

STAKEHOLDER MANAGEMENT – AN INTRODUCTION



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The landscape of business and enterprise policy is subject to almost unparalleled change. An ever-increasing majority of corporate and institutional management boards find themselves operating in a networked world of interests and opportunities for influence. In addition to primary stakeholders such as shareholders, customers, suppliers, and employees, secondary and tertiary stakeholder groups are increasingly making regulatory, social, political, and ethical demands on businesses.

Public and social stakeholder groups are increasingly seeking to bring their influence to bear on corporate decision making and investment. Politicians have discovered social

risk-management and are increasing their regulatory requirements on businesses and commercial sectors through their legislative powers; NGOs draw attention to abuses and irregularities by means of effective and high-quality media campaigns. At the same time, the market place of public opinion is going through fundamental and rapid changes: The established media are beginning to lose their capacity to lead; opinions are formed in ways that are more direct, digital, and decentralized; and transparency and dialogue are the order of the day for almost all businesses. Communications with external as well as internal stakeholders rely increasingly on substantive content, and close and resilient relationships with stakeholders are an important factor for success in business.

In the future, the currently still dominant focus on shareholders and target groups will no longer be able to cope with the rapid pace of change in the business environment. Shareholders are an important stakeholder group for sustainable business success, but not the only such group. Nowadays, the task of a future-proof and sustainable strategy is rather that of weighing up the requirements of politics, society, business, and science and aligning them with corporate goals. The so-called license to trade depends not only on dialogue with all relevant interest groups and opinion leaders: Stakeholders and target groups do not simply expect information about activities and decisions from businesses, they want instead to be actively involved and integrated in discussions and decision-making processes.

Businesses and institutions are therefore confronted with a dual task: (1) What are the (new) procedures that we need to establish for the involvement and participation of external and internal stakeholders? (2) What kinds of interactive and communicative innovations might take us beyond information exchange and simple dialogue with stakeholders and create added value?

It is these challenges that are investigated in a new report, for which we interviewed around 100 stakeholder managers from Germany, Austria, and Switzerland. The study is titled "Stakeholder Integration: the contribution made by corporate communications and sustainability management to value creation." It is a project being carried out through a cooperation between Lintemeier Stakeholder Relations, Knobel Corporate Communications, and the MHMK (Macromedia University for Media and Communication) and serves as a descriptive analysis of the current situation. It provides unique insights into the structure of stakeholder management; identifies its substantive and methodological foci; describes its fields of activity and how its operative managers understand their roles; and identifies different models of integration of internal as well as external stakeholders. The companies surveyed were divided into four roughly equal groups according to sales volume: up to €100 million, up to €500 million, up to €5 billion, and over €5 billion. Here we describe the most important findings from the results of the study.

Paradigm shift: From shareholder value to stakeholder value?

The philosophy of corporate leadership is undergoing a paradigm shift. In the future, a strong orientation toward shareholders among managers will be complemented by a greater emphasis on a stakeholder approach, one which recognizes that the providers of capital represent a group with legitimate, but not exclusive, claims on companies. The rapid pace of change in the business environment and the need for speed and flexibility in strategic decision making mean that early involvement in the strategic process of groups with legitimate

interests — recognizing those interests, dealing with them, and managing them — is essential. The interests of (often critical) social groups, in particular, are frequently articulated to businesses and pursued in public — sometimes with great professionalism. This calls for corporate management that works through — and not against — such interests in order to enable sustainably effective corporate decision making.

Over the long term, actions that conflict with perceived social values will jeopardize an organization. Conversely, potential gains can only be realized if stakeholders' interests are consistently integrated into corporate strategy. As R. Edward Freeman argues, stakeholders' interests increasingly converge over time. This suggests a developmental process: If stakeholders' interests align ever more closely with each other, then the stakeholders in question will gradually — and naturally — come together, forming alliances in the worst-case scenario. If the social momentum achieved by these cooperating actors grows proportionately, these actors may then be able to assert their interests successfully, for example through legislation. In most cases, this is the least desirable outcome, because it restricts the company's room for maneuver. It follows that companies need to address stakeholders' interests and integrate them into their business processes. If companies are not proactive in this way, they may find themselves compelled to act due to new state regulations. Over the medium term, management of stakeholders becomes management for stakeholders. This would probably represent the most radical shift imaginable for today's managers.

