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# Prioritising customers and other stakeholders using the AHP

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Abstract Marketers often presume that the statement "the customer always comes first" is an axiom. Other specialists usually do the same with their own stakeholder priorities. Other than for internal political and prestige purposes, this is helpful neither to marketing nor to stakeholder strategic management. This research did show that customers are regarded as key stakeholders generally, and also for the achieving of most corporate objectives. They were in effect regarded as a type of default priority stakeholder. However, two other stakeholder groups — managers and employees — were ranked as just as important or more important to the achieving of organisational success generally and several of the corporate objectives. Slogans about customers always being No. 1 need to be dismissed by professional marketers. Equally important, the research indicates that marketing might well need to give as much attention to the strategic management of managers and employees as it does to customers.

## Introduction

Customer orientation is a corner-stone of "the marketing concept". However, what it means to be "orientated" towards customers is not clear. For some it means a general focus on customer satisfaction across the organisation. Others talk more forcefully about being customer directed (Copulsky, 1991), having customer intimacy (Treacy and Wiersema, 1993), being customer driven (Quinlan, 1991) or customer-compelled (Lanning and Philips, 1991). Still others insist that "the customer is King and sovereign" (Mohr-Jackson, 1993; Rafiq and Ahmed, 1993) and even that customers "are the only thing that matters" (Albrecht, 1992).

While this may well be useful to some marketers for internal political and prestige purposes, this monistic view of the world should be logically hard to sustain. Other functional specialists can be equally passionate about the importance of "their" stakeholder group. Logic would suggest that prioritisations would be likely to change for different desired outcomes or objectives. System dynamics theory would also indicate that, in an open system comprising multiple stakeholders, prioritising only one would be highly likely to impede the system's effective functioning.

Yet the common statement that "the customer always comes first" is often treated as an axiom. This paper disputes that it is true or self-evident.

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The research proposition most appropriate to this phase was that a dynamic multi-constituency perspective of both the marketing concept and stakeholder strategic management is superior to a static monistic perspective (such as "customer orientation"), and that shifting priorities between stakeholder groups is required.

## A brief overview of the other research phases

While the AHP was the main area of interest for this Special Issue on computer modelling, it is useful to briefly comment on the supporting methodologies. First, it is important to stress that the research paradigm being used was broad and exploratory, and thus a multi-method approach was superior to relying on the AHP alone. The objective was, after all, to examine the prioritisation of different stakeholder groups in terms of their relative impacts on the organisation and its key objectives, and this could not be done only by comparison questions in non-specific settings. Thus the researcher asked about and observed the subject-matter in a number of differing settings.

A second part of the research involved a detailed, six-year long case study of the Australian fresh pineapple industry. The purpose was to probe stakeholder prioritisation and monistic/pluralistic views across the industry. Formal depth interviews were conducted with 40 leaders in different parts of the industry, as well as informal interviews with many more. Observation of the market was also undertaken, as well as participant observation for one year as an independent director of a packing shed company.

The third part involved a short case study of Sino-foreign joint ventures in China. Twenty interviews were conducted amongst managers and industry officials. The opportunity to discuss stakeholder prioritisation was fortuitous, and it enabled the researcher to gain some degree of cross-cultural understanding in a very different environment.

The fourth part of the research involved depth interviews with 20 leaders of stakeholder groups that were expected to perhaps have a monistic perspective (e.g. The Shareholders, Consumers, and Bankers Associations), and 20 leaders who were more likely to have a pluralistic perspective because of their wider brief (e.g. Institute of Corporate Managers, Management Consultants, Bankruptcy and Receivership Specialists).

These four primary research phases were combined with an extensive literature review covering the immediate disciplines (marketing concept,

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strategy and stakeholder theory), the parent disciplines (system dynamics, values and power, management, organisation and decision theory), and the main related disciplines (law, economics, agency, corporate governance, resource allocation and issues management theory) (Jackson, 1997).

