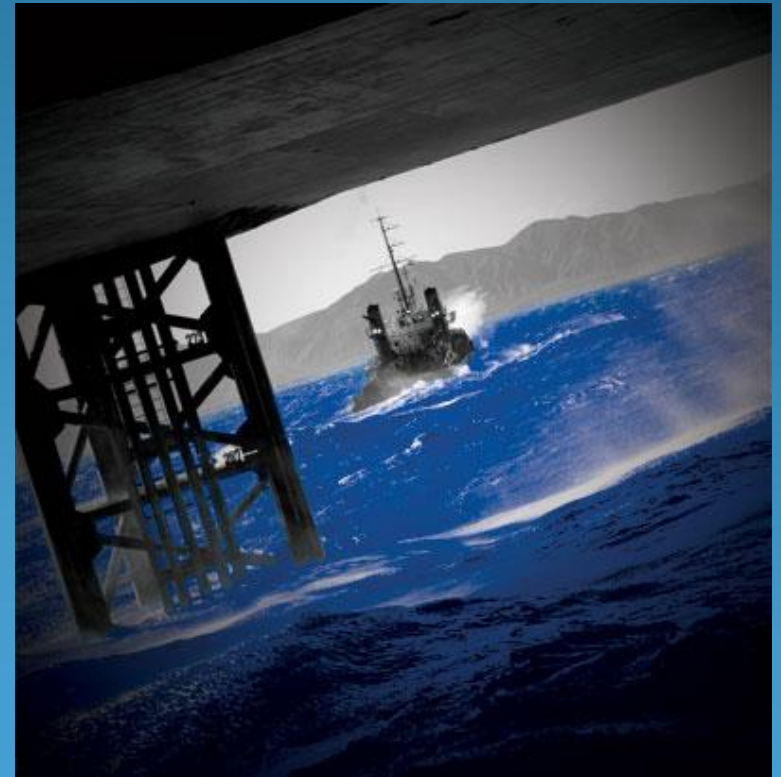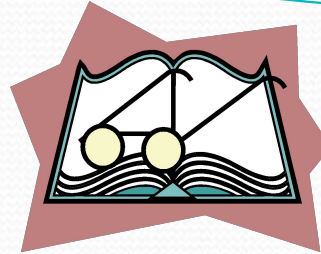# Stakeholder Management

Objectives

- Define *stake* and *stakeholder*
- Differentiate between production, managerial, and stakeholder views of the firm
- Discuss three values of the stakeholder model
- Consider the concept of stakeholder management
- Identify the essence of stakeholder management
- Explain stakeholder management capability (SMC)

- Origins of the Stakeholder Concept
- Who Are Business's Stakeholders?
- Strategic, Multifiduciary, and Synthesis Views
- Three Values of the Stakeholder Model
- Key Questions of Stakeholder Management
- Effective Stakeholder Management
- Stakeholder Management Capability(SMC)
- The Stakeholder Corporation
- Stakeholder Power: Four Gates of Engagement
- Principles of Stakeholder Management
- Summary

Stakeholders

Individuals and groups with a multitude of interests, expectations, and demands as to what business should provide to society.

Origins of the Stakeholder Concept

What is a **stake**?

An interest or a share in an undertaking and can be categorized as:

Interest   **Right**   **Ownership**

Legal

Moral

Stakeholders, Actors & Participants

Internal

Board of Directors

Executives

Employees

Union (could be external)

Business Units

Other Departments

   Legal

   Accounting

   Finance

   Human Resources

   Health and Safety

   Purchasing

   Marketing and Sales

External

Regulators

Local Community

Contractors

Suppliers

Customers

Public

ENGOs

Professional Associations

Industry Associations

Families of Employees

Certification Agencies and Institutions

International Organizations

Voluntary, Self-Regulation Programs

Investors

Banks

Insurers

Identifying Stakeholders, Actors and Participants

- These are people directly or indirectly involved in environmental management
- People who affect or are affected by, environmental management activities (or lack thereof).

- Identifying & characterizing these are important for designing, implementing, and implementing an EMS as:
  - EMS must respond to their needs;
  - Take advantage of their information, skills and knowledge;
  - Identify the opportunities they can provide.

Wide range of stakeholders

- Internal or external
- Directly or indirectly involved
- Relationship can be formal (regulated, official or contractual) or informal
- Involvement can be passive or active
- Participants can be affected positively, negatively or both
- Particularly important to identify stakeholders, actors and participants for environmental communication

Who Are Business Stakeholders?

