The Stakeholder Strategy

Profiting from Collaborative Business Relationships

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An Excerpt From

The Stakeholder Strategy: Profiting From Collaborative Business Relationships

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Preface

This book was supposed to be about social auditing—the practice of systematically recording, presenting, and interpreting a company's nonfinancial or "social" accounts. While the book does address how companies measure the impact of their activities on their stakeholders—customers, shareholders, employees, suppliers, communities—it focuses on what I see to be the bigger picture for social auditing—the kinds of relationships that a company develops with its stakeholders. Specifically, the book zeros in on how companies build long-term, mutually beneficial, collaborative stakeholder relationships.

This book actually began in late 1995 when I was asked to prepare a policy framework for a social audit being conducted by Vancouver City Savings Credit Union ("VanCity Credit Union") in Vancouver, Canada. In a study by the Society of Management Accountants of Canada, VanCity Credit Union had been ranked below the "big banks" for disclosure of nonfinancial information. Given that the credit union prided itself on being a leader in the corporate social responsibility (CSR) area, its managers decided to increase the rigor of their measurement and reporting systems. They needed a road map to point the way.

Looking for some practical advice on how a company could measure and improve its nonfinancial or "social" performance, I read books like *Beyond the Bottom Line* by Joel Makower and Alan Reder's *75 Best Business Practices for Socially Responsible Companies*. These books provided a rationale for why companies should be socially responsible and how doing so could help the bottom line as well as create social benefits. But they didn't address my questions about how to conduct a social audit or about how companies could use that information to improve their social performance.

Meanwhile, I noticed that corporate social responsibility was receiving more media attention. The public was stepping up pressure on corporations to pick up the slack in the wake of government cutbacks. The severe job cuts and the exorbitant salaries of senior executives in major North American corporations, driven upward by soaring stock values, reinforced the rising tide of public and media pressure for greater corporate accountability.

CEOs of some of North America's largest corporations were also starting to pay attention—especially given the runaway success of companies like The Body Shop and Ben and Jerry's Ice Cream that have nurtured a reputation for being socially responsible. Increasing consumer interest in ethical investing and the media-led attack on American-based garment manufacturers over the use of child labor in Third World factories also caught the attention of corporate executives and boards of directors. Inside and outside corporate boardrooms, questions were again being raised about the social responsibilities of corporations. What should companies be responsible for? How much is enough? Who decides?

Unfortunately, the academic literature dealing with corporate social responsibility was of little help in answering these questions. Furthermore, social auditing and accounting research did not establish a clear and direct link between corporate social responsibility measures and profitability. The causal link argued in Reder's and Makower's path-breaking books was not substantiated when placed under the more rigorous lens of academic research. Assigning dollar costs to all corporate activities and impacts, a tenet of full-cost accounting, was found to be a highly subjective exercise. Moreover, attempts to apply traditional accounting methods to nonfinancial transactions were impractical.

Researchers dealing with corporate social responsibility were beginning to make claims about the corporate benefits of stakeholder management and the limitations of the CSR concept. The shift from corporate social responsibility to corporate social responsiveness offered a more secure theoretical foundation. The instrumental argument was made that companies that responded to the interests of their stakeholders in proactive fashion would do better than those who buffered themselves from outside influence. Researchers focused on strategies for managing stakeholder relationships.

At the same time, supply-chain management was receiving considerable attention in the manufacturing trade journals. Numerous case studies documented the bottom-line advantages to companies that developed long-term, highly interdependent relationships with a small group of suppliers. Researchers found that it wasn't just the existence of the relationship that was important, but the qualities of the relationship also mattered. Trust was an essential ingredient for successful, profitable supply-chain relations.

Within the broader management field, I found that the Total Quality Management movement had left an important legacy. First of all, there was the recognition that a relationship with an external stakeholder—the customer—was an important determinant of long-term corporate profitability. Second was the idea that employee teamwork was essential for quality improvement; and third, that every employee had a role to play in building and improving these relationships.

