••• corporate sustainability research

Moving beyond us and them

The value of stakeholder engagement

| By Mark Stapylton

snapshot

How companies can create, monitor and manage brand experiences and successful stakeholder relationships.

We may look back on 2013 as the year, after a 30-year journey, when phrases such as "profit with purpose," "conscious capitalism" and "shared value" finally migrated from B-schools, think-tanks and a relative handful of innovative companies and entered the popular lexicon of business and society in general.

In the slow recovery from the global financial crisis – and fuelled by growing awareness that social media and global digital connection have empowered consumers in ways that few business leaders imagined even just a decade ago – companies across the entire business spectrum are now embracing sustainable business models.

Among recent comments, these three are representative:

"I don't subscribe to the notion that companies exist to create value strictly for their shareholders. I think they are there to create value for their customers, and that gets to the mission of the company. And ultimately, doing that, they create value for society."

Bill George, retired CEO of medical devices manufacturer Medtronic in a December 2013 interview with McKinsey.

"Profitability is a shallow goal if it doesn't have a real purpose and the purpose has to be share the profits with others. We are equally proud of what we are doing in the community, what we are doing with our people and how the company has built itself around a purpose that is not just about making money."

Howard Schultz, Starbucks CEO, in a September 2013 CNBC *Mad Money* interview.

"Business does not operate in a vacuum – it operates under a license from society. We recognized early that when we transform our business to deliver for our customers, protect our environment and invest in our employees, we achieve sustained value. In fact, these actions fuel our financial returns."

Indra Nooyi, PepsiCo Chairman and CEO, in a 2012 letter to shareholders.

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Figure 1

Triple Bottom Line of Sustainable Business Models

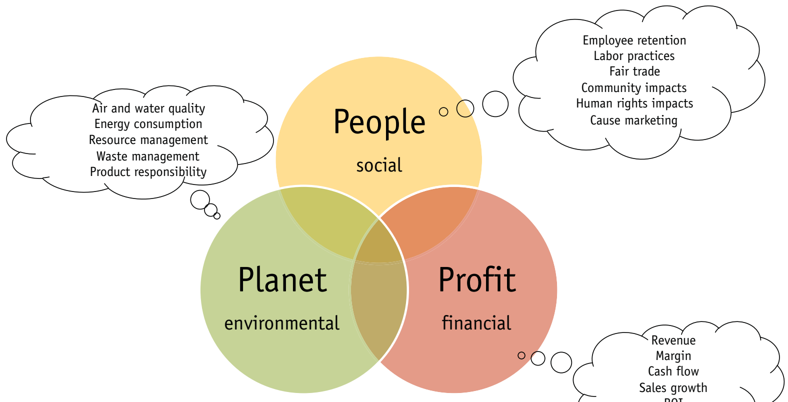
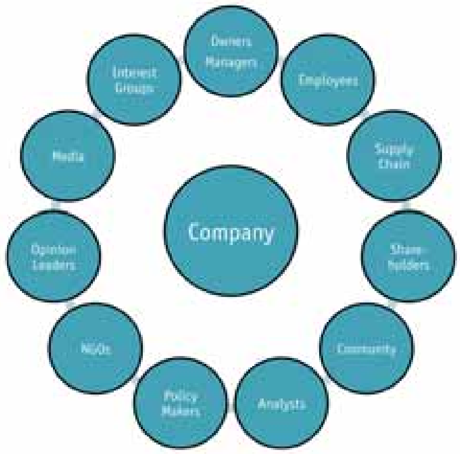


Figure 2

Stakeholder Wheel



Formerly lone voices, high-profile standard-bearers such as these now find themselves at the center of the conversation.

Every available touchpoint

In recent years, a series of paradigm shifts have occurred in the relationships between brands and consumers, and between companies and their shareholders. Brands are creating meaningful and personally relevant experiences and engaging with consumers through every available touchpoint, not just by building awareness through mass media; consumers are increasingly motivated to participate with brands through co-creation and co-ownership. Companies are adopting sustainable practices that integrate the triple bottom line-thinking of "profit, people and planet" into the core of their business models and purpose; shareholders have found they now compete for primacy with customers and a whole raft of other stakeholders.

There are many elements of a company's sustainable performance that can be quantified or objectively measured. Best-practice reporting protocols are offered by organizations such as ISO and the Global Reporting Initiative. But whether or not the company receives credit for its actions – and therefore achieves the full range of desirable outcomes and returns sought – is hugely dependent on the subjective perceptions and opinions of its stakeholders. In a very real sense the performance of a company is whatever its stakeholders believe it to be.

Thus, sustainability is a reputational issue. As marketers, corporate communications experts and market researchers specializing in branding, loyalty, commitment and satisfaction have long known, a company's reputation can at best be subtly managed but it cannot ultimately be controlled. Corporate reputations, including reputations for sustainable business commitments, can be influenced by anyone who chooses to have an opinion.

All of which begs the question: If sustainability is a reputational issue, how does a company create and nurture the kinds of relationships with stakeholders that are founded on shared values, mutuality and reciprocity and that promote engagement and advocacy? And how should these relationships be measured and monitored so they can be better managed?