Government

Employees

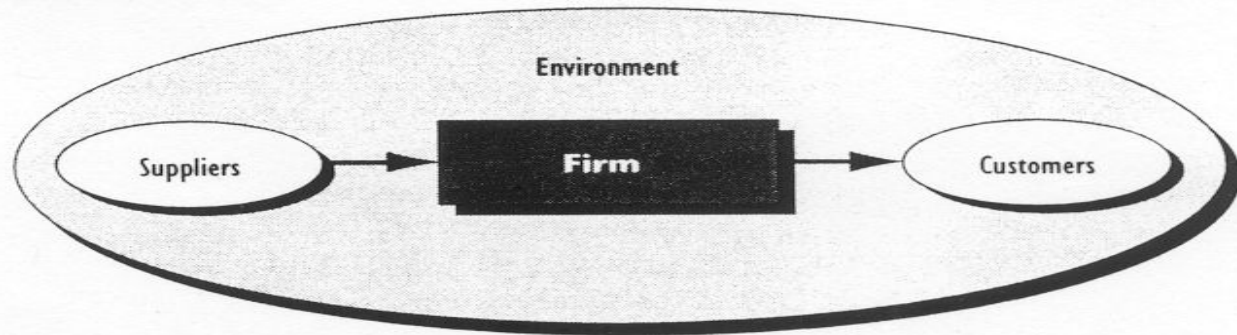Business

Community

Owners

Consumers
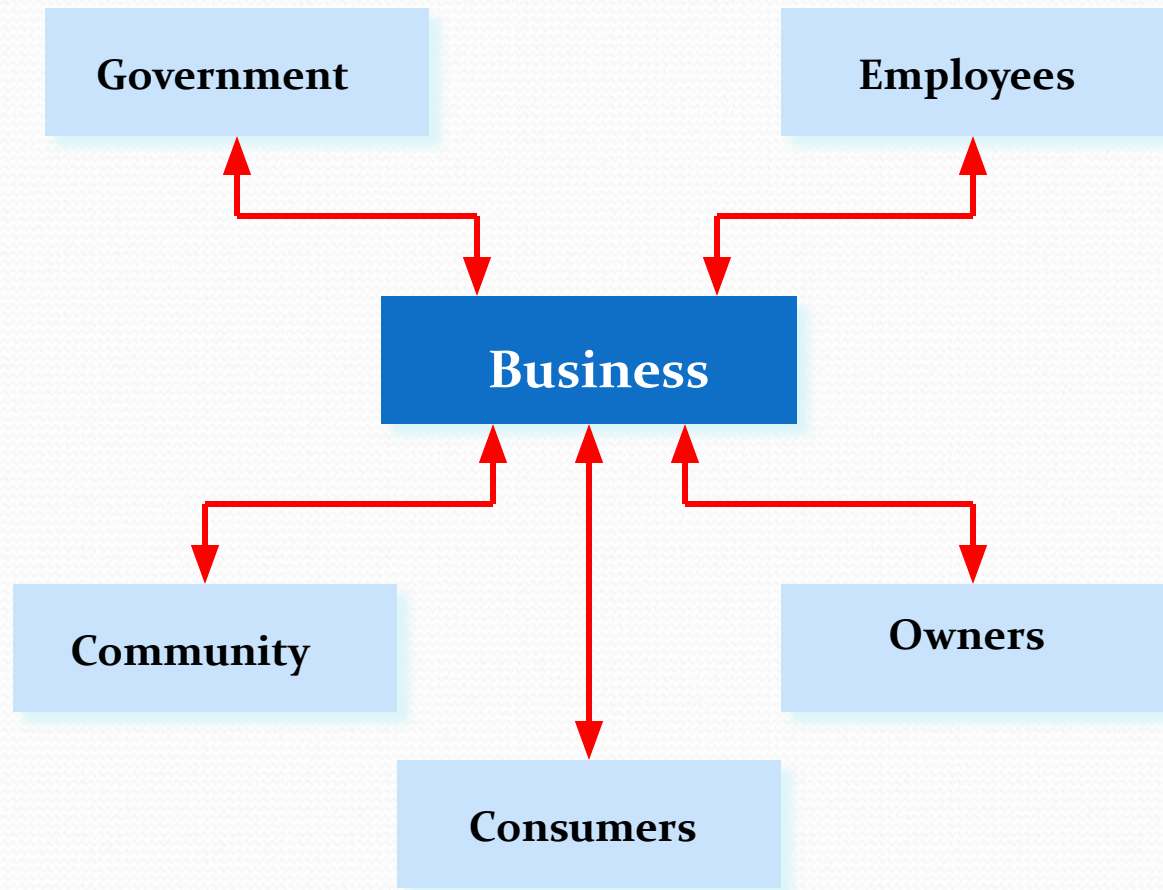
Who Are Business Stakeholders?

Evolution and Development of the Stakeholder Concept
Views of the Firm

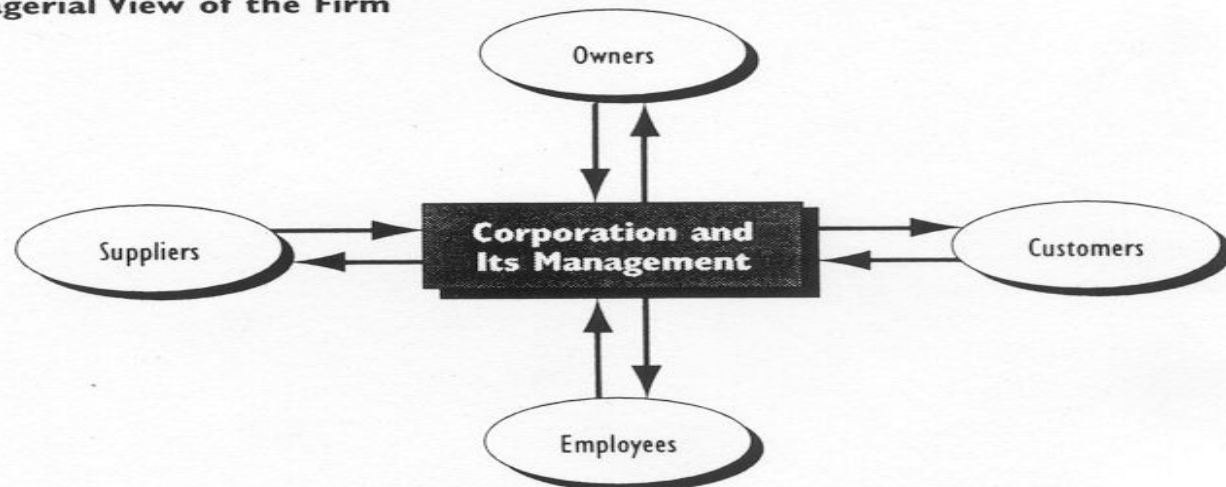Production ➡️ Managerial   Stakeholder ➡️

Who Are Business Stakeholders?

Production and Managerial Views

Production View of the Firm

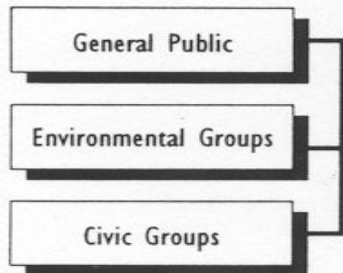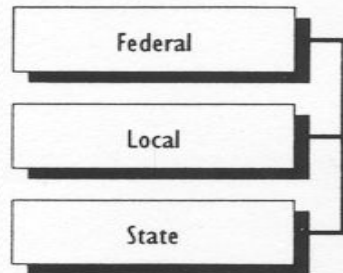Managerial View of the Firm

Who Are Business Stakeholders?