The concept of the learning organization was also important because it looked at the corporation as a system and reinforced the idea that intangible corporate assets such as employee learning and growth could be a source of competitive advantage. Furthermore, it suggested that the capacity of employees to work collaboratively together to learn and innovate was of bottom-line importance especially in flatter, knowledge-based organizations.

The field of community relations was simultaneously undergoing a significant transformation as business leaders recognized the importance of reputation and the strategic value of establishing positive relationships with community stakeholders. More emphasis was being placed on strategic, long-term relationships between companies and nonprofit organizations. Checkbook philanthropy programs were being replaced by cause-related marketing, corporate community investment, and other "win-win" collaborative partnerships.

Many of these partnerships were centered around environmental issues—from recycling to the conservation of habitat for endangered species. Companies that invested in environmental management in the 1980s were working with community groups to expand environmental altruism. Many were also taking a more entrepreneurial tack and finding that by collaborating with other industry or community partners, they could develop innovative solutions to environmental problems and increase profits as well.

At this point, the topic of measuring corporate social performance was beginning to take a back seat in my thinking to the more challenging and immediate issues of how companies establish and maintain collaborative relationships with their stakeholders. Besides the fact that the social auditing area was in its infancy methodologically and theoretically, it seemed to me that a measurement system was only part of the way to consider how companies could maximize the positive impacts they had on stakeholders and minimize the negatives. Furthermore, I believed that to be sustainable in the long term, companies needed to set their own social goals that were integrated with their business strategy. To supersede the nebulous and murky "shoulds" of CSR, there needed to be a win-win solution for both companies and society.

Establishing collaborative relationships had proven beneficial to suppliers, customers, employees, and communities. The convergence of the interests of shareholders and other stakeholders, now that average citizens hold more stocks through their pension plans and mutual funds, simply added force to this argument. While companies and researchers were observing the benefits of stronger relationships in all of these disparate areas, there was no integrated framework for a new approach to management and no practical advice for how companies can build a web of strong stakeholder relationships.

This book is for managers who want to do well and do good but aren't sure how these goals can be accomplished given the undeniable competitiveness and short-term profitability pressures facing companies today. Included are a business case assessment of relationship building, a framework for a new model for corporate-stakeholder relations, and a practical guide for building a profitable web of long-term collaborative stakeholder relationships. The book draws upon recent academic research as well as real-world case studies to illustrate the steps a company can take to develop collaborative stakeholder relationships. It is based on the assumption that while profitability must be ensured, companies have the responsibility and the opportunity to maximize the benefits and minimize the negative impact their actions have on all of their stakeholders, including the natural environment and future generations.

I have come to believe that doing good depends on the expectations that a company has about its stakeholder relationships and the values that shape those expectations. As you will find, the central premise of this book is that corporate social responsibility is about finding "win-win-win" solutions at every turn, about recognizing and building mutually beneficial long-term relationships, and about acting in accordance with a strong set of social and ethical values.

—Ann Svendsen
Vancouver, British Columbia
June 1998

Why Build Collaborative Stakeholder Relationships?

To the extent the firm is able to recognize its interdependence, reflect upon the ethical standards appropriate to the situation, and react in a timely and responsive manner, it possesses a valuable, rare and nonsubstitutable strategic resource.

—Reginald Litz, 1996

Companies across North America are taking seriously the notion that as paradoxical as it seems, one way to succeed in a highly competitive globalized economy is to cooperate. In an economy where companies need to persuade investors to hold their stock, employees to work cooperatively with others, customers to buy a broader array of their products and services, and contractors to maintain strong supply chains, collaborative stakeholder relationships are key.

Every company, whether large or small, has a unique set of stakeholders—most often including investors, employees, customers, suppliers, and communities. The term "stakeholders" refers to individuals or groups who can affect or are affected by a corporation's activities.

For most companies today, stakeholder relationships can have a significant impact on the bottom line. While companies could once manufacture an image and reputation through advertising and other media-based campaigns, in today's networked world, reputation depends on establishing the trust of key stakeholders. The pursuit of financial success at the expense of employees, the environment, local communities, or workers in a subcontractor's factory halfway around the globe is not only socially irresponsible but can result in shareholder losses rather than gains.