Identify relevant stakeholders

At the simplest level, companies developing and implementing a sustainable business model (for a product or corporate brand) will first identify their key relevant stakeholders; then develop and test messages that resonate in positive, emotional and intentional ways with each stakeholder group. They implement communication programs targeted to those stakeholder groups and engage in dialogue with them; monitor the impacts on stakeholder engagement; and experience a positive feedback loop or virtuous cycle of desirable outcomes that enable them to pursue their purpose more profitably, with more support and less friction.

Stakeholders, literally, include anyone who chooses to have an opinion about the brand or company. Categories of stakeholder include internal groups (employees, owners and managers), shareholders, those who transact with the company (the supply chain of suppliers, vendors and resellers), influencers (analysts, interest groups and the media) and regulators (government, policy makers). Stakeholders today are better-informed about a company's values and actions. They are increasingly sophisticated, savvy and skeptical about corporate communications. Greater transparency means they hold companies to a higher standard than before. They expect a meaningful two-way dialogue and conversation with companies. They may withhold approval from (or even punish) companies whose values and actions they perceive to be inconsistent with their own.

The goal of communication is to promote engagement. In order for companies to be able to pursue and execute their purpose without friction and get full credit for their sustainable business practices and citizenship commitments, they need the acceptance, permission and advocacy of relevant stakeholders.

Engaging effectively with stakehold-

Figure 3

Stakeholder-Company Relationships: the Co-occurrence of Perception and Experience

Perceptions	Experiences: Self-Esteem	Self-Expression	Mentoring	There For Me	Pleasure
Performance/ Satisfaction	Reinforcement				
Emotional Attachment		Identification			
Charisma			Role Model		
Positive Differentiation				Self-Differentiating	
Relaxed & Stylish					Entertaining

- These five "power relationship" styles have emergent or *superadditive* properties, i.e., the combination of the two components is greater than the sum of their parts.

Figure 4

Experiential Factors that Drive Relationships

Self-Esteem	Self-Expression	Mentoring	There For Me	Pleasure
Makes me look good to others Makes me feel good about myself	Simplifies my life Helps me to express myself Frees me to be myself	Challenges me to think differently Teaches me Inspires me Shares my values	Appreciates my business Is recommended by people I care about Responds to my needs Has my interests at heart	Brings back good memories Provides a little treat for me Excites me

ers means finding common cause and shared values. Stakeholders want to transact with and have relationships with companies whose values are consistent with and supportive of their own.

It makes sense to adapt a traditional "hierarchy of engagement" framework to specifically address the types of relationships that companies need to have with stakeholders and where sustainable practices and good citizenship are integral to the company's purpose and values. The hierarchy we have developed models four levels of engagement:

Understanding often begins with simply seeing and hearing other people talk about a company. Familiarity and knowledge build over time with awareness and experience. When a stakeholder understands what the company stands for, there is a foundation for engagement to occur.

Affinity may occur when an understanding of what the company stands for is a fit with the stakeholder's personal values. When these values are shared, the stakeholder may identify with the company (connection), may become loyal (commitment) and may recognize it strives to deliver on its promises and commitments (belief).

Involvement. Stakeholders who identify with the company may get involved with the company (participation) or "go the extra mile" to transact or interact (conviction). In fact, the positive involvement the company seeks cannot occur without affinity: it implies reciprocity and mutuality.

Advocacy, the Holy Grail of effective stakeholder engagement, is the ultimate expression of a stakeholder-company relationship. It may occur when a stakeholder is sufficiently invested in the company's purpose that they will actively help and support, endorse and encourage, the company.

Encourage relationships to form

Effective stakeholder engagement begins with developing effective messages that encourage relationships to form. As the old aphorism goes: "A good relationship is when someone accepts your past, supports your present and encourages your future." Relationships connect the stakeholder to the company, just as they connect consumers to brands. Decoding these relationships is key to creating the basis for engagement.

A relationship is self-evidently a two-way construct. Most communication strategies however focus only on one direction, that is, the company's promise to the stakeholder. They may ignore the reciprocal element of how the stakeholder experiences or relates to the company. Because experiences are so often overlooked when developing a communication strategy, they can be more valuable than expected as a source of competitive advantage – as well being insightful for messaging and tone of marketing communications.

Relationships, even in business, are inherently more emotional than rational. Stakeholders' responses to a company may be emotional and unconscious and strongly influenced by the attitudes and behaviors of others. Engaging with stakeholders so as to execute corporate strategies with a beneficial outcome and the least possible friction means viewing engagement as emotional and comprising the sum of all perceptions, attitudes, beliefs and expectations that stakeholders have about a company in relation to their own agenda.

In proprietary research conducted in 2012 the author and colleagues explored how certain promises (perceptions, imagery, equities), when combined with certain experiences, can create relationships that have emergent or superadditive properties (i.e., these combinations of promise and experience have greater than predicted impacts on market value). The research identifies five such "power relationships" based on analysis of 48 mono-brands and corporate brands across nine different B2B and consumer categories among 1,500 survey respondents. Four of the power relationship types are particularly relevant to corporate communication and dialogue about sustainable business models (Figure 3).