THE STAKEHOLDER VIEW OF THE FIRM
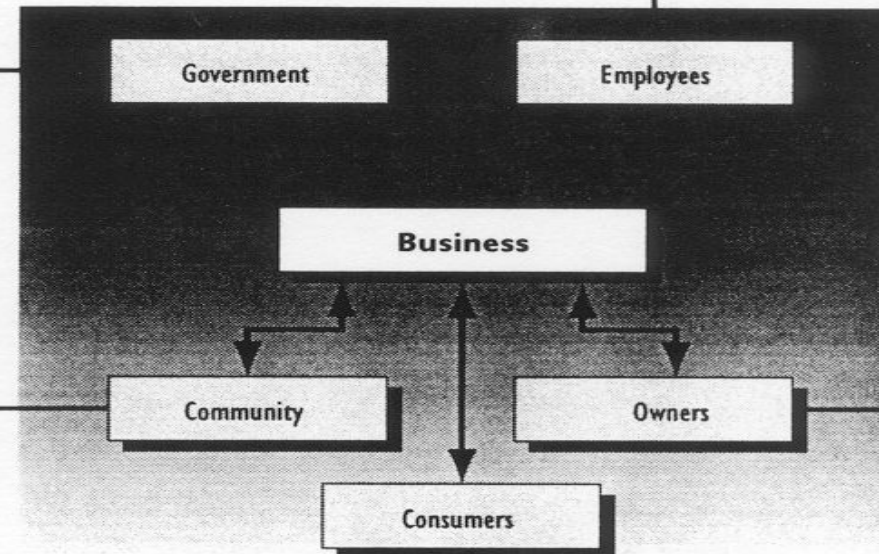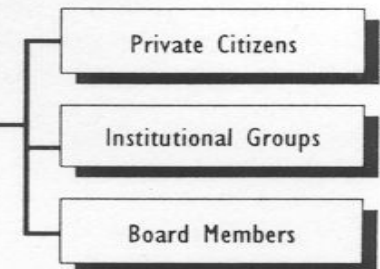
Who Are Business Stakeholders?

Primary and Secondary Stakeholders

- **Primary stakeholders** are those stakeholders that have a direct stake in the organization and its success

- **Secondary stakeholders** are those that have a public or special interest stake in the organization

Who Are Business Stakeholders?

Core, Strategic, and Environmental Stakeholders

- **Core stakeholders** are essential to the survival of the firm
- **Strategic stakeholders** are vital to the organization and the threats and opportunities the organization faces
- **Environmental stakeholders** are all others in the organization's environment

Who Are Business Stakeholders?

**Legitimacy, Power, Urgency:
A Typology of Stakeholder Attributes**

- **Legitimacy** refers to the perceived validity of the stakeholder's claim to a stake

- **Power** refers to the ability or capacity of a stakeholder to produce an effect

- **Urgency** refers to the degree to which the stakeholder's claim demands immediate attention

Who Are Business Stakeholders?

STAKEHOLDER TYPOLOGY: ONE, TWO, OR THREE ATTRIBUTES PRESENT

POWER

1 Dormant Stakeholder

4 Dominant Stakeholder

LEGITIMACY

5 Dangerous Stakeholder

7 Definitive Stakeholder

2 Discretionary Stakeholder

6 Dependent Stakeholder

3 Demanding Stakeholder

URGENCY
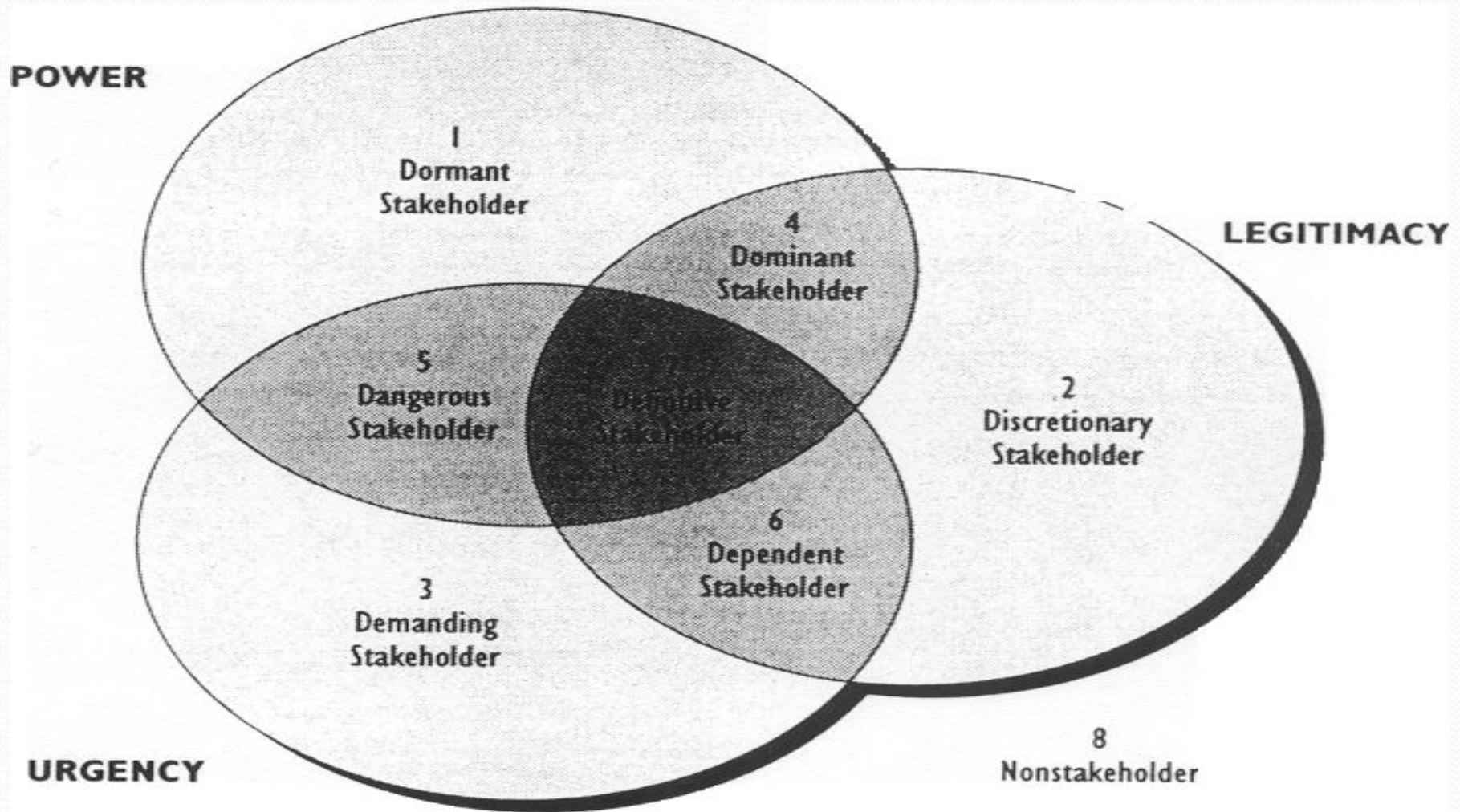
8 Nonstakeholder

Strategic, Multifiduciary, and Synthesis Views of Stakeholders

- **Strategic approach** considers stakeholders primarily as factors managers should manage in pursuit of shareholder profits