#### The choice of AHP

While the analytic hierarchy process has been used to prioritise marketing mix and other operational decisions (Saaty, 1983, 1986; Cousens, 1986; Dyer and Forman, 1989), it has not been used to examine the common assertion that "the customer always comes first", nor relative prioritisations of the main stakeholder groups across the corporation's primary objectives.

#### Alternatives to the AHP

The researcher considered a variety of alternative methodologies at the very beginning of the study, when both the nature of the investigation and the research paradigm were still undecided. Amongst these were a conjoint analysis study (Green and Wind, 1975), a multiple regression experiment, a cluster analysis quasi-experiment, and also the use of questionnaire surveys on attitudes to stakeholders (Alkafadji, 1989), market orientation (Kohli *et al.*, 1993), and selling/customer orientation (Saxe and Weitz, 1982), for example. None of these had the ability of the AHP to prioritise so well across the stakeholder groups as intended. This was because the AHP has the advantages of a detailed stepwise comparison mechanism, the ability to check for and to reduce any inconsistency scores there and then, and also the opportunity in one exercise to obtain stakeholder prioritisation responses generally and for each of the corporate objectives provided by Drucker.

## AHP applications in general

It was reported earlier that there have been "thousands" of successful applications, and that these have been from an enormously diverse range of areas (*Expert Choice Voice*, 1993; Saaty and Vargas, 1982). It is certainly not restricted to business. Saaty and Alexander (1989) have written an entire book documenting applications of the AHP to conflict resolution of all sorts. Similarly Saaty and Forman (1992) have published a dictionary book made up entirely of hierarchy examples, Dyer and Forman (1989) a book of AHP marketing applications, and Golden *et al.* (1989) a general book of AHP applications. So extensive is the usage of the AHP that there is now a triennial international conference on AHP alone and users have been referred to as "the AHP community" (Korhonen and Wallenius, 1990, p. 85).

## AHP applications involving stakeholders

Meszaros (1988) used the method in her PhD to examine preference decisions favouring stockholders compared with those favouring three stakeholder groups (employees, customers, and the general community). In the study she posed a hypothetical scenario, in which an insurance firm had surplus funds

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and subjects could make priority decisions between three alternative courses of action (buying back shares, improving quality, and donating to education). In Meszaros' study, these priority decisions were matched with the findings of a questionnaire designed to identify subjects as either shareholder-oriented or stakeholder-oriented. The AHP application satisfactorily performed the task required of it by that researcher.

Palamides and Gray (*Expert Choice Voice*, 1993, p. 3) used the AHP in a study on the best design for a new bridge. Stakeholders were on the second level under the goal, criteria for the bridge in the third level and the alternative bridge types in the fourth. They found intense stakeholder interest, as there was considerable politics involved as well as the logical requirements expected by each stakeholder. The AHP worked well and a truss bridge was recommended, and it is successfully meeting the selection criteria.

Brice and Wegner (1989) used the AHP methodology in two case studies of large South African corporations and their stakeholder management since the change of power there. They observed an increase in prioritisation given to stakeholders requiring corporate social responsibility programs (i.e. employees, community health specialists and education workers).

Hosseini and Brenner (1992) have proposed the use of the AHP to generate both influence and value matrix weights for each stakeholder group as a way of taking the stakeholder theory of the firm further along its development.

It is clear that, faced with the many variables involved in the prioritisation process, one needs a system that can be based on using our accumulated wisdom, experience and knowledge in an extraordinarily-disciplined way. The AHP methodology has been shown to do this task well. Considering the diverse features of the AHP, its substantial validation and robustness testing across a very wide range of decisions, and its use in dissertations and other substantive research, it was clearly a credible methodology to use.

# The analytical hierarchy process methodology

A detailed description of the AHP method, its mathematical foundations and validation, and its many uses and users is extensively covered in the work of its author (Saaty, 1983; 1986) and other writers (for example, Cousens, 1986).

