# 4 Managing Stakeholders for the Sake of Business and Society

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**Abstract**

Since Freeman's (Strategic management: A stakeholder approach, Pitman, Boston, 1984) seminal work on the stakeholder view of the firm, stakeholder management has become a much discussed concept in the business as well as in the academic world. In both realms, the call for integrating stakeholders into business decision-making has

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resonated widely. However, the transfer of elaborate concepts developed by academia into business practice poses a problem, and companies do not know how to address the complex issue of managing stakeholders successfully so that a benefit for the business and for the stakeholders is created. The theoretical and practical discussion of stakeholder management presented in this chapter aims to address this knowledge gap and thereby represents the missing link which is the focus of this chapter.

After an introduction, the theoretical foundation will be provided by discussing important elements and issues of stakeholder management. Of special importance are approaches on how to identify and integrate those stakeholders who are particularly relevant to the company. Thereafter, we will make a business case for stakeholder management in order to build the bridge to the practical part of the chapter. This leads to the crucial question of why companies should practice stakeholder management. In the practical part, we will explain how companies can go about implementing an effective stakeholder management and will also address mistakes which are frequently made. The chapter will close with a conclusion and an outlook on the future of stakeholder management.

## 4.1 Introduction

During the last decades and in particular after Freeman's (1984) seminal work on Strategic Management—A Stakeholder *Approach*, the notion of the stakeholder has entered into managerial discourse and vocabulary. Stakeholder theory has not only nurtured the academic discussion, it has also slowly moved from the margins of business ethics and corporate social responsibility niches into the mainstream of managerial theories. Today, it has reached a privileged position as a cornerstone of contemporary management. At the same time, it has also gone beyond the limits of managerial discussion enriching other disciplines such as law, health care, public policy administration, and environmental policy (Freeman et al. 2010).

It comes as no surprise that throughout three decades, a considerable amount of literature has been published on stakeholder theory. The current "state of the art" was recently summarised in a large edited volume comprising hundreds of texts including journal articles, books, and books chapters that discuss stakeholder theory and its different components and dimensions (Freeman et al. 2010). Unfortunately, the transfer from elaborate academic concepts to business practice and actual managerial decision-making often poses a problem of applicability. Paradoxically, on the one hand, there is a strong consensus regarding the relevance of enlarging the limits of the fiduciary responsibility between managers and shareholders towards a wider number of firm's constituencies as proposed in stakeholder theory. On the other hand, there is also a consensus regarding the difficulties of identifying legitimate stakeholders, as well as balancing multiple and frequently opposing interests through stakeholder management for the sake of business and society.

This chapter aims at making a contribution to solve this paradox, presenting the stakeholder concept and the challenges it poses to managers, and then discussing important elements and issues of stakeholder management. We will then make a business case for stakeholder management and discuss the benefit of stakeholder integration in order to build the bridge to the practical part of the chapter, which addresses the crucial question of why companies should practice stakeholder management. In the practical part, we will explain how companies can go about implementing effective stakeholder management and will also address mistakes which are frequently made. The chapter will close with a conclusion and an outlook on the future of stakeholder management.

## 4.2 Who or What is a Stakeholder?

The first challenge that stakeholder theory poses to management is the definition of who or what is a stakeholder. According to Freeman (1984, p 31), the first reference to the word *stakeholder* in management literature can be traced back to an internal memorandum at the Stanford Research Institute published in 1963. In that document, a stakeholder is defined as "those groups without whose support the organisation would cease to exist" (cited in Freeman and Reed 1983; Freeman 1984). Since then, the notion of a stakeholder has become both a term of discussion and an integrating element of consideration in managerial decision-making.

In Freeman's widely used definition, a stakeholder is "any group or individual that can affect or is affected by the realisation of an organisation's purpose" (Freeman et al. 2010, p 26). The discussion on the definition of a stakeholder received considerable attention especially in the late 1980s after the publication of Freeman's book and increasingly during the 1990s. Already in 1997, Mitchell et al. (1997) identified 27 different nuances in the development of the understanding of the term *stakeholder* (see Table 4.1).

In an analysis developed by Kaler (2002), diverse stakeholder definitions can be classified into three different groups: *Claimant definitions* are those that consider a stakeholder to include any group or individual "with a role-specific, strong or weak, morally legitimate claim to have their interest served" (Kaler 2002, pp. 94–95) by an organisation. *Influencer definitions* consider a stakeholder to comprise those groups or persons that "can influence or be influenced by the organisation" (Kaler 2002, p. 95). And *combinatory definitions*—as the name implies—combine to some extent both claimant and influencer definitions (Kaler 2002).

