

Introduction: Stakeholder Management – Managing Competitiveness and Trust

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This third level of analysis of sustainable business focuses on finding a balance between assertive competitive strategy on one hand and on the other hand the development of social capital to underpin this strategy by building trust, credibility and legitimacy in the firm's relationships with all stakeholders, i.e. those groups and individuals who can affect or be affected by the business. Investing in these relationships is therefore key to sustained competitive advantage. Stakeholders have an important place in the business model and investing in stakeholder relationships can thus amount to investing in the business model.

Proper stakeholder management considers both resource base stakeholders (investors, customers, employees) and industry structure stakeholders (suppliers, unions, joint venture partners, regulatory bodies) But social-institutional stakeholders such as governments, NGO's, unions, local community organisations and media stakeholders should also be given attention.

Stakeholders are sources of relational risk and opportunity, as well as sources of information, so effective stakeholder management considers both maximising opportunities (including access to information) as well as mitigating risks.

However, not all stakeholders have equal importance in the business strategy or in the business model. Stakeholders need to be identified, prioritised and weighed according to their importance for a particular strategy, e.g. for a geographical expansion strategy into China: the government is a key stakeholder as well as government sponsored NGO's. In knowledge-based industries like ICT, employees as knowledge carriers have a greater importance in the business model compared to, say, capital intensive businesses like oil companies, where NGO's, for example, are likely more important because of the environmental and social impacts of the business model.

Key Questions to Ask (Applicable to All Part III Cases)

What is the business model of the firm?

Which stakeholders are key in this business model in order of value? (prioritise stakeholders in terms of power and materiality).

Which stakeholders need to be involved at which stage of the strategy process (from strategy generation to strategy implementation)?

How should the company manage relationships with key stakeholders?

How can one link sustainability risks and issues to stakeholders, identify opportunities and threats?

Chapter 11: How GAP Engaged with Its Stakeholders by N. Craig Smith, Sean Ansett and Lior Erez

The Gap case is similar to the Nike case (see Chap. 8) in certain respects. It deals with labour rights and child labour in the supply chain. Both companies failed with a compliance driven approach. But while Nike adapted the business model straightforwardly and looked for industry sector solutions, GAP took an extensive strategic stakeholder engagement approach. Collaboratively identifying the material issues with stakeholders, defining objectives and commonly deciding actions gives solutions more credibility and facilitates better implementation of decisions. Moreover, this approach allows for establishing and embedding long-term relationships with stakeholders for mutual advantage. The authors present a step-by-step approach to developing strategic stakeholder engagement.

Chapter 12: Barrick Gold, a Perfect Storm at Pascua Lama by N. Craig Smith and Erin McCormick

Barrick Gold Corporation practised successfully a stakeholder engagement policy since its founding in 1980. However, the requirements for effective stakeholder management need constantly to be adapted to changing circumstances in the regulatory, financial, environmental and social environment of mining. Entering new geographies like Latin America, with different social contracts requires a careful review of whether the stakeholder policies of old will sufficiently guarantee continued success in the new context. Even a business built on strong stakeholder policies of “responsible mining” can get it wrong with the very stakeholders it pledges to give careful attention.

Chapter 13: Walmart: Love, Earth (A) by N. Craig Smith and Robert J. Crawford

Walmart’s business model based on low costs in the supply chain and a market positioning of “low prices every day” drives the business to centralise and standardise activities and exert rigid control on all business processes. Walmart became the largest corporation and the biggest employer in the world. As a result, the company acquired considerable power over many of its stakeholders. The temptation to use this power over suppliers, employees and partners to reduce costs even further was not resisted, sometimes resulting in exploitative practices. Walmart found itself in a number of controversies with its stakeholders and from 2005 onwards decided to respond differently with a strategic stakeholder management approach. This case

explores Love Earth, the sustainable jewellery product line of Walmart, from a dual perspective—that of the company as well as that of NGOs. It offers a model for NGO-business engagement, with a complex multi-stakeholder approach.

Chapter 14: Shell Nigeria: Changing the Community Engagement Model by Onajomo Akemu, Alexandra Mes, and Lauren Comiteau

Chapter 10 illustrated how Shell got into serious problems in the Niger Delta by spectacularly underestimating the costs of its social and environmental impacts. These costs, alongside the unfavourable deal it made with the government, rendered the investment far below the profitability levels once assumed. At the core of its problems was the lack of support of local communities, complicated by an environment of civil unrest and abuse of human rights. Massive oil spills with disastrous environmental impacts were largely due to theft from the pipelines that stretched over hundreds of miles from the Niger Delta to the coastal ports. Shell tackled the problem, albeit belatedly, with a new community engagement programme, as described here. Ultimately, however, it was forced to disinvest from the Niger Delta in 2013 as it could not gain control over the pipeline thefts which continued to cause considerable environmental damage.

Chapter 15: Economy of Mutuality: Equipping the Executive Mindset for Sustainable Business by Kevin T. Jackson

The economy of mutuality is a philosophy with supporting evidence such as the book, *Firms of Endearment*, a survey of firms which invested in long-term relationships with stakeholders and society at large and which in the long term generated superior financial returns compared to the S&P 500. Companies like Johnson & Johnson (since 1943), Mars (since 1947), and Novartis (since 1989) have used an explicit stakeholder model in their management systems for many years. But these surveys, the latest published in 2014, suggest that many companies have an implicit stakeholder model, which serves them very well. The success of Amazon, UPS, Colgate Palmolive, BMW, IKEA, and General Electric can be explained in part by this approach. Investing in mutually beneficial relationships with stakeholders is a long-term project that should be driven by passion and purpose. The surveys show that these companies have smart, no-nonsense business models, but equally have an emotional commitment to the stakeholder relationships.