

Stakeholder Analysis and Engagement

Oliver Laasch

RESPONSIBILITY MANAGEMENT AS STAKEHOLDER MANAGEMENT

LEGO: A Stakeholder-Driven Brand?

- **Four promises for main stakeholders through the core business**
 - **Customers (play promise):** LEGO aims to satisfy and educate its customers at the same time. The company engages with children (“LEGO builders”) and parents, mainly through the issues of product safety, education (“learning manifesto”), and an extensive collaboration with parents.
 - **Employees (people promise):** LEGO engages with employees about the main issues of gender diversity, motivation and satisfaction, work–life balance, and health and safety.
 - **Partners/suppliers (partner promise):** Topics addressed with partners are the sustainability of materials (polymers), anticorruption policies, auditing, and supplier responsibilities toward their own stakeholders.
 - **Environment (planet promise):** Issues related to the environment at LEGO are energy efficiency, waste reduction, recycling, and the end of life of the product.
- **Activities for other stakeholders through the LEGO foundation**

Food for Thought

Expert Corner

Freeman about Friedman

Are you interested in stakeholder thinking? Edward Freeman answers “tricky” questions on stakeholder management in an interview series that is available free online. Highlights of the interview are Edward Freeman refuses to be seen as the creator of stakeholder theory; and his guess is that the biggest opponent of business responsibility, the late Milton Friedman, if he were still alive, would be a stakeholder theorist.

Source: Freeman, E. (2008). Interview transcript: R. Edward Freeman on stakeholder theory. *Masters Seminars in Business Ethics Video Series*. Retrieved April 22, 2012, from www.darden.virginia.edu/corporate-ethics/Video_Stakeholder_Theory/transcript_freeman_stakeholders.html

DIG DEEPER

Talk to Stakeholders!

How can you actually know how important an issue is to stakeholders? The pragmatic answer of *The Guardian* was “Let’s ask!” The British newspaper started an online survey on their webpage, asking stakeholders for the topics they would like to see covered in future sustainability reports.

Source: Confino, J. (2010). Can you help us with our latest sustainability report? *Guardian News and Media*. Retrieved February 24, 2012, from www.guardian.co.uk/sustainability/blog/sustainability-audit

DIG DEEPER

Gods, Mountains, Avatars?

If you think those three words are unrelated to business responsibility, you are mistaken. The Eastern Indian Dongria Kondh tribe appealed to the director James Cameron, who created the science fiction movie *Avatar* in which the existence of an alien tribe living on a floating mountain is endangered by the activities of an unscrupulous mining corporation. The Dongria Kondh say the fictional story is reality for them. Their existence on their holy mountain, considered a god, is threatened by the mining company Vedanta Resources and its plan to convert the site into a mine. The mountain is estimated to hold the metal bauxite, which is used to produce aluminum, worth \$2 billion. Can mountains, gods, and local tribes be considered stakeholders?

Sources: Hopkins, K. (2010). Indian tribe appeals for *Avatar* director’s help to stop Vedanta. *The Guardian*. Retrieved April 22, 2012, from www.guardian.co.uk; Cernansky, R. (2012). Foreign companies eye sacred mountains in Montana and India for new mines. *Treehugger*. Retrieved April 22, 2012, from www.treehugger.com/corporate-responsibility/foreign-companies-pursue-mine-sacred-mountains.html

In Practice

Engagement Success in Bulgaria

In its Bulgarian subsidiary, the Austrian utility business EVN was confronted with problematic customers, mainly consisting of Roma. Through an intensive stakeholder dialogue, EVN found out that the underlying reasons for energy theft were rooted in a widespread culture of discrimination toward this ethnicity. An honest and respectful engagement led to a positive and beneficial relationship between the company and its customers.

Sources: EVN. (2013). The Stolipinovo project. EVN. Retrieved February 2, 2013, from www.evn.at/Verantwortung/Gesellschaft/Stakeholder-dialogue/Fallbeispiele/Projekt-Stolipinovo-%281%29.aspx?lang=en-us

Expert Corner

Edward Freeman

Q: Since, ultimately, keeping the shareholders and customers happy is the bottom line for managers, do other stakeholders really matter that much?

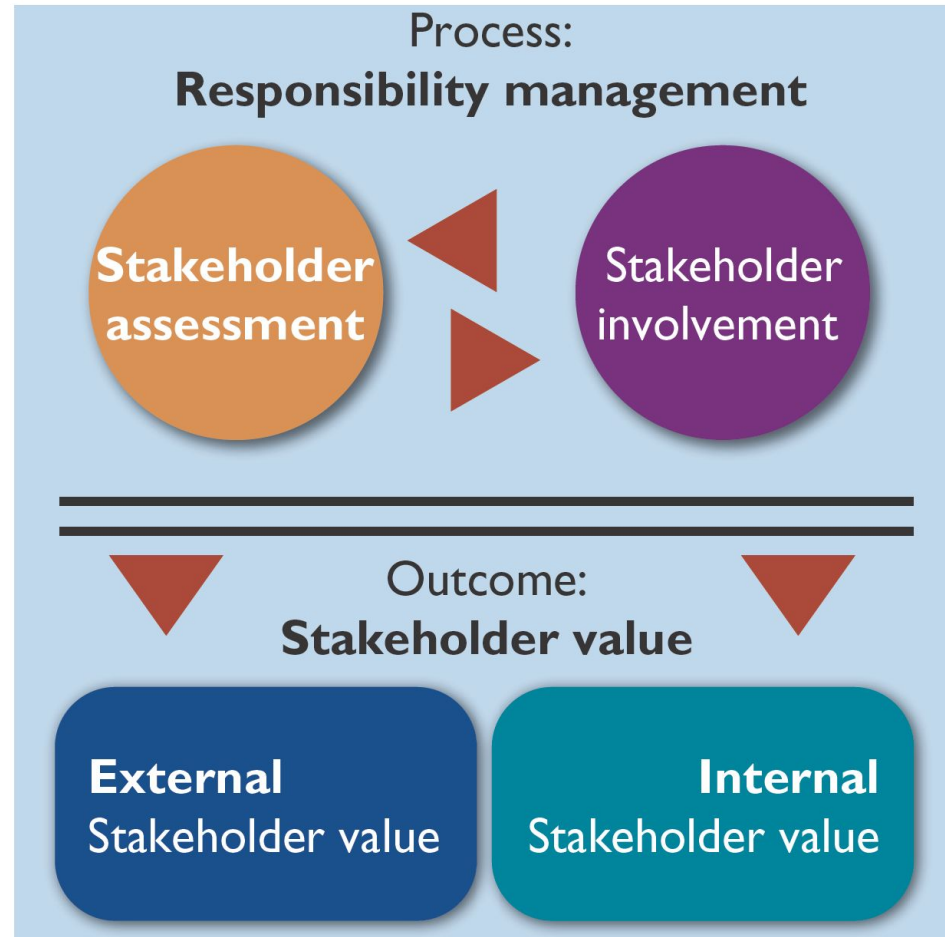
A: Yes, others matter, because their interests are joint. You can’t