Essentially the process is based on three attributes or steps (Meszaros, 1988):

- hierarchical structuring of the decision into a series of criteria (e.g. objectives of the firm) and alternatives (e.g. alternative stakeholder priority options);
- (2) priority setting decisions made using the pairwise comparison procedure on a ratio scale (i.e. is a customer focus more important than a creditor focus with regard to *x*?); and
- (3) synthesising priorities and evaluating the consistency or inconsistency of the decisions using an eigenvalue algebra method and sensitivity analysis.

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#### Use of the AHP

Step 1: hierarchical structuring

In this exercise, the goal was "organisational success", with the objectives of the firm constituting the second level. Drucker's list of the objectives of the firm was chosen for this study (Drucker, 1965), because:

- they are very widely known and have stood the test of time (e.g. Thomas, 1994; Dess and Miller, 1993; and others);
- they have not been successfully attacked or refuted to the best of this writer's knowledge;
- they lend themselves better to stakeholder priority evaluation than any of the other listings or hierarchies of corporate objectives (Granger, 1964); and
- Saaty himself specifically proposes their use in an AHP for strategic planning (Saaty, 1986, p. 216).

Because of the restrictions within "Expert Choice" Version 8.0 to only seven nodes of objective, Drucker's eight were condensed to seven by combining "productivity" with "physical and financial resource management". During the trialling of the hierarchy, this combination and the other objectives were clearly understood. A prompt sheet elaborating on each objective in Drucker's own words was developed and used to help keep respondents focused on each objective in turn and thus evaluating the same thing (Table I).

The third and final level of the hierarchy comprised the alternatives. Of the 18 stakeholder groups originally extracted from the literature, the AHP Expert Choice software Version 8.0 could only accommodate seven nodes or alternatives.

Key objectives	Drucker's elaboration
Profitability	The net financial effectiveness of a business; covers costs of staying in business plus a premium for risk; supply of capital and cashflow.
Market standing	Market share; company image; brand equity; service reputation; product and distribution performance.
Innovation	Covers any product, service and technological innovation; also innovative skills, activities, processes and structures.
Productivity + physical and financial resources management	How well resources have been used; maximum output at minimum cost or effort; security of supply of physical and financial resources.
Manager performance and development	Achievements of key managers; targets and control of managers; manager management, output, succession and training.
Employee performance and attitude Public/social responsibility	Achievements of employees/workers; targets and control of employees; employee management, output, success and training Expectations and needs of the general public and the local
r ublic/social responsibility	community; integrating the betterment of society and the firm.

**Table I.**The prompt sheet explanations

The three choices that need some elaboration are managers, competitors,

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and creditors, and the non-inclusion of suppliers.

The reasons for the choices made are as follows:

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- (1) Whilst managers were not included in the original University of Toronto Ethidex longitudinal study, Clarkson (1994) acknowledges that this has been an error and that they are too influential to ignore. Ahlstedt and Jahnukainen (quoted in Kankkunen, 1993, p. 47) also stressed that management were one of the main "commonly cited stakeholders" (see also Freeman, 1994; Mitroff *et al.*, 1992; Perry, 1992).
- (2) The inclusion of competitors as stakeholders in this study is supported by the main strategy theorists like Michael Porter, and by many others such as Miller and Lewis (1991), Armstrong (1980), Freeman (1984), Wheelen and Hunger (1992), Greenley and Foxall (1996), Carroll (1991) and Narver and Slater (1990).
- (3) The inclusion of creditors was emphasised by Forster and Browne (1996), Wheelen and Hunger (1992), Ahlstedt and Jahnukainen (cited in Kankkunen, 1993), Hill and Jones (1992) and Freeman (1994). In addition, creditors have particularly strong legal powers and prioritisation (which no other group has) that make them an essential choice.
- (4) The exclusion of suppliers was primarily because the term "suppliers" includes suppliers of finance as well as of merchandise and of equipment and this would be potentially biasing in a testing situation.
- (5) All participants in the preliminary interviews were satisfied with the list of seven supplied.