Beyond the definition of a stakeholder—which tends to be a theoretical discussion—the identification and categorisation of stakeholders appears as a second challenge to the practical management of stakeholders. A rather broad distinction can be made between voluntary and involuntary stakeholders. Clarkson (1995) considers involuntary stakeholders to involve those who did not choose to enter into a relationship and at the same time cannot withdraw the stake they have in a firm.

**Table 4.1** Who is a stakeholder? A chronology. (Note: Mitchell et al. 1997, p. 858)

| Source | Stake |
|---|---|
| Steward et al. 1963 | "Those groups without whose support the organization would cease to exist" (Cited in Freeman and Reed 1983 and Freeman 1984) |
| Rhenman 1964 | "Are depending on the firm in order to achieve their personal goals and on whom the firm is depending for its existence" (Cited in Näsi 1995) |
| Ahlstedt and Jahnukainen 1971 | "Driven by their own interests and goals are participants in a firm and this depending on it and whom for its sake the form is depending" (Cited in Näsi 1995) |
| Freeman and Reed 1983, p. 91 | Wide: "can affect the achievement of an organization's objectives or who is affected by the achievement of an organization's objectives" |
| | Narrow: "on which the organization is dependent or its continued survival" |
| Freeman 1984, p. 46 | "Can affect or is affected by the achievement of the organization's objectives" |
| Freeman and Gilbert 1987, p. 397 | "Can affect or is affected by a business" |
| Cornell and Shapiro 1987, p. 5 | "Claimants" who have "contracts" |
| Evan and Freeman 1988, pp. 75–76 | "Have a stake in or a claim on the firm" |
| Evan and Freeman 1988, p. 79 | "Benefit from or are harmed by, and whose rights are violated or respected by, corporate actions" |
| Bowie 1988, p. 112, n. 2 | "Without whose support the organization would cease to exist" |
| Alkhafaji 1989, p. 36 | "Groups to whom the corporation is responsible" |
| Carroll 1989, p. 57 | "Asserts to have one or more of these kinds of stakes"—"ranging from an interest to a right (legal or moral) to ownership or legal title to the company's assets or property" |
| Freeman and Evan 1990 | Contract holders |
| Thompson et al. 1991, p. 209 | In "relationship with an organization" |
| Savage et al. 1991, p. 61 | "Have an interest in the actions of an organization and … the ability to influence it" |
| Hill and Jones 1992, p. 133 | "Constituents who have a legitimate claim on the firm … established through the existence of an exchange relationship" who supply "the firm with critical resources (contributions) and in exchange each expects its interests to be satisfied (by inducements)" |
| Brenner 1993, p. 205 | "Having some legitimate, non-trivial relationship with an organization [such as] exchange transactions, action impacts and moral responsibilities" |

**Table 4.1** (continued)

| Source | Stake |
|---|---|
| Carrol 1993, p. 60 | "Asserts to have one or more of the kinds of stakes in business"—may be affected or affect… |
| Freeman 1994, p. 415 | Participants in "the human process of joint value creation" |
| Wicks et al. 1994, p. 483 | "Interact with and give meaning and definition to the corporation" |
| Langtry 1994, p. 433 | The firm is significantly responsible for their well-being, or they hold a moral or legal claim on the firm |
| Starik 1994, p. 90 | "Can and are making their actual stakes known"—"are or might be influenced by, or are or potentially are influencers of. Some organization" |
| Clarkson 1994, p. 5 | "Bear some form of risk as a result of having invested some form of capital, human or financial, something of value, in a firm" or "rare place at risk as a result of a firm's activities" |
| Clarkson 1995, p. 106 | "Have, or claim ownership, rights, or interest in a corporation and its activities" |
| Näsi 1995, p. 19 | "Interact with the firm and thus makes its operation possible" |
| Brenner 1995, p. 76, n.1 | "Are or which could import or be impacted by the firm/organization" |
| Donaldson and Preston 1995, p. 85 | "Persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity" |