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create value for shareholders or customers without creating value for suppliers, employees, and communities. All five are critical to most businesses. In some, it may be best to start value creation thinking with customers, but in other businesses, it may be best to start with employees, or suppliers, or the financiers.

Figure 4.7 The Responsibility Management Process

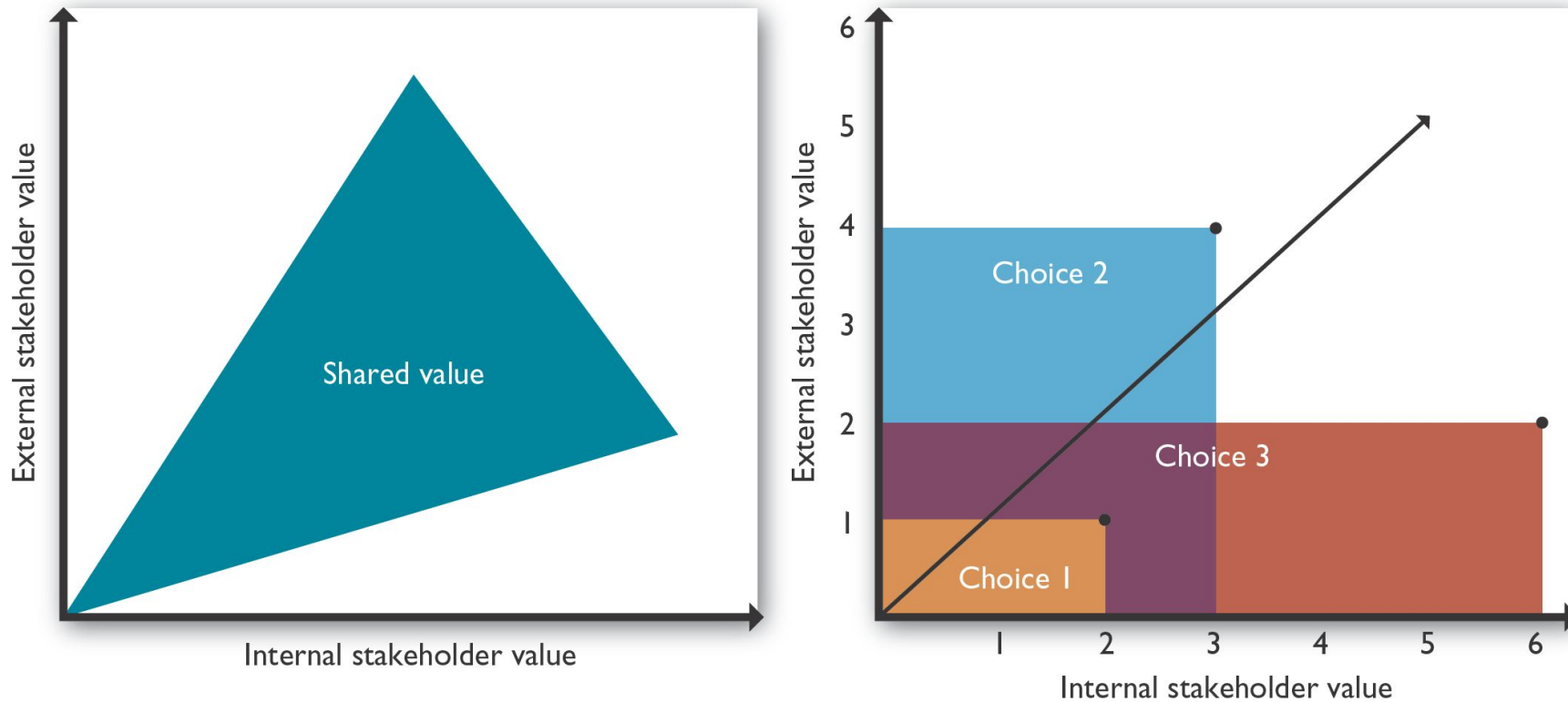


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Stakeholder Management and Related Terms

- **Stakeholder management** is the process of managing relationships with the various groups, individuals, and entities that affect or are affected by an activity.
- **Responsibility management** is an administrative practice centered on stakeholders and aimed at the maximization of stakeholder value.
- **Stakeholders** are any “groups and individuals that can affect or are affected” by business activity.
- **Stakeholder value** is the degree of satisfaction of either single stakeholders or of all stakeholders of a specific activity.
- **Materiality** describes the shared importance of a specific issue to both company and stakeholders.

Figure 4.8 Shared Value and Stakeholder Value Optimization



Source: (left) Adapted from Porter, M., & Kramer, M. (2002). The competitive advantage of corporate philanthropy. *Harvard Business Review*, 80(12), 56–68; (right) author elaboration.

Stakeholder Value Optimization Criteria

■ Maximization

- suggests that we should aim to achieve the maximum possible stakeholder value.

■ Fairness

- suggests that stakeholder value distribution should be fair in process and outcome.

Processes of Stakeholder Management

ASSESSMENT

- *Stakeholder assessment is the process of understanding stakeholders and their relationship to a specific activity; it can be subdivided into two steps, stakeholder identification and stakeholder prioritization.*

ENGAGEMENT

- *Stakeholder engagement is the process of interaction with stakeholders and can be subdivided into stakeholder communication and the co-creation of joint activities.*

Stakeholder Identification Criteria (Exemplary)

■ *Dependency*

- is based on dependence of the organization or stakeholder of one on another.

■ *Responsibility*

- is based on existence of legal, commercial, operational, or ethical/moral responsibilities.

