Four Elements of Successful Stakeholder Communication
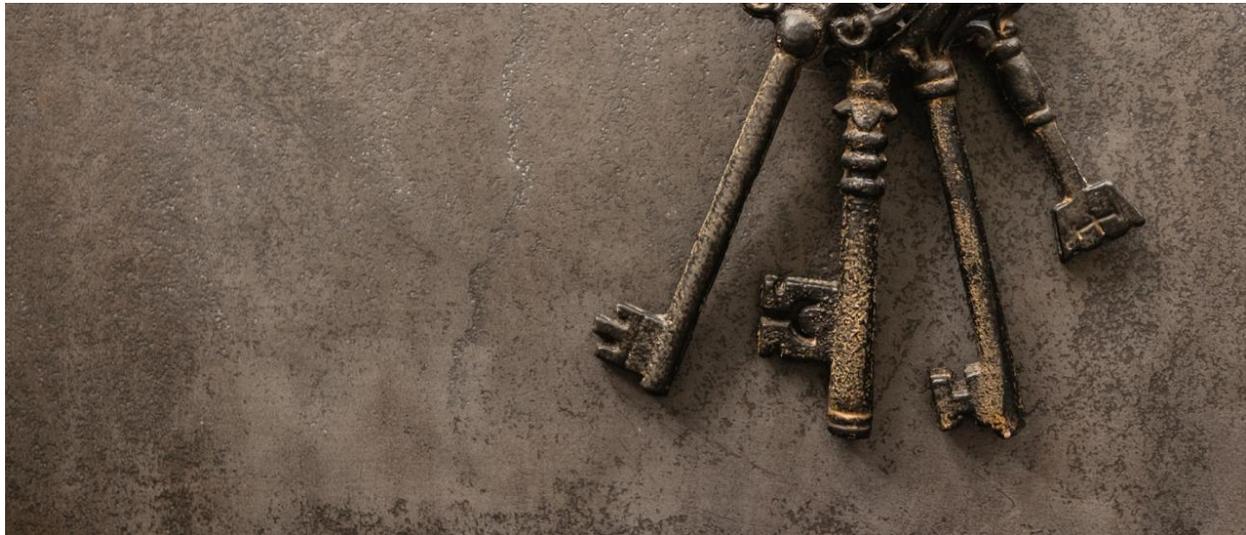

By Lite J. Nartey , INSEAD

Firms can enhance cooperation and reduce conflict by understanding the different dimensions of stakeholder dialogue.

George Bernard Shaw famously quipped that "the single biggest problem in communications is the illusion that it has taken place."

This is often the case when it comes to interactions between firms and stakeholders. Organisations need to improve communication with key actors to foster trust, enhance cooperation and mitigate potential risks and conflicts. But what form does that communication take? And should it differ depending on the stakeholder profile?

In a **recent study** published in the *Journal of Business Ethics,* Witold Henisz, Sinziana Dorobantu* and I shed light on the four factors that matter when dealing with stakeholders: timeliness, valence, richness and topicality. We observe how the speed of a firm's response (timeliness), the tone of that

response (valence), the depth of engagement (richness), and the degree of responsiveness to the specific issues raised by the stakeholder (topicality) influence stakeholder reactions.

Our results demonstrate support for greater promptness, openness of tone, depth of response and relevance in firm responses. However, the relative importance of these elements depends on the **type of stakeholder** as well as their status.

Identifying and understanding stakeholders

The cooperation of stakeholders is particularly critical in **extractive industries** such as gold mining. Conflict with stakeholders over environmental issues and social factors including labour practices, human rights and broader community impacts can lead to costly delays, regulatory proceedings and legal judgements.

By focusing our research on the gold mining industry, we were able to narrow our sample to 19 companies listed on the Toronto Stock Exchange which own and operate three or fewer gold mines in emerging markets that have reached the stage of a feasibility study.

Through examining media reports, we collected data from interactions between gold mining companies that operate 26 mines in 20 countries and 199 stakeholders with a political, social or economic stake in the mines.

