

# Inside the mind of the stakeholder

by Ulrich Steger

**This paper is a preliminary excerpt from Steger (Ed.) (2006): Inside the mind of the stakeholder – the hype behind stakeholder pressure. Basingstoke: Palgrave Macmillan.**

## *Are we developing a dual culture in business?*

Read the finance section of any leading national newspaper and you think: Shareholder value is today's mantra and paradigm for companies. They praise themselves on how focused they are on the bottom line and how responsive to every business opportunity – reducing costs and employment permanently. Read the political section and you may be inclined to think: Sustainable development is today's mantra and paradigm. At its peak – the World Economic Forum in Davos – you read how concerned CEOs all over the world are about climate change, poverty, child labor, etc.

Is this “pleasing the gallery” in today's fragmented world, in which you have dozens of audiences and an opportunity to tailor your PR messages accordingly? Is it also happening in a complex, tangled world where contradictions have no limits? Or are we talking about a transition, full of paradoxes, where the old, shareholder-centric thinking is still around, but increasingly substituted by a more enlightened thinking of business responsibility?

We wanted to find out – after all, the main task of empirical research is to discover and present facts that are not easy to discern (...the “truth” will remain elusive anyhow...). We surveyed the perspectives of very different stakeholders – from capital markets to environmental activists – and examined (see chapter 2 for more details on research questions and framework):

- How they perceive corporate sustainability, i.e. corporate social and environmental performance in particular
- How and to what extent they influence it
- How they select the actions they take to influence companies.

Thus, the study complemented an empirical investigation on the “business case for corporate sustainability” (BCS).<sup>1</sup> Whereas the BCS study took an “inside-out” perspective (surveying managers on how they identified internal and external opportunities to engage in corporate sustainability), the present study takes an “outside-in” approach (surveying stakeholders on how they perceive companies and their activities in corporate sustainability).

## *Method and samples*

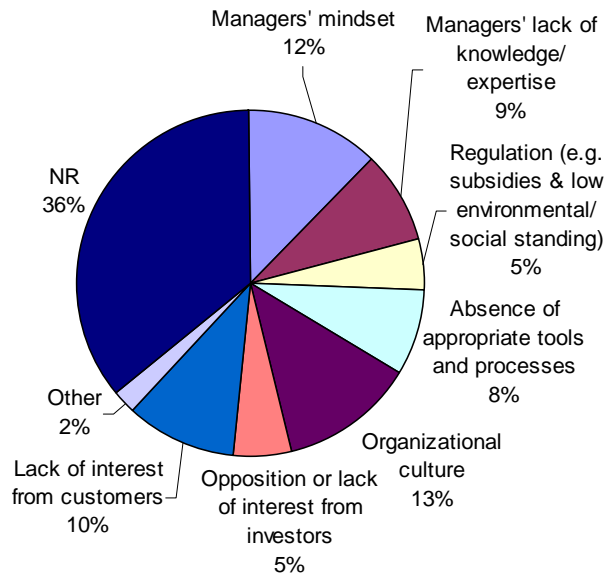
We collected the data between May and November 2005 in Europe only. The study design features a mix of qualitative methods (direct semi-structured interviews and content analysis) and quantitative methods (self-completion questionnaires and descriptive/inferential statistics). Thus, we were able to triangulate our results and gain complementary insights into the research field.

We conducted 265 interviews and collected 372 questionnaires in total, across the following nine stakeholders: governments/regulators, unions, NGOs, consumer organizations, financial institutions, corporate customers, corporate suppliers, communities/cities and the media. To obtain essential points of reference and validate our results, we additionally carried out 15 “benchmarking interviews” with managers to examine their views on stakeholders. Our low response rate to the questionnaire (roughly 2-3%) gives some indication of stakeholders’ interest in this topic (more on that follows later).

## *The business case for corporate sustainability*

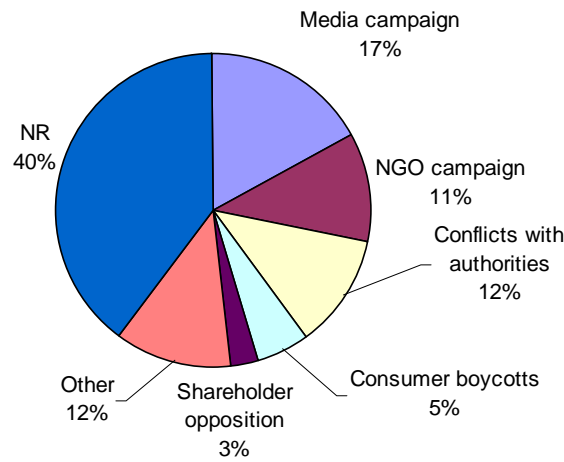
In our previous study (based on more than 1,000 questionnaires and 350 interviews), we looked at nine industries – airlines, automotive, chemical, electricity, financial services, food, oil and gas, pharmaceutical and technology. We found that the business logic for corporate activities in the social and environmental domain (like the issues) vary widely between the industries. However, none of the companies attached more than second-tier importance to social or environmental issues (beyond legal compliance). Most saw the need to monitor and manage the issues professionally, but the issues were not “make it or break it.” Since the late 19th century, companies learned to use technology and business processes to cope with social regulations and (for nearly four decades) environmental standards. For the last two decades, they have also learned to communicate better to their public audiences on the issues.