## Step 2: priority setting

Working from the bottom of the hierarchy to the top, respondents first tackled each one of the objectives of a firm (e.g. profitability) in turn by making successive pairwise comparisons of each stakeholder-focus option, i.e. "Is focusing on customers more important than focusing on creditors with regard to profitability?" "Is focusing on customers more important than focusing on employees with regard to profitability?", and so on. It is important to note that the respondents were asked in the briefing and during the sessions to answer in terms of which stakeholder group's role had the most important impact on the organisation and each organisational objective, rather than whether they deserved prioritisation because of their needs and requirements.

After completing the bottom level, the second stage was to make successive pairwise comparisons of each objective in terms of their relative importance to organisational success.

In each case the respondent has the option of rating them equally important (numerical value of 1), one moderately more important than the other (value of

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3), strongly more important than the other (value of 5), very strongly (value of 7), and extremely strongly more important than the others (value of 9), or any even number gradation value in between. The AHP system allows the comparisons to be done verbally/qualitatively, as well as quantitatively if the respondent wishes. This has been found to be both simpler and more enjoyable to do, on the one hand, and a more accurate predictor in tests where the exact answer is known (Saaty, 1986).

Step 3: synthesising priorities and evaluating decision consistency

The software package, using vector algebra, the eigenvalue method and sensitivity analysis, does the complex synthesising of all priorities and weightings made by each respondent.

Initially the results of each set of comparisons are supplied, along with the inconsistency score of that set of prioritisation decisions. The developers (see also McKee, 1992) recommend that any score higher than 0.1 (10 per cent) be considered for inconsistency, and the package will identify the most inconsistent decisions in order and recommend scores to eliminate or minimise them (though rightly urging that this must not be done without sufficient thought).

The individuals' results are then able to be shown through the graphics facility in terms of pie charts, sensitivity analysis graphs and two-dimensional plotting. Several respondents (but not all) made active use of the inconsistency review facility after each set. Nobody made any changes at the end as a result of observing the graphic displays. It is suspected that this was partly because of the long time taken to participate, and partly because they were generally satisfied with the results.

One deficiency of the software used was the lack of any facility to aggregate the responses automatically. Thus this process needed to be done manually within Excel.

The AHP exercise trialling and briefing

Once the structure and nodes of hierarchy were inserted into the "Expert Choice" software, the process was trialled by three academic colleagues. Interviewees took a little while to settle in but said and showed that they experienced no substantial problems. It was found important to remind interviewees to focus on the particular objective at hand (e.g. market standing), as some indicated there was a tendency to generalise. The researcher found that, if he read out the first pairwise comparison in total, and stressed that "you are now focusing on 'innovation'" or whatever, this was successful and carried through to the rest of the exercise. Others have also found that subjects find the AHP easy to understand and use (McKee, 1992).

Sampling in the AHP prioritisation decision exercise

Subjects were obtained from the final year (full-time and part-time) MBA students at two Australian universities and from business academics at both

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## The AHP exercise procedure

Subjects met with the researcher on a one-to-one basis in a closed room. They were told that the study was about management and priority decision making, but no further elaboration was given at this stage. If questioned, they were told that the exact purpose would be revealed both during the performance of the exercise, and during discussions and questions afterwards. Thus traditional objectivity was sought in the beginning in order not to bias responses, but after the exercise their role as collaborative co-researchers increased in keeping with the approach chosen.

At the end of each set of decisions, the subjects could see their score for that node and discuss their inconsistency ratio. Those who elected to improve their consistency used the software's facility to do this. The respondents were shown their results with the graphics facility and the findings discussed. The sensitivity analysis was then shown, and it was explained that they could also use it to change their priorities if they wished.

After this, all subjects were asked for general comments. They were then asked about the monistic-static versus pluralist-dynamic issue. Finally they were asked about the concept of shifting priorities and again invited to discuss this. Before leaving they were asked simple demographic details and thanked for their co-operation.

