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TE WANANGA ARONUI O TAMAKI MAKAU RAU

# Enterprise and Innovation

## **Meridian Energy and Project Aqua: A Study in Stakeholder Identification and Salience**

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**Research Paper Series  
Faculty of Business  
ISSN Number 1176-1997**

**Paper 28-2006**

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A STUDY IN STAKEHOLDER IDENTIFICATION AND  
SALIENCE**

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Printed by PrintSprint, Wakefield St., Auckland, NZ

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ABSTRACT

*In 2004 Meridian Energy, a New Zealand State Owned Enterprise, announced its decision to cancel Project Aqua, a power generation scheme that would have involved the construction of six dams on the lower Waitaki river, in the South Island of New Zealand. The decision is interesting in terms of its implications for stakeholders who, as a consequence of transformation in the public sector, have arguably few formal avenues to pursue in challenging the decisions of managers of these enterprises. This paper applies a stakeholder identification/salience framework in exploring the position of, and strategies utilised by, those seeking identification and response from managers. A focus to this exploration is provided through reference to an important theme, that of the symbolic importance of the river – as location and as resource. The conclusion reached as a result of this exploration is that both those seeking recognition as stakeholders and decision-makers within organizations should be cognizant of the implications of socio-legal context on strategy and policy*

## INTRODUCTION

In April 2001 Meridian Energy Ltd (Meridian), released plans for a hydro-electricity generation scheme known as Project Aqua. This scheme involved the diversion of up to 73% of the mean flow of the lower Waitaki River (a braided river in the South Island of New Zealand), through a canal incorporating six generating stations before its return to the river six kilometres above the river-mouth. For justification, Meridian used language that reflected the urgency, depicted the benefit and the importance of the project in addressing “New Zealand’s looming energy crisis” (Sheen, 2004). In the absence of new projects such as Aqua, within a few years the country would not be able to meet its growing demands for energy and its economic base and well-being would be threatened. Any significant delays to the project through public opposition would only make the situation worse.

Nearly three years later, on the 29<sup>th</sup> March 2004, Meridian announced its decision not to continue with the project. The reasons given for this decision emphasised uncertainties surrounding the project; uncertainties implicit in the resource consent process as to water rights vital to Meridian and uncertainties for those who would be affected directly and indirectly by the construction (Meridian, 2004: 30; Fallow and Young, 2004). However, both the decision and these uncertainties have been seen by some as a function of vocal and vociferous opposition from sections of local communities and the population at large (Fitzsimons, 2004; Bruce, 2006).

This paper has two principle objectives. The first is to identify those “sections of local communities and the public at large” who opposed the project and to establish whether and how their opposition could result in a decision to cancel the project. The second objective is to explore the broader question of how those that may not have a direct relationship with, or role in, an organisation (often referred to as stakeholders), may nevertheless attract attention and reaction from the management of that organization. In addressing these objectives, this paper is organised as follows.

Part one of the paper offers a contextual and theoretical framework for consideration of these objectives. In Section One, an overview of the legal and economic context in which Meridian made this decision is explored. In addition, background information is provided on the electricity industry in general and on Meridian in particular, information that helps justify the focus of this paper.

Section Two offers a rationale for the application of stakeholder theory (SHT) to this study. This rationale takes the form of firstly, a brief introduction to the theoretical positions on the responsibilities of business organizations and the focus of relevant research. Secondly, some of the definitional and scoping issues of relevance to SHT are considered. Finally, and with reference to these issues, a theoretical framework proposed by Mitchell, Agle and Wood (1997) for stakeholder identification and salience purposes, is introduced and its principal characteristics identified.

Part Two of the paper narrows the focus of the discussion with an examination of the debate that the Project Aqua proposal was to generate. The first of these sections included in this part (Section Three) documents the opposition to the project and provides insights into the reasons for the success or otherwise of individuals, groups and interests in affecting the decision made by Meridian to cancel. (Although issues arising within the relationship of Meridian and its stakeholders continue to attract attention, an exploration of those issues is beyond the scope of this paper.) The final section (Section Four) offers some conclusions as to the significance of this study to stakeholder theory, and identifies avenues for future research.

## **I. CONTEXTUAL AND LEGAL FRAMEWORK**

### **SECTION 1. THE LEGAL AND ECONOMIC CONTEXT**

The New Zealand public sector has emerged from two decades of reform, wrought through various mechanisms and with impacts ranging from the relatively minor to what some commentators have defined as “transformation”. Although such reform has involved a plethora of strategies, processes and changes in policy direction, one that stands out is corporatization (whereby a commercial activity previously carried

out under the auspices of a Government Department or agency is restructured as a commercially focused corporation). An industry particularly affected by such a series of changes, including that of corporatization, is that of electricity.

By way of plotting the implications of these changes, what follows is a brief introduction to the concept and relevance of transformation. Particular reference is then made to the principal model for corporatization in the New Zealand public sector (specific to those organisations designated as State Owned Enterprises or SOEs, of which Meridian is one), for both its characteristics and overall implications. This is followed by an overview of the range and implications of electricity industry reform, most specifically to its generation arm.

### *Transformation and the New Zealand Public Sector*

Transformation is a term used to denote changes to an organization or its environment that go beyond the incremental, small or gradual. Wischnevsky (2004: 367) applies the term to simultaneous major changes in key organizational dimensions, and Romanelli and Tushman to “radical, brief and pervasive change” (1994: 1168). In identifying transformation by reference to its consequences, Erakovic and Wilson cite the conclusion by Hinings and Greenwood (1988) that “current structures and interpretive schemes lose their legitimacy, and new norms and different patterns of structural arrangements emerge” (2005: 295).

Is it valid to apply this term to the restructuring of a Government organization whether by way of corporatization or privatization? De Castro, Meyer, Strong and Uhlenbruck et al (1996) argue that privatization of an existing SOE, “forces executives and public policy makers to deal with the fundamental differences between public and private organizations” (1996: 376). In examining the experience of those affected by such privatization, they highlight the “significant implications” for shareholders, employees, customers and the general public (1996: 373). Finally, they conclude that the “impact” (shaped by such factors as acceptance of foreign capital, the ability to exert political pressure and cultural resistance to change), depends both on the characteristics of the privatization process and on the structure of the organization itself. Perry and Rainey (1988) take a slightly different approach in arguing that rather than making a distinction between the impacts of privatization

*versus* those of corporatization, it is appropriate to locate the impact of changes to organizations, whether public or private, on a continuum. The point any given organization occupies on that continuum depends on ownership, funding and modes of social control (1988: 195). Their argument is worth noting because it acknowledges the ability of an SOE to mimic one that is privately owned, thereby blurring the distinction between the two. In addition, it implicitly recognises the contribution of environmental factors to the outcome of the process.

More specifically to corporatization, Erakovic and Wilson (2005) elect not to distinguish between it and privatization when analysing impacts of the respective processes as transformation. In addition, some critics of the process of corporatization, or specific instances of it, have judged it tantamount to the breaking of a “social contract” (that involved publicly owned and operated (by central government and local authority) businesses for the social good moderated by a Government through the medium of democracy (Easton, 1990; Swain, 1992)). If indeed such a social contract is a tacit “agreement” between individuals and the state that some individual rights be surrendered for the common good (Rousseau, 1762), and is traditionally an inherent part of the relationship between the citizen and the state, a change that breaks this “contract” is arguably little short of radical.

So what are the characteristics of this corporatization that is deemed transformation? Although not the only model applied in the restructuring process, of particular relevance in this context is the State Owned Enterprises model (as codified in the State Owned Enterprises Act 1987 and, at the local government level reflected in the Local Authority Trading Enterprise (LATE) model).

The overall objective of the process of corporatization in accordance with this model is the “improvement of allocative and productive efficiency through the removal of competitive constraints at the macro-economic level, coupled with increases in commercial efficiency at the micro-economic level” (Boston, Martin, Pallot and Walsh, 1996 as cited in Erakovic and Wilson, 2005: 300). The mechanisms for realising this objective are specified in the legislation.



Firstly, the Government (through the medium of two Members of the Legislature holding executive office (the Ministers for State-owned Enterprises and (normally) of Finance)) (CCMAU) assumes the role of (sole) shareholder. This role is both separate from, and additional to, those normally associated with Government (e.g., industry regulation/taxation/purchasing). Management responsibilities are in the hands of a private enterprise - experienced Board of Directors. The relationship created thereby between the shareholder/government and the Board discourages continual and direct political influence over the strategic direction of the SOE.