The study showed that the ignorance and reluctance of key stakeholders (such as customers and financial markets) with regard to corporate sustainability was a significant barrier. Without changes in that “department,” companies tended to stick with their incremental approach to improve social and environmental performance rather than develop radically innovative business models and products: “Laggards are punished, but innovators are not rewarded” was the bottom line of our evidence.



**Figure ES.1: Barriers to corporate sustainability**

As Figure ES.1 shows, internal barriers to corporate sustainability (mindset, organizational culture, processes and tools) took a greater share than external barriers. It is obvious that both are interdependent: Internal capacities would most likely be built if external pressures were more significant. Until today, the main pressure comes from individual incidents damaging brand value and reputation (in fact the number of incidents that make headlines has drastically declined since Brent Spar in 1995).



**Figure ES.2: Incidents damaging brand and reputation**

Given the marginality of the business case for corporate sustainability, few companies took the trouble to build it systematically. Some companies were reluctant due to the difficulty of monetizing the “external effects” (often the less active companies). The more active companies attempted to establish a link between social and environmental issues and their core business strategy, which can be – due to the lack of interest from primary stakeholders – very challenging.

*What did we find inside the minds of stakeholders?*

**General findings.** The more demanding stakeholders are about social and environmental issues, the more irrelevant they are for companies. NGOs and consumer organizations are most demanding, but they are also not companies’ primary stakeholders. They themselves admit that they do not have the leverage to push the companies toward more sustainable business models and products. In turn, companies envy NGOs, as they are much better – because they are more credible – political campaigners.

Overall, regulatory compliance is the most important factor for stakeholders, and it is – in Europe – very common. For a company, this clearly means that corporate sustainability management essentially boils down to minimizing the downside potential (being compliant, avoiding incidents). In contrast to the often-used rhetoric, it hardly involves innovation.

Given the relatively high social and environmental standards in Europe, most stakeholders see little room beyond the incremental progress that is part of “normal” business life. Nevertheless, one should not underestimate the impact of gradual, but steady improvements (as long as they are not overcompensated by other effects).

One issue of specific concern appears to be the lower social and environmental standards in emerging markets, especially Southeast Asia, and the impact on the competitiveness of Europe-based manufacturing and services. A variety of stakeholders and industries, therefore, are calling for a “level playing field” (but are uncertain about how this can be achieved).

Transparency and accountability are two general, broader trends that are clearly important. Corporate sustainability has clearly profited from them – as one can easily see in the rapidly growing number of reports. Nevertheless, some cynics maintain that corporate behavior today has

not changed significantly, it has merely been documented and “sold.” We conclude that companies have learned their key lessons in the past. They not only learned to manage most social and environmental issues more systematically but to communicate better (with their stakeholders about their arguments). It is no accident that the big PR disasters, which continue to be quoted time and again in today’s academic literature, happened a decade or more ago (e.g. Shell’s Brent Spar or Nike’s child labor).

Stakeholders clearly focus their attention on the big US or European companies and their social and environmental performance. This is not self-evident per se, considering that:

- Small- and medium-sized companies produce between two-thirds and three-quarters of the nations’ GNP, and can often be linked to similar social and environmental issues.
- Big (often state-owned) companies from emerging markets are more ruthless in their behavior (e.g. natural resource extraction, dealing with dictators). They are also rarely in the spotlight.

The reason for this is a self-feeding information cycle: Media believe that only “household names” are of interest to the broader public, which leads NGOs (and sustainability analysts) to focus on those companies. The public recognizes them (“oh, it’s Nestlé again...”), which is also due to media coverage.

Overall, financial markets and media are seen as the most influential stakeholders. Most stakeholders (communities, governments and unions in particular) see themselves as more influential than the other stakeholders see them. While this can be expected, it is a dilemma that (1) those stakeholders with less stakes in corporate sustainability (corporate customers, suppliers and financial institutions) have the best tools to assess corporate social and environmental performance and that (2) they use them more systematically (as they are mostly businesses used to this kind of approach).

If there is any significant current risk for companies, it is the increasing opportunism of the different players: Antagonistic players can come together in a certain context and for a specific issue (e.g. when conservative politicians jump on the union- or NGO-driven bandwagon and call for a boycott of a company that is closing a plant). Alliances are formed and gain momentum before the company has really noticed (A recent example is the plant closure in Nuernberg by Electrolux).

