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CRAFTING A SUSTAINABLE CORPORATE PERFORMANCE: The value of corporate stakeholders

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ABSTRACT

Stakeholders play critical roles in sustaining operations of an organisation. Thus, there is an increasing insistence on the need for organisations to run their operations with their stakeholders in mind. This study aimed at establishing how different stakeholders are valued and treated by various companies operating in Malawi. The study findings reveal that most business executives recognise the vital roles that different stakeholders play for the success and sustainability of their operations. Corporate managers also recognise the interdependence of relationships of their stakeholders. However, some stakeholders such as debt financiers, community and natural environment receive lower rankings by corporate managers. The study findings suggest that there is a need to carry out another similar study after some time to assess the impact of new provisions of the good corporate governance that propagate inclusion of an integrated reporting system within corporate reports. It is envisaged that the study results will facilitate the change of mindsets in corporate planning and performance measurement systems and also change of approaches in academic and business research programmes.

Keywords: *Corporate, governance, Malawi, performance, shareholder, stakeholder, sustainability, value*

INTRODUCTION

Aside from the requirement that organisations should run their operations in the most economical, efficient and effective manner possible to increase performance, today, there is an increasing insistence on the need for organisations to run their operations with their stakeholders in mind. Stakeholders play critical roles in sustaining operations of an organisation. In corporate relationships, it seems reasonable to expect that operating organisations should serve different stakeholders who have different stakes or interests in the best way possible (Rossouw, 2010a). The recent debate on recognising the significant role of different stakeholders towards organisational operations and sustainability has brought in a growing experience of the stakeholder-centred approach towards corporate governance (Aaron, 2012; Metcalf and Benn, 2011; Akomea and Adusei, 2013). The stakeholder-centred approach is founded on the premise that corporations operate through complex relationships and networks with many players, called stakeholders (Chilosi, 2012; Evan and Freeman, 1993). This stakeholder-centred approach attempts to ascertain the interested groups that have different stakes in the affairs of a company and therefore need management's attention that should be incorporated in the corporate planning and performance measurement systems (Prozesky, 2010). Apart from shareholders, there are other stakeholders, such as employees, suppliers, customers, the environment and local communities which are instrumental towards the provisions of inputs to the companies and also the consumption of the companies' products (Rossouw, 2010b).

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RESEARCH PROBLEM AND OBJECTIVE

Ever since there have been debates on the significance of stakeholders towards creation of value or wealth for various organisations, there has not been any study in Malawi to validate how organisations value or treat their respective stakeholders. Therefore, this study aimed at establishing how different stakeholders are valued by companies that are operational in Malawi. The study also aimed at establishing how such companies treat their stakeholders in term of wealth redistribution back to the stakeholders as they are the sole creators of such organisational wealth.

STAKEHOLDER ROLES FOR CORPORATE SUSTAINABILITY

The development of and emphasis about the stakeholder-centred approach that is grounded on the stakeholder theory is a result of visible shortcomings of the shareholder-centred approach. The shareholder-centred approach tends to overemphasise the importance of shareholders as sole owners of any business entity and in the process ignore the significant roles that other stakeholders play for the sustainability of any business. According to Evan and Freeman (1993), stakeholders are classified as those groups that give value to business operations and are vital to the survival and success of that organisation. Various stakeholders qualify under this definition: managers and employees are the internal stakeholders, the rest that include shareholders, suppliers, customers, the local community are external stakeholders. Individual stakeholders play different roles in the survival and success of a business (Evan & Freeman, 1993; Phillips, 1997; Phillips, Freeman & Wicks, 2003).

Under the stakeholder theory, all stakeholders are treated equally (Evan & Freeman, 1993). Unlike the shareholder-centred approach, no single group's interests are given priority over those of other groups. It has been argued that the stakeholder-centred approach is justified in that corporate wealth should flow to those who create it, based on all forms of contributions and not just the initial input of financial capital provided (Stovall, Neill & Perkins, 2004).

However, proponents of the mainstream shareholder-centred approach to corporate governance base their argument on the private property rights paradigm (Stovall et al., 2004), which implies that, as risk-taking owners and providers of financial capital, shareholders tend to prefer to promote their own interests over those of other stakeholders. It is contended that as primary owners of business, shareholders should hold the management team accountable to the primary goal of maximising shareholder wealth.