#### Potential bias

Ideally each node in the hierarchy should be independent of the others and thus elicit discrete data. However, in many complex and inter-related problems, this is difficult or impossible. For example, employees can be shareholders and customers as well. This overlap is often natural and cannot (or should not) be necessarily eliminated. As with other stakeholder studies (e.g. Meszaros, 1988), one must ask the respondents to treat the groups as separate in the exercise. Unlike Meszaros, this study did not experience this problem, probably because the emphasis was on a particular stakeholder focus as a strategic course of action, rather than on different stakeholders' satisfaction as an objective or criterion. In addition the study was not concerned with stakeholder needs and requirements, but with looking at each group from an impact-on-theorganisation perspective. In other words, because of this strategic,

organisation-centred focus, respondents in the present study did not have difficulty keeping the groups as discrete entities.

Some methods either use groups or allow respondents access to others during the decision-making process. Whilst this may often be realistic, it provides a contaminating factor, because responses could easily become a function of the particular group membership at the time. Thus this potential biasing element was eliminated by always conducting the sessions one-on-one in a closed room. However, it is worthwhile noting that several studies have shown that individual priority data are a good predictor (better than chance) of the priorities made by groups across a variety of task oriented situations (Neves and Lusk, 1987; Armstrong, 1985; Davis, 1982).

## Analysis and results

Analysis measures

In accordance with the critical realism methodology used, statistical testing was not used. Analysis of the AHP exercise was conducted on the basis of:

- *Utility scores*. Scores in the AHP exercise are on a ratio scale, and each score, or average score, has a meaningful utility value both quantitatively and qualitatively.
- The geometric mean. The geometric mean is regarded by the AHP developer (Saaty, 1986) and others (Hosseini and Brenner, 1992, p. 117) as the better mean "in order to preserve the reciprocal matrix properties which provide the foundation of the AHP algorithm". The geometric mean requires that (i) there be a ratio scale; and (ii) all composite data must have a value greater than 0 (Ebner, 1989, p. 83). The AHP, and this study in turn, comply with these requirements.
- A t-test for paired samples was used to see if there were any distinctive groups of top and bottom stakeholder groups in a default priority mechanism. Note that no statistical significance has been sought or claimed, as befits the research tradition.

### Exit interviews

Of the 44 respondents participating, none supported a monistic orientation towards any one stakeholder.

#### Results

This results section will focus on the AHP phase of the total study, as this is the area of primary relevance to this particular paper and this Special Issue of *EJM*. It can be said that, while the other phases had their own set of distinctive results, they did not contradict the findings of the AHP exercise. As they had involved case studies and depth interviewing, the richness of the information was extensive, and the complexities of stakeholder prioritisation in each particular situation were elaborated upon (Jackson, 1997). For the purposes of

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#### The AHP exercise overall

Again none of the 44 respondents scored any one stakeholder group as the only important one in terms of their strategic impact on the organisation generally or in terms of any one of Drucker's Key Objectives categories. When asked how they would dispose of any organisational surpluses, nil respondents allocated such surpluses exclusively to customers.

The geometric mean scores for each of the stakeholder groups on their strategic prioritisation by the 44 respondents were (in descending order): managers (0.2310); employees (0.1924); customers (0.1883); competitors (0.1312); the community (0.0939); shareholders (0.0876); and creditors (0.0743).

The respondents ranked (in the following order) Drucker's Key Objectives in terms of their relative importance in attaining organisational success. Market standing received a geometric mean score of 0.17, followed in a very close cluster by all the others except public/social responsibility, which was clearly considered the least important at 0.07.

A two-tailed *t*-test for paired samples was performed. At the 95 per cent confidence level:

- the difference between "the managers" score and all the others was significant;
- there was no significant difference between "the employees" and "the customers";
- the difference between these last two and the others ranked lower was significant.

## Monism and customer orientation

This study set out to discover, from the AHP exercise in this instance, whether the subjects were monistic in their orientation towards any of the stakeholders in general, and to customers in particular.

In the *exit interviews* none of the subjects expressed support for any monistic orientation. All subjects were deliberately asked this question if they had not volunteered the information beforehand, and all subjects supported a pluralistic orientation towards stakeholder prioritisation. This applied even to those subjects who had voiced "the customer always comes first" sentiments early in the session. These exit interview data concur with the results of the computerised AHP decision prioritisation exercise itself. No subjects ranked any one stakeholder, including customers, as the sole stakeholder of importance, whether in total "for organisation success" or for any of the seven objectives categories.

