Public Relations Review 40 (2014) 161–170

Contents lists available at ScienceDirect

Public Relations Review

Do public relations professionals understand corporate governance issues well enough to advise companies on stakeholder relationship management?

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ARTICLE INFO

Keywords:
Public relations
Stakeholder engagement (SE)
Governing stakeholder relationships (GSR)
Stakeholder relationship management (SRM)
Corporate governance

ABSTRACT

The King Reports on Governance for South Africa are internationally respected for proposing integrated reporting in a triple bottom-line business context to improve corporate governance. The most recent report, King III, views stakeholder relationship management as a key tenet of corporate governance. This raises the question whether public relations professionals (PRPs) understand the principles of corporate governance well-enough to inform and guide organizations on the management of stakeholder relationships. The views of senior PRPs at selected top performing companies were elicited on their practice of stakeholder relationship management in line with corporate governance principles. It was found that their knowledge on corporate governance was limited, although they recognized its importance. They propose six role functions for managing stakeholder relationships on a strategic or managerial level; these role functions are aligned with the King III principles on stakeholder relationships. The following three were of particular importance: developing a corporate strategy, giving advice to senior management and managing crisis communication. Different terminologies were used to build relations with stakeholders and different approaches were used to profile stakeholders. It is recommended that organizations leverage their public relations functions on strategic and managerial levels in support of their corporate governance efforts. In turn, PRPs are encouraged to ensure a deep knowledge on corporate governance issues when counseling senior management on building stakeholder relationships.

1. Introduction

The alarming increase in financial crises from 11 in the 18th century to 33 in the 20th and an expected 60 in the 21st (Spitzeck & Hansen, 2010, p. 38) has resulted in businesses and governments questioning the way in which companies are managed and how business decisions are made. Managers should have moral and ethical responsibilities to all stakeholders to ensure the long-term sustainability of their business (Sundaram & Inkpen, 2004, p. 370). The Cadbury Report of 1992 in the United Kingdom and the Sarbanes-Oxley Act of 2002 in the USA are examples of early efforts to point out the importance of corporate governance to reduce global financial crises. The King Code of Governance for South Africa 2009 (hereafter

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0363-8111/$ – see front matter © 2013 Elsevier Inc. All rights reserved.
http://dx.doi.org/10.1016/j.pubrev.2013.10.003

referred to as King III) was however probably the first to view stakeholder relationships as a key tenet to ensure good corporate governance. Chapter 8 of the Report entitled 'Governing Stakeholder Relationships' proposes six stakeholder relationship management principles that the Board of Directors should include in their corporate governance practices.

The success of any organization is inextricably linked to three interdependent sub-systems – environment, society and the global economy (Tomorrow's Company, n.d., p. 4). These three systems, commonly referred to as planet, people and profit, should form part of companies' discussions on corporate sustainability (Institute of Directors, 2009, p. 12). This train of thought fits well with the strategic constituency perspective as the theoretical paradigm in which the current research was conducted. This perspective holds that an organization has a number of stakeholders, each with different degrees of power (Love & Skitmore, 1996, p. 7) and that business success is largely influenced by the extent to which the organization is able to meet these multiple stakeholders' needs and demands. Quinn and Rohrbaugh (1983, p. 364) state that the negative impact of stakeholders can be minimized by identifying the key strategic stakeholders and by understanding and being willing to consider and satisfy their needs and demands.

2. Research question

The question that guided the research is whether South African public relations professionals (PRPs) understand corporate governance issues well enough to advise their companies on stakeholder relationship management to ensure organizational sustainability in a triple-bottom context.

3. The management of stakeholder relationships

In order to address the research question, three terms used in the literature to describe the management of stakeholder relationships are presented, followed by a comparative paragraph and table pointing out the differences and the overlaps between them. The six principles on governing stakeholder relationships, as proposed in Chapter 8 of King III, are then discussed.

3.1. Stakeholder engagement (SE)

Stakeholder engagement is defined as the process of involving stakeholders as part of the central business process of transforming organizations to adapt to changing environments. Before stakeholders can become involved, they should be identified and their current levels of engagement with the organization should be assessed (Sloan, 2009, p. 26). Corporate leaders are realizing that their stakeholder engagement should become more inclusive (Sloan, 2009, p. 40).

Different organizations consider stakeholder engagement as a key parameter to indicate socially responsible companies. These organizations include rating agencies (Ethical Investment Research Services (EIRS), Jantzi Research & Innovest Strategic Value Advisors), standard developing bodies (Global Reporting Initiative), advocacy organizations (AccountAbility) and ethical investors (Calvert Investment, Domini Social Investment). These organizations advocate the importance of stakeholder engagement as it is likely to increase organizational accountability, strengthening the trust, acceptance and credibility of the company (Sloan, 2009, pp. 28–29).

3.2. Governing stakeholder relationships (GSR)

Governing stakeholder relationships, the term used in Chapter 8 of King III to describe the management of stakeholder relationships, seems to be fairly new. "The effective governance of stakeholder relationships is the new global frontier" for public relations (Falconi, 2009, p. 4). He (2009, p. 2) argues that organizations may not necessarily manage their stakeholders, but they govern their relationships with them.

Research conducted by Spitzeck and Hansen (2010, pp. 378–391) explores how stakeholders are voluntarily granted influence in corporate decision making. The term stakeholder governance is used to describe this process, and power and scope are seen as the two important dimensions. Power is the level of influence given to stakeholders in corporate decision making, while scope is the breadth of power in the decision making process. This implies that there might be stakeholders who do not have a voice in the decision-making process in terms of both their level and extent of power. Then there may be those stakeholders who do possess extensive power to influence decision-making in the organization (Spitzeck & Hansen, 2010, p. 380). Spitzeck and Hansen (2010, p. 381) developed a stakeholder governance power/scope grid. The following levels of power were identified: (i) no evidence of stakeholder power, (ii) listening to stakeholders' voices, (iii) intermediary impact, (iv) impact on policies and key performance indicators, and (v) substantiated impact. The scope of participation depends on the type of issue which will then determine the scope of participation. Issues were classified as operational issues, managerial issues and strategic issues.

3.3. Stakeholder relationship management (SRM)

"Stakeholder relationships have long been a touchstone of corporate sustainability" (Sloan, 2009, p. 26) and the management of stakeholder relationships has become a business priority as relationships can create financial, social and