■ *Tension*

- is based on the need for immediate attention from the organization with regard to financial, wider economic, social, or environmental issues.

■ *Influence*

- is based on the impact on the organization's or a stakeholder's strategic or operational decision making.

Categorizing Stakeholders

■ Internal and External

- Internal stakeholders are the ones forming part of the company's internal organizational structure, external stakeholders are not.

■ Primary and secondary

- Primary stakeholders have a direct connection with the company. Secondary stakeholders are indirectly connected to the company through a primary stakeholder.

■ Social and Nonsocial

- Social stakeholders human beings currently alive, as opposed to nonsocial stakeholders.

■ Stakeholders and Nonstakeholders

- Stakeholders are related to the company, nonstakeholders are not.

Establishing Stakeholder Maps

1. Identify the focal entity

- A focal entity defines the perspective from which the stakeholder analysis is conducted.

2. List stakeholders

- Prepare a complete list disregarding type or strength of relationship to the focal entity.

3. Group stakeholders

- Organize the map in groups of stakeholders with mutual characteristics.

Figure 4.9 Categorized Stakeholder Map

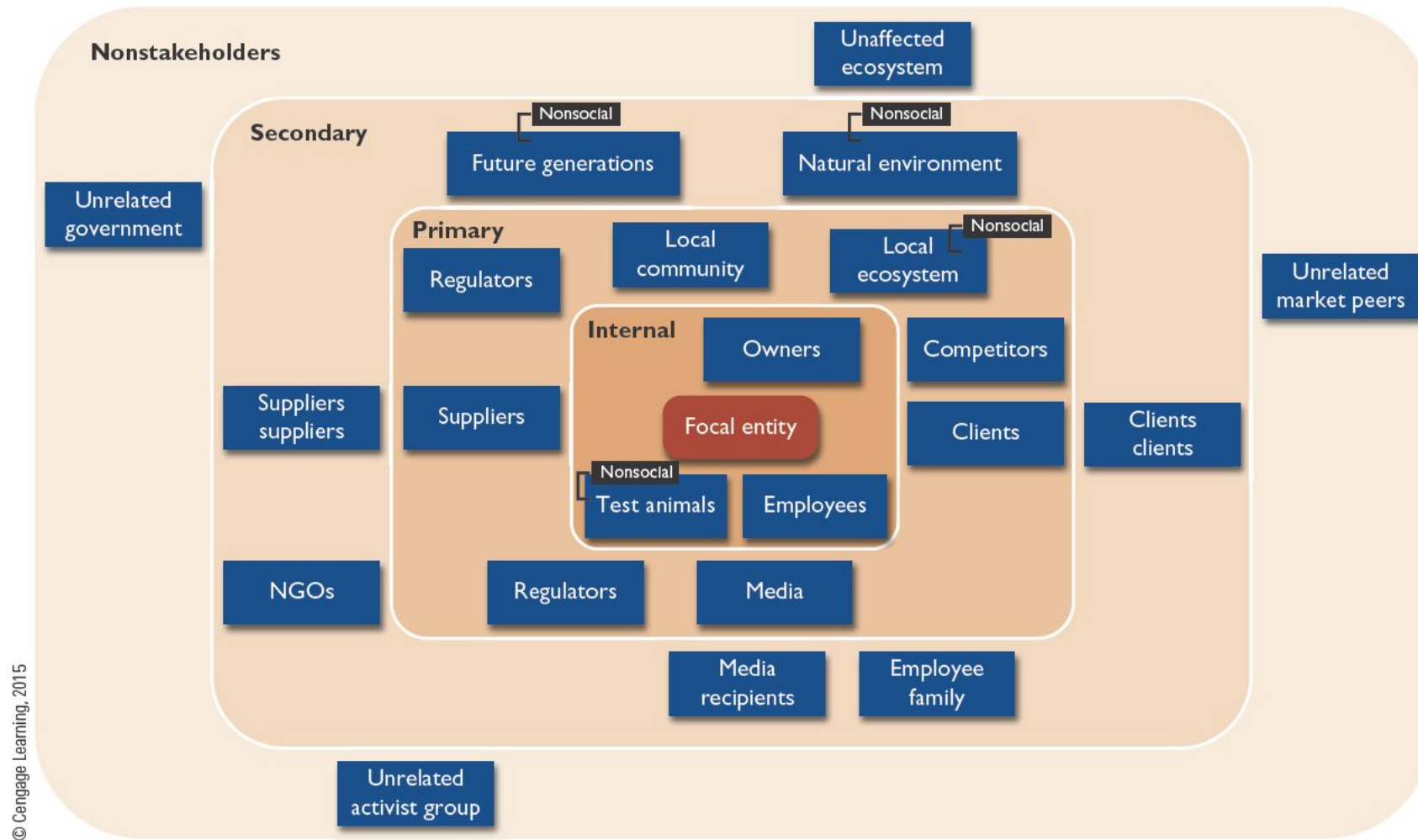


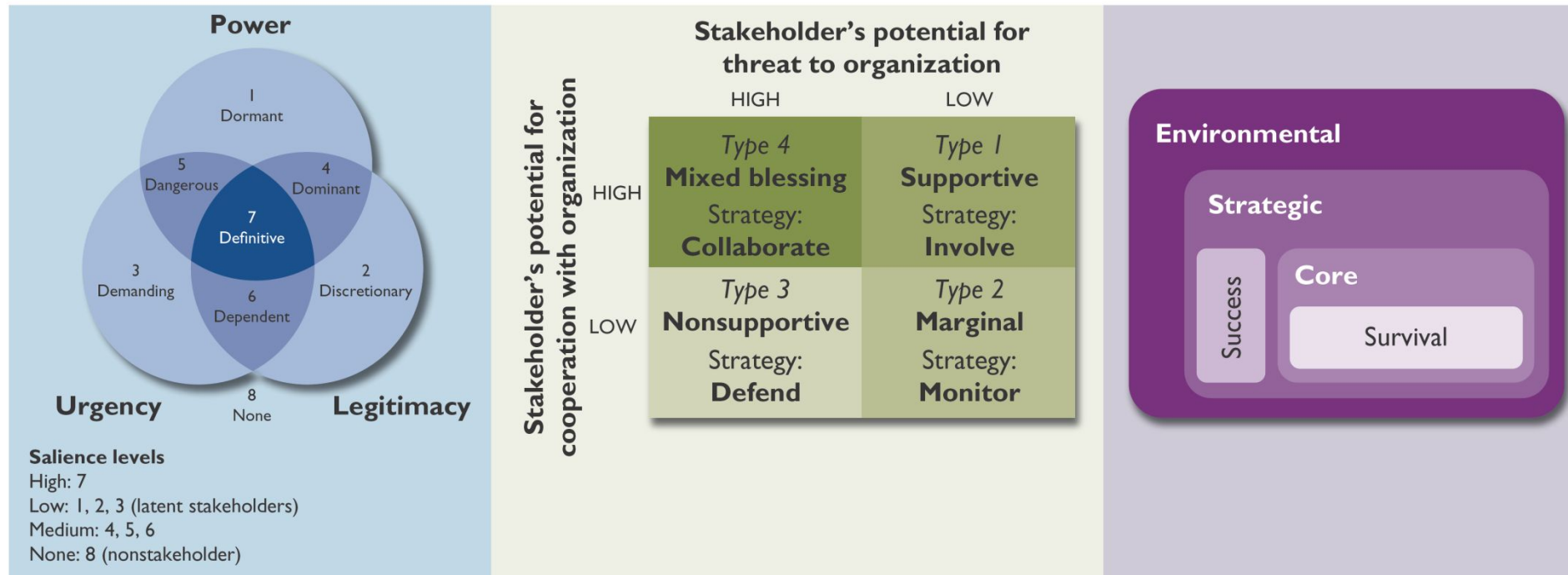
Table 4.2 Stakeholder Influence in Practice

Survey/Year	Economist/2008	IBM/2008	Accenture/2010	Corporate Responsibility Magazine/2010	Ernst & Young/2012
Rank 1	Governments	Employees	Customers	Customers	Customers
Rank 2	Competitors	Business partners	Employees	Employees	Employees
Rank 3	Customers	Investors	Governments	Investors	Investors
Rank 4	Regulators	Community	Communities	Governments	Government