The stakeholder-centred approach represents the fair recognition of the other constituencies as they provide resources to and receive benefits from the corporation (Stovall et al., 2004). The relationships that exist within this framework represent the reality of a modern organisational setup. Proponents of this view emphasise that an organisation cannot exist without continued contributions from all stakeholders (Tsuno, 2003). Therefore, in addition to considering shareholder interests, managers should consider how their strategic and operational decisions affect these other stakeholders as well. The stakeholder-centred approach presumes a collaborative and relational approach to business and its constituents (McAlister, Ferrell & Ferrell, 2003; Phillips, 1997; Phillips et al., 2003). Thus, corporate governance systems using the stakeholder-centred approach consider both the needs of various constituencies and trade-offs between the interests of various stakeholder groups.

Likewise, the African environment is framed towards more towards the stakeholder-centred approach rather than the Western shareholder-centred (Khomba, 2011; Rossouw, 2005). It is necessary to understand that within the African context, there is a myriad of business complexities and relationships of different stakeholders within organisational settings that also significantly affect the ultimate corporate performance (Capra & Pauli, 1995; Mitrof *et al.*, 1974; Stead & Stead, 2004). The understanding of such stakeholder relationships and networks is instrumental in that every business is engaged in a series of complex activities involving different constituents that are linked and work together as a team for the ultimate organisational success. Therefore, organisations have to be run on the premise of recognising the interconnectedness and relationships of corporate activities with those of other stakeholders, and also of the relationships and interdependence of the stakeholders themselves.

RESEARCH METHODOLOGY

The study was conducted through primary research using structured questionnaire. The researchers followed basic procedures that are employed when developing the Likert scale questionnaire to measure different perceptions of business executives from the commercial sectors of Malawi. The formulated statements on the structured questionnaire were based on procedures recommended by Saunders et al., (2009). The main steps that were followed when formulating the questionnaire included the identification and generation of identification of stakeholders within an African context, perspectives surrounding stakeholder treatment towards wealth distributions, careful review of literature on the topical area, a review of similar questionnaires that were used in prior surveys, and insights gained from an examination of latest information gathered through the internet,

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newspapers, magazines, TV and radio broadcastings. All these culminated into the formulation of the attitudinal statements that represented main variables of the study as summarised in Table 1.

Data collection

Empirical data were collected by means of a national survey. The results were used for an empirical analysis of the research findings. A structured questionnaire was designed, guided by the research problem and research objective. The questionnaire focused on variable statements that would evaluate stakeholder value rankings by different organisations in Malawi.

Questionnaire structure

To make the questionnaires user-friendly, the researchers formulated statements whose response would use nominal settings (Middle/Senior Management, Yes/No), ordinal settings such as the rank orders, and interval settings based on the Likert-style rating scales with the rankings signifying the degree of agreement ranging from a scale of “1” referring to “Strongly Disagree” to a scale of “5” referring to “Strongly Agree” on a five-point rating scale of the structured questionnaire. A five-point scale was used to assess validity as to the extent of agreement on each statement.

In Likert scales, it is assumed that all participants will perceive “Strongly Agree” as expressing greatest favour or agreement towards the attitude statements than “Somehow Agree” and “Strongly Disagree” (Babbie and Mouton, 2007; Saunders et al., 2009; Welman et al., 2005). The same order of response categories was maintained so as not to confuse respondents, as recommended by Dillman (2000). Business executives were asked to rate their responses on the continuum scale that they were given. The questionnaire also assisted in the formulation of an objective and scientific report of the study findings.

Sampling

The structured questionnaire was administered in both hard copy and an electronic format. Electronic questionnaires were emailed to potential respondents and the hard copy versions were posted to the respondents and then these were followed up for any feedback. Reminder telephone calls were made and e-mails were sent after every two weeks for three months of the questionnaire survey.

Large and medium companies were randomly selected from those that are registered with the Registrar of Companies or Malawi Stock Exchange. Researchers also used a list of companies from the Malawi Confederation of Chamber of Commerce and Industry (MCCCI) which represents the private sector of Malawi. Finally, the researchers also used companies’ list from the Malawi telephone directory that is prepared by the Malawi Telecommunications Limited (MTL) – this was appropriate especially for details of the medium-sized companies.

Sampling Adequacy

During data collection, a total of 680 questionnaires were dispatched to various organisations from the commercial sector in Malawi. Out of the 680 questionnaires, 419 responded to the questionnaire giving a final response rate of 61.6%. The sampling statistics show that the Kaiser-Meyer-Oklin (KMO) measure of sampling adequacy is 0.830 which is of a great value for verification of sampling adequacy for the analysis, according to Field (2009). Thus, the above analysis confirms adequacy of the sample for conclusive results (according to Chenhall, 2005; Field, 2009; Hanafizadeh and Sorousha, 2008).

