Hearing The Voice Of The Stakeholder

by Jeffrey Resnick

The Business Roundtable's call last year for corporations to weigh the interests of stakeholders along with those of shareholders raises a question—how do you do this? How does your board solicit, gather, interpret and prioritize the voices of its many diverse stakeholders? Finally, how do you make these views an actionable part of the company's strategic plan?

In August of 2019, the Business Roundtable released its new statement on the purpose of a corporation. Nearly 200 CEOs lent their signatures in support of the new definition which replaces the "shareholder first" mandate with a commitment to all stakeholders including customers, employees, suppliers, and communities in which the corporation operates.

The need to adopt a more holistic view of a corporation's operating sphere is inevitable for its success and sustainability. However, navigating the path to this ideal is fraught with hurdles that require commitment. Boards will need to expand their current purview to include these stakeholders into the strategic planning process as routine, not as a one-off task.

Boards must grapple with the practical implications of this new directive. As Russell Ackoff commented in his prescient book, *Recreating the Corporation*: "A corporation that fails to see itself as an instrument of all its stakeholders will probably fail to use them, and be used by them, effectively enough to survive in the emerging environment." This is sage advice if corporate boards wish to avoid the well-documented and ever-shrinking lifespan of a company in the S&P 500.

It is unlikely any corporate board member will argue the importance of input from key stakeholders. However, unless there is a repeatable framework through which that input will be smartly gathered, assessed and acted upon, efforts will be no more than an exercise in public relations that lacks real impact. The likelihood that stakeholder input will improve a corporation's performance increases with the integration of this input to the strategic planning process.

In the complex environment in which corporations operate today, internal as well as external stakeholder input is critical to fully inform the strategic process. Identification of the steps required cannot occur unless thought is given to the organizational triggers of transformative and sustainable change.

The journey to stakeholder centricity begins with the identification of stakeholders who have a tangible and direct impact on the performance of the company.

There are five tenets which provide a roadmap to this change:

- ☐ Addressing stakeholders is a complex but achievable, measurable goal.
- ☐ Understanding the stakeholder perspective requires an industry-specific, comprehensive, systematic approach that is an ongoing process.
- ☐ Stakeholder centricity is a critical element in the strategic planning process. It enables the identification and prioritization of risks/opportunities across stakeholders over time.
- ☐ A stakeholder perspective capitalizes on and inoculates against industry changes.
- ☐ Adopting a broader stakeholder perspective will result in shareholder rewards.

The journey to stakeholder centricity begins with the identification of stakeholders who have a tangible and direct impact on the performance of the enterprise or specific business of focus. Including all stakeholders in this process may not be practical nor feasible.

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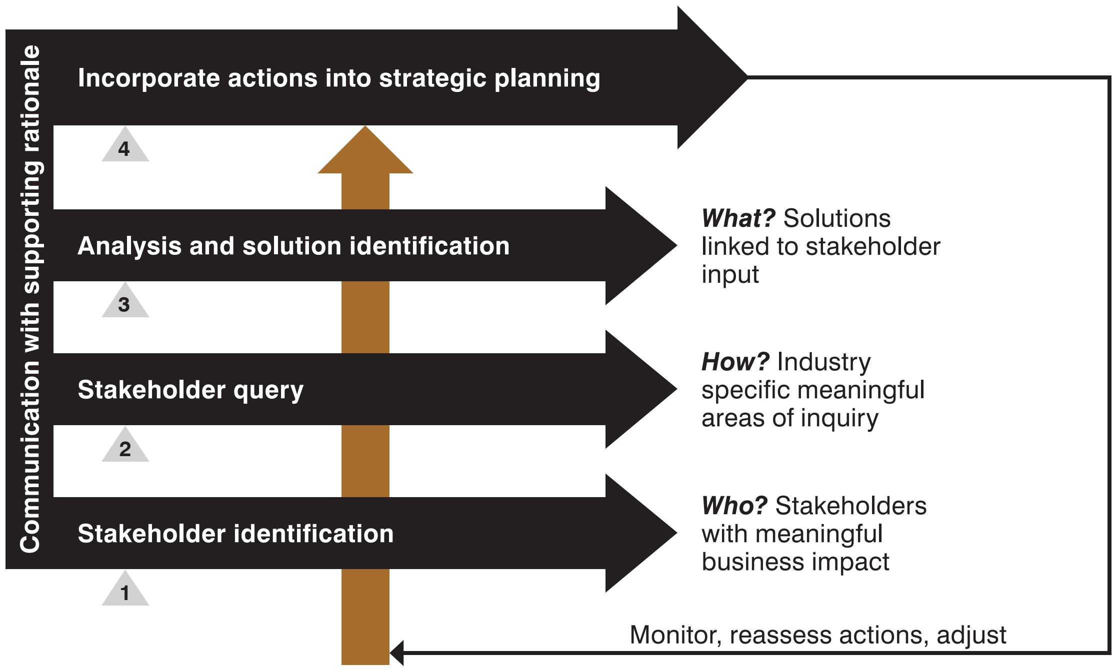
A Stakeholder Centricity Roadmap