Secondly, the Government stands as a disinterested<sup>1</sup> party at arms-length to a Statement of Corporate Intent (SCI). This statement is formulated by the Board and accepted (possibly after a period of negotiation) by the Minister of State Owned Enterprises (on advice from the Crown Company Monitoring Advisory Unit (CCMAU)) and tabled in the Legislature (House of Representatives) upon that acceptance. This SCI includes financial and operational objectives and, importantly, identifies and values any explicit social objectives a Government (as sole shareholder) stipulates that the SOE pursue, and for which the SOE seeks compensation from the Government.

Thirdly (and for some commentators theoretically), such an enterprise is exposed to those forces that shape the markets in which it operates, just as would a privately owned player. These forces include generally applicable legal rules and parameters to acceptable conduct. Consequently, competitors, customers, financiers, employees and others who might be affected by its operations can expect an SOE to play by the rules of the game. (The use of “theoretically” above acknowledges the views of critics that the purported exposure is seriously hampered in many cases by such realities as a limited market size, restricted sources of capital and the exercise of political will (Marsden, Poskitt and Small, 2004; Hosking, 2005)).

Finally, managers are charged with making strategic decisions using similar criteria to those applied in the private sector. Such criteria can be described either as referenced to directly financial concerns (particularly rate of return and cost of capital), or those that are non-financial (or at least indirectly connected to financial

considerations), including not only commercial regulation but also evaluation of market logistics, business risk and opportunities.

How relevant is such transformation to the New Zealand electricity industry? Indicatively, Erakovic and Wilson refer to the industry-wide regulatory and structural changes between 1987 and 1995 in justifying their selection of Electricity Corporation of New Zealand (ECNZ) as one of their five instances of SOEs experiencing radical transformation, these changes including the 71% drop in employee numbers over 1985-1995 (although part of the percentage can be attributed to the dis-integration of the sector generally and as such does not necessarily imply job losses per se). To better understand the scope of the changes that have occurred in and to the industry since 1987, and the significance of those changes to the immediate instance of Project Aqua, it is useful at this point to highlight the characteristics of the period of state involvement that began in 1903.

#### *Electricity Industry, its History and Structure*

For much of the period 1903-mid 1990s, the electricity industry in New Zealand has served as a lynchpin for a government policy stream that has not only involved the establishment and regulation of framework at all levels (generation, transmission and distribution) but also from 1910 direct participation by the State in the construction of both generation and transmission facilities. From 1918, secure, cheap and plentiful electricity supplied through a national network of large government-constructed stations was envisaged as the means of attracting industry from other parts of the world. A year later, the Industries Committee (an ad hoc Committee of the House of Representatives) confirmed an extant political preference for hydro-electrical generation (sometimes colloquially referred to as hydro), a focus that would endure, albeit somewhat eroded in later years by a growth in the use of thermal and geothermal resources.

It should be noted that this political preference for hydro has not necessarily attracted unanimous and enduring support from the electorate. Since the 1970s in particular, new projects have attracted opposition in respect of such consequential modifications of the landscape as realignment of water courses, and lake creation

and modification (some examples of lakes having been affected or created along with resultant effects for rivers include Benmore (Waitaki river), Aviemore (Waitaki river), Dunstan (Clutha river), Manapouri (Waiau river), Karapiro (Waikato river) and Taupo (Waikato river, Tongariro river).<sup>ii</sup>

The history of direct State involvement in the industry is not limited to construction. As well as ownership and control of virtually all generation facilities and the transmission network (the national grid), it also determined generation policy, initially through the Ministry of Public Works and then the New Zealand Electricity Department (NZED), a stand-alone department from 1945, although often headed by the Minister of Public Works. (When the NZED was first restructured as the Electricity Corporation of New Zealand (ECNZ) in 1987, it generated over 95% of New Zealand's electricity (Spicer, Bowman, Emanuel and Hunt, 1991)).

Finally, although direct responsibility for distribution (low voltage lines and retail supply) was placed in the hands of elected local-government boards, the State maintained indirect involvement over the makeup and activities of boards by way of the Electric Power Boards Act 1918 and successive legislation.

The first step towards industry-wide restructuring was taken in 1987 with the creation of ECNZ (to replace NZED) as one of the original nine SOEs, a step later dwarfed by others. In 1992, all electricity distribution activities at local authority level were required to be corporatized as LATEs. Two years later, Transpower was established as a stand-alone SOE with a single focus and sole responsibility for the national grid (Transpower, n.d.)). In 1996 the original ECNZ was restructured as two companies (ECNZ and Contact Energy – the latter privatised in 1999) and a wholesale market mechanism (NZEM), based on a North American model of full nodal pricing, implemented.

The Electricity Industry Reform Act 1998 heralded a raft of changes, including limiting cross-over ownership of “wires” (local distribution networks) with “electricity generation and retail” to 10%. The effect of this stipulation was almost immediately noticeable - within eight months all 34 electricity distributors, most of them LATEs, had sold their retail electricity supply business and any generation assets they held.

In addition, the generation market was opened to new players private or public; 40% of Contact was sold by contract to Edison Mission and 60% through public float; and ECNZ split into three purportedly competing SOEs (Meridian Energy, Mighty River Power and Genesis Energy). Ownership of these three corporations remains in the hands of the State.

Later reforms initiated after 2000 by way of amendments to the Electricity Act have emphasised accountability and responsiveness standards in the industry with the establishment of the Electricity Commission as the market overseer and with a standby government-owned generating station increasing supply security.

As of 2006, hydroelectricity generation generally continues to provide between 60-70% of output in any given year (although lows of 59% were recorded in 2001 and 2005 (Statistics New Zealand, 2006), due to a combination of low water inflows, decline in relative capacity and an over-all growth in demand for electricity). The industry generally is characterised by a high degree of vertical integration and domination of both the generation and retail markets by the four large operators (88 and 85% respectively (New Zealand Electricity Commission, 2005: 14)). Although there are some privately-owned and trust-controlled generators with TrustPower and Todd Energy being the largest, all are small players with little market power. As some indication, TrustPower, while having a respectable 12% retail market share with 230,000 customers, generates only 5% of the total output (NZ Electricity Commission, 2005: 14).

In summary, it is possible to identify three broad implications arising from these recent changes to the electricity industry. Firstly, the deregulation and dis-integration of the industry has implied also an abrupt abandonment of the historical theme of cheap and plentiful electricity as the driving force for economic and social development in New Zealand. Secondly, the removal of the industry from its central position in Government policy along with the sale of Contact and the privatisation/corporatization of much of the distribution sector, has generated debate at all levels as to the future ownership and control of this traditionally most essential of industries. Finally, a high degree of geographical separation frequently evident between the generation facilities and the use of its output raises also the potential for

different communities or sections thereof to experience quite different impacts from the activities of the SOEs.

Where does Meridian Energy sit within this transformed industry? Insofar as its business operations overall are concerned, market statistics demonstrate its relatively strong financial position (although Young (2006), the Managing Director of Alliant Energy Ltd,<sup>iii</sup> argues that all the generators, but particularly the SOEs, are financially underperformers that rely on asset revaluations to improve their bottom lines). Its net operating surplus for 2005 is reported as NZ\$218.2 million (up from \$132.9 the previous year) (Meridian Energy 2005) while its return on equity stood at 9 – well above both that for the previous year (5.7) and budget (although this did take into account an upwards revaluation of assets – the basis of Young’s criticism).

More specifically, it is the largest electricity generator in New Zealand. For the year 2005 it accounted for some 32% of output (Ministry of Economic Development, 2006), almost exclusively from hydro-electricity sources in the southern part of the South Island; eight dams in the Waitaki catchment area (approximately 1, 703 MW total generating capacity) and New Zealand’s largest single station on Lake Manapouri in Fiordland (590 MW). These statistics can be compared to those for Contact Energy Ltd, the second highest producer for that year,<sup>iv</sup> with a little over 28% of the total output. Just two of Contact’s plants are hydro-generators (Clyde (432MW) and Roxburgh (320MW)), with the remaining eight geothermal or gas (producing approximately 1340MW) (Scoop, 2006).

Some indication as to the range and nature of the corporation’s non-commercial or indirectly commercial activities can be obtained from the relevant sections of Meridian’s 2005 Annual Report (Meridian Energy 2005). Starting at p30, Meridian reports on what might be described as environmental “rules of the game” (remediation of areas affected by generation or mitigation of its environmental effects – trout spawning grounds, removal of willow trees and maintenance/restoration of habitat and disclosure of environmental information (Meridian Energy Limited, 2005)).