Another crude distinction is based on involvement in the value chain. Stakeholders that are directly involved in a company's value chain are employees, customers, suppliers, and investors, while stakeholders outside of the value chain can consist of environmental groups or community organisations, e.g., Wheeler and Sillanpää (1997) developed an extension to this primary-secondary distinction, adding the social and non-social dimension. As a result, they offer four categories: primary social stakeholders (shareholders, investors, employees, managers, customers, local communities, suppliers, and business partners); secondary social stakeholders (government, social pressure groups, trade bodies, civic institutions, media and academic commentators, and competitors); primary non-social stakeholders (natural environment, future generations, and non-human species); and finally secondary non-social stakeholders (environmental pressure groups, animal welfare organisations). Although such a differentiation is fairly easy to make, it does not necessarily reflect the importance of a stakeholder. A secondary stakeholder external to the value chain, social or even non-social, is not less powerful or influential *per se*. One of the more prominent examples in this regard is Greenpeace and its actions against the planned deep-sea disposal of the Brent Spar oil rig by Shell. Greenpeace's actions in this case caused significant harm to Shell's image and financial situation (Fifka 2012a).

In order to address this shortcoming, Mitchell et al. (1997) developed the concept of *stakeholder salience*, defined as "the degree to which managers give priority to competing stakeholder claims" (p. 878). Stakeholder salience is based on the urgency, legitimacy, and power of a stakeholder, and his claim against the organisation (Mitchell et al. 1997). Thus,

the importance of a stakeholder is determined by three dimensions and not solely based on the rather organisational aspect of being in or outside of the value chain. Stakeholder salience places an emphasis on the management perspective, as it focuses on the relationship between stakeholders and management executives (Agle et al. 1999). In order to expand this rather narrow focus, more recent publications extend salience to the relation between the stakeholder and the firm in its entirety (Tashman and Raelin 2013).

Empirical studies (Vilanova 2007; Magness 2008) have demonstrated that the dimensions of urgency, legitimacy, and power are only applied to a limited degree in business decision-making. Moreover, other parameters to develop a stakeholder categorisation have been proposed in other scientific disciplines. In marketing communications, Podnar and Jancic (2006) have been able to test a stakeholder classification model based on three different levels of communication (dialogue) with various stakeholders. Other parameters regard the level of directness of the influence of a stakeholder in systems engineering (Liu 2000), the degrees of interest and influence of a stakeholder in conservation projects (De Lopez 2001), and responsibilities in the process of technology adoption (Kamal et al. 2011).

## 4.3 The Benefit of Stakeholder Integration

Despite the difficulties in defining and identifying relevant stakeholders, the necessity of involving stakeholders in strategy and decision-making processes is well accepted. Some scholars consider this as an ethical requirement (Jones et al. 2007). However, the benefits of taking stakeholders seriously and in particular the benefits of involving them into decision-making processes are multiple, especially because stakeholder integration has the potential to contribute to the development of firms' competitive advantage (Walsh 2005).

According to Heugens et al. (2002), stakeholder integration can be defined as "the particular strategy of obtaining a competitive advantage through the development of close-knit ties with a broad range of internal and external constituencies" (p. 38). Stakeholder integration is also defined as the ability to generate and care for positive collaborative relationships with different stakeholders involving them into decision-making and strategy generation (Plaza-Úbeda et al. 2010; Rueda-Manzanares et al. 2008; Sharma and Vredenburg 1998).

The benefits of stakeholder integration have been increasingly researched and documented during the last decades. For example, in the study of Berman et al. (1999), the authors demonstrated that the special treatment of some stakeholders—employees and customers—can be considered a factor of firm differentiation and a source of financial performance improvement for a firm. Sharma and Vredenburg (1998) considered stakeholder integration as a strategic organisational capability that contributes to the development of other capabilities such as environmental protection.

Heugens et al. (2002) in a study focused on the Dutch food sector, identify organisational learning as a benefit of stakeholder integration. In a similar way, the contribution

of Maurer and Sachs (2005) stresses the role of stakeholder learning. Longo and Mura (2008) identify clear benefits of stakeholder integration for human resource management. In a study carried out in Italy, they find a clear link between the resources of value created by employees and the social strategy of the organisation. Other benefits of stakeholder integration are: innovation processes within the firm (Brown 2003), savings related to communication, increased employee motivation, procurement and supply chain improvements, reputation improvement, and risk management.

At a meta-level, stakeholder integration challenges dichotomist thinking about organisations in society, in which organisations are understood either as black-box machines created to maximise profits, or as aggregates of persons around a social purpose. In this sense, stakeholder integration helps to transcend out-dated conceptions of business and its role in society, for example: Stakeholder integration can contribute to the creation of social capital, and can be a driver of social innovation (Habisch and Loza Adaui 2013).