First, we analysed news articles, extracted from the Factiva database, that referenced the firm and the mine between 1993 and 2010. From this we extracted a comprehensive set of stakeholders including actors that are often overlooked in the business world, such as rebels in the Democratic Republic of Congo (DRC), the Romanian Orthodox Church, and even actress Vanessa Redgrave.

Second, we coded sentences to extract source–verb–target triplets that specify who (source) did or said what (verb) to whom (target). We matched all the verbs onto a 20-point conflict-cooperation scale that ranges from −9 (extremely conflictual action or statement) to 0 (neutral statement of fact) to +10 (extremely cooperative action or statement). A cooperative action like " provide financial support" or "create partnership" was coded +7, while a conflictual action like "protest" or "bulldoze property" was coded as -7.

We identified 6,068 instances of media-reported interactions that include three elements in sequence: a stakeholder's initial engagement with the firm (voicing an opinion or undertaking an action), the firm's response and the stakeholder's subsequent reaction.

We examined the impact of the timing, valence, richness and topicality of a firm's response to a stakeholder's initial statement or action, and noted changes in the stakeholder's subsequent reaction.

Measuring conflict and cooperation

To assess the importance of *timeliness*, we determined whether the firm responded a day, week or month after the stakeholder's initial engagement.

We measured the *valence* of the firm's response as the difference between the stakeholder's initial statement or action and the firm's response. In other words, whether the firm responded with more cooperation or conflict.

Next, we calculated the difference in the degree of *richness* (i.e. verbal communication vs. action) between the stakeholder's initial engagement and the firm's response. We devised a five-point scale to determine the level of a firm's commitment of resources and time to the event.

Finally, we used the Python tool EMPATH to analyse the disparity in the distribution of topics within the firm's response as compared to the stakeholder engagement. This allowed us to gauge the *topicality*, or lack thereof, of the response.

Our results demonstrate that timely, positive, rich and topical responses are associated with positive stakeholder reactions overall. For example, when the DRC government announced its intention to nationalise all gold mining assets in 1998, Banro American Resources responded within a day. The company sought an explanation, threatened to sue and condemned the government's action in a rich and topical response that, while conflictual, did not escalate tensions or take concrete actions. The government responded the following day by clarifying the terms of the firm's long-term mining concession and highlighting its strong relationship with the company's leaders. It also admitted to a mistake in its previous announcement.

Years later, the government announced that a state-owned firm would be given permits unexploited by Banro. In this case, the firm failed to respond for over a month and announced that it was protesting the redistribution of

licenses and filing suit against the government. This constituted an escalation of tensions as well as a concrete action. The government's reaction the following day was markedly more conflictual towards Banro.

Different stakeholders appreciate different responses

In a post hoc analysis, we replicated our results for different sub-samples of stakeholders. This included government actors (e.g., related ministries and agencies such as the Ministry of Mines), economic actors (e.g., other business and economic stakeholders such as other mining firms), and civil society stakeholders (e.g., protestors, communities and non-governmental organisations such as Greenpeace), as well as stakeholders of high vs. low status. By doing so, we were able to examine how stakeholders differ in sensitivity to different elements of firm responses.

Our results indicate that government actors prioritise richer engagement and topicality over timeliness and valence. Economic actors, by contrast, are less concerned about richness and topicality, and are more sensitive to timeliness. For civil society stakeholders, timeliness and valence are most important, while richness is penalised. Low-status actors across sectors deprioritise timeliness and richness, while high-status actors demand performance in all four elements.

Ultimately managers have to choose which elements to prioritise when dealing with stakeholders. For instance, responding quickly could come at the expense of a rich or topical response.

We argue that the tradeoffs managers make across these elements should vary by stakeholder characteristics in order to unlock deeper communication and trust.

Effective engagement influences stakeholders' impressions and how a firm responds to one stakeholder affects another's opinion. This can result in repercussions throughout the stakeholder network that could potentially have adverse consequences, or benefits, for the firm.

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About the research

"Reciprocity in Firm–Stakeholder Dialog: Timeliness, Valence, Richness, and Topicality" is published in *Journal of Business Ethics*.