Although these can be seen as largely shaped by the fundamental principle of the Resource Management Act 1991 (“sustainable management” (s5)), they also reflect a series of agreements reached on the management of the catchment as part of the water rights application process completed under the now repealed Water and Soil Conservation Act 1967 (WSCA). The parties to these agreements were the then ECNZ and others, including Ngai Tahu (the local “people of the land” or Tangata Whenua), the Crown through the Department of Conservation (DOC) and a range of other recreational, environmental and irrigation interests (Ministry of Agriculture and Fisheries , 2004: 30). As Meridian assumed responsibility for these agreements on its succession to ECNZ’s assets and operations in the area, it now stands as party to their terms.

The broadest of these agreements is the ECNZ Waitaki Water Rights Working Party Agreement that provides for on-going consultation and discussion of the effects of hydro generation with all of the above groups and interests. Separate agreements were reached with specific parties, including DOC (resulting in Project River Recovery), South Canterbury Fish and Game (SCFG) (providing for river stocking, on-going consultation and provision of information by ECNZ), the New Zealand Canoeing Association (NZCA) (for a canoeing course) and the Royal Forest and Bird Protection Society of New Zealand (RFBPSNZ) (under which ECNZ undertook to arrange studies in to the impact of spill on wading birds and agreed to adhere strictly to consent conditions) (Ministry of Economic Development (MED), 1998).

Finally, an agreement between ECNZ and what were collectively referred to as the “Lower Waitaki Irrigators” (including Lower Waitaki Irrigation Company, Maerewhenua District Water Resource Company Limited and the Morven Glenavy Ikawai Irrigation Company, who were also parties to the Working Party Agreement), provided that ECNZ would, *inter alia*, fund the costs involved in developing appropriate inflows into the irrigation systems (Ministry of Agriculture and Fisheries, 2004: 30). The parties would consult twice-yearly on issues arising from the agreement.

Perhaps of most significance in the immediate context, this network of agreements reflects the range of interests originally identified by ECNZ as

stakeholder interests, and acknowledged as such by Meridian on its establishment (Moss, 2005: 5). Consequently, Meridian's compliance with their terms, and periodic consultation with the parties, continues as part of what is identified by the company as "stakeholder management" (Meridian, 2005: 2).

However, Meridian's non-commercial activities are not limited to those associated specifically and overtly with stakeholder management, and often benefit groups outside these stakeholders either geographically and/or conceptually. The Meridian Energy Celebrity Walk Week takes in tracks in Fiordland (the location of the Manapouri power station), and the Waimate Strawberry Fare supports community activities in an area in which Meridian operates its generating business. However, and by way of contrast, the sponsorship by the corporation of the Wellington Sculpture Trust, the Royal New Zealand Ballet and Wellington Summer Festival provide benefits to areas that are remote from its centre of operations, and support for activities outside those that could be considered aspects of its core business.

How then are they justified? In doing so, Meridian makes reference to its legal responsibilities as an SOE, particularly those specified in s4 of the State Owned Enterprises Act. The heading to this section spells out the key objective of an affected corporation thus: "to operate as a successful business". In addition to achieving profitability and efficiency (s4(1)(a)) this entails the SOE being a good employer (4(1)(b)) and exhibiting " a sense of social responsibility" (4(1)(c)).) The sponsorship arrangements are linked to the last of these three clauses (4(1)(c)).

Although outside the scope of this paper, such cause and activity-based support (along with the extant shareholder relationships) raises broader questions as to how management makes a distinction between those who should, and those who should not, have a claim on Meridian's attention and the implications of such a distinction. What is relevant in the context of this paper is whether and how specific interests contributed to Meridian's decision to cancel Project Aqua.

Reference to stakeholder theory (SHT), and more particularly an identification/salience theoretical framework, potentially offers some insights into this matter. As justification for the selection of both theory and framework, what follows is

a brief introduction to the scope and implications of SHT and a description of the framework selected.

## SECTION 2. STAKEHOLDER THEORY, SCOPE AND IMPLICATIONS

For an organization carrying out business activities, few issues are more controversial than that of its role in society and its resultant accountability/responsibilities to individuals, groups and interests within that society. On one side of the debate are ranged the advocates for the single-dimension “Friedman paradigm” or shareholder theory (Friedman, 1962:133; Coelho, McClure and Spry, 2003:15) (according to which shareholders or owners are identified as constituting the sole group to which decision-makers, or managers, bear responsibility, albeit modified by legal and contractual obligations that should be observed (the rules of the game)). On the other side are contributors to a growing body of literature on stakeholder theory (SHT) who conceptualise such an organization as a social actor responsible either legally or morally to a range of internal and external constituencies.

Despite the above, it should be noted that the focus of research on the justification, scope and applicability of SHT has not been solely that of business organizations in the private sector. Organizations that may be non-commercial, publicly or state-owned have also attracted attention from those researching stakeholder issues. For example, Heath and Norman, 2004 examine Enron; Tsogas, Komives and Fuller, 2005 highlight the importance for water-service providers of involving stakeholders in their decisions, while Kusnanto (2002) considers stakeholder issues in relation to health care and Scholl (2001) e-Government.

However, whatever the nature, focus or objectives of an organization, there is still no consensus as to whom or what is a stakeholder. While Freeman classified shareholders, suppliers, employees, customers and the community as the “big five”, he did not limit the definition to those five groups: his “now-classic” (Mitchell, et al: 855) definition deems a stakeholder to be “any group or individual who can affect or



who is affected by the achievement of the organization's objective" (1984: 25), a potentially limitless class.

Indicatively, Mitchell et al describe the no fewer than 28 different definitions of stakeholder that range from the relatively narrow (voluntary or involuntary risk-bearers (Clarkson, 1995)) to the very broad (Freeman and Reed 1983) as delivering a "maddening variety of signals" (Mitchell et al: 853). Those described as having a "direct" or "primary" relationship, influence, effect or interest (including shareholders, employees, customers, suppliers, debtors and creditors) are joined by those whose relationship, influence, effect or interest is "indirect" or "secondary" (Waddock, 2002). Examples of the latter include such disparate and overlapping collectives or social concepts as competitors, the media, Government, special interest or pressure groups in the community, the community itself, the public, the environment (Freeman, 1984; Brenner and Cochran, 1991; Donaldson and Preston; Goodpastor, 1991; Tsogas et al., 2005), those usually thought of as having an interest or stance that is adversarial (Tsogas et al., 2005), and even terrorists, blackmailers and thieves (Jensen, 2001).

To address the identification and analytical uncertainties emanating from the above lack of consensus, Mitchell et al propose a two-faceted theoretical framework for establishing the "principle of who or what really counts" (Freeman, 1994, Mitchell et al: 853). Firstly, a normative theory of identification (predicated on a concept of a "latent" stakeholder in recognition of their possession or apparent possession of at least one of three attributes – power, legitimacy or urgency (Mitchell et al: 859 *post*)) separates the "stakeholder" from the non-stakeholder. "Power" they define as coercive, utilitarian or normative and acknowledge as transient or permanent. Secondly, legitimacy, which lends authority to the exercise of power, is based on social norms and meanings as well as those implicit in law. Such a broad definition acknowledges the potential for stakeholders and their claims to be recognized outside those formally designated. Finally, "urgency" is identified as both a situational and stakeholder-centred catalyst for the exercise of power.

However, they consider that the identification of a stakeholder by reference to one or more of these attributes is not of itself adequate as an indicator of success. A latent stakeholder by virtue of such possession or apparent possession may

nevertheless fail to have his, her, its or their claim and/or relationship acknowledged and addressed by managers. Thus it is necessary to establish to whom (or to what) do managers pay attention? Mitchell et al argue that such attention is a function of situational uniqueness and managerial perception. The more attributes management deems a given stakeholder possesses, and the greater the relevance of those attributes to a given decision, the more likely it is that managers will pay attention to that stakeholder in making that decision.

In summary, two important assumptions underlie this identification/salience theoretical framework. Firstly, stakeholder attributes are variable (being neither stable nor objectively determinable) and secondly, the relationship between the organization and its set of stakeholder constituencies is dynamic (subject to change over time and circumstance). As a corollary, both the identification of stakeholders and managerial response are shaped by changes in the organization or in its surrounding environment, and/or strategies employed by the stakeholder or organization (Mitchell et al: 859).

Four preliminary comments should be made before exploring the debate surrounding Project Aqua by reference to this theoretical framework. Firstly, an emphasis (although not an exclusive focus) on enunciations appearing in the media is justified by the importance of this influencer (Donaldson and Preston, 1995) in providing links between different stakeholder interests (Carter and Deephouse, 1999); Mahon and Wartick, 2001).