Reinforcement. Superior company or brand performance and high satisfaction that makes me feel and look better and smarter to others.

Identification. I am strongly attached to the company/brand; it communicates to others who I am.

Figure 5

Power Relationship Styles Vary Dramatically Across (and Within) Categories

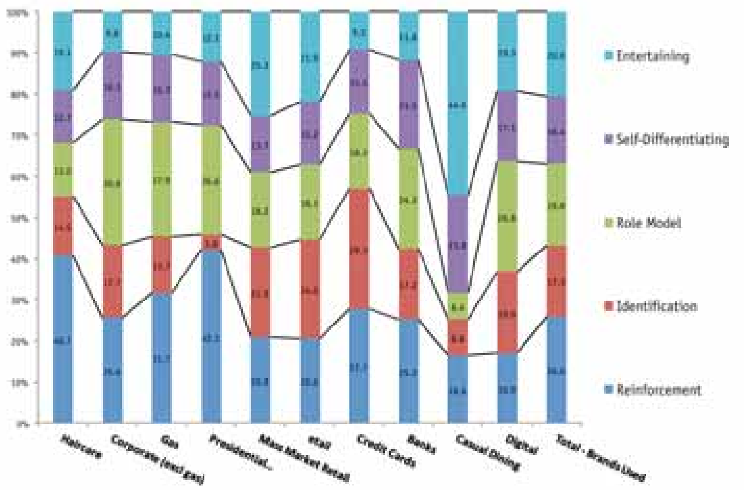
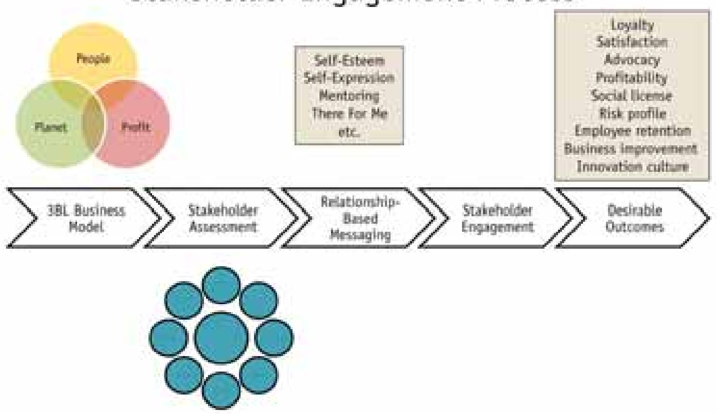


Figure 6

Stakeholder Engagement Process



Role Model. The company/brand's charisma makes it a leader and helps me be one also.

Self-Differentiating. The company/brand's difference includes me and makes me feel different too.

The power relationships each embody a different type of experience.

Self-Esteem is the experience of making one look good to others and feeling good about oneself. When coupled with a perception of superior performance it produces a relationship based on Reinforcement. Oil companies and personal care companies index high on Self-Esteem and Reinforcement. (So too did the presidential candidates in the run-up to the 2012 elections.)

Self-Expression is the experience of helping one to express oneself, freeing one to be oneself and simplifying one's life. When associated with strong emotional attachment it forms a relationship characterized by identification. Compared to other categories, credit card companies, mass-market retailers and e-tail companies such as Amazon all index highly on Identification. (It is no accident that credit card companies market "affinity cards").

Mentoring is the experience of being challenged to think differently, taught, inspired and having shared values. When a company or brand is perceived to have charisma (is a leader, progressive, dynamic and excitingly innovative) and the stakeholder experiences being mentored or inspired, a Role Model relationship is formed. Relative to other categories, banks, corporate brands such as 3M and GE and digital companies (Google, YouTube, Facebook) tend to index high on Role Model relationships.

There For Me experiences have to do with empathy and responsiveness: appreciating my business, being recommended by people I care about, responding to my needs and having my interests at heart. When the company is also perceived as distinctive and unique in positive ways, the relationship can be characterized as Self-Differentiating. Casual dining (including brands such as Olive Garden, Outback Steakhouse and Applebee's) index highly here (as well as on Entertaining relationships based on relaxed stylish perceptions and pleasurable experiences).

Constantly changing

The relationships between stakeholders and companies (just as between brands and consumers) are constantly changing in today's digitally-connected world. Stakeholders increasingly esteem companies that they believe fundamentally understand them and that interact with them in human ways. And, importantly, they expect to have access. Companies are responding by creating opportunities through a wide range of touchpoints for personally relevant meaningful experiences to occur. The relationships that form as a result, involving elements of co-creation, co-ownership and shared interest, make possible a range of desirable outcomes including increased loyalty, satisfaction and advocacy, increased profitability, social license (permission and acceptance), risk mitigation and improved talent acquisition and retention (Figure 6).

Researchers have an invaluable role to play in key areas such as: identifying the relative importance of various stakeholder groups; identifying the areas of interest and the emotional triggers for each stakeholder group; determining the types of experience and relationship that will resonate on an emotional level and promote engagement; evaluating the content, tone and style of messaging; measuring the depth of engagement; and monitoring outcomes and performance against key indicators.

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