Stakeholder management in companies has been implemented mainly in a descriptive manner until now; interest groups are, at best, informed about corporate plans. However, the potential to involve them in strategic discussion and decision-making processes goes much further. In the future, a more normative perspective and the associated concept of shareholder value will gravitate to the center of corporate activity — with the recognition that stakeholders are a constitutive element of business success. Their strategic and systematic integration will become one of the decisive factors in any such success.

The digitalization of communications is strengthening networks among stakeholders

The reasons for this lie in a coming of age and an increase in autonomy in those stakeholder groups that, until now, had been unable to properly articulate or assert their interests vis à vis companies and institutions.

New channels of communication have given rise to greater powers of interest assertion, which can hamper — or even prevent — the implementation of strategic decisions such as investments in infrastructural measures or bringing new

products onto the market. Legitimate interests are no longer being articulated solely by opinion-leading stakeholders such as “the politicians,” “the media,” “the banks,” or “the NGOs,” but by local communities, parents, civic leaders, investors, associations, teachers, doctors, and ratings agencies. Alongside the so-called primary stakeholders, there are an increasing numbers of secondary and tertiary stakeholders who are putting forward clear positions and convincing cases.

Moreover, responsible, sustainable, and ethical corporate leadership is no longer generally regarded just as a social ideal but as a commercial necessity. Sustainability and improved efficiency, previously believed to be in conflict, are now recognized as joint prerequisites for competitive advantage.

Future importance of stakeholder management

The reason for the high importance attached to stakeholder management by small and medium-sized enterprises lies in the increasing pressure that stakeholder groups are now exerting on such firms. Whereas it was mostly big players who

were under attack around the time of the millennium, today it is increasingly the so-called hidden champions — classic business-to-business companies — that are being closely monitored by critical stakeholder groups. The objects of this media attention are no longer only companies from the food production, financial, energy, and automobile sectors, but also include components suppliers, food retailers and delivery companies, raw materials suppliers, and mechanical engineering companies.

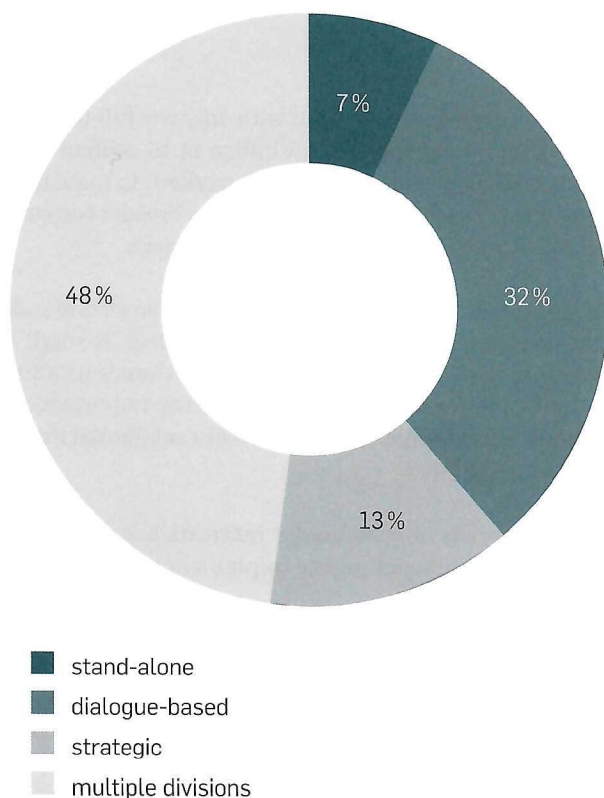
This trend is going to continue. Critical stakeholder groups are expanding their horizons beyond consumer and environmental concerns to take in the entire business supply chain. Whereas in the past, questionable product or contractual issues dominated the debate, today all the links in the corporate value-creation chain are scrutinized under ecological, ethical, and sustainability criteria with the aim of comprehensive risk- and sustainability management. It is in this spirit, too, that NGOs now publicly proclaim that they will no longer restrict their attacks to major companies but will deliberately include small companies and suppliers.