Secondly, three criteria have been applied in the selection for discussion of two separate latent stakeholder categories (hereafter in the interests of brevity generally referred to merely as stakeholders). These are in turn, criteria one: at least one of their claims or interests is at opposite ends of the spectrum in reference to a prominent theme that emerged in the course of the controversy. Although various such themes could have been selected, one that has been selected for its illustrative value is the symbolic significance of the Waitaki river. In addition, a focus on such a symbol makes it possible to group what may otherwise be considered a multitude of interests under one rubric. Criteria two: at the outset these stakeholders possess or apparently possess at least one of the three attributes (legitimacy, power and/or

urgency) specified by Mitchell et al as a prerequisite to identification as such. Criteria three: it is possible to isolate and analyses their success or failure in improving salience through acquisition of attributes. Any complications that might arise from multi-category membership or conflicting intra-category interests have for this purpose been ignored.

Thirdly, although Mitchell et al focus in urgency from the point of view of the stakeholder, it is apparent that in driving a stakeholder to exercise power, urgency also acts to shape management's response to that stakeholder's claim. This reactive implication is identified in the course of the analysis.

Finally, acknowledging that "power gains authority through legitimacy, and it gains exercise through urgency" (Mitchell et al: 861) (thereby implying that legitimacy provides grounding for power and urgency the catalyst), the decision was made to consider the possession or lack thereof of the three attributes in the following order: legitimacy, power and urgency.

Presentation of the analysis is as follows. Firstly, introducing the prominence and nature of the theme identified above provides context and justification for the selection of the stakeholders. Secondly, "before" and "after" assessments of attributes possessed and gained are offered in tabulated form for each of the contrasting stakeholders and ranked "weak" (w), "strong" (s) or "medium" (m). This ranking is preferred to a possession/non-possession dichotomy as it better acknowledges the reliance a stakeholder may place on an attribute that may nevertheless be of little significance, and also signals the effect an increase in strength of a given attribute might have on salience. In addition, it offers a means of plotting the success or otherwise of strategies that may be adopted by such stakeholders in attempts to improve that salience. These rankings are then explained, justified and conclusions drawn.

## **PART II. THE CASE**

### **SECTION 3. PROJECT AQUA**

Meridian positioned its Project Aqua proposal as a positive articulation of themes of “sustainability” and “environmental responsibility” (Meridian Energy, 2003:1-3). The website speaks also of its “aim to become the best performing sustainable energy company in Australasia” (Meridian Energy, 2003a),<sup>v</sup> the on-going public benefits to be derived from the creation of artificial lakes and its enduring dedication to water quality. The cynic could dismiss these articulations as mere hollow puffery or at best as acknowledgement of its legal responsibilities under the State Owned Enterprises and Resource Management Acts. However, reference in this context to such statements is made for another reason; it is evident from the opposition to the Aqua proposal that Meridian’s claimed contribution to environmental sustainability through the construction (and by extrapolation its connection with the “clean green New Zealand” image), failed to resonate positively with a range of stakeholders. As explained above and described below, the positions of two of those stakeholders (“passive” and “active” users) were connected with the Waitaki River and its symbolic meaning.

#### *The Symbol of the River – Meaning for Stakeholders*

The main distinction between these two stakeholders is how they view the river – as a place or as a resource. By way of elucidation, passive symbolism is important for anglers who describe it as a “unique angling experience” (NZFFA, 2004) and therefore its use for electricity generation as “misguided” (Bruce, 2003), by ecologists who view it as a system vulnerable to man-inspired and wrought changes (Bramley, 2003), by visitors as a site for such peaceful and slow-paced recreational activities as kayaking and swimming, and by local commercial interests as an essential component of a total scenery package attracting tourists and holiday-makers.

The virtue claimed for the river by such passive users stands in sharp contrast to the meaning given by active users (who see it principally as a resource). This latter category includes such disparate collectives as Meridian itself<sup>vi</sup> (eight power stations located at different places along the river are capable of producing 1738MW of

electricity for Meridian annually (Meridian Energy, 2004: 32)), farmers cultivating the chronically dry land that borders the river (for whom the Waitaki as an irrigation resource feeds and sustains a vision of renewal), and those tapping it for potable water supplies.

Passive and active users of the river are therefore those groups or interests that satisfy the three criteria for selection as subjects in this analysis; they feature most prominently as latent stakeholders (with at least one attribute) in reference to the river (and at least one of their interests and/or claims stand at opposite ends of the spectrum), and they adopted strategies in an attempt to increase salience. The effectiveness or otherwise in so doing is explored in the following section, with reference to a table that summarises the “before” (latent) and “after” (acquired) positions of the two stakeholders.

#### *Passive v Active Users*

By way of reminder, legitimacy may be based on a narrow definition of legal rights (therefore derived from locus standi or legal standing) or a broader concept of social acceptability. Passive users of the Waitaki generally lack the direct (or even indirect) connection and legal standing with a commercial organization such as Meridian that might be claimed by an employee, creditor, tort victim, consumer or competitor.

This does not mean they are without legal status (or *locus standi*). Such status can be based on two grounds, these being statutory and contractual (pursuant to a legal claim on Meridian). Statutory status is largely a function of the provisions of the Resource Management Act 1991 that explicitly provide for participation by interested and affected parties in the resource consent process. Consequently, those opposing the use of the river for Project Aqua (or any other exploitative proposal for the river) were legally entitled to take their concerns to the local authorities responsible for making decisions on resource allocation (the Otago Regional Council and Environment Canterbury) and the proposed dam constructions (Waitaki and Waimate District Councils). In addition they had the right to appeal any or all of those decisions to the Environment Court, provided always that their claim, interest or objection satisfied the requirements of the Act. Given their nature and characteristics, the basis of such a claim, interest or objection would most likely involve a reference to amenity

values (however defined) and the negative effect the proposed works would have on those values.

<b>Stkh</b>	<b>Legitimacy</b>		<b>Power</b>		<b>Urgency</b>	
	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>	<b>Before</b>	<b>After</b>
	<b>Legal - Claim on corporation?</b>		<b>Coercive?</b>		<b>Time Critical?</b>	
<b>P</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>S</b>
<b>A</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>S</b>
	<i>Legal -Statutory Right?</i>		<b>Utilitarian? Superior Financial or Material Resources?</b>		<b>Critical relationship?</b>	
<b>P</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>
<b>A</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>
	<b>Social?</b>		<b>Utilitarian? Legal Recourse?</b>		<b>Critical claim?</b>	
<b>P</b>	<b>S</b>	<b>S</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>
<b>A</b>	<b>M</b>	<b>M</b>	<b>W</b>	<b>W</b>	<b>W</b>	<b>W</b>
			<b>Normative?</b>			
<b>P</b>			<b>S</b>	<b>S2</b>		
<b>A</b>			<b>N</b>	<b>S</b>		

*Table: Attributes of Stakeholders, both Latent and Acquired*

*Latent Attribute One - Legitimacy*

The State-Owned Enterprises Act, particularly its requirements as to the decision-making process, is another potential source of legal status. As identified above, provisions in the statute militate against direct political interference in the decisions of the Board, a position that renders political action (such as lobbying or petitions) of doubtful efficacy. In addition, with Government as sole shareholder, the prospect that

individuals and groups could convey a message of disapproval through share trading or other security market-specific practices (available with privatized businesses) is unlikely if not impossible.

This leaves s4(1)(c). *Prima facie*, the expectation that an SOE will “exhibit a sense of social responsibility” (an obligation recognised and reported on by Meridian (Meridian Energy, 2005:33)) suggests that it has extant responsibilities to a wider range of potential claimants (stakeholders) than does a privately owned corporation, *and* that those affected by its decisions could take action to enforce such responsibilities. However, as evidenced by instances of statutory interpretation, this link is tenuous at best. In such cases as *Federated Farmers of New Zealand (Inc) v New Zealand Post Ltd* [1994] 1 NZLR 551, *Air New Zealand v Wellington International Airport Ltd* 15 October 1993 (unrept) and *Airways Corporation of New Zealand Ltd v Geyserland Airways Ltd* [1996] 1 NZLR 116 the courts have held ss1(a) of paramount importance with the other subsections subject to that imperative. As a further indication of its limited applicability, McGechan J. in *Airways Corporation*, held that the reference in 4(1)(c) to “social responsibility” does not imply that the decisions of the SOE were subject to legal challenge by specific groups or individuals; it merely empowers the Government by way of the SCI process to decide whether a specific SOE was fulfilling this requirement.

