

TESTING THE RELATIONSHIP OF COMPANY PERFORMANCE WITH EXTERNAL STAKEHOLDER SATISFACTION (A STUDY AT INDUSTRIAL METAL PROCESSING COMPANY IN INDONESIA)¹

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Abstract: Research into the field of implication of stakeholder and performance is growing. A considerable number of study in this field are now dedicated to test the direction of stakeholder interest and company performance need that still remained unclearly. The objectives of this study is to observe the correlation between company's performance and satisfaction level of each company's external stakeholder (the supplier, customers, and activist groups). The research is conducted on the Base Metal Industries in Indonesia. The collected data is the census method, and by using questionnaires. Product Moment Pearson Correlation method is used to analyze the correlation between company performance and the satisfaction level of each company's external stakeholder. (the suppliers, customers, and activist groups). The results showed that the company's performance has positive correlation with the satisfaction level of each company's external stakeholder (the suppliers, customers, and activist groups). The company's management needs to adapt with the changing needs of its entire external stakeholder. The improvement of company performance will be realized if the satisfaction of external stakeholder is fulfilled. However, how much is the implications of other external stakeholder to continuity of company life in the future? We need to advanced researches.

Key word: External stakeholder, satisfaction, and performance

1. INTRODUCTION

Attainment of company performance relates to participation of its external stakeholder (JunXiao *et al.*, 2015; Hodge, 2007). External stakeholder here defined as the group which having importance with company and cannot be controlled by company management (Freeman, 1984). Existence of external stakeholder becomes of vital importance and influential to performance and continuity of company life (Kasali, 1990; Freeman *et al.*, 2010). Therefore, management of the company needs to paying attention more to the importance of the external stakeholder (Blair, M.

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M, 1998; Irwan R. Rudy *et al.*, 2014). External stakeholders that become the focus in this paper are supplier, customer, and the activist group.

External stakeholder such as supplier and customer is a vital component for the continuity of company life (Freeman *et al.*, 210; Minoja M, 2012; Mitchell RK, *et al.*, 1997). Whilst the activist group is a certain public group in which their existence relates to their claim to current objective condition in the area of contamination, problem handling, and consumer protection (Lopez T., 2001), which are very relevant to the process and output yielded by company in metal processing industry. Within this reason, hence this research focused at supplier, customer, and the activist group.

The company has big dependency to the existence of these three stakeholder components. In addition, on the contrary, the existence of these stakeholder groups such as the supplier has importance to improvement of company performance. For instance, the industrial metal processing company has importance (needs) toward the suppliers in raw material in the form of electric power to uphold its production activity. An example on company dependency to electric power supply for its production activity could be viewed in the data collected by the Bureau of Statistics Centre (Biro Pusat Statistics) in the island of Sulawesi (The Province of Sulawesi Selatan, Sulawesi Utara and Sulawesi Tenggara) in 2013. For instance, in the year 2013, average of production supply increased around 245%. Followed by the year 2014, in which it increased to around 463%. Finally in the year 2015 rising again to become approximately 733%. This number indicates the existence of increased dependency trend between metal-based processing industrial companies with its supplier.

Herewith is another example of company interrelationship with its external stakeholder particularly the activist group. The following account is based on information obtained from Kepala Humas PT Antam Pomalaa (one of the elementary processing industrial company in Sulawesi). "...in October 1998, there is a public group which called themselves Aktivist Perduli Lingkungan (which live around the company plant) conduct a protest to company by means of blocking a number of raw material vehicles of raw material on their way to the company plant. Their claims are related to repairing of water sanitary landfill and road infrastructure (Data from Humas PT Antam Pomalaa, unpublished). As a result, these protests have an effect on the company production schedule and influences company performance as a whole." These account on the activist group actions give us an indication about important correlation between companies with its external stakeholder. Furthermore, this correlation is in line with previous research result expressing the importance of company management to make good relationship with its external stakeholder by way of increasing their satisfaction simultaneously in order to achieve purpose of the company (Ogen & Watson, 1999; Smuddel and Coutright, 2011; Mitchell RK, *et al.*, 1997; Stoal Kleemann, Welp M., 2006).

1.2. Problem Identification

Based on above description, hence the author formulates main problem in this research as: "What is the correlation between company efforts to fulfill the requirement of its external stakeholder (supplier, customer, and the activist group) with the improvement of company performance in metal processing industry in Indonesia"

2. LITERATURE REVIEW AND HYPOTHESIS

A company will not survive and be successful on a long term if they don't fulfill needs and interests of the external elements that have an effect to company, this inveterate elements called as stakeholder (Kasali, 1994; Birkin & Woodward, 1997; Freeman *et al.*, 2010; Freeman R. E., 1984).

