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Part I

Stakeholders and Corporate Sustainability: An Overview

1 The Hype Behind Stakeholder Pressure

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> The pressure on companies to report on these issues cannot be ignored… It comes not just from activists but also from investors, accounting bodies and governments. The Japanese government has published environmental reporting guidelines, and France requires public companies to provide social and environmental information in their financial reports.[1]

> A number of studies have indicated that the environmental disclosure of corporations is still at a very low level even though they are faced with increasing pressures from diverse stakeholder groups, including governmental agencies, to address environmental concerns.[2]

How concerned are CEOs of global companies about receiving pressure from their stakeholders to behave in a more socially and environmentally responsible manner? Ask McKinsey what CEOs were talking about beyond their daily operations in 2005, and you will find the following answers:[3]

1. Asia's continuing emergence and the implications, especially offshoring.
2. Maintaining growth.
3. Energy prices and supply.
4. Aging population and underfunded pensions.

Topics 3 and 4 have some relation to sustainable development (SD). However, are they really driven by companies' stakeholders or do they reflect CEOs' natural concern about potential impacts on the (financial) bottom line?

The hype in the rhetoric of political and academic communities dealing with corporate sustainability management (CSM) or corporate social responsibility (CSR) was already noticeable when we looked into the "Business Case for Corporate Sustainability" (BCS). However, it became even more significant when we tried to go "inside the mind of stakeholders." Simply put, there is no empirical evidence for what is the mantra of many statements on the increasing pressure for CSM/CSR. In fact, we detected a very patchy picture, reflecting cyclical dynamics of pressure and shifting issues. In light of globalization and Europe's currently constant struggle for competitiveness, a decrease of stakeholder pressure seems at least as plausible as an increase.

However, our main research rationale was not to reject unproven claims in the CSM/CSR debate. It was to complement the "inside-out" perspective of our previous BCS study[4] with an "outside-in" perspective from stakeholders. After all, the sustainability efforts of companies would only be of limited success if not appreciated by their stakeholders. Our previous study clearly showed that many managers in global companies perceive the support of stakeholders for sustainable development as less than enthusiastic.

As Figures 1.1 and 1.2 show, both general managers and sustainability officers (i.e. managers responsible for driving the corporate sustainability agenda – of some sort – in their companies) consider external stakeholders to be

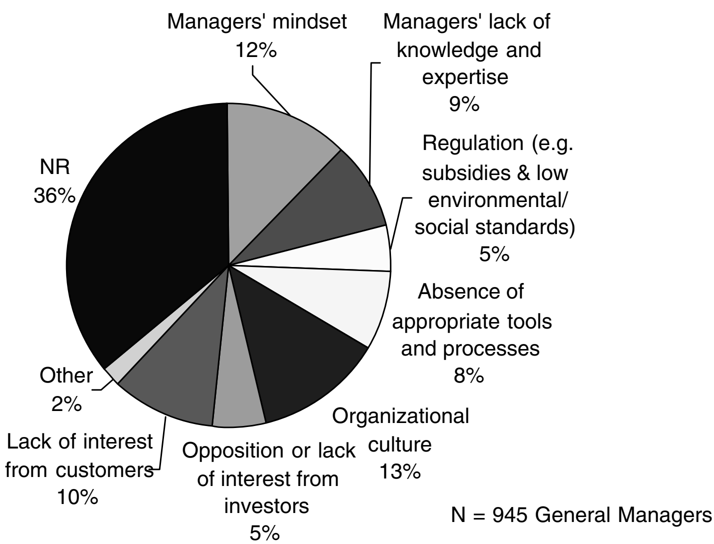

Figure 1.1 Barriers to corporate sustainability management – as perceived by general managers

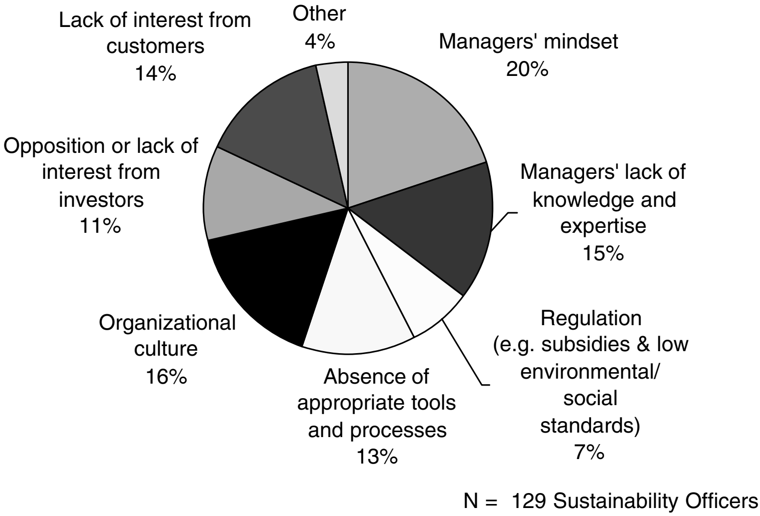

Figure 1.2 Barriers to corporate sustainability management – as perceived by sustainability officers

a significant barrier to corporate sustainability management. Our evidence showed that stakeholders' opposition and lack of interest ultimately rule out any first-mover advantage. Nevertheless, corporate sustainability is professionally managed because no one wants to be seen as a laggard.

