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Relation Of Government Organizational Performance With Their External Stakeholder Satisfaction: A Qualitative Study In The Municipal Of Enrekang, Provinces Of South Sulawesi, Indonesia

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Abstract

Attainment of organization performance relates to participation of its external stakeholder. External stakeholder here defined as the group which having importance with organization and cannot be controlled by organization management. Existence of external stakeholder becomes of vital importance and influential to performance and continuity of organization life (Kasali, 1990). Therefore, management of the government organization needs to paying attention more to the importance of the external stakeholder. External stakeholders that become the focus in this paper are supplier/partners, citizens, and the activist group.

Keywords: external stakeholders, government organization, organizational performance, suppliers/partners, citizen, the activist group.

INTRODUCTION

Attainment of organization performance relates to participation of its external stakeholder. External stakeholder here defined as the group which having importance with organization and cannot be controlled by organization management. Existence of external stakeholder becomes of vital importance and influential to performance and continuity of organization life (Kasali, 1990). Therefore, management of the government organization needs to paying attention more to the importance of the

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external stakeholder. External stakeholders that become the focus in this paper are supplier, customer, and the activist group.

External stakeholder such as supplier and customer are a vital component for the continuity of organization life. 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, which are very relevant to the process and output yielded by governmental organization. Within this reason, hence this research focused at supplier, customer, and the activist group.

The organization 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 organization performance. Herewith is another example of organization 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 organizations in Sulawesi). "…in October 1998, there is a public group which called themselves Aktivis Perduli Lingkungan (which live around the organization plant) conduct a protest to organization by means of blocking a number of raw material vehicles of raw material on their way to the organization 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 organization production schedule and influences organization 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 organization management to make good relationship with its external stakeholder by way of increasing their satisfaction simultaneously in order to achieve purpose of the organization (Ogen & Watson, 1999).

Research Question

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

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LITERATURE REVIEW AND HYPOTHESIS

A organization 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 organization, this inveterate elements called as stakeholder (Kasali, 1994:63; Birkin & Woodward, 1997 : 58).

Organization ought to focus their attention to legitimate the needs and its related expectation of its stakeholder if they wish to survive in the long term. The importance of relation between organization 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 organization control and thus uncontrollable by organization. Customer or client has the right to choose, determines his own goods, and thus make the customer or client fought over by many producers. This situation is similar to supplier as supplier would be easier to move to other producer when dissatisfactory transactions occur between them and the organization. This situation also occurs between the organization and the group of activist and other community group. They can reduce organization image and can sue the organization in the name of justice when claim they is not fulfilled. This thing indicates that behaviors of these external stakeholders are beyond organization control. In consequence, the management needs to be proactive in responding to the importance and requirement (satisfaction) of their external stakeholder (Kasali, 1994:75; Marc Maurer, 2005: 93).

To build commitment to involve the external stakeholder with organization, hence organization need to built cooperation as suggested by Atkinson, et al (1997:29) which calls it as implicit & explicit contracts. Explicit contract relates organization 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. 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.

Empirical research about the relation of management stakeholder with organization 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 organization performance at United States Electric Utility. Variable to stakeholder researched was government, investor, regulator, with reputation and financial indicators as organization performance variable. It was concluded from this

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research that performance of organization 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 organization's finance performance. Research conclusion which has been done by Donaldson & Preston (1995) express that organization having manager which can adopt importance of main stakeholder has better performance than organization who do not (in Ogden & Watson, 1999).

Satisfaction of consumer, in this case related to the satisfaction of organization'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 standard forms 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 participations with organization, 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 organization, for example customer influencing organization's profitability, cash flow and market value. On the contrary, organization activity can influence level of prosperity of certain stakeholder in which certain public stakeholder group can obtain fund for their activity. Hill (1995) assumes that group of stakeholder contributes toward organization and organization gives incentives value (inducements) to stakeholder.

Stakeholder: Citizen

Companies nowadays focus their activity based on the customer importance (customer oriented). Some results of former researches also access the relation of citizen to organization's finance performance. Result of research by Frooman (1997), for example, concluded that there is real relationship between reaction of stakeholder (citizen) to irresponsible & illegal organization activity. For instance, organization'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).

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Hill and Jones (1995) states that customer gives contribution to organization in the form of improvement of sale and profit, and at the same time organization give inducements to customer in the form of supplying them with quality product and the right price. Kasali (1994) haves a notion that satisfaction of customer to organization 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 organization'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 organization (in Berman et al, 1999). With other word, there is a positive correlation between satisfaction fulfillments of the customer with improvement of organization profitability.

Preposition 1: “There is a significant correlation between the external stakeholder’s levels of satisfactions (in this case customer) with improvement of organization performance.”

Stakeholder: Suppliers

Supplier is an individual or group of people providing goods or raw material used by organization for their production activity. Existence of this group plays important part especially at manufacturer firm because they must meet organization’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 organization would face difficulties in providing product quality standard, which in the end will reduce enthusiasms to purchase organization’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 organization performance. On the other hand, supplier also has importance to organization and organization also gives incentives (inducement) to supplier. Hill et al (1995) express that supplier requires organization 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.

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Supplier satisfaction thus can influence supplier's consistency in supplying raw material according to the cooperation contract with organization. This condition in the end will give organization 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.

Preposition 2: "There is a significant correlation between levels of satisfactions of the supplier with improvement of organization 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 organization existence.

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

Result of research by Waddock & Graves (1997) mentions that by having good relationship with the group of activists, organization's performance can be increased because good relationship helps reduce cost of dispute and the effect of regulation that proof otherwise to be a burden to organization (in Berman et al, 1999). Furthermore, what is termed as the group of activist's satisfactions to organization relates to the contribution of organization to the community. This organization'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 activists, which resides at local communities. Local community thus referred to as those who live and active around the organization's site. Local community gives contribution to industrial organization in the form of location; local infrastructure; access to operate; quality labor and the climate that is both conducive and sound for the organization to operate. On the contrary, contribution of the organization to local

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

Preposition 3: “There is a significant correlation between levels of satisfactions of the group of activist with improvement of organization performance.”

RESEARCH METHOD

Research method applied by the author in this research is qualitative by nature. Thence, the purpose of this paper is to study the problem descriptively and verified it by giving a throughout description and then discussed any relation between ideas in a critical or supportive way.

Research Approaches

In the Municipality of Enrekang, we conducted an interview, document collection, and observation to Government Employee and their related stakeholder. There are six community groups in this municipality at the time this research conducted. Each organization has number of suppliers/partners, citizens and separate group of activists.

DISCUSSION AND CONCLUSION

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

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

1. There is positive correlation between organization performances with each level of the external stakeholder’ satisfaction (supplier, customer, and the group of activists). 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.

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2. Supplier has the highest correlation coefficient; this indicates that management of the organization 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 organization, in consequence organization haves no choice except taking care of the relation they have with its supplier.
3. Relation between organization with its external stakeholder (supplier, customer, and the group of activists) is in the form of functional symmetrical relationship.

The organization's management needs to adapt with the changing needs of its entire external stakeholder. The improvement of organization performance will be realized as the satisfaction of external stakeholder is fulfilled by organization. Future research questions that need to elaborated in the future are: "How big are the implications of other external stakeholder to continuity of organization life in the future?".

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Biro Pusat Statistik: P. Sulawesi: Prop.Sulawesi Selatan; Prop. Sulawesi Tenggara, Sulawesi Utara dalam Angka

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