Content focus	Which of the following will have the greatest influence over your sustainability strategy during the next five years?	Stakeholders that companies collaborate with in their corporate social responsibility initiatives.	Over the next five years, which stakeholder groups do you believe will have the greatest impact on the way you manage societal expectations?	My company's five top corporate responsibility audiences are ...	Rank the top three stakeholder groups in order of importance in driving your sustainability initiatives.
Respondents	More than 1,200 executives, half of them from the C-suite and 26% of them CEOs worldwide	250 worldwide business leaders	766 CEOs of Global Compact member companies worldwide	Corporate responsibility officers from 650 companies worldwide	272 executives and thought leaders, 85% of whom were based in the United States

* Stakeholder denominations have been standardized to ensure comparability.

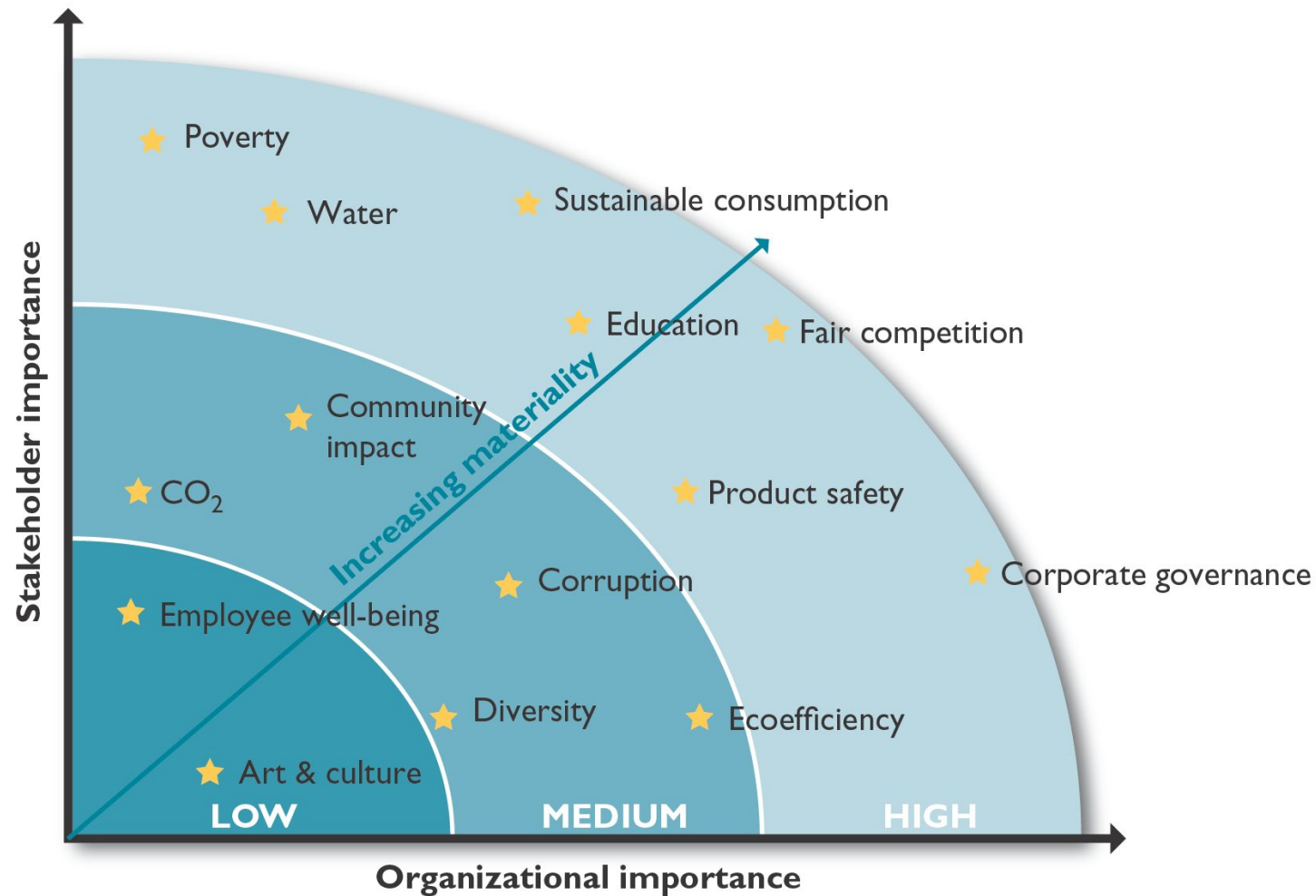
Sources: Economist. (2008). *Doing good: Business and the sustainability challenge*. London: Economist Intelligence Unit; Pohle, G., & Hittner, J. (2008). *Attaining sustainable growth through corporate social responsibility*. Somers: IBM Institute for Business Value; Lacey, P., et al. (2010). *A new era of sustainability: UN Global Compact-Accenture CEO study 2010*. New York: Accenture Institute for High Performance; Corporate Responsibility Magazine. (2010). The state of corporate responsibility: Setting the baseline. *Corporate Responsibility Magazine*. Retrieved September 4, 2011, from www.thecro.com; Ernst & Young. (2012). *Six growing trends in corporate sustainability: An Ernst & Young survey in cooperation with GreenBiz group*. London: Ernst & Young.