A growing number of business leaders are acknowledging the power of long-term, positive stakeholder relationships. One such business leader is John Browne, CEO of British Petroleum. In a recent *Harvard Business Review* article (September/October 1997), he talked about the importance of building mutually beneficial stakeholder relationships. He said, "You can't create an enduring business by viewing relationships as a bazaar activity—in which I try to get the best of you and you of me—or in which you pass off as much risk as you can to the other guy. Rather, we must view relationships as a coming together that allows us to do something no other two parties could do—something that makes the pie bigger and is to your advantage and to my advantage."[1]

This is not to say that building stronger relationships with employees, customers, investors, suppliers, and communities is a panacea for all situations or all companies. Nor is building a network of reciprocal relationships simple. In most companies, competitive pressures keep all eyes focused on the short term, making it extremely difficult to bring long-term issues to the forefront. Traditional accounting systems based on financial measures of performance make it difficult to assess the impact of intangibles like relationships or reputation. And collaboration means letting go of control, which is always difficult for corporate managers schooled in the art of competition. However, despite these barriers, for many companies, stakeholder relationships do offer enormous untapped potential. For some, stakeholder relationships may even be a source of competitive advantage.

Stakeholder Collaboration versus Stakeholder Management

The theory of stakeholder management taught in most business schools today focuses on the mechanisms by which organizations understand and respond to the demands of their stakeholders. Theorists have argued that stakeholder relationships can be managed using techniques such as issue analysis, consultation, strategic communications, and formal contracts or agreements. Managers are seen as having the power to direct and control interactions between a corporation and its stakeholders.

The main purpose of stakeholder management is seen to be buffering the organization from the negative impacts of stakeholder activities.

The job of a public affairs or community relations manager, for instance, is to anticipate how the company's activities will affect public stakeholders and minimize negative reactions by instituting "damage control."

Within this more traditional perspective, responsibilities for various stakeholder groups are assigned to separate divisions. The marketing department deals with customer relations, the human resource department deals with employees, the public affairs department deals with the media, the community relations department deals with local organizations, and the purchasing department handles contracts with suppliers. The relationships that develop between managers and stakeholders are shaped by the interests and values of the department managers rather than by the corporation's values and goals.

This "stakeholder management" approach has arisen out of the belief that corporations need to take steps to defend themselves from the demands of stakeholders. Part of the role of managers has been to act as a referee, deftly and diplomatically mediating between stakeholder demands and expectations in order to preserve goodwill toward the company, avoid public relations fiascoes, and maintain cost competitiveness.

Building Stakeholder Relationships

A collaborative approach to building stakeholder relationships, on the other hand, sees stakeholder relationships as being reciprocal, evolving, and mutually defined. The manager is not separate from the stakeholder relationship but is part of it. Thus the idea of "managing" relationships is not only untenable but is viewed as being counterproductive for both the corporation and its stakeholders in the long run.[2]

A collaborative model also assumes that stakeholder relationships can be a source of *opportunity* and competitive advantage. Relationships can increase an organization's stability in a turbulent environment, enhance its control over changing circumstances, and expand its capacity rather than diminish it.

There are significant advantages to taking a more integrated, company-wide approach to identifying and building strategically important stakeholder relationships. In addition to increasing organizational effectiveness and consistency of response, this kind of holistic approach also allows an organization to build on the synergies that occur when positive relationships with one stakeholder group, such as a local community, start to have a beneficial impact on another stakeholder group, such as customers.

The following table summarizes the characteristics of the old and new approaches to corporate-stakeholder relations.