- **Multifiduciary approach** considers stakeholders as a group to which management has a *fiduciary* responsibility

- **Synthesis approach** considers stakeholders as a group to whom management owes an ethical, but not a fiduciary responsibility

Three Values of the Stakeholder Model

- Descriptive
- Instrumental
- Normative

Key Questions In Stakeholder Management
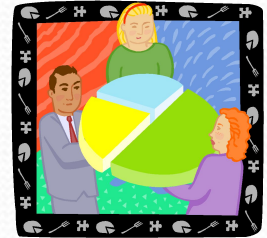
1. Who are our **stakeholders**?
2. What are our stakeholders' **stakes**?
3. What **opportunities and challenges** do the stakes and stakeholders present?
4. What economic, legal, ethical, and philanthropic **responsibilities** does our firm have?
5. What **strategies or actions** should our firm take to best manage stakeholder challenges and opportunities?

Key Questions In Stakeholder Management

Who are our *stakeholders*

Management must identify generic stakeholder groups and specific subgroups

Key Questions In Stakeholder Management

SOME GENERIC AND SPECIFIC STAKEHOLDERS OF A LARGE FIRM

OWNERS

Trusts
Foundations
Mutual funds
Board members
Management owners
Employee pension
   funds
Individual owners

EMPLOYEES

Young employees
Middle-aged
   employees
Older employees
Women
Minority groups
Handicapped
Special-interest groups
Unions

GOVERNMENTS

Federal
   • EPA
   • FTC
   • OSHA
   • CPSC
State
Local

CUSTOMERS

Business purchasers
Government
   purchasers
Educational
   institutions
Special-interest groups

COMMUNITY

General fund-raising
United Way
YMCA/YWCA
Middle schools
Elementary schools
Residents who
   live close by
All other residents
Neighborhood
   associations
Local media
Chamber of Commerce

COMPETITORS

Firm A
Firm B
Firm C

SOCIAL ACTIVIST GROUPS

People United to
   Save Humanity
   (PUSH)
Friends of the Earth
Mothers Against
   Drunk Driving
   (MADD)
American Civil
   Liberties Union
Consumers Union
People for the Ethical
   Treatment of
   Animals (PETA)

Key Questions In Stakeholder Management

What are our stakeholders' *stakes*?

- Determine the nature/legitimacy of a group's stakes
- Determine the power of a group's stakes
- Determine specific groups within generic groups

Key Questions In Stakeholder Management

What *opportunities and challenges* do stakeholders present?

- Opportunities are to build good productive working relationships with the stakeholders

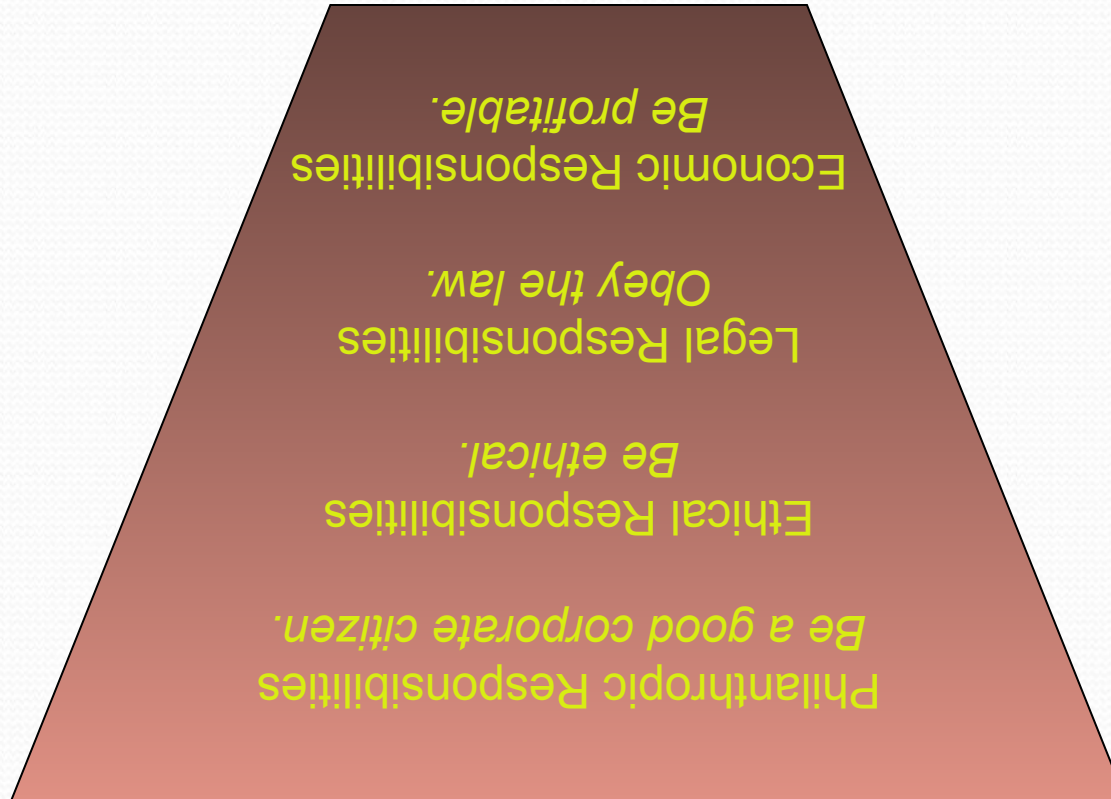- Challenges are representative of how the firm handles the stakeholders

Key Questions In Stakeholder Management

FACTORS AFFECTING POTENTIAL FOR STAKEHOLDER THREAT AND COOPERATION		
	INCREASES OR DECREASES STAKEHOLDER'S POTENTIAL FOR THREAT?	INCREASES OR DECREASES STAKEHOLDER'S POTENTIAL FOR COOPERATION?
Stakeholder controls key resources (needed by organization)	Increases	Increases
Stakeholder does not control key resources	Decreases	Either
Stakeholder more powerful than organization	Increases	Either
Stakeholder as powerful as organization	Either	Either
Stakeholder less powerful than organization	Decreases	Increases
Stakeholder likely to take action (supportive of the organization)	Decreases	Increases
Stakeholder likely to take nonsupportive action	Increases	Decreases
Stakeholder unlikely to take any action	Decreases	Decreases
Stakeholder likely to form coalition with other stakeholders	Increases	Either
Stakeholder likely to form coalition with organization	Decreases	Increases
Stakeholder unlikely to form any coalition	Decreases	Decreases

Key Questions In Stakeholder Management

- What economic, legal, ethical, and philanthropic *responsibilities* does our firm have to its stakeholders?