Data reliability and validity

Data reliability as a measure of internal consistency of the data constructs was determined by means of the Cronbach alpha (α) – an α coefficient above 0.7 is considered reliable (Bryman and Bell, 2007; Costello and Osborne, 2005; Field 2009). In this study, the overall α coefficient was α=0.905, which suggests that the internal consistency of the data constructs was excellent. Further analysis of Cronbach’s alpha coefficients of the *Scale if item deleted* gives values that are not significantly different from the original α=0.905. The new values of the *Scale if item deleted* range from α=0.901 to α=0.909 signifying that the questionnaire is reliable and that the deletion of any variable cannot significantly affect the original Cronbach’s alpha coefficient of α=0.905.

In terms of data validity, researchers were careful in sampling the targeted population. Though randomly done, the questionnaire was targeted at large and medium organisations by focussing on business executives at senior management, middle management and other business executives that include the board members. Such business executives include the chief executive officers (CEOs), chief financial officers (CFOs), financial managers, management accountants, and company secretaries who are conversant with issues raised under the study; hence maintaining homogeneity of the sample.

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The statistics indicate that the Bartlett test of sphericity X^2 (1427)=11591.73, p<0.001 was significant for all factors indicating that we can be confident that multicolinearity does not exist under these survey data according to Field (2009). Thus, the Bartlett's test of sphericity X^2 (1427)=101591.73, p<0.001 also signifies that the study results are valid for any conclusive analysis and discussions.

ANALYSIS AND DISCUSSION OF RESEARCH RESULTS

Ratings on each statement were done through univariate analysis by using individual rating statistics and frequency tables. Overall, the analysis shows that there were varied responses from participants regarding the extent of their agreement on each of the questionnaire statements. This section reports on the study results and analysis of ratings on the questionnaire statements.

Statement 1: Recognition of interdependence of relationships of stakeholders

There seems to be a general understanding that an organisation can succeed only if all stakeholders are recognised as members of and contributors to corporate performance. All the respondents agreed (45.1% "Agree", 46.1% "Strongly Agree" and 8.8% "Somehow Agree"). The analysis thus indicates that business executives recognise the interdependence and value of stakeholders towards their business operations.

Statement 2: Emphasis on maximisation of shareholders' wealth as compared to other stakeholder's wealth

The survey also aimed at assessing the application of the popular maxim of "shareholder wealth maximisation" that is the beginning and end of shareholder-centred management theories. The study findings reveal that 46.5% agree (25.1% "Agree" and 21.5% "Strongly agree") that their companies tend to put more emphasis on the maximisation of shareholders' wealth than on other stakeholders' wealth. A minority total of 26.5% disagree, whilst 27.0% "Somehow agree" with the statement. The analysis of the study findings indicates that there are some companies that are still inclined to focus on the maximisation of the shareholder value rather than look at value for other stakeholders too. However, the study reveals that more and more companies are now embracing the stakeholder-centred approach towards their corporate governance systems. This could be a result of the emphasis and new provisions of integrated reporting systems as part of good corporate governance (Institute of Directors in Southern Africa, 2009).

Statement 3: Assessment of customers as stakeholders of business

The majority of survey participants (80.7%) agree that their customers are regarded as the most important element of their business operations. Only 8.1% disagree, whilst 11.2% "Somehow agree" with the above statement. This analysis suggests that most companies focus on serving customers better signifying the enterprise's commitment to focusing on customer perspectives, which is good news for the long-term sustainability of a business.

Statement 4: Treatment of suppliers as an integrated part of business

The study also aimed at establishing how suppliers, as providers of business inputs, are treated by various organisations. The study results reveal that a vast majority of 70.9% agree that suppliers are regarded as part of their businesses. The study results also indicate that only 0.2% disagree whilst 20.3% "Somehow agree" with the statement. The analysis demonstrates that most organisations recognise the need for running their operations with a supplier in mind as suppliers are the sole providers of raw materials and other inputs for the effective and efficient production of goods and services.