Table 1
Characteristics of Old and New Approaches to Corporate-Stakeholder Relations

Stakeholder Management	**Stakeholder Collaboration**
fragmented	integrated
focus on managing relationships	focus on building relationships
emphasis on buffering the organization	emphasis on creating opportunities and mutual benefits
linked to short-term business goals	linked to long-term business goals
idiosyncratic implementation dependent on division interests and personal style of manager	coherent approach driven by business goals, mission, values, and corporate strategies

This book presents an integrated strategy for building a network of collaborative stakeholder relationships based on a fundamental shift in management philosophy and attention. A singular focus on the needs and interests of stockholders is replaced by a focus on understanding and balancing the interests of *all* of a company's key stakeholders. Through positive long-term relationships, companies identify "win-win-win" opportunities that serve the corporation as well as stakeholders and society.

The stakeholder strategy is based on the view that companies and society are interdependent. Therefore, business prosperity is linked to the well-being of local and global communities and all of a corporation's other key stakeholders, including employees, suppliers, and the natural environment. Within this context, relationships with stakeholders are as essential to a company's survival as air or water is to a human being's survival.

A company's relationship-building strategy is therefore seen as being inextricably linked to its mission, values, and goals. Given the strategic value assigned to the relationship-building function, employees are expected to act in concert with the corporation's social mission and goals and to identify opportunities that serve the corporation, its stakeholders, and society.

Stakeholder Collaboration on the Ground

Some corporations are already living a "new reality" of collaborative stakeholder relationships. They recognize that positive relationships with stakeholders can pay off. Stakeholder-responsive companies treat their employees and suppliers well, develop innovative products and services, take care of the environment, and contribute to causes that are important to the community. Many find that these stronger stakeholder relationships produce benefits ranging from increased customer loyalty to an improved reputation and a more motivated and committed work force.

However, for most companies, the attention of management has been focused on one stakeholder group at a time. Collaborative approaches are often confined to specific parts of an organization. For example, some companies have a participative and democratic approach to employee relations. Others have developed trust-based, highly interdependent relationships with their suppliers and customers. Rare is the company that adopts a comprehensive and strategic approach to relationship building that is governed both by deep social values and by a recognition of the importance of the bottom line.

A number of companies across North America are experimenting with collaboration in some parts of their businesses. If successful, many of these "test cases" will become prototypes for collaborative processes in other areas of these companies.

Case Study: Multistakeholder Collaboration Resolves Decades-Long Dispute

BC Hydro, a utility company in British Columbia, Canada, recently sponsored a successful collaborative process with government regulators, community action groups, and First Nations (Native American) representatives to develop a new operating plan for a hydroelectric dam on the Allouette River in southwestern BC.

The utility, which produces 90 percent of BC's electrical energy for 1.5 million residential, industrial, and commercial customers, did not enter the collaborative process willingly. BC Hydro had been fighting with the Allouette River Management Society, a group of concerned citizens, for more than forty years. When BC Hydro announced its plans to increase the generating capacity of the dam, the group threatened to take the utility to court.

Nearby First Nations communities, an active group of naturalists, and regional, provincial, and federal government regulators were also concerned about impacts of the increased water flows on fish habitat, wildlife, and recreation and were prepared to take action. All of these stakeholders had different and conflicting interests.

Under pressure, BC Hydro's multidisciplinary project team, which included engineers, environmental experts, and communications specialists, invited the stakeholders to participate in a collaborative process. For the first time, BC Hydro participated on the committee as an equal player. Over a period of eight months, the committee examined the current operation of the Allouette facility and identified alternatives that would better meet community and environmental needs.

The committee began by developing joint objectives for water management—clearly setting out "what mattered." Government officials, BC Hydro staff, and independent consultants provided information and analysis. They created, evaluated, and re-created various alternatives for operating the facility. Eventually, after months of intense discussions and many rancorous, late night meetings, the stakeholder committee reached consensus on every major aspect of an operating plan.

The benefits of this collaborative process are many. The utility lost some generating capacity but now has a plan that is supported by all of its stakeholders. The river is less prone to flooding and is producing more salmon. The process has also led to further joint ventures between BC Hydro and First Nations groups.

