

Power and Purpose: Harnessing Stakeholder Partnerships for the Great Transformation

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Introduction to Special Section

It is hard to imagine that it was only in the year 2000 that NGO representatives were invited to Davos for the first time. This was the time when Naomi Klein had just written 'No Logo' and the G8 summit in Genova (2001) saw violent protests. Maximizing shareholder value was not considered as 'the dumbest idea in the world' (Jack Welch) by many CEOs then. Quite the opposite was the case: maximizing shareholder value was the standard approach in business schools as well as in board rooms. Sixteen years before Edward Freeman had already presented another concept putting stakeholders at the center of the top management's attention. He famously defined stakeholders as '*any group or individual who can affect or is affected by the achievement of the organization's objectives*'.

Today, enlightened shareholders want to know how their investment handles its stakeholder relations, because they know: in a very fuzzy, multipolar way, stakeholders have a major influence on the company's performance by choosing their buying preferences, by blogging or clicking on some campaign website, or even just by having 'expectations' and thus holding a 'stake' in the company. The times when business was able to ignore most of their stakeholders' expectations are long gone. While the organization is navigating into the future, stakeholders are the only people who will give feedback if the organization is able to listen. Stakeholders are the only voice to tell a company if its behavior is acceptable and thus legitimate. In other words: stakeholders are the raters of legitimacy for any business.

However, for practitioners the situation may be utterly confusing. In a social media world many new stakeholders pop up every minute and you would better take their expectations seriously if you do not want your business to risk its license to operate. We are, of course, only partly talking about real people. Some stakeholders are more virtual than real – a blog, Generation Y, the creative class, future generations or simply market segments or labels coined by marketing professionals such as Life-styles of Health and Sustainability (LOHAS). There are no natural predators for stakeholders.

But how do organizations, large corporations or public sector administration, deal with this? Whereas the power of stakeholders has increased dramatically in the last decade, the stakeholder management structures of corporations have not kept pace with this development. Thus, organizations in the 21st century have to find strategies to build effective relationships with their stakeholders and thereby to contribute to sustainable development. Not doing so runs the risk of losing their societal legitimacy, their 'license to operate'.

At the :response and *Global Policy* conference entitled 'If Stakeholders Ruled the World – Stakeholder Relations in the 21st Century' held at the London School of Economics and Political Science (LSE) in 2014, representatives from corporate business, politics, academia and civil society discussed the latest developments in stakeholder relations practice. This special section aims at taking this discussion further. The articles in the special section cover a range of issues and developments in stakeholder relations practice.

The first three contributions demonstrate the need and ongoing efforts for integrated thinking and sustainability reporting: Mervyn King, Chairman of the International Integrated Reporting Council (IIRC) and former Judge of the Supreme Court of South Africa, sets the stage for the special section by highlighting the importance of 'integrated thinking' in changing corporate behavior. He argues that a company's value creation can only be sustained if the sustainability issues are embedded in the organization's long-term strategy. In this vein, reporting in such a manner, so-called 'integrated reporting', does influence corporate behavior.

For Nelmar Arbex, Chief Advisor on Innovation in Reporting of the Global Reporting Initiative (GRI), transparency is the driving force to transform business. In the new business context, stakeholder engagement is crucial. According to Arbex, the most successful companies have executives who understand the links between ethics, sustainability-related issues and business strategy and who are ready to communicate and act coherently in open dialogue with different stakeholders.

Yvonne Zwick, Scientific Advisor at the German Council for Sustainable Development introduces the 'German Sustainability Code' as a new approach linking economy and society onto the pathway to sustainability. The German Sustainability Council facilitated a dialogue-process among stakeholders from companies, the capital market and the civil society developing the German Sustainability Code.

The following articles focus on successful sustainability management in theory and practice:

C. B. Bhattacharya, Pietro Ferrero Chair in Sustainability at the European School of Management and Technology (ESMT), introduces the concept of 'stakeholder-centricity' as a precondition for managing sustainability successfully. Stakeholder-centric companies seek input and involvement from stakeholders in the sustainability strategy phase (co-create), provide stakeholders with the right information about sustainability efforts (communicate) and continually track and adjust initiatives to maximize business value (calibrate). This behavior can greatly enhance company performance, following Bhattacharya.

Case studies by leading practitioners in the field of stakeholder relations, corporate social responsibility (CSR) and sustainability then discuss state of the art practices and give an outlook on the future of stakeholder relations.

Thorsten Pinkepank and Nadine-Lan Hönighaus, Sustainability Relations of BASF SE, explain why stakeholder relations strongly matter for BASF. Briefly, engagement with stakeholders can improve a company's decision making and performance since it helps to get a broader view on the market than financial figures can provide. The authors take a closer look at two stakeholder engagement formats, which have a very distinct purpose – BASF's Stakeholder Advisory Council and the European Water Partnership. From their practical experience, Pinkepank and Hönighaus derive key success factors for effective stakeholder engagement.