While not all the benefits of stakeholder integration are quantifiable, and even if empirical evidence showing a relationship between stakeholder integration and the firm's performance is still weak, it can be concluded that a management approach that does not include stakeholder claims into the decision-making process is unsustainable. Thus, the challenge of stakeholder integration is linked to the efficiency of stakeholder management, a topic that will be developed in more in detail in the next section.

## 4.4 Stakeholder Management

As previously pointed out, most work on stakeholder theory is built on Freeman's (1984) seminal work, which, however, is often misinterpreted. Freeman did not call for the consideration of stakeholder interests out of an altruistic motivation, but because of managerial implications, especially the negative consequences that might result from neglecting stakeholders. Based on this consideration, a stakeholder orientation has become a vital part of CSR as a people-centred concept and management approach (Vos 2003; Davenport 2000; Van Buren 2001). In the context of the discussion on whether stakeholder interests are considered because of managerial interest or ethical obligation, Berman et al. (1999) have distinguished between a "strategic stakeholder management model", in which the concern for stakeholders is "determined solely by the perceived ability of such concern to improve firm financial performance" (p. 488), and an "intrinsic stakeholder commitment model", in which firms consider stakeholder interests because they feel a moral obligation to do so.

Depending on the understanding demonstrated and the approach pursued, the extent of stakeholder orientation will vary. If an organisation is committed to "strategic stakeholder management", then it will most likely focus on a small selection of stakeholders who are considered to be essential for the company (Logsdon and Yuthas 1997). In the case of an intrinsic motivation and an emphasis on "positive duties, respect for others and duty to promote welfare", a "[b]road range of stakeholders, including market-based relationships

and non-market-based, such as to neighbours, communities, environmental groups, government agencies, etc." will be considered by the organisation (Logsdon and Yuthas 1997, p. 1217). Aside from a strategic or moral motivation, legal requirements are another factor that will influence the scope of stakeholder orientation. In Germany, e.g., the consideration of employee interests through works councils and representation on supervisory boards is strongly mandated by the law, reflecting the attitude that this important stakeholder group should participate in organisational decision-making. However, in Anglo-Saxon countries, this notion of co-determination is mostly absent (Fifka 2012b, 2013b; Habisch et al. 2011).

Regardless of strategic aims, moral obligations or legal requirements, stakeholder management in all cases is characterised by a certain stakeholder orientation. According to Ferrell et al. (2010, p. 93), it can be understood as "the organisational culture and behaviours that induce organisational members to be continuously aware of and proactively act on a variety of stakeholder issues." Stakeholder issues in turn are corporate activities that have an effect on an organisation's stakeholders.

Stakeholder management itself, according to Freeman and McVea (2001), can be described as a managerial function that is concerned with considering the various interests of stakeholders and establishing and maintaining relationships with them. In addition to the functional aspects, Harrison and St. John (1997) emphasise a win-win situation as a major characteristic of stakeholder management by describing it as "communicating, negotiating, contracting, and managing relationships with stakeholders and motivating them to behave in ways that are beneficial to the organisation and its stakeholders" (p. 14). In contrast to the aim of mutual value creation, Frooman (1999) sees the primary purpose of stakeholder management in conflict resolution between a firm and its stakeholders in case of diverging interests. Though motivations for managing stakeholders vary and different aims can be pursued, in practice, stakeholder management needs to be implemented in different steps, which we will now illustrate.

## 4.5 Stakeholder Management in Practice

Several models have been developed which address the practical implementation of stakeholder management (Preble 2005; Buysse and Verbeke 2003; Simmons and Lovegrove 2005; Fassin 2009). The model we present here is a synthesis that explains how to conduct stakeholder management in six steps, as shown in illustration 1. It must be pointed out that a clear-cut line between the individual steps cannot always be drawn in practical application so that overlaps are normal (Fig. 4.1).

### 4.5.1 Step One: Stakeholder Identification

A first and crucial step is stakeholder identification. It consists of identifying and listing the stakeholders of an organisation. As pointed out above, an organisation has a large

**Fig. 4.1** The stakeholder management process

number of stakeholders, so a systematic approach to stakeholder identification is recommended. A helpful approach is to distinguish between stakeholders in four areas: market, workplace, natural environment, and community. Typical stakeholders in the market are characterised by an existing market relationship, often on a contractual or legal basis, such as shareholders, creditors, clients/customers, suppliers, competitors, trade associations, and the government as the regulator of the marketplace.