Statement 5: Recognition of the labour force as stakeholders

The efficiency of the labour force has also been acknowledged as a source of profitability. A total of 55.6% agree (34.1% "Agree" and 21.5% "Strongly Agree") that they realise high profitability because of their efficient labour force. The results show that 16.9% disagree with the statement, while 27.4% "Somehow agree". The analysis of the study findings confirms that labour is a critical source of capital, as articulated by Drucker (1993) and that labour should be respected by all organisations that are aspiring to succeed and sustain their operations.

Statement 6: Recognition of debt providers as stakeholders of business operations

Apart from the provision of equity capital from shareholders, the study also aimed at establishing whether or not companies rely on debt capital in their undertakings. The study results indicate that a total of 39.6% agree that their operations rely on debt provisions from different financiers, 40.3% disagree with the statement, and 20.1% "Somehow agree". The analysis from the study results demonstrate that some companies in Africa are financially highly leveraged through debt provisions confirming research findings in Ghana by Kyereboah-Coleman (2007). With 39.6% reliance, the study findings also confirm the need to recognise debtors as a key stakeholder towards corporate operations and overall corporate performance.

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Statement 7: Treatment over competitors as part of business

Modern business philosophy proposes formation of strategic partnerships, including ones with competitors (David, 2011). The study results reveal that an overwhelming 64.9% agree (37.0% "Agree" and 27.9% "Strongly agree") that they demonstrate mutual respect for competitors in their industry and that competitors are treated as their stakeholders. Only 8.8% disagree, whilst 26.3% "Somehow agree" that they show mutual respect for the competition. The high levels of mutual respect maintained with competitors show that most organisations recognise competition as a way to foster benchmarking for continuous improvement of their products and services. The study results also confirm that most organisations are pursuing concerns of Neely et al. (1995:106) of addressing one of the fundamental strategic questions for corporate managers: ***What are the competitors doing?*** In a competitive business environment, a focus on competitor analysis would be regarded as a critical ingredient to the survival of any business.

Statement 8: Recognition of the local community as a stakeholder

The recognition of the local community as a critical stakeholder has not yet been grasped by some companies. The study findings reveal that 52.5% agree that they treat a community as a stakeholder and that its care and attention is paramount. The study results also indicate that 27.2% disagree (18.6% "Disagree" and 8.6% "Strongly disagree"), whilst 20.3% "Somehow agree" with the above statement. These findings demonstrate that corporate attention on local communities in the form of corporate social responsibility is still in a transitional stage and that currently there is not that adequate community focus.

Statement 9: Recognition of the natural environment as a stakeholder of business

With regard to the natural environment as a stakeholder, 47.9% agree (30.5% "Agree" and 17.4% "Strongly agree") that they focus on the protection of the natural environment. Moreover, the study results indicate that a total of 29.1% (20.5% "Disagree" and 8.6% "Strongly disagree") of respondents do not focus on protecting the natural environment, whilst 22.9% "Somehow agree" with the statement. This analysis demonstrates that the natural environment is disregarded by many companies, confirming the findings of a study by Epstein and Wisner (2001). With results of Statement 8 above, it is therefore not surprising that the King III Reports on governance recommends that corporations should adopt an integrated reporting system where they also report on environmental and social elements apart from financial (economic) bottom line in their corporate reports (Institute of Directors in Southern Africa, 2009).

Statement 10: Recognition of Government contributions towards business operations

The study findings show that a total of 55.8% agree (27.9% "Agree" and 27.9 "Strongly agree") that government contributions are regarded as foundational to corporate business. The study results reveal that 34.1% disagree with the statement, while 10.0% "Somehow agree". The research findings reveal that government is recognised as one of the key players towards business success. Within the local settings, government provides grant and debt financing, as well as enabling business environment through infrastructural systems and legislation. Reflected in the analysis is that government forms a critical element towards the success of various businesses and should be treated as a strategic business partner.

Statement 11: Interdependence of efforts and rewards among business stakeholders

The majority of organisations recognise the interdependence of efforts and rewards among their stakeholders. A total of 74.0% agree (46.3% "Agree" and 27.7% "Strongly agree") with the above statement, while only 3.6% disagree and 22.4% "Somehow agree". The analysis demonstrates that most organisations recognise value of stakeholders towards their operations. The recognition of the interdependence of stakeholders by various organisations confirms an "inclusive" management approach where stakeholder interdependence and coexistence are emphasised strongly.