Learn Who They Are, What They Want, And How To Respond



Once key stakeholders are identified, intelligence on issues relevant to them is gathered (stakeholder query). The intelligence gathered is then reviewed to identify issues requiring action, with results prioritized in terms of value to the company (analysis and solution identification). These insights are evaluated by internal, cross-functional teams, with focus on how to mitigate stakeholder risks and leverage opportunities. This leads to recommendations and a plan of action for incorporating the agreed recommendations into the company's planning cycle.

Some changes may require a considerable organizational shift, a large allocation of resources (human or financial), or represent a departure from the current business strategy. These become board level discussion items as input to the strategic planning process.

Many corporations already conduct the activities necessary to solicit stakeholder feedback. Most have some form of rudimentary customer feedback mechanism. Others solicit the input of their employees on a regular basis, or even go beyond these two stakeholder groups.

However, a corporation should integrate the needs of all relevant stakeholders in a systematic manner, not simply those for whom they currently have feedback. Without this holistic approach, the expanded redefinition of a "corporation" will be no more than well-crafted words.

Identifying and prioritizing stakeholders and understanding the risks and opportunities they pose to the business is a top responsibility of the board.

☐ ***The board's early role: A catalyst for stakeholder and issue identification.*** Boards have multiple missions; protecting the financial assets and performance of the company is just one of them. Within this context, the board has a significant role regarding incorporating a stakeholder perspective. Identifying and prioritizing stakeholders and understanding the risks and opportunities they pose to the business is a top responsibility of the board.

Losing sight of stakeholders, or taking those with potential to impact the business for granted creates significant risk. This is demonstrated in the Boeing 737 Max disaster, and pharmaceutical companies' involvement in the opioid crisis. Failure to anticipate and address the needs of salient stakeholders clearly damaged the companies involved in these instances. Pursuit of profit for shareholders, absent meeting the needs of other stakeholders for whom the corporation has an ethical responsibility, will harm business success and sustainability.

The board's role is to provide awareness of and insight to specific issues relevant for each stakeholder group, and to create a positive, productive relationship with each. A solid reputation across relevant stakeholders is the foundation for trusting a corporation's product or services, as well as a "reason to believe" during times of controversy.

Consider the opioid crisis. The crisis is not new. The economic and human cost for communities is known and documented. If boards shift from a primary focus on shareholder profit to a more balanced stakeholder view, will future opiod-like crises hurting communities occur?

It is reasonable to assume that if a board routinely asks the question "What are the issues impacting all relevant stakeholders?" perhaps an emerging stakeholder issue, such as the opioid crisis, might not have been ignored by so many for so long. Warnings about the crisis were present and clear.

In summary, the board's early role in applying stakeholder-centricity consists of three actions:

- Identify all stakeholder groups relevant to the performance of the corporation (internal and external).
- Prioritize stakeholder groups in terms of each group's impact on the business.
- Provide guidance on key issues to be explored with each stakeholder group.

How often does management believe it is meeting an objective (in fact, fully convinced it is), only to learn that in the eyes of employees, it is not?

☐ ***Stakeholder query: The stakeholder audit and assessment process.*** The question is whether the company is meeting its obligations to *all* stakeholders, not just shareholders. Let us take employees as a stakeholder example, using specific wording from the Business Roundtable statement:

> "*Investing in our employees.* This starts with compensating them fairly and providing important benefits. It also includes supporting them through training and education that help develop new skills for a rapidly changing world. We foster diversity and inclusion, dignity and respect."

Consider the training and education aspect of this statement. A common approach to this is for an executive to sit down with her HR director and engage in a "check the box" exercise to determine whether the challenge is being met or not. How often does management believe it is meeting an objective (in fact, fully convinced it is), only to learn that in the eyes of employees, it is not?

It is far better to obtain this information directly from the employee through surveys, internal group discussions or other methods. Management's viewpoint may be tinted by rose-colored glasses.

Consider the following example. It is possible to embed an item such as "actively supports professional development throughout the organization" within an existing employee survey or as a separate exercise. Any relationship with a stakeholder needs to reflect the specifics of the industry in which the assessment is occurring.

For example, within a health system a handoff of a patient from one level of care to another is a critical juncture in patient care. Moving from a hospital to a rehabilitation facility is an example of this. Despite manuals developed for the process and training, employees may not feel their needs and concerns are being respected in the process.