In the following sections, we will complement (and validate) these findings by examining:

- How important CS/CSR is to stakeholders.
- How they assess and influence corporate behavior.
- How effective they are.

Obviously, the results will be relevant to both companies and stakeholders. Like companies, stakeholders can be very different from each other. An aggregation of any sort would most probably "average out" the most interesting findings. How do you ensure a differentiated and meaningful analysis and avoid overwhelming complexity? Global companies have thousands of (local) stakeholders of which headquarters are largely unaware. Some of them are part of the business system (we call them transactional stakeholders); others are outside of the business system, but nevertheless relevant for companies because they can influence the economic performance of companies (in this study, we refer to them as contextual stakeholders).

We chose nine different stakeholder groups in total. The group of transactional stakeholders includes:

1. All financial institutions or "capital markets" (e.g. banks, insurance companies, stock markets).
2. Corporate customers (represented by managers in the supply chain, i.e. procurement, purchasing).
3. Corporate suppliers of a company (represented by marketing and sales managers).

It might be surprising to list (corporate) customers and suppliers as important stakeholders as they can be regarded as part of the extended business system. However, this decision was based on an interesting finding of the previous BCS study: We were confronted with the paradox that all companies complained that their customers were not ready to honor sustainability performance in the products and services they buy. However, they exhibit a similar pattern in their behavior as customers.

Our set of contextual stakeholders is comprised of:

1. Communities/cities.
2. Non-governmental organizations (NGOs), mostly environmental and social pressure groups.
3. Consumer organizations, a special kind of NGO with a focus on consumer interests.
4. Unions.
5. Government agencies/regulators (not the lawmaker themselves).

Media represent a special kind of stakeholder. They were included due to their significant role in moderating and amplifying the perceptions of other stakeholders.

The book is divided into two parts. In Part I, we provide a holistic and aggregated view of our evidence. After this brief introduction, we describe our research design and method in Chapter 2. Chapter 3 provides initial background on dynamics between companies and their stakeholders. In section 3.1, we review significant trends that have emerged over the last decades and how they have affected both companies and their stakeholders.

The following two sections are an essential part of our research design, as they provide the reader with a more holistic perspective on the research topic. It seemed appropriate to complement our stakeholder data with recent empirical evidence collected from managers:

- In section 3.2, we recap our previous study on the business case[5] and elaborate on how managers at that time (2002–2003) viewed the importance of corporate sustainability, their stakeholders and the key drivers and barriers to corporate sustainability.
- Section 3.3 features the findings of 15 interviews with managers, carried out in the summer of 2005, to have an up-to-date view on how they see their stakeholders.

In section 3.4, we discuss stakeholders' transmission belts (their means of influencing companies) in more detail. This will allow the reader to have a more detailed and comparative look at stakeholders' actions and their effectiveness in influencing companies.

Chapter 4 presents the consolidated findings from the research. We assign nine stakeholder groups into three stakeholder clusters with similar strategies and attitudes. Furthermore, we discuss the specific role of media as an amplifier in more detail. In sections 4.1.1 to 4.1.4, we elaborate on the clusters' and media's missions, processes and tools, actions and their effectiveness and discuss nuances within the clusters.

In section 4.2, we analyze similarities and patterns across the clusters. In section 4.3, we highlight significant future trends, which emerged from our research, and their impact on companies. We will come back to assess critically the claim of increasing stakeholder pressure and highlight our key findings in Chapter 5.

Part II of our book documents the findings of the nine individual stakeholder groups in detail. We elaborated on corporate customers and suppliers in the same section to avoid too much repetition. These stakeholder reports are descriptive in nature and focus on the individual stakeholder in detail: their background, their approach to corporate sustainability, their incentives and motives, processes and tools, criteria used for actions, expectations, their current stakeholder strategies (actions and their effectiveness, determinants of the effectiveness) and future trends.

Notes

1 Allen White, GRI Secretariat Director, quoted in the *Financial Times*, 28 March 2002.

2 Robert Dixon, Gehan A. Mousa and Anne Woodhead, "The Role of Environmental Initiatives in Encouraging Companies to Engage in Environmental Reporting," *European Management Journal*, Dec. 2005, vol. 23 issue 6, pp. 702–16.
3 *McKinsey Quarterly*, Online Special Topics, 27 December 2005.
4 U. Steger (ed.), *The Business of Sustainability* (Basingstoke: Palgrave Macmillan, 2004).
5 Ibid.

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