Statement 12: Benefits of stakeholders for their continued collaboration with business

The research findings show that a total of 69.5% agree (43.9% "Agree" and 25.6% "Strongly agree") that their stakeholders are given sufficient benefits by the organisation to ensure that there is continued stakeholder collaboration within its operations. Only 9.3% disagree, while 21.2% "Somehow agree" with the above statement. These research findings indicate that most organisations believe that sufficiency in the allocation of organisational wealth would be a motivating factor that ultimately enhances long-term cooperation and collaboration by different stakeholders. Such stakeholder collaboration would also promote long-term corporate sustainability.

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Table 1: Statistical summary of univariate analysis on the questionnaire statements

Statement	Rating scale (%)						Mean
	Strongly Disagree	Disagree	Somehow Agree	Agree	Strongly Agree	TOTAL	μ
1. We recognise the interdependence of relationships of our stakeholders	0.0	0.0	8.8	45.1	46.1	100	4.4
2. Our organisation puts more emphasis on maximisation of shareholders wealth than of other stakeholders wealth	6.9	19.6	27.0	25.1	21.5	100	3.3
3. Our customers comprise the most important element of our business	0.5	7.6	11.2	29.1	51.6	100	4.2
4. We treat our suppliers as an integrated part of our business	0.2	0.0	28.9	32.5	38.4	100	4.1
5. We make profits because of our efficient labour force	2.1	14.8	27.4	34.1	21.5	100	3.6
6. Our operations rely on debt provisions from our financiers	10.0	30.3	20.0	21.7	17.9	100	3.1
7. We demonstrate mutual respect with our competitors as stakeholders	2.1	6.7	26.3	37.0	27.9	100	3.8
8. Our organisation runs on the premise that the community is part of our business	8.6	18.6	20.3	31.0	21.5	100	3.4
9. Our organisation focuses on protection of the natural environment as a stakeholder	8.6	20.5	22.9	30.5	17.4	100	3.3
10. Government contributions are foundational to our business operations	14.1	20.0	10.0	27.9	27.9	100	3.4
11. We recognise the interdependence of efforts and rewards among our stakeholders	0.0	3.6	22.4	46.3	27.7	100	3.3
12. All stakeholders receive sufficient benefits to assure their continued collaboration with our organisation	0.7	8.6	21.2	43.9	25.6	100	3.8

N=419

The Table 1 above indicates that Statement 6: "Our operations rely on debt provisions from our financiers" registers the lowest mean (μ=3.1) on the response ratings, because few respondents (49.6%) agreed with the statement, as already discussed above. Further analysis of the above table shows that Statement 1: " We recognise the interdependence of relationships of our stakeholders" has the highest mean (μ=4.4) on the response ratings seconded by Statement 3: "Our customers comprise the most important element of our business" with μ=4.2. Overall, all the twelve statements show means that are above average (μ>3.0) signifying the high-level of rankings that organisations give to their stakeholders as critical ingredients of their day-to-day operations.

CONCLUSION AND RECOMMENDATIONS

The modern business environment demands that business executives of various companies run their operations with their stakeholders in mind as stakeholders play critical roles in sustaining operations of any organisation. The understanding of such stakeholder interfacing with an organisation and other stakeholders is instrumental in that every organisation is engaged in a series of complex activities involving different constituents that are linked and work together as a team for the ultimate organisational success and sustainability.

From the twelve statements validated during the study, the findings have revealed that most business executives working in Malawian companies recognise the vital roles that different stakeholders play for the success and sustainability of their operations. This is revealed in that all recognise the interdependence of relationships of their stakeholders. Such stakeholders include labour force, customers, suppliers, shareholders, debt financiers, government, competitors, community and the natural environment. Though above average, the study findings reveal that the recognition on debt financiers, community and natural environment as organisational stakeholders received lower rankings.

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Further, the findings suggest that there is a need to carry out another similar study after some time to assess the impact of new provisions of the good corporate governance that propagate adoption of an integrated reporting system within corporate reports. The new provisions propagate inclusion into the corporate reports the social and environmental elements that are currently experiencing low rankings on the stakeholder index.

The researchers feel that the study findings will facilitate the change of mindset by many business executives, especially on how they treat the community and natural environment as some of their key stakeholders; facilitate the design and change in accounting and auditing principles and practices; facilitate of review and design of best corporate planning and performance measurement systems; review and design of government and industrial policies and regulations; and change of approaches in academic and business research. Of significance by all business executives is that recognition that every organisation has to be run on the premise of recognising the interconnectedness and relationships of corporate activities with those of other stakeholders, and also of the relationships and interdependence of the stakeholders themselves. Business executives should serve different stakeholders who have different stakes or interests in the best way possible.

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