Figure 4.10 Main Stakeholder Prioritization Approaches



Sources: (left) Mitchel, R. K., Agle, B. R., & Wood, Donna J. (1997). Toward a theory of stakeholder salience: Defining the principles of who and what really counts. *Academy of Management Review*, 22(4), 853–886; (middle) Savage, G. T., Nix, Timothy W., Whitehead, Carlton J., & Blair, John D. (1991). Strategies for assessing and managing organizational stakeholders. *Academy of Management Executive*, 2(5), 61–75; (right) Clarkson. (1994). In A. B. Carroll & A. K. Buchholtz (2008), *Business and society*, 7th ed. Scarborough, Canada: Cengage.

Figure 4.11 Materiality Assessment for Typical Generic Issues



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Table 4.3 Understanding the Levels of Stakeholder Engagement

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Level/stance	Information	Consultation	Deciding together	Acting together	Supporting
Typical process	Presentation and promotion	Communication and feedback	Consensus building	Partnership building	Community development
Typical methods	Leaflets Media Video	Surveys Meetings	Workshops Planning for real strategic choice	Partnership bodies	Advice Support Funding
Initiator stance	“Here’s what we are going to do.”	“Here’s our options—what do you think?”	“We want to develop options and decide actions together.”	“We want to carry out joint decisions together.”	“We can help you achieve what you want within these guidelines.”
Initiator benefits	Apparently least effort	Improves chances of getting it right	New ideas and commitment from others	Brings in additional resources	Develops capacity in the community and may reduce calls for service
Issues for initiator	Will people be willing to consult?	Are the options realistic? Are there others?	Do we have similar ways of deciding? Do we know and trust each other?	Where will the balance of control lie? Can we work together?	Will our aims be met as well as those of other interests?
Needed to start ...	Clear vision Identified audience Common language	Realistic options Ability to deal with responses	Readiness to accept new ideas and follow them through	Willingness to learn new ways of working	Commitment to continue support

Source: Wilcox, D. (1994). *The guide to effective participation*. London: Partnership.org.

Principles of Responsibility: Managing for Stakeholder Value (1/2)

- I. Through ***business responsibility***, a company voluntarily assumes accountability for social, economic, and environmental issues related to its stakeholders and aims to maximize stakeholder value.
- II. ***Responsibility management*** is an administrative practice centered on stakeholders and aimed at the maximization of stakeholder value, which is a necessary condition to become a business responsibility.
- III. ***Stakeholder value*** is created in many different ways and differs from stakeholder to stakeholder. The goal of business responsibility and management is to create ***shared value*** between external and internal stakeholders.
- IV. ***Corporate social performance (CSP)*** is a theoretical construct that aims at defining the degree of responsibility achieved by a company. Corporate social performance can be determined quantitatively and qualitatively. CSP provides an estimate for the amount of stakeholder value created.

Principles of Responsibility: Managing for Stakeholder Value (2/2)

- V. The process of **stakeholder management** consists of the two tasks: stakeholder assessment (understanding stakeholders) and stakeholder engagement (interacting with stakeholders).
- VI. **Stakeholder assessment** consists of the two steps of **stakeholder identification**, through which stakeholders are mapped, and **stakeholder prioritization**, through which stakeholders' characteristics are understood and categorized by their priority for engagement.
- VII. **Stakeholder engagement** consists of the two steps: **stakeholder communication**, through which direct contact with stakeholders is established, and the **co-creation of activities**, through which stakeholders and the company start to collaborate for a joint objective.