Stakeholder management within companies is organized according to three different categories: “stand alone,” “dialogue-based,” and “strategic”

In the coming years, therefore, companies will have to work out for themselves the answer to the question of whether the organization of stakeholder management should be central or decentralized and how it should therefore relate to already established corporate divisions. The results enable a fundamental division into three possible categories.

ORGANIZATIONAL FORMS OF STAKEHOLDER MANAGEMENT



Group One : Stakeholder management organized as autonomous division

This group is relatively small, comprising only 7 percent. The companies surveyed enable no conclusions to be drawn on whether the establishment of an autonomous division is dependent on the number of employees (e.g., predominantly in large companies), on the sector (e.g., predominantly in pharmaceutical companies), on turnover (e.g., predominantly in companies with a large turnover), or on the organizational location of stakeholder management (e.g., predominantly as a C-level function).

The reason for this lies in the fact that the professionalization of stakeholder management is only now slowly beginning. American companies with European headquarters in Germany, Austria, or Switzerland, for example, demonstrate a more frequent propensity to locate stakeholder management in an autonomous division. In international comparison, the management of stakeholder interests in the companies surveyed here is predominantly the responsibility of the communications division. American experience demonstrates that a targeted integration of process controls within a dedicated corporate division is crucial to the success of stakeholder management.

Group Two: Stakeholder management located in dialogue-based corporate functions.

In approximately one-third of companies, stakeholder management is organized in dialogue-based corporate functions such as corporate communications or public affairs/corporate affairs. The reasons for this are mainly “historical.” Both corporate communications and public affairs/corporate affairs are responsible for communications tasks conducted by way of dialogue. However, the stakeholder approach is interpreted in the first instance only as an extension of acknowledged legitimate interest groups beyond the media, customers, employees, and capital markets. We demonstrate below that dialogue is understood as a channel for information and not as a form of consultation.

Group Three: Stakeholder management located in more strategic organizational units.

In this group, stakeholder management is accorded a greater priority within corporate leadership and thus acquires the status of a management function. It is explicitly not detached from other corporate divisions (“stand alone”), nor is it restricted to its purely communications elements (“dialogue-based”). Firms that organize their stakeholder management in this way incorporate a stakeholder perspective in their discussions and decision-making processes. Here, stakeholder management is integrated on the management level, and it is precisely there that its contribution is made.

10 THESES ON THE STAKEHOLDER MANAGEMENT OF THE FUTURE

In conclusion, we would like to put forward – as the quintessence of the findings of our study – the following 10 theses on the future development of stakeholder management.

1. The stakeholder approach goes well-beyond simple reputation management.
2. The early integration of stakeholders optimizes corporate processes.
3. Stakeholder management will become more closely aligned with the supply chain.
4. The organization of stakeholder management will be professionalized, and interface problems will become more complex.
5. Firms will provide more explanations and justifications for their decisions and plans.
6. Firms will adapt the content of their mission statements to the stakeholder approach.
7. Stakeholder management will move away from its focus on critical interest groups.
8. Corporate communications will free itself from its obsession with the media.
9. Internal stakeholder communications will step out of the shadow of external communications.
10. There will be a convergence between normative and strategic issues in corporate governance.

Stakeholder management has a resource problem

One indicator of the significance of a corporate function is its financing, or the number of full-time staff posts assigned to it. Roughly 40 percent of the firms surveyed have created a full-time post for stakeholder management. A further 40 percent allocate between two and five posts to stakeholder management.