Company ought to focus their attention to legitimatethe needs and its related expectation of its stakeholder if they wish to survive in the long term. The importance of relation between company with its stakeholder become researchers attention after many conferences being held surrounding stakeholder idea and theory (Dolan, 1998; Ogen *et al.*, 1999; Berman, *et al.*, 1999).

External stakeholders are widely term as the element residing outside company control and thus uncontrollable by company (Freeman *et al.*, 2010; Minoja M, 2012). Customer or client has the right to choose, determines his own goods, and thus make the customer or client fought over by many producers (Blairman M, 1998). This situation is similar to supplier as supplier would be easier to move to other producer when dissatisfactory transactions occur between them and the company (Mitchell RK., *et al.*, 1997). This situation also occurs between the company and the group of activist and other community group (Irwan, R., Rudy *et al.*, 2014). They can reduce company image and can sue the company in the name of justice when claim they is not fulfilled. This thing indicates that behaviors of these external stakeholders are beyond company control. In consequence, the management needs to be proactive in responding to the importance and requirement (satisfaction) of their external stakeholder (Kasali, 1994; Marc Maurer, 2005; Donaldson, T. Preston, L. 1995).

To build commitment to involve the external stakeholder with company, hence company need to built cooperation as suggested by Atkinson, *et al.* (1997:29) which calls it as implicit & explicit contracts. Explicit contract relates company to do cooperation contract with stakeholders like supplier and customer by using parameter that can be measurable (tangible), for example: material amount, quality of material, and deliverance time. An implicit contract in the other hand is based on trust, motivation and relationship learning in giving intangible product, for example: service, flexibility, and innovation (Harrison, J. S., St. John, C. H., 1997; Gregory, A., 2007). In the long-run it is believed that this implicit contract (which

is based on trust) can eliminate or at least lessening the expense of transaction related to scouting partner, contract making, as well as lessening expense of monitoring (Delman and Toffel, 2004; God Frey *et al.*, 2010).

Empirical research about the relation of management stakeholder with company performance has not thoroughly researched in the past. One of empirical research which has been executed by Starik (1991), studying about the relation of stakeholder with company performance at United States Electric Utility. Variable to stakeholder researched was government, investor, regulator, with reputation and financial indicators as company performance variable. It was concluded from this research that performance of company reputation strongly correlated with their relation to the stakeholder. However, the study does not found significant correlation between the relations to the stakeholder with improvement of company's finance performance. Research conclusion which has been done by Donaldson & Preston (1995) express that company having manager which can adopt importance of main stakeholder has better performance than company who do not (in Ogden & Watson, 1999).

Satisfaction of consumer, in this case related to the satisfaction of company's external stakeholder, can be interpreted as response to the requirement to fulfill consumer needs (Oliver, 1996:13). The external stakeholder's requirement (satisfaction) fulfillment (in this case customer, supplier, and the group of activist) is explainable when one approached this idea with The Expectancy Theory (Oliver, 1996: 98-121). In this theory, it is explained that satisfaction of consumer lays in concordance between what is expected by consumer with the result they obtain (the outcomes). This consumer expectation relates to a reference of standard applied. This certain standards form a basis for a consumer to compares it with reality (result) they obtained. Certain standard form can be in the form of cooperation contract between companies with its external stakeholder.

The relation or cooperation contract and group of stakeholder's participation with company, according to Freeman (1984:92-93) have affecting economic effects to the interest of both parties. Certain stakeholder, e.g. customer has economic effects to company, for example customer influencing company's profitability, cash flow and market value. On the contrary, company activity can influence level of prosperity of certain stakeholder in which certain public stakeholder group can obtain fund for their activity (Ruf, M.B., *et al.*; 2001). Hill (1995) assumes that group of stakeholder contributes toward company and company gives incentives value (inducements) to stakeholder.

Stakeholder: Customer

Companies nowadays focus their activity based on the customer importance (customer oriented). Some results of former researches also access the relation of

customer to company's finance performance. Result of research by Frooman (1997), for example, concluded that there is real relationship between reaction of market (consumer) to irresponsible & illegal company activity. For instance, company's market value will go down in relation to low corporate activity and furthermore action to recalls product from the market will be followed by negative consumer market reaction (in Berman, *et al.*, 1999).

Hill and Jones (1995) states that customer gives contribution to company in the form of improvement of sale and profit, and at the same time company give inducements to customer in the form of supplying them with quality product and the right price. Kasali (1994) has a notion that satisfaction of customer to company is relating to supply of quality, purchasing service and after sales services, location which is easy to be reached along with cheap price.

Waddock & Graves (1997) from their research about interrelationship between social responsibility performances and company's finance performance, have concluded that positive perception of customer about quality of product, security and safety of product as well as service can increase sale and can lessen interconnected cost of business with relation of customer to company (in Berman *et al.*, 1999). With other word, there is a positive correlation between satisfaction fulfillments of the customer with improvement of company profitability.