Contractually-derived legal legitimacy comes via the ECNZ Waitaki Water Rights Working Party Agreement 1990 and those subsidiary agreements with such bodies as DOC, SCFG, NZCA and RFBPSNZ. However, the basis of that legitimacy is limited by the scope of the relevant agreement. All are largely concerned with consultation with no provisions for consequences should any aspect be breached. The only possible enforceable imperative is that of review: the Working Party agreement included a clause to the effect “that the parties agree that the Canterbury Regional Council be requested to issue the rights for a term of 35 years ... with a review every seven years, to examine their appropriateness and efficiency” (MED: 3.2). However, the report by the MED goes on to explain that “the water rights do not include this review clause as a consent condition, and in fact could not have been, as a review mechanism was not provided for in the [WSCA]”.

Given the above limitations to legal legitimacy, it is perhaps in the wider social context that legitimacy for passive users can be located. Of material relevance here is a traditional conservation/preservation focus of environmentalism in New Zealand. To explain: writers on the New Zealand environmental experience (Buhrs and Bartlett, 1993; Memon, 1993; Wheen, 2002; Wells, 2005), concur that the traditional focus of policy and popular environmental discourse has tended to be conservation and preservation issues rather than the potentially more contentious but less focused issues such as pollution, climate change and problems associated with urban development (Buhrs, 1987). Such a focus has been particularly persistent as a theme since the 1970s, beginning with the Manapouri campaign and echoed in organised opposition to, *inter alia*, the logging of Westland Beech forests and the Clyde Dam (on the Clutha river). As a corollary, it is mooted that in accordance with that theme the embodiment of water in the Lower Waitaki River (the proposed location of Project Aqua) is privileged over the “sustainable” use of water for the generation of electricity.

A second and related potential basis of social legitimisation is also located in the past. For an explanation it is necessary to look back to the late 1970s when, despite the apparent success of a conservation/preservation discourse in 1972,<sup>vii</sup> what Wheen describes as “developmentalism resurgent” (2002, 266) came to underpin official economic policy. Under the National Development Act 1979, the Minister of Public Works was authorised to override local planning rules and processes to “fast-track” large (dubbed in popular and political parlance as “think-big”) projects deemed of national significance. This Act was later repealed and, as Buhrs and Bartlett explain, most of the “think-big” projects are now “widely denounced as disasters by environmentalists and economists” (1993:96) and as metaphors for profligacy, destruction and foolishness. Even at a temporal distance of twenty-five years that metaphor retains that social meaning.

As a general conclusion to the above, for the passive user stakeholder legitimacy appears most likely to be located in social concepts and perceptions. As will become apparent, this location has an impact in terms of the nature of power able to be exercised, and salience-increasing strategies adopted.



For the active-user stakeholder, relying on statutory bases of legitimacy also raises issues of relevance and usefulness. Just as in the case of the passive user, the SOE Act s4(1)(c) is of limited usefulness. The other option is again the Resource Management Act, but instead of amenity values as the focus, the active user is more likely to address property rights attached to existing water rights or competing claims for such rights. In the first of these cases the legitimacy of this stakeholder, theoretically at least, is bolstered by the practice of the regional authorities (having responsibility for allocating this resource) of granting such rights on a first in time basis. By implication, therefore, a stakeholder seeking water rights that conflicted with those sought by Meridian would (theoretically) have strong legal legitimacy simply by virtue of filing their application for water rights first. In this instance, Irrigation North Otago (INO) (seeking 25 cubic meters per second or 25 cumecs) had done just that.

In relation to the second case (competition), out of some 38 applicants for water from the Waitaki catchment area, the largest apart from Meridian was the Aoraki Water Trust, an organization made up of farmers seeking the right to take 15 cumecs from the head of the catchment for irrigation purposes. If such a right were to be granted, the generation capacity of the Waitaki system would be reduced.

As it happened, this purported property and claim-based legitimacy failed an essential step – that of gaining judicial support. To understand why, it is necessary to refer back to the terms of the original water rights granted to ECNZ in 1991 under the WSCA, as helpfully and succinctly summarised by Milne (2004:1). As he explains, the rights provided for controls to the levels of Lake Tekapo (at the head of the Waitaki catchment area) and the taking and diversion of water in the vicinity of the control structure at its mouth. The maximum taking allowed by ECNZ under these rights was well in excess of mean inflows.

As the rights did not grant exclusive and exclusionary access to the water either in the lake or in the downstream river system, Aoraki sought a declaration from the High Court (Aoraki Water Trust and Ors v Meridian Energy [2005] 2 NZLR 268, Chisholm and Harrison JJ) that further permits for water extraction and use could be granted subject to the resource allocation process. By way of contrast, Meridian

claimed that it had rights over all the water in the system, a claim upheld by the Court (para 26-31 and 46). Consequently:

“Meridian’s permits are not just permissions, privileges or bare licences, and provide *rights* not only to use and take the *property* (the water **from** Lake Tekapo) but also a right to *exclude* others from taking the “same” water from the lake. It found that they provide a right in priority to the water **in** the lake [seemingly] up to the maximums specified in the permits” (Milne: 149, emphases and italics in original).

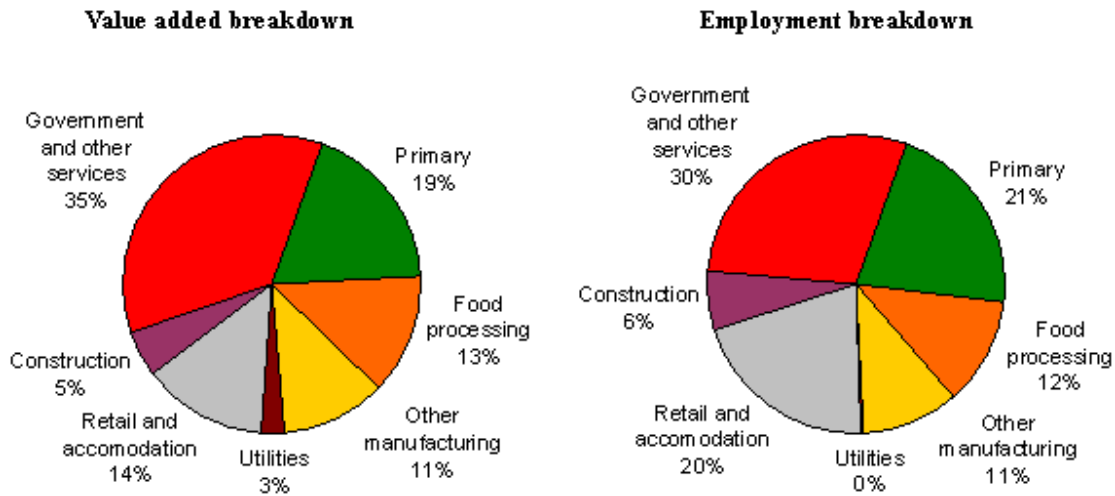
Although no declaration to this effect was issued by the High Court and therefore *technically* the decision is not binding on other courts, Milne points out that as no appeal against this decision was filed with the Court of Appeal the persuasive ramifications must be considered of considerable significance for future allocation issues. (It should be noted that *Aoraki* was cited in *The Favourite Ltd v Vavasour* [2005] NZRMA 461 but distinguished on the grounds that the plaintiff never had an exclusive right that could be enforced.)

There is one other possible basis of legally-derived legitimacy, this being the agreement between the original ECNZ and “Lower Waitaki Irrigators”, as referred to above. However, again such legitimacy derived from this agreement must also be considered limited; there was no requirement or expectation that ECNZ (now Meridian) would surrender its legal water rights to other users.

Again, therefore, it appears necessary to look beyond legal legitimacy for this stakeholder. In this context, and as indicated by the figure below, two interrelated bases are worthy of comment.

The first derives from the contribution of the primary sector (including its processing) to the local economy. According to the left-hand pie chart, this sector compares favourably at 32% of value-added activities to that of other manufacturing (11%) and utilities (mainly electricity generation) at 3%. However, although such contribution is significant, it comes at a cost. With a shift and an increase in the range of agricultural activities (from dryland farming to cultivated pasture, dairying,

vineyards and cropping) (Ministry for Economic Development, 2004) the demands for water have increased significantly and will continue to do so.