BC Hydro is now using its Allouette River collaborative process as a model for other water-use planning projects. Furthermore, this process has begun to change the corporate mind-set at BC Hydro about how decisions should be made and who should be involved. Many of the members of the staff who participated in the project were initially very skeptical about the merits of a collaborative process that put BC Hydro on equal footing with the other stakeholders. Having been through the very difficult and time-consuming collaborative process, they believe the outcome was worth the effort.

Case Study: Microsoft in Trouble with Stakeholders

Recently, a number of companies have suffered from poor relationships with their stakeholders. Microsoft, one of the world's largest companies, is a case in point. Ironically, Microsoft has been also known as one of the best examples of a networked company—a company that thrives on its stakeholder relationships. That has certainly been the case until recently. Computer hardware and component manufacturers, software developers, and distributors have all collaborated to produce and sell computers that run Windows 95, Microsoft's operating system.

However, as a result of negative publicity arising from its supposed ruthless treatment of suppliers and predatory actions toward competitors, Microsoft is now running into trouble with some of its other stakeholders—the public, investors, government regulators, and employees. There are more than one hundred anti–Bill Gates and Microsoft sites on the Internet.

Company executives report they are having difficulty recruiting new highly skilled employees, and long-time employees are feeling disgruntled and defensive and less motivated to put in the long hours that have been the hallmark of Microsoft and other computer company cultures.[3] As a Microsoft employee wrote recently in Microsoft's on-line public affairs magazine, "A few months ago, everyone I met seemed to think that working for Microsoft was a pretty cool thing to do. Now strangers treat us like we work for Phillip Morris."

In this case, even though Microsoft has succeeded in developing a network of supplier relationships, the strength of those relationships has been undermined by alleged unethical business practices. Furthermore, Microsoft's poor relationships with subcontractors have cost the company the support of at least some of its employees and other key stakeholders.

Case Study: The Body Shop Suffers from Poor Relationships

The Body Shop is another example of a company that has suffered from the lack of solid stakeholder relationships. The Body Shop, one of the world's leading beauty- and bath-products companies, was enormously successful in the early 1990s, riding a wave of public support for its fair-trade and environmental policies. Its success was severely tested several years ago when a media article exposed inaccuracies in the company's environmental and social responsibility claims.[4] The article and the tide of negative consumer and public opinion that followed had a drastic, if short-lived, impact on The Body Shop's stock prices.

When The Body Shop carried out its first social and environment audit in 1995, partly in response to mounting consumer pressure, poor relationships with franchisees and employees also surfaced. Anita Roddick, the founder of The Body Shop, has said in the company's most recent audit report that these relationship problems must be addressed for the company to continue to grow. "We learned in our first social audit process that the overwhelming majority of people associated with our business believe firmly in The Body Shop ideals and our aspirations. We also discovered that a number of improvements were needed in our relationships with stakeholders."[5] Dissatisfied staff and franchise owners, coupled with disenchanted consumers, can put a quick stop to growth and financial prosperity.

Opportunities and Challenges

COMPETITIVENESS PRESSURES

Despite the obvious advantages, in these tough economic times, the idea of stakeholder collaboration can seem a little far-fetched. Many companies face intense pressure to cut costs to the bone just to survive. Global trade, which increased twelve-fold between 1950 and 1995, has intensified competition and the relentless focus of corporate executives on short-term financial performance.[6]

Managers today, for instance, must keep their eyes focused on the bottom line to prevent hostile takeovers. Companies that suffer from declining or even stable stock prices are under threat to be taken over by corporate raiders, stripped of assets, and sold off in pieces. This may mean there is less room for socially responsible corporate initiatives, more centralization of power, less focus on long-term investment, and more attention to the short-term demands of capital markets. Companies are clearly watching the bottom line more closely than ever and are very skittish about the sentiment that they should respond to the interests of non-stockholders.