Thus, as far as this research proposition was concerned, the AHP exercise provided no support whatsoever for either any monistic orientation or any customer-first-always position. Admittedly, there is a potential bias here in that

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an exercise of this sort makes it hard for any subject to reveal their possible monistic orientation because: (i) the pairwise comparison technique demands detailed consideration of pluralistic issues; and (ii) it would require both courage and a tolerance for considerable tedium for any subject to continually answer the same (monistic) reply to every pairwise comparison. Nevertheless the option to do so was available, with no respondents taking up this choice.

The main stakeholder groups

The specific ranking of *stakeholder priorities for organisational success* shows that, as a group, stakeholder importance was rank-ordered, as in Table II.

This does not mean that these subjects believed that these rankings would stay this way irrespective of any changes in circumstances, time or strategy. Nor does it mean that this ranking indicates the way it should be ideally in terms of ethics or their articulated needs. Both these topics are worthy of further research. What it does show is that, as a group, the subjects do not consider the customers to be a distinct group of consistent priority stakeholders necessarily ahead of the others.

At the normal confidence interval level of 95 per cent, the *t*-tests on two-tail tests reveal the interesting possibility of two groupings at the top. Because the difference between managers and all others is "significant" in the *t*-tests, the former can be regarded in this study as being regarded by the subjects as clearly the most important stakeholder group generally.

There was no "significant" difference between employees and customers, so they could be ranked as the second most important grouping together. In the AHP exercise, therefore, the default priority stakeholders are either the managers on their own, or (more logically) a combination of the managers, employees and customers. The case for "customers" has already been indicated in the marketing and strategic management literature. Some support for the inclusion of "managers" (especially Clarkson, 1994; Reichers, 1986; Perry, 1992, and some of the leadership literature) and "employees" (especially Rosenbluth and Peters, 1992; Wong and Perry, 1991; and some of the strategic management and internal marketing literature) is available. The concept of a group of consistently "senior" stakeholders constituting a default priority mechanism seems to be indicated. Notably, the marketing literature has generally been deficient in terms of accepting and emphasizing this grouping.

# Objectives prioritised

"Market standing" was clearly the corporate objective ranked most important. When discussing this with subjects, a common response was that this required

**Table II.**Rank ordering of stakeholder importance

1st managers

1st managers 2nd employees 3rd customers 4th competitors 5th the community 6th shareholders a customer and competitor focus traditionally, but that it had to be managed by managers and employees, especially in service businesses and the public sector. This is compatible with the stakeholder rankings suggested in the previous section.

Similarly, subjects ranked "profitability" as the next most important, frequently scoring and stating that customers, managers and employees were the major determining factors there. When probed about the importance of shareholders in this, most responded that this was an indirect or second-order effect. Some subjects indicated that, had they been thinking of major shareholders and institutional investors more specifically, they would have ranked them higher with regard to profitability objectives. This relationship would make an interesting topic for further research later.

The high rankings of "manager and employee performance" are clearly compatible with the results on those two stakeholders referred to earlier; the same consistency applies to the low ranking of the public/social responsibility objective and the community as a stakeholder. This latter low ranking set could be a function of "normal times" and might well have received higher importance scores, had there been recent news of community or environmental crises.

#### A final comment

The AHP has shown itself to be a useful tool in this case, and can readily be applied to other prioritising tasks in both marketing and strategic management. When marketers and others insist that they are orientated towards or focused upon a particular stakeholder group, the matter of strategic prioritisation is clearly involved. This study did not support a customer-first-always priority position. Future research, for example, could fruitfully use the AHP in a like manner within financially very successful organisations to examine any correlations. This study also indicates the importance of the strategic management of managers and employees to marketing, just as much as the attention marketers give to customers. This area is also ripe for further research and, if confirmed in successive tests, has very important implications for both marketing theory and practice.

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