**Figure: Economic Activity in the Waitaki Catchment Area**  
**Source: Regional Economic Analysis - Uses of Water in the Waitaki Catchment, MfE, Figure 3 (note percentages are expressed as integers).**

As suggested by the outcome in *Aoraki*, the demands from these “new” users for scarce supplies of water from the Waitaki catchment area are likely to cause tensions between them and Meridian, tensions that impinge on the relationship between the (collective) active-user stakeholder and the corporation as constructed by the 1990 agreements. In addition, there is some evidence that tensions have developed between this stakeholder and the passive – the latter opposing the extraction of water supplies for what is seen as wasteful and inappropriate use. Indicative of such feeling is a letter to the *Otago Daily Times* that grouped those seeking irrigation supplies with Meridian as destructive abusers, to wit: “...polluters, irrigators, hydro-electric dam promoters and others who think a free lunch should be there for the asking” (Henderson, 2003).

However, the other related basis of social legitimacy could operate to moderate such tensions, this being the high profile of farming in the life of the local community (as portrayed in the right chart in the above figure, 33% of employment activity is in the primary sector/processing as opposed to a mere 0.2% in utilities and 11% in other manufacturing). Other statistics reflect this: as per the 2001 census, from a total of some 20,800 in the Waitaki District, only just over 500 or 2.5% lived in either

Kurow or Duntroon, the largest towns. Even then, 25 and 29% respectively of the population of these towns was employed in the primary or related industries (MED 2004). (Twizel, the largest town in the Upper Waitaki with a little over 1000 permanent residents, has a focus on tourism rather than on farming). The effect of such a distribution of location and occupation is the identification of those involved and their interests as local rather than alien or distant; and the flow of benefits into the community rather than out of it.

More specifically, instead of the waters of the river secured to a project that provided little economic benefit, virtually no employment opportunities, few lasting social benefits and prospects of extended social upheaval, uses that would benefit the local communities should claim priority. Overall, then, while the tensions between the value-set of passive users and the value-set of those wishing to utilise the Waitaki for irrigation and other “active” uses counts against a strong ranking for this stakeholder, the moderating effect of the local social importance of farming and related pursuits justifies a “medium” ranking in social legitimacy as opposed to a “weak” ranking on a claim or statutory-based legal one.

The second attribute identified by Mitchell et al is power. The following section explores the position of the two stakeholders in relation to this attribute.

#### *Latent Attribute Two - Power*

Various means can be used to exercise power, three being coercive, utilitarian and normative. Although it can be applied to a range of manifestations, the term “coercive” is often taken to mean a display of power through force or other direct means (Etzioni, 1964; Merriam-Webster, 1996). For this reason, and given a high level of antipathy towards the use of force and similar displays in the cultural context of a democratically positioned, market-based economy, the decision was made in the case of both passive and active user-stakeholders to immediately rank power exercised through coercion as weak, and to turn attention instead to other means.

Mitchell *et al* (1997) link utilitarian power with the possession or control over material or financial resources. For example, a stakeholder could exercise power by way of an ownership stake in a subject organization (corporation) or in one of its

competitors. However, its relevance to this particular case is extremely dubious given the structure of Meridian and its prominence in the local and national electricity generation industry. This leaves only two other possibilities.

Firstly, a person or group with access to large amounts of money or who owns/controls large areas of land along the river could theoretically exercise power either to effectively buy-out Meridian's proposal or make it so difficult and expensive for the corporation to achieve its objectives as to dissuade it from its path. However, by reason of the multi-faceted nature of the passive-user stakeholder and the context in which this issue unfolded, this also seems an unlikely prospect.

The final possibility lies in legal process. Utilitarian theory recognises that individuals or groups that might otherwise lack significant resources could have recourse to the courts and other judicial bodies to assert their claims. For this stakeholder then, possibly lacking property claims on the river or its waters, the most likely bases of objection would be loss of such amenity values as water quality, vista and landscape and access to roads. However, as many public interest groups have discovered in the past, involvement is neither cheap nor straightforward. Problems such groups face include procuring financial and logistical support for their case, ensuring a united and enduring voice, and convincing the consenting bodies of the need for public hearings.

For a range of reasons therefore (such as restrictions on riparian rights, the relative financial and material resources of such individuals and groups by comparison to those available to Meridian, the total non-availability of ownership options and therefore voting rights, the lack of competing organisations and logistical issues involved in exercising such power), for the passive user stakeholder this instance of the power attribute is ranked "weak".

The third possibility is normative power, a power whose exercise is condoned to enforce modes of appropriate behaviour. The question in this case is, what is the "appropriate behaviour" that the passive-user stakeholder could enforce? The most likely means of defining such behaviour is by reference to the State Owned Enterprises Act. As explained above, the requirement that Meridian as a SOE must

display a “sense of social responsibility” (s4(1)(c)) can be addressed only by the Government within the SCI process. Although the stakeholder cannot therefore enforce the requirement, it does offer the *possibility* that pressure exerted on the Government may be reflected in the SCI, particularly where that “appropriate behaviour” is a function of cultural context and social presumption. In addition, the statutory imperative that the corporation must act in this way, albeit not enforceable through Court proceedings, may help frame social expectations and informal monitoring systems.

For these reasons, the passive user-stakeholder is deemed to have a latent medium-strength power-attribute grounded in social legitimacy. This conclusion reveals a feature of importance to such power: it is indirect. In other words, the power is not exercised directly against the organisation but within the wider context. It is only if the organisation is sufficiently affected by sentiments that prevail in that context that management may respond.

For the active user-stakeholder, again utilitarian and normative power are possible options to be considered. Utilitarian power can be derived from its resources and/or its legal legitimacy as objector in the resource application process. However, as in the case of the passive user stakeholder, the active suffers from restrictions in the ability to utilise such power. Just the reasons differ somewhat, specifically inequality in resources and limited legal legitimacy (a function in part of the decision in *Aoraki*, and in part the scope of the Working Party and related agreements). Again, therefore, this stakeholder’s utilitarian power must, as in the instance of passive users, be considered weak. This leaves only normative power, a power potentially derived from this stakeholder’s legitimacy as locally-based social and economic contributor and, as in the case of the passive user, on s4(1)(c). Given such legitimacy (tempered to some degree by the tensions between the passive and active stakeholder interests in relation to the future state of the river), this source of power is ranked as medium.

### *Latent Attribute Three - Urgency*

This attribute can be addressed under three (potentially interrelated) headings: criticality of time, criticality of relationship and criticality of claim. The first of these, criticality of time, is taken to be a function of the ability of a stakeholder to exert pressure on the organisation, perhaps by subjecting its decisions to postponement or delay in implementation. Criticality of the relationship is measured by the degree of importance placed on maintaining that relationship, while criticality of claim involves estimating the extent to which stakeholders consider it important for the organisation to deal with the claim or claims. Based on the above, then, did the stakeholders in the immediate case have this attribute?

Criticality of time: once Meridian gained the legal authorisation to carry out Project Aqua, it would be too late to regain the status quo desired by both passive and active-user stakeholders. Thus it was imperative to act without delay to force abandonment, delay or modification. *Prima facie*, that potential (albeit possibly more theoretical than real) lent urgency to their drive to compel Meridian to listen to their concerns (and to locate appropriate means whereby this could be achieved).

Ironically, however, such stakeholders faced the logistical difficulties involved in maintaining urgency. The longer the process involved, and the more expense incurred as a consequence of that duration, the more likely it is that public and media interest would wane, private side deals would be reached between Meridian and specific objecting interests (not enforceable through, but permitted under, the Resource Management Act (Harkness, Henry and Co, 2006)) that could threaten or destroy any unity of purpose or conviction, and the personalities involved would change. At this stage then, urgency as an attribute, when associated with time, must be considered weak for both stakeholders.

Criticality of relationship is predicated on the existence of a relationship the stakeholder (or organization) considers sufficiently important to maintain. Legally speaking, it is arguable that the two stakeholders had no relationship with Meridian outside those established by the 1990 agreements, nor, would it seem, were interested in, or committed to, developing one.

However, an adversarial relationship may also be considered critical, not so much because it of itself compels the stakeholder to act, but because it shapes the response of management if the stakeholder party or parties can thereby demand recognition. For that reason it is worth exploring the Project Aqua context for such a relationship. In the interests of clarity, Freeman's "big five" (shareholders, suppliers, employees, customers and the community) are used as a focus to this exploration. Even then such a relationship is hard to find. Neither passive nor active stakeholders are shareholders (with all stock held by Government), are highly unlikely to be suppliers given the nature and demands of hydro-electricity generation, and only possibly employees (given that something less than 0.2% of employment in the area emanates from electricity generation). There is a good chance they may be retail customers of Meridian. However, their claims or demands were as something other than that. In addition, with Meridian's some 230,000 customers distributed over a much greater area, and a significant proportion of its market being commercial rather than domestic, any impact from Waitaki area customers (assuming 100% were existing customers, an unlikely statistic) changing suppliers as protest against the Project Aqua proposal is likely to be small.