Firms with higher annual turnover tend to allocate greater resources to stakeholder management. The highest staffing numbers are to be found in affiliate companies (33%), strategic management holding companies (29%), and in autonomous corporate divisions (14%). The number of full-time posts allocated to stakeholder management in financial and intermediate holding companies is just as small as that in sales and distribution companies. The latter figure is particularly striking for Switzerland, where multinational companies with local sales and distribution subsidiaries are particularly well represented. Systematic stakeholder management is not carried out in the subsidiaries. The responsibility for this function usually remains with the group holding company located abroad.

Around 10 percent of those firms with only one full-time post have a turnover in excess of €5 billion (4.16 million Swiss Francs) and employ more than 10,000 workers. In these firms, stakeholder management is either part of a broader corporate function or is conceived as a temporary project.

All together, the number of full-time posts allocated to stakeholder management, at between one and five, is small in comparison with the number allocated to communications and public affairs divisions. The increasing importance of stakeholder management has not yet had a substantial impact on staffing structures.

The management of stakeholder interests has only limited positive impact on the implementation of corporate plans

In 67 percent of the firms surveyed, stakeholder management is understood as relationship management, as a strategic tool providing a safeguard against corporate risks. In 64 percent of the firms surveyed, it is employed in the building and development of corporate reputations.

Stakeholder management therefore has its greatest significance as an essentially defensive risk-management measure (67%). Its claims of being a tool for corporate reputation-building are based, above all, on the understanding of stakeholder relations primarily operating through the media: Media and communications divisions often explain their roles in the firm with reference to their contributions to reputation management.

However, stakeholder management has its greatest impact as a strategic instrument for defending a corporation's ability to maneuver freely. This is especially the case when all of the relevant stakeholders and opinion leaders are brought into a process at an early stage. Among those charged with this responsibility in companies, 36 percent see stakeholder management as playing a role in conflict management in cases where there is resistance from critical stakeholder groups. A failure to involve critics would lead to ignorance of relevant viewpoints and a misperception of influencing and campaigning capacities. This effectively also means that stakeholder management must, in the future, become an obligatory element of decision-making and planning processes (currently 37%).

Significant variations in views of the role between sectors

The perceived role of stakeholder management varies, sometimes greatly, between sectors. In the retail (92%), life science (71%), banking and insurance (72%), and energy (68%) sectors,

it is above all relationship management which plays the biggest role. In life science (57%) and in the technology sector (56%) by contrast, stakeholder management is principally an obligatory element in the decision-making and planning process. This shows that there are indeed differences between sectors in terms of the significance and application of stakeholder management.

The reason for these differences in (the case of) pharmaceutical companies is that they are dependent on systematic stakeholder management in the licensing process for drugs. And the retail sector too has great experience, going back over a long period, in the management of complex stakeholder relations, on account of its business model. This relies heavily on stable relationships and efficient processes between producers, suppliers and consumers.

In contrast, the energy policy debate in all three countries surveyed reflects the role of stakeholder management in conflict management and lobbying. In the energy sector (59%), stakeholder management means principally dealing with critics and involving critical interest groups. This also applies to the technology sector (50%). Here, stakeholder management is known almost only in the context of project management. So when large investments need to be made in IT infrastructure, internal stakeholders often have to be integrated throughout, and from an early stage, in conception and implementation by means of an appropriate project structure. ■



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Georg Kell,
Executive Director, UN Global Compact

➤ *The UN Global Compact Leaders Summit, held every three years, is well timed to take advantage of the momentum in favor of corporate sustainability that has accelerated rapidly since the 2012 UN Conference on Sustainable Development (Rio+20).*

On the sidelines of Rio+20, nearly 3,000 representatives of companies and other stakeholders took part in the Corporate Sustainability Forum organized by the Global Compact. The Forum showed business not only supporting the efforts of governments to tackle global priorities, but also bringing to the table inspiring examples of imagination, innovation, and collaboration.

With CEOs and representatives of the 7,500 firms and 3,500 civil society organizations participating in the Global Compact meeting in New York on September 19-20, 2013, the opportunity is ripe for scaling-up corporate sustainability efforts to tackle our world's most pressing challenges.