The crucial stakeholders in the workplace are employees, unions, and potential works councils, depending on the regulatory environment. This shows that the government is also a stakeholder in the sphere of the workplace, as it determines the legal framework for employment conditions. Moreover, also semi-governmental organisations such as the International Labour Organisation (ILO), and non-governmental organisations (NGOs) such as Amnesty International, are active in this area and can be important stakeholders. This is especially true in countries where laws on appropriate working conditions do not exist or are not enforced.

Concerning the natural environment, stakeholders are those affected by the ecological impact of an organisation's operations. At micro-level, an example could be residents living close to production facilities. At macro-level, societies as a whole are ecologically affected by business activities. However, society in its entirety is not an organised stakeholder. Its interest is either represented by governmental or non-governmental institutions on an international, national, regional, or local level.

Inevitably, there is a certain overlap with the last sphere, the community, which is local in nature and certainly has an interest in its natural environment not being affected negatively by business operations. Community interests are usually manifold, and can easily be diametric. Environmental considerations may be offset by economic ones, such as the provision of labour. Aside from core economic and ecological responsibilities, community stakeholders will also expect an investment in the community by business to support local infrastructure of different kinds. Therefore, typical community stakeholders are educational, recreational, cultural, and sports facilities and institutions. In many cases, associations are formed by residents to organise their respective interests, especially when they are not represented by local government. Finally, it has to be pointed out that an organisation, depending on the number of its locations, can have numerous communities as stakeholders.

### 4.5.2 Step Two: Stakeholder Assessment

In most cases, the number of stakeholders identified will be too large to assign all of them significant consideration. Thus, it is necessary to undertake a selection process, whose purpose it is to determine the stakeholders with whom a dialogue is to be held. The main criteria for the selection will be the importance of the stakeholder to the organisation. As pointed out above, importance can simply be attributed to a stakeholder being a part of a company's value chain, though this reductionist differentiation carries the danger of excluding important stakeholders. This shortcoming is addressed by the stakeholder salience model developed by Mitchell et al. (1997), which classifies stakeholders according to the power, urgency, and legitimacy of their claims. A stakeholder with significant power is a large supplier or customer, e.g., because a termination of the business relationship will have a large impact on the organisation. Urgency describes the time horizon, in which the stakeholder claim has to be dealt with. Urgent claims are pressing ones, and dealing with them cannot be delayed. Finally, legitimacy can be legally or ethically founded. Legally legitimate claims are the ones that can be enforced on the basis of an existing law, e.g., when a company is selling a faulty product or violating employment laws. Ethical claims are based on moral expectations and do not necessarily have a legal basis. A German company making use of child labour in South East Asia might not act against any legal standards, but it might violate the moral expectation of stakeholders in Germany that child labour is unethical.

A difficulty in the application of the salience model is that a certain subjective judgment regarding the power, urgency, and legitimacy of a stakeholder and his claim is inevitable, while it can be more objectively determined whether a stakeholder is part of the value chain or not.

### 4.5.3 Step Three: Stakeholder Dialogue

After the relevant stakeholders have been selected, an organisation needs to engage in an exchange with the stakeholders in order to identify their claims and interests. For this purpose, stakeholder dialogue can be held. Wheeler and Elkington have defined it as a "two-way dialogue on issues of corporate environmental and social responsibility, [which] is especially important in establishing stakeholder respect" (2001, p. 2). A more instrumental definition that focuses on the design of such a dialogue process is offered by the World Business Council for Sustainable Development (2010):

> Stakeholder dialogue offers a tool to engage people in serious discussion, and a designed and facilitated process for groups to initiate dialogue with those persons and institutions that have a stake in their activities […] Dialogue is about communicating with stakeholders in a way that takes serious account of their views. It does not mean involving stakeholders in every decision, or that every stakeholder request will be met. It means that stakeholder input should be acknowledged and thoughtfully considered. It is about giving stakeholders a voice, listening to what they have to say, and being prepared to act or react accordingly.