Hypothesis 1: *"There is a significant correlation between the external stakeholder's levels of satisfactions (in this case customer) with improvement of company performance."*

Stakeholder: Suppliers

Supplier is an individual or group of people providing goods or raw material used by company for their production activity. Existence of this group plays important part especially at manufacturer firm because they must meet company's requirement for continuous quality raw material and on-time delivery. Freeman (1984) states if supply of raw material insufficient in the case of quality or price, hence company would face difficulties in providing product quality standard, which in the end will reduce enthusiasms to purchase company's product.

Production activity also related to availability of raw material and on-time delivery. Interruption to the availability of raw material and delivery schedule mismatch will influence production process scheduling, which in turn will cause unsynchronized supply of end product with material requisition schedule. This is the importance or contribution of supplier to company performance. On the other hand, supplier also has importance to company and company also gives incentives (inducement) to supplier. Hill *et al.* (1995) express that supplier requires company in an effort to producing their own revenue, correct payment, consistency of raw material demand schedule, and purchasing dependency. Satisfaction of supplier,

according to Kasali (1994), lays in transaction satisfaction, timely payment, correct delivery schedule and dependency to supplier.

Supplier satisfaction thus can influence supplier's consistency in supplying raw material according to the cooperation contract with company. This condition in the end will give company sufficient opportunity to produce product that match the needed standard that increase sales of their product. With other word, satisfaction of supplier will affect supply of raw material resource, which in turn will influence profitability.

Hypothesis 2: *"There is a significant correlation between levels of satisfactions of the supplier with improvement of company performance."*

Stakeholder: Community (Group of Activist)

Community or the group of activist is a group of public community formed with certain characteristics and specific purposes, that is: voluntary, independent, may not serve their own self-interest, and non-profit oriented (Freeman, 1984). Organization of this community has strong position to bargain and then influence company existence.

Good relationship between companies with environmental activist group, for example, can influence company's financial performance. The rationale is first, with being proactivo to the environmental problem and issue; company could reduce expenses incurred from complying to the cost to cope with environmental regulations now and in the future. Second, company can make eco-friendly product, which in the end will conform to consumer as well as building company's competitive advantage. Third, a company who pays attention to environmental issues will help boost up company image and increase loyalty of certain stakeholders, e.g. customer and government (Berman *et al.*, 1999).

Result of research by Waddock & Graves (1997) mentions that by having good relationship with the group of activist, company's performance can be increased because good relationship help reduce cost of dispute and the effect of regulation that proof otherwise to be a burden to company (in Berman *et al.*, 1999). Furthermore, what is termed as the group of activist's satisfaction to company relates to the contribution of company to the community. This company's contribution can be in the form of monetary value and non-monetary value, e.g. education, training, idea and participation (Kasali, 1994: 65).

In this research, we focus our attention to certain public group or group of activist, which resides at local communities. Local community thus referred to as those who live and active around the company's site. Local community gives contribution to industrial company in the form of location; local infrastructure; access to operate; quality labor and the climate that is both conducive and sound

for the company to operate. On the contrary, contribution of the company to local public can be realized through attention to public that reside surrounding the company by giving donation for education, labor training and repairmen of community sanitary (Hill & Jones, 1995). Inharmonious relationship between local publics with company will jeopardize company operation as well as its related activity in jeopardy and in the end can reduce company's financial performance.

Hypothesis 3: "There is a significant correlation between levels of satisfactions of the group of activist with improvement of company performance."

3. RESEARCH METHOD

Research method applied by the author in this research is survey. Thence, the purpose of this paper is to study the problem descriptively and verified it by giving a throughout description and then testing the relation between variables by means of hypothesis testing. In addition, the research variable will be measured by using the ordinal and ratio scale, while data collected via questionnaire is in the manner of cross-sectional time horizon.

3.1. Variable Construction

Table 1
Variable Construction

Y: Company Performance	<ul style="list-style-type: none"> • Level of profitability: ROI: comparison of income with number of asset/investment over the last one year; • Level of profitability: ROE: comparison of income with number of own assets over the last one year; • Level of efficiency: ROS: comparison of income with sale over the last one year. 	ratio
Z: External Stakeholder ^{notes}		
Z1: Customer Satisfaction	<ul style="list-style-type: none"> • Agreement on the consistency of product quality; • Agreement on the reliability of product delivery; • Agreement on the speed of product delivery; • Agreement on the amenity of product order; • Agreement on the price of product. 	ordinal
Z2: Satisfaction of Supplier	<ul style="list-style-type: none"> • Agreement on the confidentiality of continuous supply of raw material; • Agreement on the accuracy of raw material payment; 	ordinal