Economic Responsibilities
Be profitable.

Legal Responsibilities
Obey the law.

Ethical Responsibilities
Be ethical.

Philanthropic Responsibilities
Be a good corporate citizen.

Key Questions In Stakeholder Management

Stakeholder/Responsibility Matrix

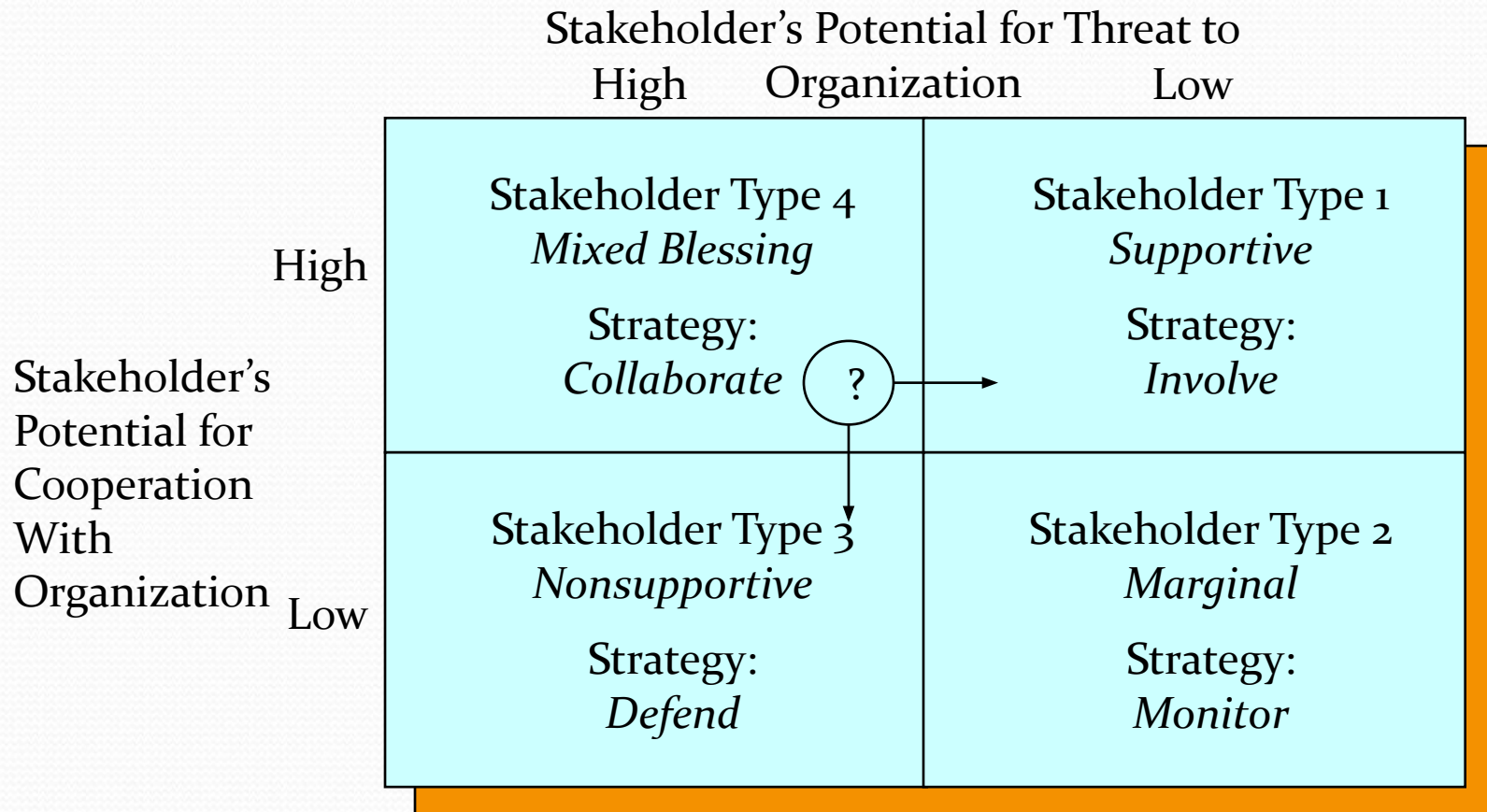| Stakeholders	Economic	Legal	Ethical	Philanthropic
Owners				
Customers				
Employees				
Community				
Public at large				
Social Activists				
Other				

Key Questions In Stakeholder Management

What *strategies or actions* should our firm take to best manage stakeholder challenges and opportunities?

- Should we deal *directly* or *indirectly* with stakeholders?
- Should we take the *offense* or the *defense* in dealing with stakeholders?
- Should we *accommodate, negotiate, manipulate* or *resist* stakeholder overtures?
- Should we employ a *combination of the above* strategies or pursue a *singular course* of action?

Key Questions In Stakeholder Management

Types of Stakeholders

Stakeholder's Potential for Threat to
High   Organization   Low

Stakeholder's Potential for Cooperation With Organization

High

Low

	Stakeholder's Potential for Threat to Organization	
	High	**Low**
High	Stakeholder Type 4 *Mixed Blessing* Strategy: *Collaborate*	Stakeholder Type 1 *Supportive* Strategy: *Involve*
Low	Stakeholder Type 3 *Nonsupportive* Strategy: *Defend*	Stakeholder Type 2 *Marginal* Strategy: *Monitor*

?

Effective Stakeholder Management

Careful assessment of the **five core** questions:

- *Who* are our stakeholders?

- What are our stakeholders' *stakes*?

- What *opportunities and challenges* do stakeholders present?

- What economic, legal, ethical, and philanthropic *responsibilities* does our firm have?