Stakeholder dialogue has been extensively discussed in the literature, under normative as well as under managerial premises (e.g., O'Riordan and Fairbrass 2008; Kaptein and van Tulder 2003; Ayuso et al. 2006; Palazzo 2010). From an instrumental perspective, two dimensions of stakeholder dialogue are crucial. The first concerns the *number* of stakeholders involved simultaneously. Traditionally, dialogues were held on a bilateral basis with only one stakeholder being involved. However, engaging more stakeholders at the same time, a multi-lateral approach, can be highly beneficial for companies. As described above, a difficulty of stakeholder management is the diametric nature of claims made by different stakeholders. This can illustrated by a simple example: While employees will tend to seek higher salaries, this might negatively affect customers because the company might pass on the increasing costs to them through more expensive products, or it might pay less to its suppliers. Thus, a multi-stakeholder dialogue provides the advantage that the individual stakeholder groups will realise that they are not the only ones making claims, that there are other stakeholder groups with competing interests, and that the company eventually will not be able to fulfil all expectations.

The second dimension concerns the *form* in which the dialogue is held. Traditionally, stakeholder dialogue has been held in the form of roundtables with only one or a few stakeholders. However, as just pointed out, the inclusion of several stakeholders can be advantageous, which is why roundtables can be expanded or other forms of dialogues can be held. Such a form can be a symposium or a conference to which representatives of the various stakeholder groups are invited. This allows for multi-lateral dialogues on a variety of issues, which are relevant for the respective stakeholders.

| **Importance to the Company; determined by relevance to the company's strategy** | *High* | desirable | significant | definite |
|---|---|---|---|---|
| | *Medium* | deferrable | considerable | significant |
| | *Low* | negligible | deferrable | desirable |
| | | *Low* | *Medium* | *High* |
| | **Importance to the Stakeholders; determined by the number of stakeholder articulating the issue and the importance of the stakeholders to do so.** | | | |

**Fig. 4.2** Stakeholder issue selection

### 4.5.4 Step Four: Interpretation and Implementation

After having held the dialogue, the organisation has to interpret the information collected in the dialogue process. It has to examine how the expectations articulated by the stakeholders can be integrated in the company's strategy and operations. Although the company has already selected and thus reduced the number of stakeholder to be included in the dialogue process, the interests articulated by the stakeholders will likely be too numerous to be addressed. Therefore, the company needs to identify the issues which are crucial for the stakeholders as well as for the company (Fig. 4.2).

As shown in illustration 2, the company will have to address the issues that are of high importance to the company and the stakeholders (*definite* issues). *Significant* issues also need strategic implementation. On the other end of the spectrum are issues which are negligible. The implementation of issues classified as *desirable* or *considerable* should be attempted, but is not of utmost relevance. Deferrable issues can also be considered for implementation in the future.

After identifying the crucial strategic issues, a company needs to find ways and means of how to pursue the set goal at a strategic level. This shall again be illustrated by the use of an example: After holding stakeholder dialogue and strategic analysis, a company determines that cutting carbon dioxide emissions is of high importance for itself and its stakeholders. After analysing its processes and capabilities, it sets a goal of reducing carbon dioxide emissions by 20% in 2 years. At the operational level, it needs to examine and take the measures necessary to achieve this target, e.g., shifting to electric vehicles for transportation, using alternative energies, and improving the insulation of its buildings.

### 4.5.5 Step Five: Measurement

As in any strategic process, measurement is also an essential stage in stakeholder management. The steps that have been taken need to be analysed, and the degree to which the previously defined aims have been reached needs to be measured. Using the previous example, after 2 years it needs to be examined whether the goal of reducing carbon dioxide emissions has been accomplished. If that is not the case, the causes for the deviance at operational level have to be identified, and modifications or alterations will have to be developed. In cases where the measures at operational level were soundly implemented

and worked efficiently, but the desired goals have not been reached, the goals will have to be revised.

It must be pointed out here that measuring environmental and social performance is a challenging undertaking which requires substantial financial and human resources, if it is to be meaningful (Gjolberg 2009; Schaltegger and Wagner 2006). While financial performance measurement is a "given" in companies, often simply because of legal standards, measuring social and environmental performance is still rather an exception, also because in most countries there is no legal requirement to do so.

Nevertheless, such encompassing performance measurement is absolutely essential for the company as well as stakeholders. For the company, it is vital as it allows for an evaluation of the goals that have been set and the measures that are applied for attaining them. Without measuring, a judgment on effectiveness and efficiency cannot be made; in other words: "You can only manage, what you can measure." Therefore, there is a clear business case for CSR measurement (Weber 2008). With regard to stakeholders, they would like to receive feedback if and how the company has tried to take account of their interests. This feedback is provided in the last stage of our stakeholder management model.