Global competition also means that corporations are more footloose than ever before. Globalization has increased the size and reach of many corporations and has diminished corporate ties to local communities and even nation-states. Companies that moved from North America to Taiwan or Thailand several years ago are now moving on to Indonesia and China to take advantage of even lower labor costs and environmental standards. This is possible because the Global Agreement on Tariffs and Trade (GATT), which now covers over 90 percent of the world's trade, does not include standards governing workers' rights and environmental protection.[7] Many would argue that the global playing field is no longer level and therefore companies have less incentive to consider other than bottom-line issues.

PUBLIC PRESSURE FOR GREATER CORPORATE SOCIAL RESPONSIBILITY

Corporations do face enormous public pressure to find a balance between the bottom-line interests of their stockholders and broader social responsibilities. Public values are changing. Various studies point to changes in values that have a bearing on what stakeholders want and expect from corporations.

For example, the World Values Survey, a rigorous international study dating back to the 1970s, shows a gradual but significant shift in public opinion. People today are moving away from a concern with material well-being and physical security. In this post-materialist period, quality of life and having input into important decisions are more valued. More people these days also have less confidence in big business. They are less deferential to and more skeptical of authority figures, including business leaders.[8]

Laws have changed in the past two decades in ways that reflect changing public attitudes toward corporate behavior. Since the mid-1980s, for example, laws have been changed in more than thirty states to provide legal protection for boards of directors who resist takeovers that are not in the best interests of employees, suppliers, and community stakeholders. Previously, corporate boards of directors were prohibited from doing other than what was good for stockholders.

A recent review of legal trends in corporate governance indicates that the move toward stakeholder law is not just a United States phenomenon.[9] Germany's recently adopted codetermination laws require employee representation on second-tier boards of directors. Other countries have similarly extended the role of nonstockholders in the governance of corporations. In Denmark, for example, more than fifty large companies have initiated ethical accounting processes where stakeholders are involved in reviewing and rating corporate performance.[10] Through ongoing dialogue, companies aim to align their values and their actions with the values of their stakeholders.

NEW ORGANIZATIONS REQUIRE NEW RELATIONSHIPS

Companies that have been delayered, downsized, hollowed out, and globalized are more dependent on relationships and alliances. Restructured companies depend more on their supply-chain relationships as they outsource noncore functions and create tighter supply relationships. Formerly short-term, arms-length transactions between independent parties are being replaced by long-term partnerships.

Employee relationships are also of growing importance in a knowledge-based economy. Employees must learn from each other and be able and willing to share ideas, even if they come from different backgrounds and cultures. Managers must use stronger relationships with their staff to motivate and inspire rather than use the old chain of command.

While companies today depend on new forms of relationships and partnerships, economic restructuring is making relationship building more difficult. In the post-downsizing era, many employees are tired and overworked. They are doing the jobs of several of their laid-off colleagues in addition to their own and are less willing and able to take on additional tasks that may be perceived as superfluous to the daily grind of meeting their individual sales and production targets.

Economist Jeremy Rifkin in his book *The End of Work* argues that technology and globalization will result in further declines in the demand for labor, causing a weakening of the employee-employer bond, an increase in employee insecurity, a growth in "just in time" contract jobs, and a decline in trust. This is not an environment conducive to relationship building.

A MORE TRANSPARENT ENVIRONMENT

While companies are freer to exploit their competitive advantages worldwide, they are also subject to immediate and powerful public criticism if their behavior falls outside of accepted social norms. Advances in information technology and the fact that average people now have access to inexpensive mass communication channels like the Internet and fax machines makes companies more vulnerable if their actions do not meet public expectations.

Corporate social responsibility receives a great deal of attention now, at least partly because of the increased power of the media to influence public opinion and thereby affect corporate profits. Companies are starting to recognize that to succeed in a networked world where everything about a company can be known instantly, their reputations depend on communicating openly, behaving ethically, and developing credible relationships with their stakeholders and particularly with the communities in which they operate.

Companies are concerned, however, about setting themselves up as "social crusaders" since they may face public criticism if their actions are seen as being self-serving. While the prospect of receiving considerable free publicity for socially responsible business practices is appealing, companies know that if they can't live up to their claims and are not accountable, they risk media attacks, employee dissatisfaction, and a loss of reputation—all of which have repercussions for the bottom line.