contd. table

Z3: Satisfaction of The Group of Activist	<ul style="list-style-type: none"> • Agreement on the accuracy of raw material delivery schedule. • Company participation in the form of non-physical participation together with the group of activist; • Company participation in the form of education donation, skills training to community around the plant; • Company participation in dealing with the disposal of industrial waste; • Company participation to keep public settlement around the plant to be clean, healthy, and free of pollution. 	ordinal
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Notes Some of the external stakeholder indicators are taken from the indicators proposed by Kinder, Lydenberg, Domini & Co. (KLD), cited by Sandra A Waddock, et.al in *Business & Society*, September 1997, Vol.36. Measurement scale of the external stakeholder' satisfaction is based on Hill (1952:128-149) which states that the most relevant scale to measure the level of consumer satisfaction is: Likert scale; Semantic differential scale; Numerical rating scale; Ordinal scales and SIMALTO scales. Thus, this research applies Likert scale as its measurement scale.

3.2. Population and Research Sample

There are six companies in metal processing industry in Sulawesi at the time this research conducted. Each company has number of suppliers, consumers and separate group of activist. Referring to the purpose of this research and considering the characteristics of target research population (at the elementary unit) which in company (as sampling unit), and availability of data to be processed with statistical methods, hence data collection was conducted by means of census method.

3.3. Data Collection Source and Approach

Data obtained through two sources, which are primary data with ordinal data scale and secondary data with ratio data scale. Thus, questionnaire is chosen as the data collection technique. All data is collected by using Cross Sectional method (intercompany).

3.4. Analytical Method

Statistical analysis used is Pearson Correlation Method. Formulation of this method is as follows:

$$r = \frac{n \sum X_i Y_i - \sum X_i \sum Y_i}{\sqrt{\{n \sum X_i^2 - (\sum X_i)^2\} \{n \sum Y_i^2 - (\sum Y_i)^2\}}}$$

Where:

r = correlation coefficient;

X_i = variable X_i ;

Y_i = variable Y_i ;

Eligibility of r -value

r -value limit is $-1 \leq r \leq +1$; for $r = +1$, the relationship could be said strictly positive and have high linear relationship. On the contrary, for $r = -1$, the relationship is perfectly negative and very high. All data is converted to become interval scale and ratio scale by using successive intervals method. Data is processed with SPSS 11.5.

4. RESULT AND ANALYSIS

Relation between Company Performances with Supplier Satisfaction Level

Result of hypothesis testing indicates that there is a strong correlation between company performances with the level of external stakeholder satisfaction (in this case supplier). Its value of coefficient determinant (r^2) is +91%. This result indicates that 91% of alteration on the company's performance variable will be followed by alteration on the level of supplier satisfaction variable.

Relation between Company's Performances with Customer Satisfaction Level

Result of hypothesis testing indicates that there is a strong correlation between company performances with the level of customer satisfaction. Its value of coefficient determinant (r^2) is +85.2%. This result indicates that 85.2% of alteration on the company's performance variable will be followed by alteration on the level of customer satisfaction variable.

Relation between Company's Performance with the Activist Group's Satisfaction Level

Result of hypothesis testing indicates that there is a weak correlation between company performances with the level of the activist group's satisfaction. Its value of coefficient determinant (r^2) is +36.8%. This result indicates that 36.8% of alteration on the company's performance variable will be followed by alteration on the level of the activist group's satisfaction.

The external stakeholder requirement then relates to contents of contract or agreement with the company. Every company has different contents of cooperation contract or agreement among its external stakeholder (supplier, customer, and the group of activist). Level of external stakeholder's satisfaction has direct connection with how far the company fulfills its contents of contract, which agreed by both the company and its external stakeholder.

It is concluded that relation between company with its external stakeholder (supplier, customer, and the group of activist) is a functional symmetrical relationship. It means that company existence must be followed by the existence of its external stakeholder.

5. CONCLUSION AND DISCUSSION

5.1. Conclusion

1. There is positive correlation between company performances with each level of the external stakeholder' satisfaction (supplier, customer, and the group of activist). As the level of satisfaction from each external stakeholder increased, thus the performance of metal processing industrial companies in Sulawesi will increase at the same time.
2. Supplier has the highest correlation coefficient; this indicates that management of the company has to give more attention to their supplier than any other external stakeholders are e.g. customer and the group of activist. The rationale because supplier is an oligopoly company, in consequence company has no choice except taking care of the relation they have with its supplier.
3. Relation between company with its external stakeholder (supplier, customer, and the group of activist) is in the form of functional symmetrical relationship.

5.2. Discussion

The company's management needs to adapt with the changing needs of its entire external stakeholder. The improvement of company performance will be realized as the satisfaction of external stakeholder is fulfilled by company. How big are the implications of other external stakeholder to continuity of company life in the future?

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