Figure 6.2: The responsible management process trinity

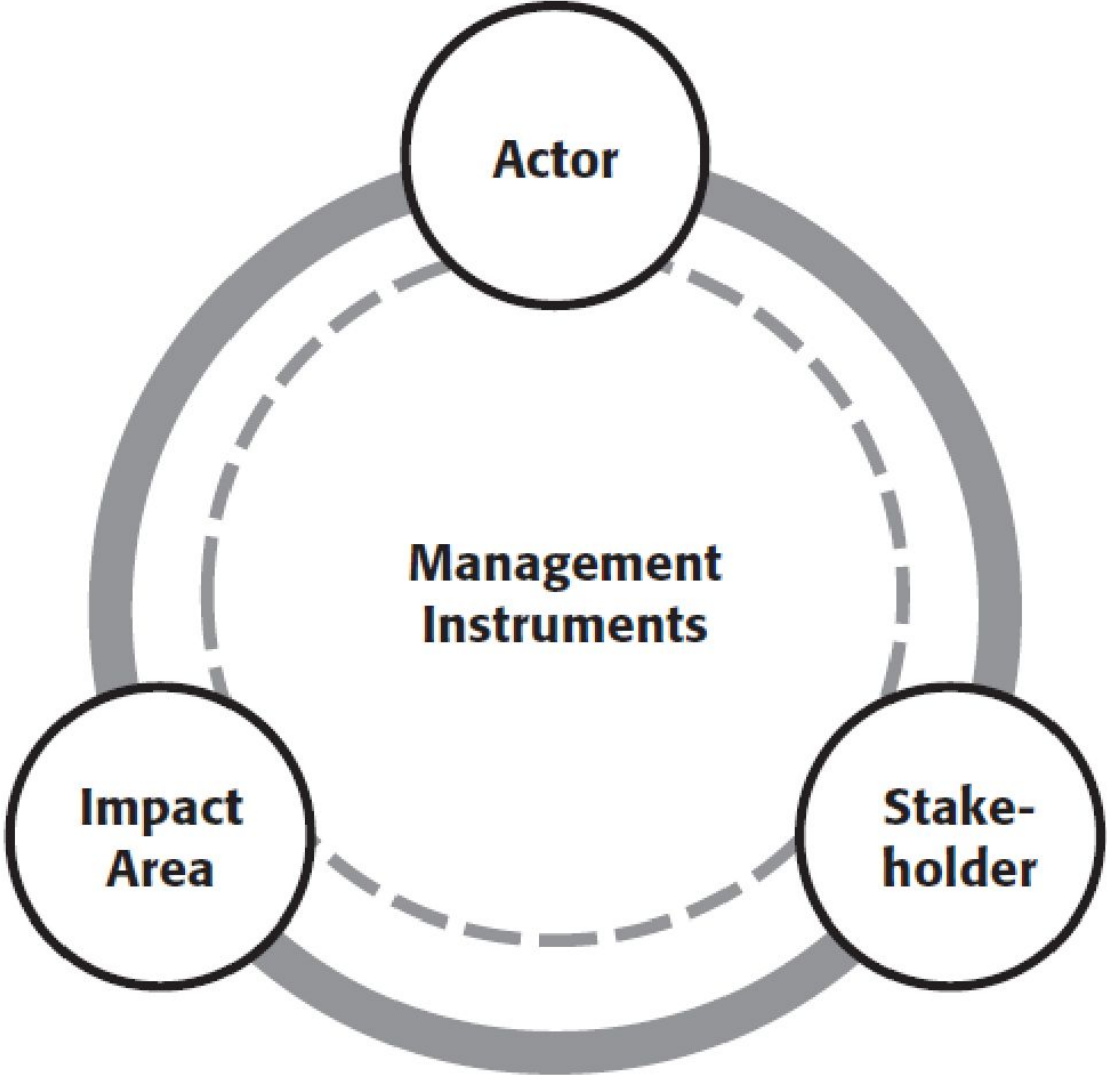
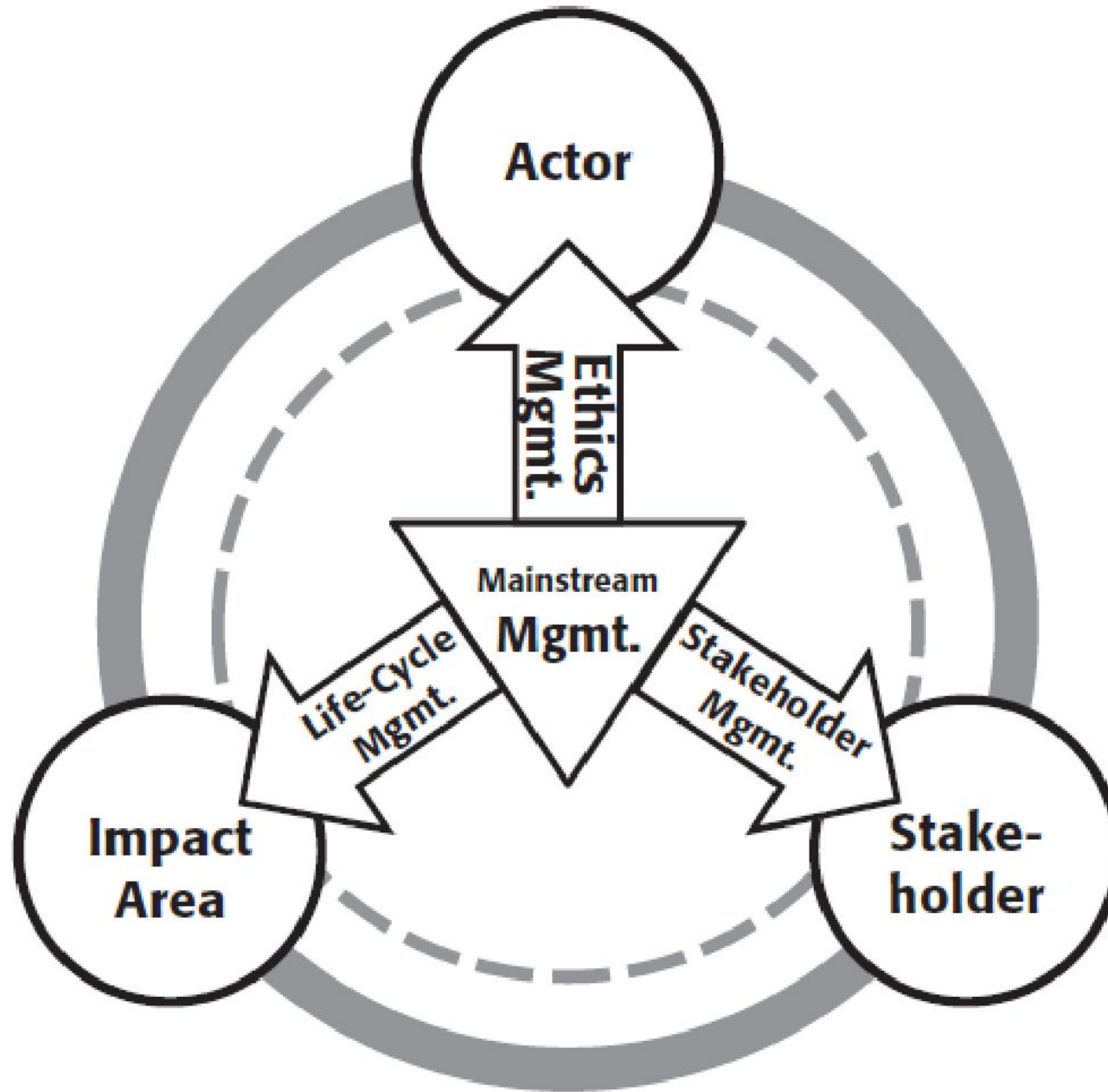


Figure 6.3: Specialized responsible management instruments



Green packaging technology

The Mexican bakery and pastry products manufacturer Bimbo is a leader in the biodegradable plastic packaging movement. In 2008, Bimbo was one of the first companies in Latin America to introduce a biodegradable polyethylene wrapping for bread products. In 2010, the company implemented the first biodegradable metalized packaging for many pastry products (Ortiz, 2008). Recently, Bimbo has teamed up with Terracycle to increase the recycling of plastic bags from not only their own, but also competitors' products (Terracycle, 2016).