While many companies are making great strides in forging credible links with their stakeholders, many business leaders are justifiably cautious. "Companies want to be at the forefront of the rear guard," said David Nitkin, president of EthicScan, a Canadian ethics monitoring company, in a recent speech in Vancouver, Canada.

CYNICISM ABOUT CORPORATE RESPONSIBILITY INITIATIVES

One of the most challenging aspects of the business-community relationship in the 1990s is growing public cynicism. It is no wonder that public faith in big business is at a low point. In the early 1990s as four million jobs were cut in the United States, CEOs' salaries doubled. Executive compensation packages that were tied to stock value grew exponentially, leading average citizens to question the integrity of these business leaders and their commitment to broader social values.

The public is also reacting to corporate "greenwashing." Since the late 1980s, many companies have made unsubstantiated and in many cases false claims about the environmental benefits of their products in attempts to attract customers. Even The Body Shop, an icon of social responsibility, was proven to have exaggerated its claims about recycling and animal protection.

The tarnished reputation and crisis in legitimacy experienced by businesses today is an impediment to relationship building. Scandals like the *Exxon Valdez* oil spill and ongoing conflict over the management of forests have taken their toll on public faith and trust.

CROSS-CULTURAL DIFFERENCES

Members of the public, confronted with the complexities of applying their own culturally defined ethical principles internationally, are also confused about what "corporate social responsibility" really means. Suppliers to several American apparel companies, among them Nike, Inc., and Kmart Corp., are said to have employed children who worked long hours for little pay, in squalid conditions. When these large American companies adopted more stringent requirements for subcontractors, legally hired adolescents were fired with no other viable means of supporting their families. At this point questions arose not only about the acceptability of "sweatshops" but also about the fairness of applying North American ethical codes internationally.

Unfortunately, there is not a one-size-fits-all definition of corporate social responsibility. Ideas about the nature and extent of corporate responsibilities, beyond increasing shareholder profits, vary across cultures, from one historical time period to the next, and even from person to person. In this sense, notions of corporate social responsibility are socially constructed. They are not cast in stone or immutable. Cultural values shape attitudes, which ultimately influence behavior.

Let's look at cross-cultural differences in the relationships between corporations and their stakeholders. These differences reflect varying social and cultural values. For example, within our more individualistic

North American society, more attention has been focused on protecting the interests of stockholders. In other countries, such as postwar Germany, Scandinavia, and Japan, the interests of employees and customers have received more attention.

In Japan, relationships between a business and its suppliers and distributors have always been of central importance. These powerful formal and informal alliances between manufacturers, distributors, retailers, and financial institutions are known as *keiretsu*. *Keiretsu* relationships govern how and with whom business is done among businesses that own each others' stock and sell each others' goods and services. Some theorists, such as Francis Fukuyama in his book *Trust: The Social Virtues and the Creation of Prosperity,* have argued that Japanese firms can establish and maintain such relationships at least partly due to strong cultural values of trust and mutual obligation.

In Germany, Scandinavia, and France, a tradition of stronger collaborative relationships between owners/managers and employees exists. Employee involvement in decision-making, for example, was common in Europe long before it became fashionable in North America. In most European companies, shareholders have less say and workers more say than is common in the United States and Canada.[11]

The fact that we live in an ethnically pluralistic, globalized culture also means that individuals living in the same country may not agree about what corporations should or should not be responsible for or what actually constitutes socially responsible behavior.

For example, the decisions by some large companies, such as Levi Strauss & Co., to give benefits to gay partners of employees and unmarried heterosexual partners may be perceived very differently depending on who is being asked. While this policy may be supported by the majority of employees, customers with strong religious beliefs and others who display less tolerance for homosexuals or unmarried couples may argue that this decision is in fact a socially *irresponsible* business practice.

Similarly, some North Americans may not support initiatives designed to increase diversity in the workplace by giving priority to visible minorities and women in hiring decisions. When stakeholders have conflicting interests and values, which set should the corporation respond to? Whose moral values are sacrosanct?