Finally there is the community, the last of Freeman's big five. The problem with defining relationships by reference to "the community" is its amorphous and indistinct nature. For that reason, reference should be made to the 1990 agreements, mentioned earlier. These agreements identify specific interests as those of stakeholders. By analogy, therefore, those (community) interests then have relationships with Meridian. However, can they be described as sufficiently critical so that parties to them could exert pressure on Meridian? The answer is probably no; as emphasised in the discussion on power, the focus of these agreements generally tends to be narrow, non-legal, lacking legally enforceable promises and undertakings.

Outside those agreements, sectors of the "community" have arguably little recognition as stakeholders. As mentioned previously, although Meridian does support some projects in the local community, it also sponsors those that benefit communities well outside the area and unrelated to its commercial (mainly



generation) activities. Therefore, and for all those reasons, this aspect of urgency for both passive and active users of the Waitaki is ranked as weak.

Finally urgency can be defined by reference to the claim. For passive users such a claim arises from the preservation of a braided river while for active users a comparable claim could be considered the diversion for generation purposes of all available water. However, in both cases the attribute must be classified as weak in the first instance, due largely to the lack of direct links between the stakeholders and Meridian and the limitations to the scope of the 1990 agreements.

In summary, therefore, and as indicated in the first set of columns in the Table provided above, both active and passive-user stakeholders can really only be identified as such on the basis of social legitimacy. In accordance with Mitchell et al's framework, possession of this single attribute would appear insufficient as a means of achieving salience on the part of the stakeholders. Therefore, it would also appear to offer inadequate justification for Fitzsimon's and Bruce's claims as to the influence of such stakeholders in the cancellation decision.

How then did they apparently achieve salience and therefore the decision they wanted? In seeking the answer to this question, it is necessary to consider and evaluate strategies adopted by these two stakeholders, a process documented in the following section.

### *Strategies for Increasing Salience*

By way of reminder, and based on the theoretical constructs offered by Mitchell et al, for either stakeholder in this case to increase salience, it would be necessary for it to acquire at least one attribute over and above that of social legitimacy. (For the purposes of this analysis it is assumed that the *grounds* of legitimacy did not change significantly through the strategies adopted, an assumption validated by events. However, it is recognised that strategies may not only result just in the acquisition of another attribute. They may also lead to a stakeholder *strengthening* its claim to an attribute it already possesses, whether associated with acquisition of another or independent of it. This extra strength in itself may also increase salience)

What strategies could increase salience for the two stakeholders in this instance? Firstly, the question of power. Given the bases of social legitimacy specific to both stakeholders in this case and given the cultural, logistical and legal restrictions on the exercise of either coercive or utilitarian power, the most likely mechanism is normative. It is then necessary to locate the “norm” that could ground this power. For the passive-user stakeholder, the most likely would be the conservation/preservationist theme central to environmental discourse along with its anathema – the “think big” policy of the later 1970s.

Indicatively, the conservation/preservation theme was articulated by groups such as the Waitaki River Users Liaison Group (WRULG, whose membership was largely made up of fishing groups), the Green Party of Aotearoa, and Waitaki First, who drew on a range of resources to emphasise how Project Aqua would involve long-term and wide-reaching damage and threats to the local environment, society and economy (WRULG, 2004; Green Party, 2003). Specific instances of damage that were predicted included loss of water quality, impact on recreation and potential limitations imposed by the scheme on tourism and other commercial activities in the area, ecological consequences (the vulnerability of some of New Zealand’s “rarest species”) of increasing access to the river and potential social problems (as opposed to a long list of advantages in leaving the river alone). Most pertinently, the WRULG argued that “a community that has a major unpolluted river system readily accessible will have advantages over other communities in the future as they pollute and abstract their rivers to extinction” (2004:2).

Furthermore, and as a clear allusion to the unpopular policies of the late 1970s, such proposals as Project Aqua, described both as applications of a technology “past its use-by date” (Wallace, 2004:1) and as “the last twitch of the Think Big cadaver” (Bruce, 2003a), were compared unfavourably to conservation-appropriate and environmentally responsible “small, flexible, future oriented projects” (Green Party of Aotearoa, 2004). Through their association with the term, therefore, Meridian and hydro-electricity as two sides of the same coin were tied to the dismissed ideas of an illegitimate and rejected past.

This last is important not only in terms of the connection drawn between “think big” and conservation/preservation but also because it was a common theme to which all could ascribe. In addition, this is a message that could invoke sympathy not only in the immediate area but also throughout the rest of New Zealand, provided always that the message was heard.

Informal channels (including the printed media and the internet) offered such a means, and were of particular importance given the small and scattered population of the area and its relative isolation from other parts of the country. Indicatively, WRULG and the Green Party both maintained sites, with the WRULG providing links to the veritable avalanche of articles and letters in the Otago Daily Times between 2002-2004. Also, prominent local artists such as Graeme Sydney, Ralph Hotere and Mary McFarlane presented their visual protest (Bruce, 2003b).

Special note in this context should perhaps be made of Waitaki First Inc. Although this organisation did not maintain its own website, it enjoyed a high profile. The first contributing factor was the selection of name – short and simple, but also conveying an implied message of urgency and local concern. Secondly, in its pitching “for people who want to oppose the power scheme, but feel they do not belong with existing organisations” (Bruce (2003c)), disparate interests and groups could be brought under one umbrella. Thirdly, members and supporters could believe they had the power to influence due to the patronage of the organisation by famous “real” people (film actor Sam Neill and ex-All Black Laurie Mains) (Bruce and Sonti (2003)). Fourthly, the organisation spread its message through the scattered rural population by way of fora addressed by academic and other experts. Fifthly, it maintained a proactive role in resistance by threatening Court action to prevent the processing of resource consents by the local authorities (Bruce, 2003d). Finally, by maintaining explicit links with the other organisations involved, Waitaki First could position itself as the representative voice for all opponents.

Although the views expressed by such representative organisations as Waitaki First and the WRULG would not necessarily directly impact on Meridian, the dual effect was to raise pressure on the Government as the sole shareholder of Meridian and as the body ultimately responsible for decisions made under the Resource

Management Act, and on the local councils. When these bodies reacted to the pressure (Government by calling-in some of the resource applications and legislating for a process of water allocation by way of the Resource Management (Waitaki Catchment) Amendment Act 2004) and the Mayor of Waitaiki by stating his belief that a “majority [was] in favour of the scheme” (Smith, 2003)), they provided foci for further criticism. For these reasons, the passive-user stakeholder is deemed to have *strengthened* its power-attribute, thereby increasing salience.

Could the active-user stakeholder also increase salience through the acquisition of power? As a reminder, with the perception of irrigators and other active users as “destructive”, a tension is created between the “good” active user stakeholder as local contributor and the “bad” as the destroyer of the river in its symbolic location. This tension could be moderated by way of this stakeholder cultivating its “local” meaning and further neutralised through a connection with the conservation/preservation sentiments championed by the passive-user stakeholder.

Evidence of such a connection can be seen in the statement by Gravity Irrigation – that North Otago “should not allow the Waitaki River...to be raped by outsiders before local needs are met in full” (Bruce, 2003e). Thus local values, which would in no way be enhanced or supported by Project Aqua (WRULG, 2002) were placed in stark contrast to selfish and mercenary alien values of an urbanised North that “filches” “our” surplus of electricity, to be “squandered in the expanding ghettos of Auckland” (Witherow, 2003), destroying the symbolic heart of a community just to keep the (artificial) lights going. Although not referred to specifically, the support by Meridian of communities and interests outside the immediate geographical area is also arguably implicit in such a contrast.

Rather than the project being located in the national interest, Project Aqua was therefore symbolic of “the administrative power of the North over the South” (Guthrie, 2003), a corollary to a Government pandering to voters on the North whose economic activities are subsidised by the foreign exchange earned in the South (Morahan, 2003). Indicative of the strength of this feeling can be seen in the description of Gordon Copeland (list Member for United Future) when he called for an end to “southern parochialism” (Wallace, 2003), as a “non-elected obscurity from

Wellington” (“Civis”, 2003) who was not “fully briefed” (Bruce, 2003f). This theme was also reflected in a reaction to Hodgson’s rationale for the use of Waitaki (“the river is there, the water is there”) – on that basis surely “the Waikato and Wanganui (sic)” (Hayward, 2003) should be used instead because that is where the demand for power was located.