Responsible consumption

The Danish brewing multinational Heineken aims to promote the responsible consumption of alcohol. As part of this activity, Heineken lobbies against drunk driving in South Korea, which has experienced a strong cultural bias toward such behavior. The campaign has led to more than 2,000 people directly pledging not to drink and drive, and more than 3 million people learning about the campaign via news media. Heineken also promoted similar activities among its local competitors and lobbied the South Korean government (Heineken, 2010). Since 2013 Heineken has promoted moderate alcohol consumption through the global “Dance More, Drink Slow” campaign with DJ Armin van Buuren (Heineken, 2016).

Employee workplace inclusion

The U.S. company Hewlett-Packard is highly involved in the promotion of diversity and inclusive labor practices among its employees. The company has implemented a broad set of related practices, such as an extensive nondiscrimination policy, flexible working hours, and the creation of employee networking activities for often marginalized groups (HP, 2016).

Table 6.2: Elements and management instruments of typical responsible management activities

Activity	Actor	Stakeholder(s)	Impact area	Management instrument
Biodegradable packaging	Bimbo	Natural environment	Waste reduction	Sustainable innovation
Promotion of responsible alcohol consumption	Heineken	Consumers, competitors, government, civil society	Drunk driving	Social marketing
Promotion of diversity and inclusion	Hewlett-Packard	Employees	Workplace inclusion	Sustainable human resources management

Table 6.3: Types of organizational actor and their main characteristics (1/2)

Organizational actor type	Primary motivation	Management characteristics	Resources and strengths for sustainable development
Business	Economic (profit)	Quick reaction to trends and opportunities High effectiveness and efficiency Pragmatism Often little professionalization in the social and environmental field	Financial resources Frequent international outreach Quick response capacity

Table 6.3: Types of organizational actor and their main characteristics (2/2)

Civil society organization (CSO)	Social, environmental, economic (depends on specific CSO focus)	High motivation for achievement of stated social and environmental goals Strong idealism Often little professionalization	High cause knowledge High cause motivation Cost-effective contribution
Governmental sector	Social (welfare)	Hierarchical and often sluggish reaction to external developments	Legislative power Institutional mandate to improve social and environmental causes

Stakeholders, let's play

Gamification is the newest trend in engaging stakeholders. Sustainable development actors increasingly use games to foster awareness and sustainable behavior. One example is the collaborative simulation "World Without Oil" (Peters, 2011). Jane McGonigal claims that the state of mind attained while gaming can solve most of the world's problems by achieving "epic wins", thereby changing people's behavior toward more sustainability (McGonigal, 2010).

Table 6.4: Typical stakeholders and their characteristics

Stakeholder	Mutual interests	Typical issues/causes
Customers	<p>Customers: high-quality products, satisfaction of consumption wants and needs</p> <p>Business: maximum willingness to pay, brand loyalty</p>	<p>Product security</p> <p>Sustainable consumption</p> <p>Consumer boycotts</p> <p>Sales and lending practices</p>
Employees	<p>Employees: good work, high wage, professional fulfillment</p> <p>Business: motivation, productivity, loyalty, human capital</p>	<p>Work–life balance</p> <p>Labor conditions and fair wage</p> <p>Workplace inclusiveness</p> <p>Labor union association</p> <p>Ethical misconduct of employees</p>

Table 6.4: Typical stakeholders and their characteristics (2/4)

Owners

Owners: return on investment, investment security, influence over company

Business: funding, liberty in use of funds

Corporate governance

Accounting practices

Socially responsible investment

Transparency

Civil society organizations (CSOs)

CSO: influence on a business's behavior, cooperation for funding

Business: minimum CSO influence, cooperation for issue know-how, association for credibility

Variable issues, depending on CSO's focus

Contributions to society (citizenship)

Community involvement

Table 6.4: Typical stakeholders and their characteristics

12/11

Competitors	<p>Competitors: gain competitive advantage, collaborate to share the burden of sustainability</p> <p>Business: gain competitive advantage, collaborate to share the burden of sustainability</p>	<p>Industry sustainability initiatives</p> <p>Sustainable innovation products</p> <p>Collusion/oligopolies</p> <p>Fair competition</p>
Suppliers	<p>Suppliers: Long-term relationships, high sales volume, high price, independence</p> <p>Business: long-term relationships, high sales volume, low price, high-quality relationship</p>	<p>Labor conditions</p> <p>Exploitative contracting</p> <p>Supply-chain inclusiveness</p> <p>Responsible sourcing</p>

Table 6.4: Typical stakeholders and their characteristics (4/4)

Governments	Governments: regulation and taxation, the contribution of business to society, business support of governmental Institutional Interests Business: minimum taxation and regulation, governmental support for own interest	Legal compliance Corruption/lobbying Privatization Monopolies Relationship between governmental legislation and business policies
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Figure 6.4: The stakeholder management process