- What *strategies or actions* should our firm take to best manage stakeholder challenges and opportunities?

Effective Stakeholder Management

Stakeholder Management Capability

- Rational level
- Process level
- Transaction level

Effective Stakeholder Management

Stakeholder Corporation

- Stakeholder inclusiveness
- Stakeholder symbiosis

Stakeholder Power:
Four Gates of Engagement

- Awareness
- Knowledge
- Admiration
- Action

Principles of Stakeholder Management

- Acknowledge
- Monitor
- Listen
- Communicate
- Adopt
- Recognize
- Work
- Avoid
- Acknowledge conflict

Principles of Stakeholder Management

PRINCIPLES OF STAKEHOLDER MANAGEMENT——"THE CLARKSON PRINCIPLES"

PRINCIPLE 1 Managers should **acknowledge** and actively monitor the concerns of all legitimate stakeholders, and should take their interests appropriately into account in decision making and operations.

PRINCIPLE 2 Managers should **listen** to and openly communicate with stakeholders about their respective concerns and contributions, and about the risks that they assume because of their involvement with the corporation.

PRINCIPLE 3 Managers should **adopt** processes and modes of behavior that are sensitive to the concerns and capabilities of each stakeholder constituency.

PRINCIPLE 4 Managers should **recognize** the interdependence of efforts and rewards among stakeholders, and should attempt to achieve a fair distribution of the benefits and burdens of corporate activity among them, taking into account their respective risks and vulnerabilities.

PRINCIPLE 5 Managers should **work** cooperatively with other entities, both public and private, to insure that risks and harms arising from corporate activities are minimized and, where they cannot be avoided, appropriately compensated.

PRINCIPLE 6 Managers should **avoid altogether** activities that might jeopardize inalienable human rights (e.g., the right to life) or give rise to risks which, if clearly understood, would be patently unacceptable to relevant stakeholders.

PRINCIPLE 7 Managers should **acknowledge** the potential conflicts between (a) their own role as corporate stakeholders, and (b) their legal and moral responsibilities for the interests of stakeholders, and should address such conflicts through open communication, appropriate reporting, and incentive systems and, where necessary, third-party review.

Selected Key Terms

- Core Stakeholders
- Environmental Stakeholders
- Legitimacy
- Managerial view of the firm
- Power
- Principles of stakeholder management
- Process level
- Production view of the firm

- Rational level
- Stake
- Stakeholder
- Stakeholder inclusiveness
- Stakeholder management capability (SMC)
- Stakeholder symbiosis
- Stakeholder view of the firm
- Strategic stakeholder
- Transactional level
- Urgency

Environmental reporting

- Refers to the **issuance of any report** containing information of an environmental nature, from corporate emission levels to national state of environmental reports

- <u>Within the organisational EM</u>, environmental reporting refers to the voluntary communication of formalised information about an organisation's environmental policies & objectives, management systems, and measured environmental performance to the organisation's stakeholders.

# History of Corporate Environmental Reporting (CER)

- First corporate environmental reports were released in 1990s issuing reports on emissions
- Throughout the 1990s CERs evolved in two directions:
- Detail: as companies improved their performance measurement processes, more environmental indicators were included;
- Coverage: reports expanded focus from biophysical environment to include health & safety, social, ethical & economic performance.
- The expansion in coverage coincided with the trend by companies to merge environmental & H&S management systems.

Evolution of environmental reporting to meet stakeholders information needs.
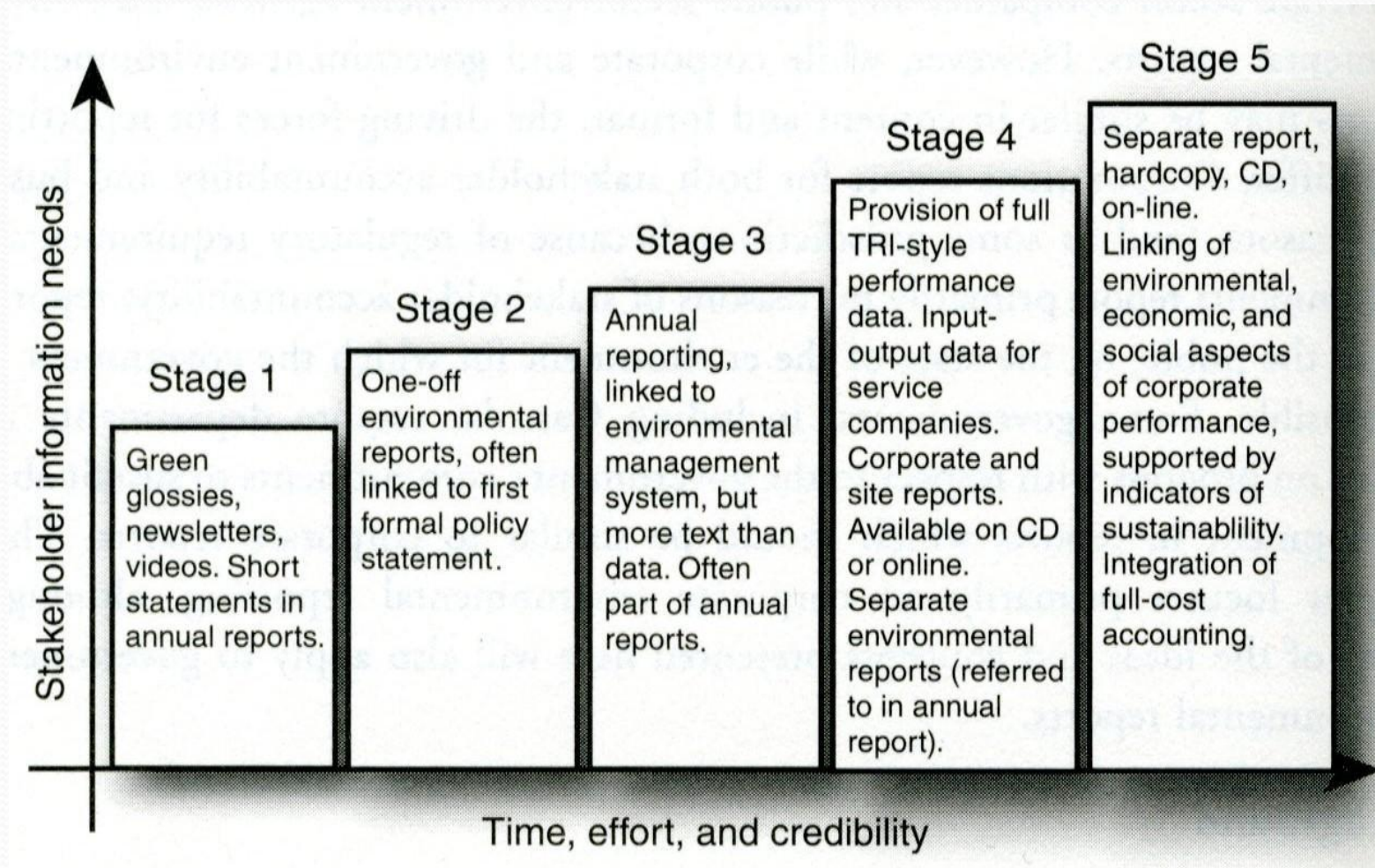
Source: adapted from the UN Environmental Programme, 1994

