may be used to supplement data from surveys. However, as they involve discussion rather than ratings, these methods will produce only qualitative data.

Although such data are very useful, it's more difficult to draw large scale patterns from them because words are open to interpretation. For example, if one customer says the service was 'fine,' and another that it was 'adequate' are they saying the same thing? For this reason, many managers use multiple methods to evaluate stakeholder experience.





Varied Engagement Strategy

Even with a variety of methods, however, it's difficult to pin down how stakeholder feelings affect the finances and operations of a company. One approach, seen in some of the studies mentioned earlier, compares the engagement strategies of companies that do well financially, with those of companies that underperform. These studies try to eliminate other factors, like the amount of investment in each company, to isolate the impact of engagement.

Given how varied engagement strategy may be, and the important role it plays in stakeholder relations, it makes sense to use all the appropriate tools to see its impact from different angles.

Recap

In this lesson, you have learned about:

- How organisations measure the impact of engagement on their performance
- Types of impact engagement may have on the company
- How this impact may be monitored and measured