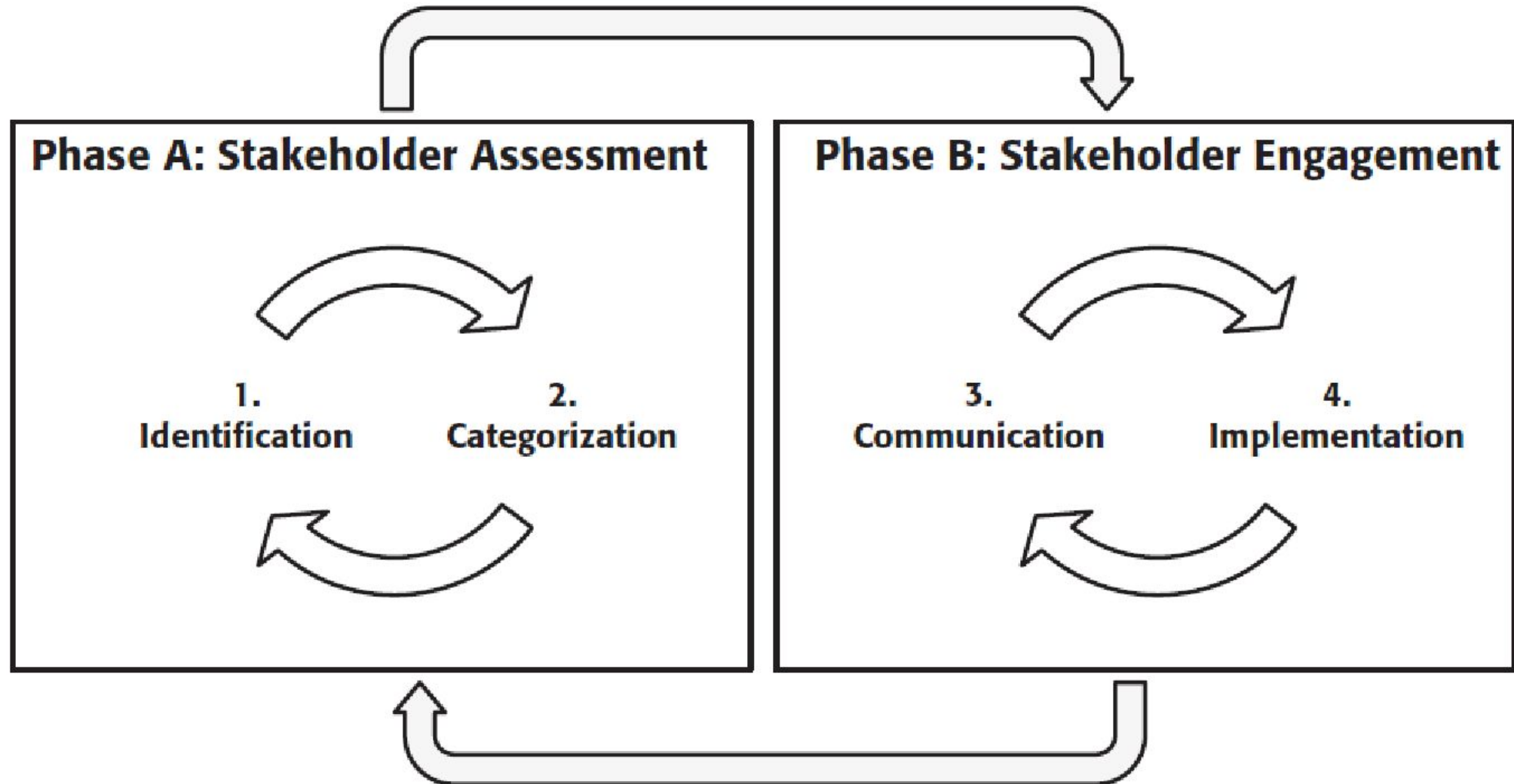


Figure 6.5: Stakeholder map of a taco restaurant



Should stakeholders rule the (world) business?

Stakeholder theory is a field that criticizes the very foundations of typical capitalist enterprises. For instance, the concept of stakeholder democracy proposes that stakeholders should have a say in activities and the very survival of businesses, not shareholders or owners (Matten and Crane, 2005). Another revolutionary approach is to change from shareholder value-based management, a central instrument in financial management, to stakeholder value-based management. Interestingly, there is evidence that a focus on stakeholder value can also be instrumental in creating shareholder value.

Table 6.5: Stakeholder categories (1/5)

Definition/stakeholder characteristic	Examples	Analysis criteria
1. Internal: stakeholder located inside the company 2. External: stakeholders located outside the company	1. Employees; shareholders 2. Government; competitors	Physical location of stakeholder and proximity to company structure and mainstream business activities (Freeman, 2010, pp. 8-13, 216; ISO, 2010, p. 15; Buchholtz and Carroll, 2008, p. 27)

Table 6.5: Stakeholder categories (2/5)

<p>1. Primary: stakeholders directly involved in transactions with the company</p> <p>2. Secondary: stakeholder with an indirect relationship with the company</p>	<p>1. An employee of a company; the natural environment affected by operations</p> <p>2. The family of a company's employee; an environmental interest group</p>	<p>Proximity of relationship (Clarkson, 1995)</p>
<p>1. Social: an individual or group of human beings currently alive</p> <p>2. Nonsocial: nonhuman entities and individuals and groups not living in the present</p>	<p>1. Today's society; an environmental activist group</p> <p>2. Future generations; the natural environment</p>	<p>Stakeholder (Buchholtz and Carroll, 2008, pp. 86-88; Fitch, 1976, p. 39)</p>

Table 6.5: Stakeholder categories (3/5)

1. Powerful: stakeholders having the potential to “impose their will” on the company
2. Legitimate: stakeholders with a legitimate claim
3. Urgent: stakeholders issuing an urgent claim

1. A CEO, a major single client, a critical supplier
2. An employee asking for legal wage and benefits; a community member being negatively affected by the company’s operations
3. An ecosystem whose existence is imminently threatened by the company’s operations; customers to be negatively affected by a product’s manufacturing error

Importance (salience) of stakeholder: The most important stakeholder is the one that combines most of the three stakeholder characteristics.

No characteristic:
non-stakeholder

One characteristic: Latent stakeholder

Two characteristics:
Expectant stakeholder

Three characteristics:
Definite stakeholder

(Mitchel *et al.*, 1997,
pp. 874-875)

Table 6.5: Stakeholder categories (4/5)

1. Core: stakeholders without which the company is not able to survive

2. Strategic: stakeholders crucial for success of the company

3. Environmental: stakeholders neither important for survival nor for success of the company

1. A key employee

2. A strong competitor

3. An activist group unrelated to business and its impacts

Significance of impact on company

(Clarkson, 1995 as cited in Buchholtz and Carroll, 2008)

Table 6.5: Stakeholder categories (5/5)

1. Potential for threat: stakeholder has a high potential to harm the company

2. Potential for cooperation: stakeholder has a high potential to cooperate with the company

1. Competitor introducing a sustainable innovation product that will gain immense market share

2. A NGO with an excellent reputation, willing to support a company's responsible management efforts

Potential impact of stakeholder: impacts might be positive or negative
(Freeman, 2010, p. 143; Savage *et al.*, 1991)

Note: Definitions given here have been slightly altered from the original sources in order to create a coherent stakeholder classification framework.