(Somewhat as an aside, drawing such a contrast between local and national interests posed some risk for the strategists. If a small local population succeeded in alienating the national public opinion, it could prove its undoing. In light of that it is interesting and informative to see Mains (as patron of Waitaki First) emphasising that “Turner [Chief Executive of Meridian] must be more responsible towards New Zealand”) (Bruce 2003g) (as opposed to the local area), and Ansley’s (2003) four page feature article in the nationally-published *Listener* that presented all the issues relating to the debate in a light clearly sympathetic to those opposed to the project.)

On balance, it can be concluded that this strategy of linking the “local” legitimacy claimed by the active user stakeholder to the “social” legitimacy of the passive, was successful in creating a bridge between the two. Indicative of such success is the failure of Alan Seay, Meridian’s spokesman, to convince readers of the *Times* that Project Aqua would benefit the South Island first. In addition, his warning that the Cook Strait cable would in the near future be unable to carry sufficient load to the south to cope with demand, drowned in a sea of scepticism (Otago Daily Times, 2003). Further evidence of the success of this strategy, and somewhat ironically, a later proposal for a combined (and smaller) hydro generating and irrigation scheme on the river floated under the auspices of a “nine-member think tank, is described as enabling “North Otago to get the most benefit out of *our* water” (Bruce, 2004), italics added.

The final question to be addressed is: did either stakeholder increase salience by way of urgency, whatever the basis of that urgency? In relation to that based on time, and by way of reminder, the Resource Management Act recognizes the involvement of objectors. However, the ability to so participate is limited by logistical (particularly financing) and legal reasons and over time these limitations may actually increase rather than otherwise. Strategically then it is important for a stakeholder relying on this attribute to adopt strategies that will counteract such limitations,

thereby maintaining or possibly improving salience. Indicatively, Waitaki First recognized the pressing need for finance with plans for a major fund-raising campaign (Bruce, 2003f), and was one of two applicants (Kurow Aqua Liaison Committee being the other) to apply for a share of the \$50,000 fund set aside for the purpose by the Waitaki District Council (somewhat ironically given the pro-project stance of its Mayor).

(This last provision might suggest that logistics would not pose a major concern for these stakeholders. However, the fact that a mere two applications (Bruce, 2003g) exceeded the pool set aside by the Council, demonstrates just how expensive participation can be, and therefore how financial issues continued to impose restraints on any improvement in the levels of salience. This is further borne out by the fact the applicants faced delays on getting the money (Smith, 2003a).)

Nevertheless, in terms of where Meridian was at the time of cancellation, a heightened degree of urgency that can be identified in relation to both passive and active user stakeholders could have influence on the shape of management response. For example, Waitaki First's move to seek an injunction to stop the Councils involved from hearing resource consents had the very real potential to delay the project (Bruce, 2003d) although in the end was unlikely to stop it.

In addition, it became apparent that widespread and multifaceted local dissension could have far-reaching and prolonged impacts, such dissension involving criticism over the compensation offered by Meridian to those landowners and communities likely to be affected by the project, anger with restrictions placed on the use of land, and scepticism as to proposed remediation.

For specific examples of such dissension it is only necessary to look to letters and articles in the Otago Daily Times that, *inter alia*, branded the proposed water sports training centre as blatant temptation (Warren, 2002), accused Meridian of buying consent (Harraway, 2003), describing an offer of \$6 million to the district plus \$1 million per year as "pieces of silver" (Otago Daily Times, 2003a, 14), described dust monitoring proposals as "starting far too late" (Bruce, 2003j), rejected Meridian's estimation of financial impact on the area as "simplistic" (Bruce, 2003k) and warned

residents of Kurow not to sign mitigation agreements with Meridian “until they know the full effects [from the scheme]...and have taken legal advice” (Bruce, 2003I).

It should perhaps be noted that the heightened level of resistance was not all attributable to salience-increasing strategies pursued by these stakeholders. As a reminder, the relationships between the organization and stakeholders are deemed to be dynamic, in part a function of circumstance and strategy employed by both parties. In this instance, Meridan was by no means a passive player in this debate. Nor could it be considered successful in managing the stakeholder relationships. Of relevance here is the words used by Ansley (2003) when he described the conversion of “a town-full of allies [Kurow] into enemies” as Meridan’s “most notable achievement” (2003: 2) in the Project Aqua debate. More generally, opponents remained unmoved - or even upbeat - in the face of threats by Meridian to pull the plug on the project should delays continue (Bruce, 2003h, Ansley, 2003).

Thus, although arguably neither the claim stakeholders had against Meridian nor the relationship between them changed in its criticality, it became time critical in the specific context. Both passive and active user-stakeholders could be considered to have increased their claim to urgency as an attribute, passive users largely through a link to the symbolic value of the river and active through the prominence of the “local” value contributed by its range of activities. In addition, and for both groups, there was a common and uniting theme; that of some ogre-like alien threatening what was rightfully theirs to protect and retain.

#### SECTION IV. CONCLUSION

Two “stakeholders” (as defined) were prominent amongst those who, in hindsight, would appear to have influenced Meridian Energy to cancel Project Aqua. Although national interest concerns were raised in support of the project, and both central and local Government showed some support, in the end the adverse indications and publicity revealed a high degree of local, and to some extent national, opposition. Meridian failed to satisfactorily address the issues raised and, in fact, may have made them worse.

This was despite a process of transformation of the public sector in general and the electricity industry in particular that has effectively removed formal political or contractual conduits through which influence could be exercised over SOEs by those with a competing or contrary interest or concern. In theory, at least, this would imply that Meridian, provided it had the support of its shareholder (the Government), it could carry out the project with something approaching impunity. However, the Project Aqua example provides an important lesson for those who seek recognition as stakeholders and a positive response from managers of an organization. There are other appropriate means of increasing salience; it is a case of locating those pertinent to the social and political context and adopting effective strategies. Equally, in determining organizational strategy, management needs to be fully aware of the context, range and nature of latent stakeholders and to be proactive in their management.

Arguably, in the specific instance of the controversy surrounding the Project Aqua proposal, the passive-user stakeholder had a stronger claim to the attribute of legitimacy at the outset, while the active-user stakeholder overcame negativity associated with its resource-based perception of the water of the river by emphasising the importance of its role to the locality. This it achieved by aligning with the passive-user voice, heard largely although not exclusively in the informal popular media.

Finally, this research indicates the usefulness of the identification/salience framework proposed by Mitchell et al in connecting stakeholders, their claims and their ability to influence with the context in which they act. It also serves to demonstrate the importance of a link or links, however tenuous or indirect, between the stakeholder and organization to serve as the focus or lever for stakeholder strategies to increase salience. More generally, given the continued debate over the concept, logic and content of stakeholder theory, the framework offers both justification and a structured approach to the organizational researcher wishing to look beyond the shadows thrown by formal relationships between the organization and outsiders, to social norms and informal power networks as a means of explaining apparent contradictions and anomalies in decisions and policies pursued by those organizations.



## NOTES

<sup>1</sup> Disinterest in this case refers to a lack of favourable treatment as compared to other possible investments; Government will only continue to invest in the enterprise provided it continues to realise benefits and satisfy expectations that exceeds those obtainable elsewhere.

<sup>2</sup> Protest and opposition had been launched, with varying success, against the Manapouri/Te Anau scheme, the Clutha river scheme (and the creation of Lake Dunstan) and the harnessing of the Aritiatia rapids (on the Waikato river).

<sup>3</sup> Alliant Energy, a subsidiary of the United States company of the same name, is an “anchor” investor in Trustpower.

<sup>4</sup> A company spun-off from the original Electricity Corporation of New Zealand (ECNZ) and later sold.

<sup>5</sup> As a pertinent observation, and given the historical and continuing importance of SOEs and energy for New Zealand’s economy, it is surprising that of the 49 entities ranked by Porter and Novelli in their 2002 survey of New Zealand’s most admired companies, there were only two SOEs and no companies, either state or privately owned, operating in the energy sector.

<sup>6</sup> Although for the purposes of this analysis, Meridian is not considered to be a stakeholder in itself.

<sup>7</sup> This date is that of the political decision that Lake Manapouri (mentioned above), a lake in the Fiordland National Park, should be maintained at its natural level rather than being raised to maximise its hydro generating capacity (by approximately 27 feet).

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