Overall confrontation may become “outdated.” With the exception of some parts of the NGO community who stick to their classical advocacy and political lobbying, everybody is looking for dialogue, cooperation and joint projects with companies as the way forward. If this continues, a boring world will be ahead of us. Memories of the gladiator-style battles of the “good old days” will fade....

**What we learned about individual stakeholders.** Despite their heterogeneity in some areas, we managed to capture stakeholders’ approaches to corporate sustainability accurately. In the following, we will briefly describe the nine groups surveyed – respectively providing an illustrative quote:

*Financial institutions* obviously exert tremendous influence on companies nowadays. This applies in particular to the financial mainstream (the niche around socially responsible investing and corporate sustainability ratings and indices is growing but still rather insignificant) that is not a strong driver for corporate sustainability.

As long as financial market institutions are opportunists and not strategists, the financial market will not be a strong driver for corporate sustainability.

The economic logic and business advantages of corporate sustainability are not strong enough. Assessment of corporate social and environmental performance occurs, but it is not part of the mainstream analyses. Hence, the overall significant risks and opportunities associated with financial institutions' role as stakeholders are limited. Their activities are limited and intended to increase accountability and transparency as well as engagement and dialogue.

Most *cities and communities* are basically – in their constant struggle to maintain employment – being “blackmailed” by companies (as one of the managers we interviewed put it):

We do not apply any criteria [beyond compliance] because our challenge is to promote the region of our city to companies. There is strong competition between communities across Europe. We only win those “battles” if we do not ask for more than what the regulators want.

In particular, small communities have very little capacity and responsibility to assess and influence corporate behavior individually. They often rely on personal contacts and the chamber of commerce. They are satisfied with widespread regulatory compliance, and hardly dare to raise social and environmental standards. They aim to engage with companies and hope to be seen as partners that are (more) serious.

*Governments and regulators* are also primarily concerned about employment levels and thus regional competitiveness. In this situation, higher social and environmental standards are largely “taboo,” and they fall back on an enabling approach to corporate sustainability.

Governments do not have enough money [...]. Therefore, we have to mobilize companies to meet their responsibilities and to be more active in CSR.

Governments provide and promote standards and guidelines (also to create more transparency), establish award schemes and adopt softer (more negotiated agreements) and less bureaucratic legislation. In light of their weakening bargaining power (against the big multinationals in particular) they have also (more or less desperately and opportunistically) tried to target the reputation of companies that have decided to relocate or lay-off significant parts of their workforce.

*NGOs* are driven by a great variety of social and environmental issues: They mainly aim for more corporate transparency and accountability, particularly in developing countries. We detected a certain frustration about the skill of companies in managing NGOs and their campaigns more and more proficiently (a lot of talks and dialogues without real changes on the ground).

In the early days, we could not get to the factory gates; today they serve us tea and cookies.

This is why the NGO community has increasingly engaged with companies (cooperation and partnerships) – however, not without a sometimes-heated debate about whether “flirting with the enemy” is the right thing to do. It appears that a combined “carrot and stick” approach often works because companies see the upside (gaining more credibility and expertise through engagement) next to the downside of ignoring the campaigning NGO.

*Consumer organizations* were somewhat “happy” that companies (particularly those that have branded goods and are close to the consumer) are at least doing a bit. They also pointed beyond the big Western multinationals to the challenges in emerging economies and among small and medium-sized companies.

We need to get to the tier below big companies and also away from the dialogue on big companies in Western Europe. There are huge companies in India and China that are not focused as key players of the CSR debate. I don't think that these can fall off the radar screen for much longer.

Most significantly, consumer organizations lack resources because their activities are largely based on their own product-related research. We see an interesting new development through bilateral activities between different national consumer organizations, as they provide an opportunity for more accurate and powerful assessment of corporate behavior and products.

*Media* are quite a special group of stakeholders, since their mission is to disseminate information that is novel and relevant to their target audiences:

Our program is to reflect adequately the topics that are currently most important to society. Unemployment, business relocation and sustainability are such topics; we try to address the worries and questions of our audience.

Corporate sustainability plays a significant role only in niche media and publications. Journalists primarily assess corporate performance through desktop research (other media, internet) and their own investigations (through personal contacts with third parties). Their approach is quite intuitive and targeted at corporate reputation and implicitly customer loyalty. They often criticize corporate sustainability management as a PR tool and window-dressing.

*Corporate suppliers and customers* are in several ways different from each other. Corporate customers have a clear business case to make their suppliers to comply with certain social and environmental standards. In developing countries, those standards most often go beyond domestic regulations

For “beyond compliance,” we want suppliers to be comparable to the level used in our own production plants. For the moment, it is not exactly the same. And in some countries, it is not possible to come even close...