### 4.5.6 Step Six: Response and Reporting

In this last stage, the company responds to its stakeholders on what it has done to address their claims. The respective feedback process can once again take the form of a face-to-face dialogue, which is recommendable for communicating with the most important stakeholders. In addition to that, a CSR report is a medium for reaching a broader range of stakeholders. In such a report, a company discloses information on its financial, social, and environmental performance and activities. While for large companies issuing a CSR report has become a certain standard—93 % of the world's largest 250 companies did so in 2013 (KPMG 2013)—small and medium-sized enterprises are still lagging considerably behind (Borga et al. 2009; Morhardt 2010; for an overview see Fifka 2013a). Nevertheless, it is also an opportunity for smaller companies to demonstrate their concern for stakeholder interests.

As another chapter in this book is exclusively dedicated to CSR reporting, we shall only point out some major aspects here which are crucial in relation to stakeholder management. The basis for a good CSR report is a previous dialogue with the stakeholders on what information they would like the company to disclose. Although this has certain limitations with regard to business secrets and other sensitive data, increasing transparency through meaningful and desired information is crucial. Otherwise the company runs the risk of disclosing information in which the stakeholders are not interested. Quantification is another crucial issue, which also demonstrates the importance of previous measurement. Numbers allow the stakeholders to actually judge the performance of the company more profoundly than mere qualitative information, especially if it comes in the form of pictures and superficial descriptions of the company's charity activities.

Issuing a report and responding to their stakeholders is not the end of the stakeholder management process, which is a dynamic and continuous procedure. Stakeholders in turn will respond to the steps initiated by the company as well as its attempts and performance, which closes the loop. This allows companies to evaluate its strategic and operational implementation of stakeholder issues from the perspective of its stakeholders. This evaluation together with the company's own performance measurement provides the basis for modifying and improving the stakeholder management process and the goals pursued with it.

## 4.6 Conclusion

Stakeholder management is a crucial element in successfully managing a company in the twenty-first century. In a time when customers, employees, suppliers, shareholders, governments, and citizens are increasingly sensitive for the economic, social, and environmental contribution that companies make to society, mere differentiation through price and product quality are no longer sufficient for business success. Instead, companies will have to actively identify the concerns and interests of their stakeholders and address them strategically in order to flourish in an increasingly competitive business environment.

However, stakeholder management does not only allow for the recognition of stakeholder needs, it also permits companies to increase the transparency of their aims, policies, and operations. As O'Riordan et al. (2013) point out, transparency is one of the crucial missing links in contemporary societies. In this context, transparency means more than mere knowledge on what a company is doing. It allows stakeholders to relate to a company's activities, whereas on the company side, it fosters awareness that companies are organisations that are closely inter-connected with their stakeholders. This mutual understanding will help companies and stakeholders alike to appreciate how they are part of a larger social organism.

Nevertheless, such an understanding cannot be reached if stakeholder management is only used as a self-protective tool that merely aims at catering to the demands of stakeholders in order to avoid conflicts. In that case, the link remains broken, and the notion of companies and stakeholders as separate or even opposing actors is reinforced. Moreover, such an approach will always put the company in a defensive position in which it can merely react to external forces. As the behaviour of external forces—the stakeholders in our case—is hard to predict, if no communication takes places, companies will not be able to implement stakeholder interests into strategy, as strategy requires a structured planning process. Thus, reactive stakeholder management only allows for minimising harm or negative fall-out from confrontation, but does not enable companies and stakeholders to identify how they could co-operate for their mutual benefit.

Successful stakeholder management is a proactive process that involves stakeholders in a structured manner and aims at generating a win-win situation (Post et al. 2002). Traditionally, stakeholder demands have often been perceived as being diametric to the interest

of the company. However, a change in perspective is required. Stakeholder interests should not be seen as a threat to the company, although not meeting the demands of stakeholders certainly can result in sanctions imposed by the stakeholders on the company, e.g., a boycott by customers, a withdrawal of investments by providers of finance, and a termination of the business relationship by suppliers. Instead they should be seen as an opportunity for obtaining a competitive advantage by being better able to align the interests of groups vital to the company with the company strategy. Especially in an increasingly complex and dynamic business environment, stakeholder management will be crucial for companies to identify and address future challenges, such as demographic change, resource scarcity, environmental degradation, the rise of social media, and global competition.

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