Ronny Kaufmann, CEO of Swisspower AG and Anne Wolf, Director Sustainability, Swiss Post, develop five suggestions for securing a company's license to operate. They conclude that a successful and sustainable stakeholder management goes far beyond organizing and maintain external relations. Instead, as a source of legitimacy, it creates significant value added.

For Dietlind Freiberg, Senior Director Corporate Responsibility & Environment, McDonald's Germany, stakeholder dialogue has a huge impact on the very sensitive business of food services. She introduces tools McDonald's has successfully applied to integrate stakeholder dialogues into a holistic sustainability management process.

The following four articles center on stakeholder relations from a communications perspective.

Emilio Galli-Zugaro, Head of Group Communications, Allianz SE, points out that integrating communications into the overall strategy of the company is the major challenge of communicators. In order to do so, he presents a metric assessing the corporation's ability to create profitable growth by an organized process of listening to its customers. Following Galli-Zugaro, communicators increasingly need to equip internal stakeholders with the tools and skills necessary for the interaction with external stakeholders. Management needs to learn how to listen actively to stakeholders' concerns and draw the right conclusions for the organization.

João Duarte, Head of Communication Agency Iberia, Endesa (Enel Group), puts forward his concept of 'communicative equations'. In today's 'network society' a more agile PR and stakeholder relationship management practice is required. This new practice should strongly focus on the changing networks of the public, stakeholders and relationships to increase the quality of decision making and the speed of execution.

For Jon White, fellow of the Chartered Institute of Public Relations (CIPR), addressing stakeholder interests, without being overwhelmed by them, requires improved approaches to high-level decision making and changes in leadership and management. The author identifies key obstacles to such decision making which adequately accounts for stakeholder interests and develops recommendations to solve these challenges.

And Toni Muzi Falconi, senior counsel of Methodos, argues that listening to stakeholder expectations before, during and after an organizational decision not only accelerates its implementation but also improves its quality and value.

Arved Lüth, founder and CEO of :response, and Marcel Stierl, consultant at :response, describe how entrepreneurs can create 'shared value' (Porter) by taking responsibility for the local community. Five hundred owners and directors of German small and medium enterprises have committed themselves to co-creating a better quality of life within their local communities. By joining forces with their local stakeholders, business owners can successfully futureproof their communities and their businesses. Focusing on the German 'Mittelstand', the authors share their experience with applying the 'Partners in Responsibility' method.

Evaluating the different concepts, arguments and practices one major distinction becomes apparent: the distinction between two different purposes of engaging with stakeholders. The first purpose is to build or maintain a successful business, which means your aim is to strengthen relational capabilities. The second purpose is to use your successful business to achieve a truly sustainable development of our societies, so you need to strengthen additional transformational capabilities. In the first approach, stakeholders are target groups, whose

expectations have to be met to achieve the organization's objectives. In the second approach, the organization and its stakeholders are 'partners in responsibility'. They are strategic partners who can actually align their respective organization's strategy and objectives to co-create the great transformation towards sustainability.

In order to better understand the implications of option 2 – the transformational partnership – we would need to dig deeper in several areas. Many questions are still to be debated, e.g. the intention vs result divide. How do we determine the impact of sustainable development? By measuring against national or the United Nation's Sustainable Development Goals? How do we distinguish between good partnerships and cartels or evil partnerships in disguise? How can we build effective supervisory structures if many stakeholders think that already some corporations are too powerful? And, finally, did the worst tyrannies and failed societal experiments not start with promises that sounded just like a sustainable development or even better? We will leave these questions for further debate, because for the moment there seems to be a pragmatic

approach to this. Many of the answers could certainly be discovered by better embedding business in our democratic societies rather than trying to intervene directly from 'above' through regulation or leaving business undisturbed in the 'market'. The quest for formalizing some of the informal approaches to stakeholder engagement has begun – the risk of over-engineering the procedures, mechanisms and processes comes with it.

Author Information

Arved Lüth is the founder and CEO of :response, a leading consultancy for sustainability and Corporate Social Responsibility (CSR), based in Frankfurt, Germany. He has been active in the fields of participation, sustainability and transformation for 20 years. Arved Lüth is regarded as one of the leading experts within the area of CSR in Europe and has influenced the German debate from the very beginning. He has developed his expertise as political adviser and management consultant for major corporations, SMEs, governments, foundations, trusts and associations since 1995. He is author of numerous articles and books on the management of CSR and transformation.