In contrast, corporate suppliers often do not “dare” to bother their customers with corporate sustainability, unless there is a clear need for product responsibility and risk management, e.g. hazardous chemicals.

There is no room for CSR – my job is to manage, run and grow the business. From day-to-day, other than aspects of good management, I do not have space for these issues.

Obviously, there is a clear preference for long-term relationships. Performance assessment largely occurs through internal audits (corporate customers) and key account management (corporate suppliers – although social and environmental have little relevance), overall it is clearly more systematic among corporate customers. To manage their risks and protect their brands, corporate customers and suppliers tend to “use” engagement (e.g. cooperation, partnerships), guidelines and standards as well as regulation.

*Unions’* attitudes toward corporate sustainability reflect their weakening bargaining power in Europe and their great concern about employment and job security. Only a very few take an active and holistic approach to it; some even see it as a corporate attempt to forestall legislation:

We have a nuanced view on CSR: It is neither inherently bad, nor good. And, it is not a substitute for regulation and collective bargaining.

Thus, it is obvious that assessment of corporate performance is largely unsystematic and based on networks, corporate reports and the media/internet. They criticize a reactive compliance-oriented approach by companies and consider corporate sustainability management largely a PR exercise with few changes “on the ground.” They aim to influence companies through engagement, political lobbying and praising and blaming in the public arena. In light of weakened regional competitiveness in Europe, they call for a more universal application of social and environmental standards by companies around the globe.

**Four clusters of stakeholders.** Based on our evidence, we clustered the nine stakeholders into three groups (plus media): challengers, bystanders and incrementalists. They can be profiled as follows:

1. The *challengers* include NGOs and consumer organizations. Their demands for corporate sustainability are by far the most specific (related to certain issues or products) and highest. Hence, it is not surprising that their activities – along with those of the media – are met with opposition from companies. Among other things, they call for more proactive corporate behavior, foremost in developing countries, and more transparency and accountability. Their strategy to this end is essentially two-pronged: It includes both engaging with companies as well as a more confrontational approach through political lobbying, praising and blaming. In some areas, they have also taken quasi-regulatory functions through the provision of labels, standards and guidelines.
2. The *bystanders*, governments/regulators, cities/communities and unions, are largely concerned about regional competitiveness and employment. Corporate sustainability is of minor importance because social and environmental standards are already high in Europe. Hence, those stakeholders are “standing by” and some are (unions in particular) even skeptical because they feel that corporate sustainability clashes with their primary mission (compromising regional competitiveness, forestalling legislation).
3. The *incrementalists* are all corporate stakeholders, i.e. corporate customers, corporate suppliers and financial institutions. They are primarily concerned about their competitiveness and, hence, a level playing field. Since social and environmental issues only have marginal relevance to their core business models, corporate sustainability is essentially part of risk management to protect brand value and reputation. Since companies have learned to manage issues and reputation more systematically, incrementalists see little need to go beyond quasi-regulation and engagement when it comes to influencing companies.

Despite the great differences between the four groups of stakeholders, they exhibit two very interesting commonalities: First, they are equally (more or less) satisfied with corporate regulatory compliance, companies’ willingness to engage and dialogue, and their transparency and accountability. This clearly reflects (1) the significance of Europe’s high social and environmental standards and (2) companies’ new openness (in comparison with the early 1990s) to stakeholders. Second, all four groups are equally effective (or ineffective) at engaging and changing companies, which we attribute to the strong bargaining power of companies and/or overall limited pressure to engage more strongly in corporate sustainability.

### *A glance at the crystal ball*

Our research clearly provides a snapshot of the status quo. Nobody should assume that this remains stable, for several reasons:

- The issue of job-erosion might be tackled by (protectionist) government intervention. The first wave of “anti-globalization” campaigning had little impact, but created a ratchet effect of awareness. A second wave – fuelled by continuously higher unemployment – may have deeper political implications, especially if it coincides with any dramatic worsening of the (energy) security situation.
- NGOs will surely find new ways of effective campaigning and will meet a new generation of corporate executives (outside the investment banks) with potentially different values.

- Global companies are currently at the peak of their power – but will they stay there? After all, there is no natural propensity for a global market economy. It is currently accepted – after the collapse of communism – as the better performing alternative. But with fading memories and a decaying social fabric, the tide might turn again.

Currently companies do not need to worry. However, will this comfortable position eventually lead to complacency and to the downfall of corporate dominance? After all, one of the few “iron laws” appears to be that one can only maintain power, if one uses it responsibly.

---

<sup>1</sup> U. Steger (Ed.), *The business of sustainability*, (Basingstoke: Palgrave Macmillan, 2004).