Processes of preparing an environmental report
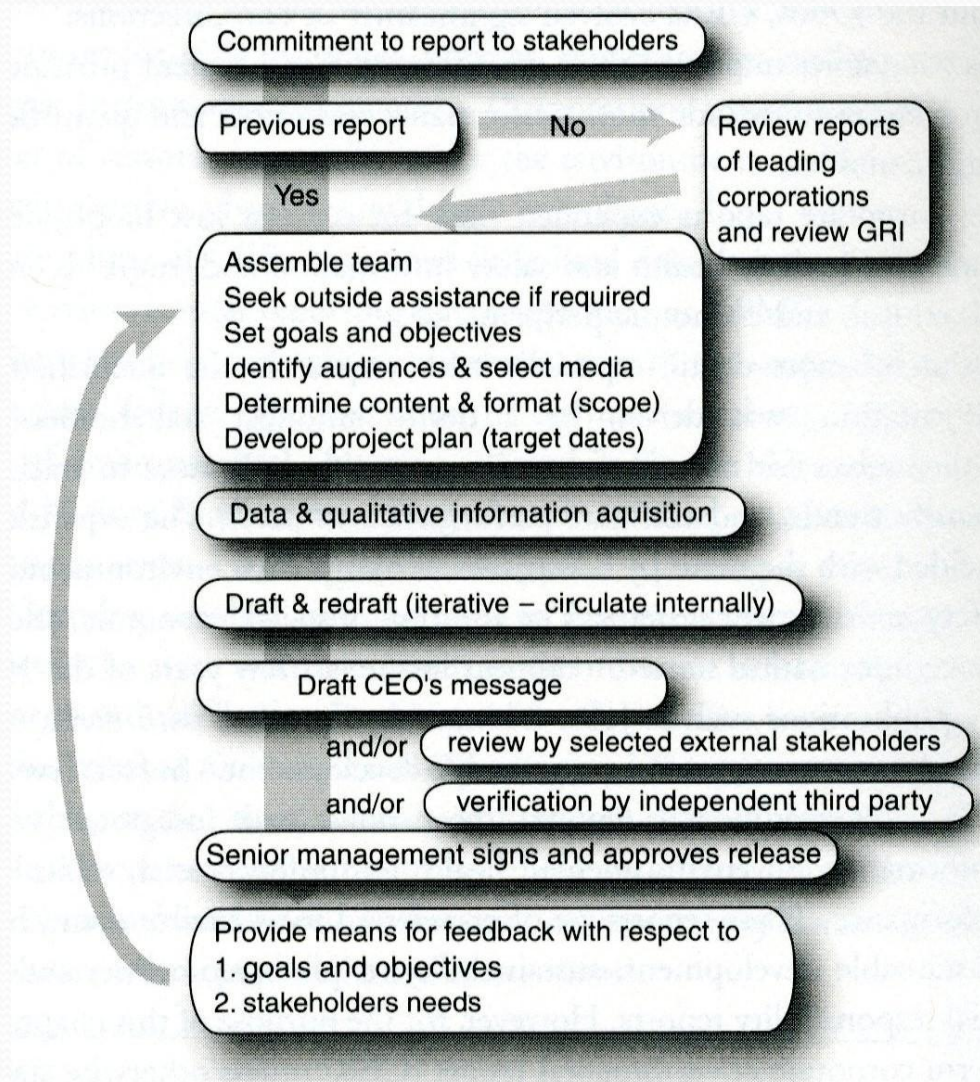
GRI=Global reporting initiative

Reliability of the data

- At any time in a corporation, different performance measurement processes will be at different stages of development
- Some measurement processes will have been in existence for some time, thus mature, robust & reliable
- Performance measurement processes for other areas will be new or under-managed, thus data not very reliable
- When the performance data is not considered reliable, reporting on performance will be problematic or not possible
- Thus most companies report on their policies, goals and objectives rather than actual performance for areas with emerging systems.