Globalization adds to the challenge of establishing a workable definition for corporate social responsibility. As Donna Wood, a professor of business administration at the University of Pittsburgh and expert in internal business and society issues, asked recently, "To which society should a multinational enterprise be responsible—home, hosts or all of these? Is a company expected to proselytize for its home country's values? Should it adopt every host country's values? How does the company deal with social change at one or more of its sites? How should managers balance short-term and long-term social expectations among various countries and stakeholders? How do companies assess their responsibilities to the world community rather than to the peoples of various nations?"[12]

A New Approach to Corporate-Stakeholder Relations

It is no wonder that companies, and for that matter the public, are attracted to the concept of corporate social responsibility and uncertain about what it means. Many business leaders and managers, despite wanting to "do the right thing," are unsure where to start. They might agree that building strong, mutually beneficial stakeholder relationships is important, but few understand *how* to establish and maintain win-win associations.

This book presents a new model of corporate-stakeholder relations that helps companies understand how to do well and do good at the same time. The model is based on a North American view of relationships. Corporations and their stakeholders are seen as being engaged in interdependent relationships that evolve and are mutually defined.

These relationships are, however, not without structure. According to the model, they are governed by implicit or explicit "contracts" that define what each party expects from the other and what each is prepared to give. These contracts depend on trust and are subject to ongoing negotiation. Corporate stakeholder strategies are the mechanism by which companies define their expectations and their commitments to stakeholders.

Companies develop these strategies through a rigorous, comprehensive, and interactive process, first by clarifying their own corporate values, then by gathering information about important environmental forces that need to be considered, including information about stakeholder interests. These stakeholder strategies define corporate expectations and commitments, laying out what the corporation wants to achieve and what it intends to do to achieve those goals.

Within the context of this new, more collaborative model of stakeholder relations, rather than ignoring stakeholder demands or attempting to control or direct relationships, managers play a key role in managing the implicit and explicit contracts a company enters into with stakeholders. Managers identify key corporate stakeholders, create opportunities for dialogue, bring an understanding of stakeholder interests and values into corporate planning processes, manage conflicts, and work with stakeholders to identify opportunities for mutual benefit.

What's in This Book

This book presents a new collaborative approach to corporate-stakeholder relations. It is argued that this approach will not only produce positive bottom-line results for corporations operating in our highly competitive, global economy but will also have positive long-term benefits for corporate stakeholders and society in general.

The book includes a business case for collaborative relationships that will be useful to managers who are looking for new ways to build alliances and partnerships and for CEOs or members of boards of directors who are searching for a new strategic approach to managing corporate affairs. A new model of corporate-stakeholder relations provides a framework for understanding why stakeholder relationships are so vital to corporate success and how those relationships can be developed in conjunction with current strategic planning and business management processes.

A six-step guide to the relationship-building process lays out, in easy-to-follow steps, the process that a company goes through to build a network of collaborative stakeholder relationships. The steps are analogous to the process an individual goes through to find a mate—clarifying goals and values, becoming familiar with potential compatible partners, establishing a dialogue, identifying common goals, building trust, and carrying out projects that are mutually beneficial so the relationship lasts.

Readers will find practical tools for aligning their organizations' systems and structures to support relationship building, including an organizational readiness survey, a review of collaboration-friendly communication and information systems, and a description of leading-edge organizational transformation methodologies. These practical tools will help to foster a new awareness of and commitment to relationship building throughout an organization.

The book also provides ideas and strategies for harnessing the power of long-term stakeholder relationships. The book reviews the full range of collaborative relationships, the conditions under which collaboration will be likely to succeed, the challenges involved in collaborative ventures, and the requirements for designing effective collaborative processes, including building trust, resolving conflicts, and communicating effectively.

Finally, via a "stakeholder audit," business leaders will learn how to evaluate the success of their relationship-building initiatives, increasing the depth of their understanding of stakeholders' interests and pointing the way to new opportunities and stronger, more profitable, and sustainable relationships.

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