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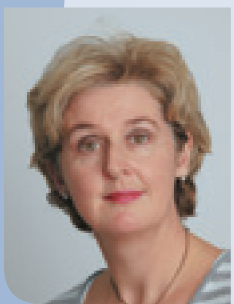
Inside the mind of the stakeholder

Ulrich Steger
Director of IMD's research project on Corporate Sustainability Management. Professor Steger holds the Alcan Chair for Environmental Management.



Aileen Ionescu-Somers
Program Manager of the IMD Forum for Corporate Sustainability Management

Oliver Salzmann
IMD CSM
Research Associate

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Among a kaleidoscope of globalization paradoxes, companies claim to be both shareholder-value driven and to care more about the environmental and social impacts of their activities than ever before. "Win-win" is the political rhetoric of the day, but every manager knows that this tends to be rather the exception than the rule, and that the real world is actually full of dilemmas and conflicting goals.

At the end of the day, it's not the companies that decide on the validity of such claims, but the many stakeholders that make up society at large.

So, the jury being still out on these questions, the Forum for Corporate Sustainability Management at IMD (CSM) was asked by its 30 member companies to find out what these stakeholders are actually thinking about corporate sustainability performance and their influence on companies in this regard.

The business case for corporate sustainability

But first one has to be clear about the limits of what companies as economic entities can really do to care about "externalities" in the social and environmental domain. There needs to be a business case, an economic logic for what companies are doing. Otherwise they simply disadvantage themselves in an increasingly competitive world that does not have a global "level playing field." And also, nobody should expect more: there are other institutions in society, notably governments, which can take care of common goods.

In a previous study[1] we examined the business case for sustainability in nine industry sectors: airlines, automotive, chemical, electricity, financial services, food & beverages, oil & gas, pharmaceutical and technology. We found that the business logic for corporate activities in the social and environmental domain, like the issues themselves, vary widely between the industries. However, no company attached more than second-tier importance to attending to social or environmental issues (beyond legal compliance, that is). Most global companies recognized the need to monitor and manage such issues professionally, but the issues were far from "make or break" concerns on the corporate agenda. Since the late 19th century, companies have learned to use technology and business processes to cope with social regulations, and for nearly four decades they have attempted to put into place new environmental standards. For the last two decades, they have also learned to communicate better with their public audiences on these issues.

However, the study we launched demonstrated the perception of companies 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 an incremental approach to improving social and environmental performance rather than developing radically innovative business models and products. "Laggards are punished, but innovators are not rewarded" was the bottom line of our evidence.

What did we find inside the minds of stakeholders?[2]

Given corporate perceptions, we asked ourselves about the other side of the coin.

How do European stakeholders perceive corporate sustainability performance and their own capacity to influence it?

General findings. The more demanding stakeholders are about social and environmental issues, the more irrelevant they are for companies. NGOs and consumer organizations are the most demanding, yet they are not companies' primary stakeholders. They admit themselves that they lack leverage to push companies towards more sustainable business models and products. In turn, companies tend to envy NGOs, as given their credibility they are much more effective political campaigners.

" The more demanding stakeholders are about social and environmental issues, the more irrelevant they are for companies. "

Overall, regulatory compliance is the most important factor for all stakeholders, and in Europe, the focus of our study, stakeholders appear relatively satisfied with corporate action in this regard. For companies, this clearly means that corporate sustainability management essentially boils down to minimizing the downside potential by being compliant, avoiding incidents. In contrast to the often used rhetoric, it scarcely involves innovation.

Given the relatively high social and environmental standards in Europe, most stakeholders see little room for maneuver beyond the incremental progress that is part of "normal" business life. Nevertheless, one should not underestimate the impact of such gradual, but continuous, improvements, as long as they are not over-compensated 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 are therefore 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 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, and that it has merely been documented, re-packaged and "sold." We conclude that companies have learned some key lessons from the past. They not only learned to manage most social and environmental issues more systematically, but also to communicate better with their stakeholders about the rationale behind their actions. It is no accident that the most sensational sustainability-related PR disasters, which continue to be quoted time and again in today's academic literature, happened a decade or more ago (such as Shell's Brent Spar dilemma, Dow's Bhopal disaster or Nike's child labor issues in Pakistan).

Stakeholders clearly focus their attention on the well-known global US or European companies and their social and environmental performance. The fact that they do this is not a foregone conclusion 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, and often state-owned, companies in emerging markets are much more ruthless in their behavior. For example with regard to natural resource extraction, or dealing with dictators. But they are rarely in the spotlight.

The reason for this is a self-feeding information cycle: "Household names" are of great interest to the broader public, and the media exploit this fact… because it sells newspapers. This leads NGOs and sustainability analysts to also focus on these companies. The public recognizes them ("Oh, it's Nestlé again…") because of the media coverage, and this leads to demand for even more sensational news about the

same companies.
Overall, financial markets and the media are the most influential stakeholders. Unsurprisingly, most stakeholders such as communities, governments and unions in particular perceive themselves as being more influential than other stakeholders. While this is to be expected, it is a dilemma that[1] those stakeholders with less stakes in corporate sustainability, like 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 for the most part 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. Normally antagonistic players can come together in a certain context and for a specific issue. For example, when conservative politicians jump on the union- or NGO-driven bandwagon and call for a boycott of a company which is closing a plant. In such cases, alliances are formed and gain momentum before the company has really taken notice. A recent example is the plant closure by Electrolux in Nuremberg.

Overall confrontation may have become "outdated." With the exception of some parts of the NGO community who stick to their classical advocacy and political lobbying, nowadays they are all 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.

Four clusters of stakeholders. Based on our evidence, we clustered the nine stakeholders into four groups: challengers, bystanders, incrementalists and the media. 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 and related to certain issues or products, and intense. 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, particularly in developing countries, and for more transparency and accountability. Their strategy is essentially two-pronged: it includes both engagement with companies and 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 primarily concerned about regional competitiveness and employment Corporate sustainability is of minor importance to them because social and environmental standards are already high in Europe. Hence, these stakeholders are "standing by" and some, unions in particular, are even skeptical because they feel that corporate sustainability clashes with their primary mission (compromising regional competitiveness, or 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 have only 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.

4. The *media* are a special kind of stakeholder. Their primary agenda is to

"Today, with a few exceptions, the NGO community is looking for dialogue, cooperation and joint projects with companies as the way forward."

disseminate information relevant to their audience. Except for certain niche players, media have no agenda with regards to corporate sustainability. Nevertheless, their potential impact is substantial when they praise and particularly when they blame companies in the public arena.

“ In the immediate term, it seems that companies do not need to worry too much about stakeholder pressure. ”

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

A glance in the crystal ball

Our research clearly provides no more than a snapshot of the status quo. Nobody should assume that this will remain stable, and 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 – likely to be 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, but they will also encounter a new generation of corporate executives (outside the investment banks) with potentially different sets of values.

- Global companies are currently at the peak of their power, but the question is whether they will 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 “best of a bad lot.” But with fading memories and a decaying social fabric, the tide may well turn again.

In the immediate term, it seems that companies do not need to worry too much about stakeholder pressure. 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.

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

2 U. Steger (Ed.): *Inside the mind of stakeholders, Basingstoke, Palgrave* Macmillan, 2006.

IMD
P. O. Box 915, CH 1001 Lausanne,
Switzerland
Tel.: +41 21 618 0111
Fax: +41 21 618 0707
info@imd.ch
http://www.imd.ch

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