Reporting and verification, measurement processes & reliable data
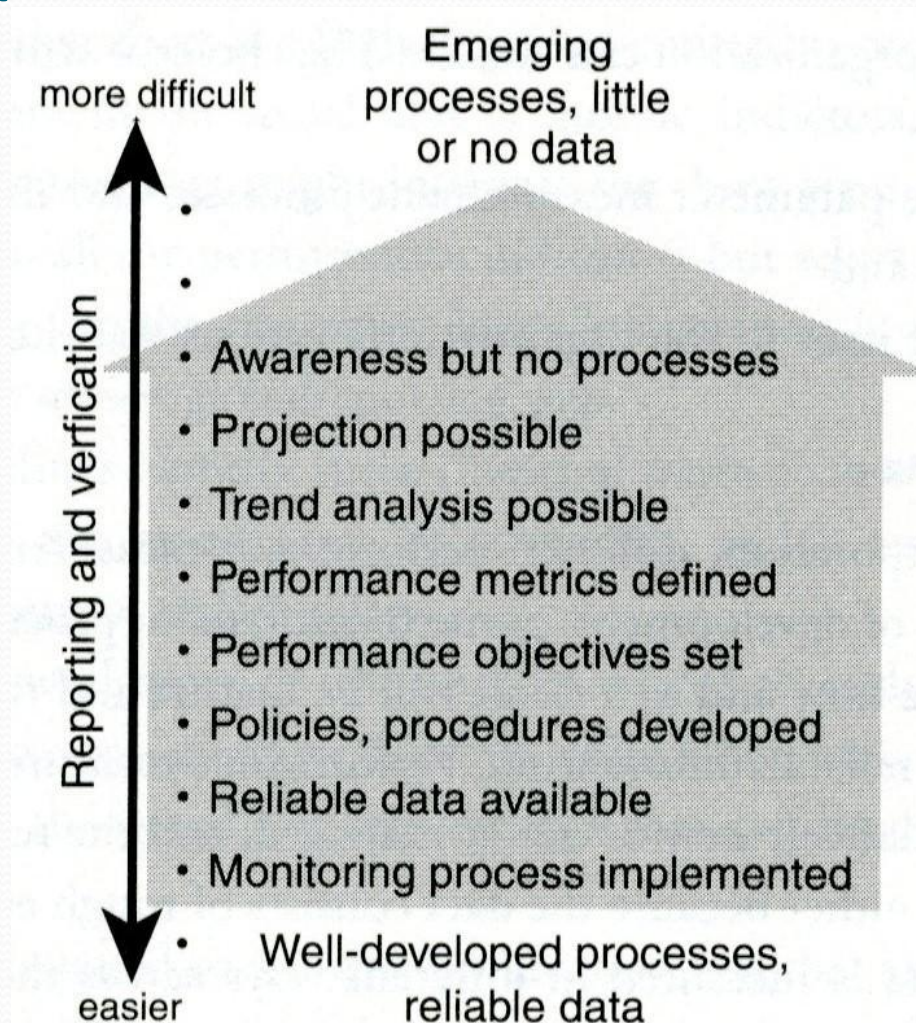
Frame of reference for reporting based on reliability of data and relevance to stakeholders

High reliability of data	Record data, but do not report	Report on performance
Low reliability of data	Redirect resources to areas of higher stakeholder	Report policies, goals and programs

- Can be used as a screening tool to determine which indicators should be reported or how they should be defined in the report.

Audiences for Environmental Reports

- Targeting their audiences, report makers may address the noisiest stakeholders

- Other consider their employees as their main audience but also target environmental campaigners, shareholders & local communities.

- Shareholders
- Employees
- Consumers
- Special interest groups:
  - Consumer organizations
  - Environmental organizations
  - Other non-governmental organizations
- Investment analysts, investors
- Financial institutions
- Neighboring communities
- Media
- Government:
  - Enforcement agencies
  - Environmental departments
- Industry associations
- Peer organizations
- Others:
  - Benchmarking organizations
  - Educational institutions
  - International community
  - General public

Driving forces for external assurance

The nature of the assurance depends on two main factors:

1. The nature of information being reviewed: is the information mainly qualitative, quantitative or some combination?

2. The nature of auditor's professional opinions: are the assurance providers giving personal opinions (they include their values in their opinion) or objective opinions (professional judgment based on education, experience and professional ethics on whether reported information is factual).

Types of assurance

1. **Review & endorsement of company policies & performances** – what does the external reviewer think of the company's performance, policies, programs? Typically provided by auditors who express their own beliefs on how companies should perform.

2. **Verification that management systems meet external standards** – does the company's EMS meet a specified standard (e.g., ISO 14001)? This assurance is credible when provided by consultants and auditors with special qualifications

Types of assurance (Cont.)

3. **Interpretation of performance data** – what does all environmental data mean? How does this company compare to peer companies? Typically provided by consultants with industry expertise, academics or NGO's with access to similar performance data from other companies.

4. **Verification of data integrity** – are the reported environmental data accurate and complete (= reliable)? Typically provided by accounting & engineering companies with expertise in assessing quantified information and measurement methodologies.

Four types of external assurance that vary with the quantitative and qualitative nature of data and information discussed above:
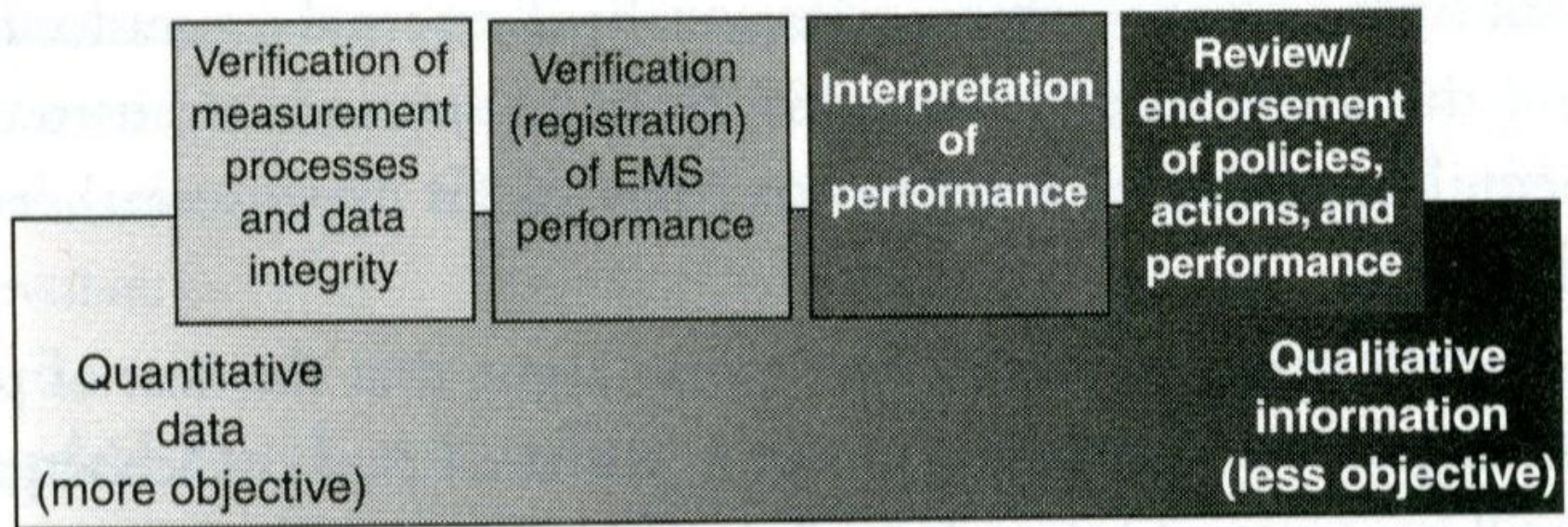
Examples of environmental reports