The following week, the UN General Assembly will consider the follow-up to Rio+20, including a development agenda to succeed the Millennium Development Goals, as well as the possibility of a new set of Sustainable Development Goals. The UN Secretary-General will report to UN Member States his own vision for the future. His plan has been informed by a Global Compact report that is the result of one of the most comprehensive consultations and surveys on sustainable development ever held in the business community and which was conducted over the course of a year.

The vision of what the world could and should look like in 15 or 20 years from now – and especially how businesses can engage and be part of that movement – is integral to the Global Compact Leaders Summit agenda. Most significantly, we are unveiling, fine-tuning, and validating a new architecture for business engagement with the global priorities contained in the future UN agenda.

Secretary-General Ban Ki-moon is once again the Chair of the Global Compact Leaders Summit. He also convenes a high-level Private Sector Forum, which in 2013 is focused on Africa. Heads of state and government, CEOs, leaders from civil society, foundations, and the UN are taking part in the Forum and will address some of the key themes for future development on the continent – education, employment, empowerment of women, and innovative financing.

Many of the challenges at the top of the UN's agenda moving forward are closely linked with climate change.



H.E. Ban Ki-moon, UN Secretary-General

“ A growing number of businesses in all regions recognize the importance of reflecting environmental, social and economic considerations in their operations and strategies.

More than 7,000 companies have embraced the Global Compact principles.

Now, the challenge is to move from incremental progress to transformation – in markets and societies alike.

... Governments and the UN are now working to accelerate momentum to achieve the Millennium Development Goals and set global priorities for the post-2015 period.

Global Compact participants are already deeply invested.

Scores of country and sectoral consultations are collecting business views and perspectives.

The Global Compact Leaders Summit in September is an opportunity to show the world how business and the UN can work together towards common goals in critical areas, such as climate change, energy, water, food, women’s empowerment, children’s rights, decent jobs, and education.”

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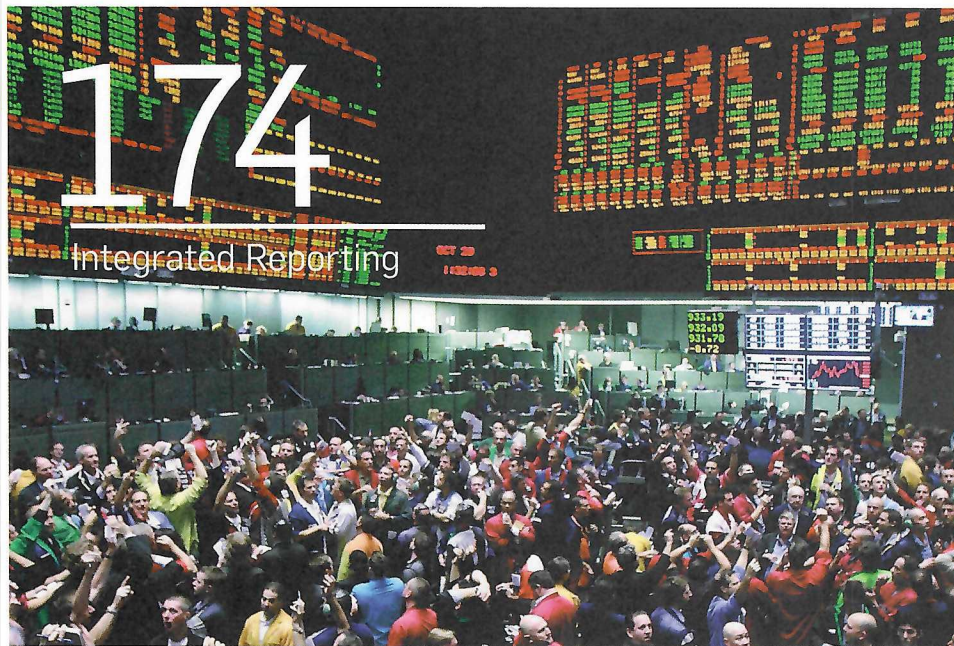
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