Exploring perceptions of employees around a statement such as "providers work collaboratively to coordinate care" will yield greater clarity on the question, and enable adjustment for this stakeholder group as needed.

Community is another stakeholder example. The Business Roundtable statement is:

"*Supporting the communities in which we work.* We respect the people in our communities and protect the environment by embracing sustainable practices across our businesses."

"Respect" is a relative term and can be difficult to assess. In the healthcare example above, respecting the community may be best measured by assessing the degree to which community leaders (or the community itself) believe the health system is an active member of the community, is a good employer and tends to the community's specific health needs. This might be reflected in a survey statement such as "uses organizational resources and capital to support community initiatives."

Executives at a large health system may claim the community is simply unaware of its efforts on the community's behalf (and this may be true). Yet perception is reality, and it guides stakeholder reactions.

A company that is not seen to support the community may find it difficult to expand its facilities or attract the best employees. This can have very real consequences for business sustainability, but can be avoided with a deeper, objective understanding of the stakeholders' viewpoint.

Do employees, customers, suppliers and the community believe the executive management team has the talent and commitment to deliver on stakeholder needs?

Finally, while not explicit in the Business Roundtable statement, we recommend an additional focus on stakeholder's *perceptions* of management. That is, whether employees, customers, suppliers and the community believe the executive management team has the talent and commitment to deliver on stakeholder needs.

Essentially this is a 360° view on the purpose of a corporation. If stakeholders do not believe management can achieve the task, additional work may be needed.

In summary, there are three rules the board should follow when it comes to assessing the viewpoint of stakeholders on whether their needs are being met:

- Insist that insight comes directly from the stakeholders—do not rely on management's perception. An internal audit style approach can be part of the process, but is insufficient on its own.
- Test whether the questions being asked of stakeholders are fit for purpose and provide clear direction on demonstrable behaviors/corporate actions needed to maintain or change.
- Seek the involvement of market insight professionals, either within the company or through a trusted external partner.

☐ ***Analysis and solution identification.*** Several questions guide this process:

- What have we learned about each stakeholder group's perception of whether the corporation meets its obligations and the needs of the stakeholders?
- How consistent (or not) are these learnings with the board's perceptions of performance?
- Which areas appear to be our biggest gaps from the stakeholders' perspective (Within a stakeholder group? Across stakeholder groups)?
- What is the relative business or reputational impact of each of the gaps or risks identified? Which should be tackled first?
- Are there areas of strength identified that represent opportunities? How can these opportunities be leveraged? Do any represent competitive advantages?

This part of the effort is a valuable opportunity to engage diverse, cross-functional teams to weigh the stakeholder insights and shape the dialogue for moving corporate actions forward. This dialogue identifies changes that need to occur within the organization.

The challenge for this stage is one of prioritization. A relatively simple two-phased approach for sorting through ideas and actions is useful. The first filter is prioritization based on *ease of accomplishing the change*. There will most certainly be an "aha" moment when you realize that a simple change can have a big impact. Call this "low hanging fruit."

These actions should be considered for immediate implementation. Changes requiring greater complexity or more significant change within the company need to be viewed through a second filter—*potential cost of the change*. This involves the strategic planning process—where change fits relative to other priorities established by the executive team and the board.

Ultimately, the actions determined should be those that will have the greatest impact on changing corporate focus, behaviors and/or structure in a direction that supports the redefinition of the purpose of the corporation, while enhancing long-term performance.

This prioritization provides a valuable opportunity to identify and focus on feedback from stakeholders. Anticipated change in the industry that represents potential risk to the corporation can be identified. Stakeholders often have a unique vantage point from which they can see storm clouds on the horizon that will hit the corporation or the industry broadly. Stakeholders also have a view of gaps in the market. These are opportunities on which the corporation may capitalize, and in the process strengthen its relationship with a stakeholder group.

In summary, the board's responsibilities during this phase include:

□ Guide an honest assessment of the corporation's performance with its stakeholders.

□ Ensure the process takes advantage of low hanging fruit and considers the cost implications of decisions.

□ Integrate longer-term decisions into the strategic planning process to balance investment needs with other long-term considerations.

□ Bring a long-term perspective to the discussion. Which changes in the industry represent threats that must be mitigated, or opportunities for the corporation to capitalize on?

□ ***Framing the change: Communicating strategic decisions and change strategy.*** Pull-through is now required to ensure success. Once consensus is reached about changes needed to meet stakeholder demands, these must be crystallized into clear actions with identified accountabilities. The board should work with senior management to ensure the case for change is clear, compelling and actionable.

Communication to the organization should focus on a few specific elements, and needs to be unambiguous in content:

□ Behaviors within the company that need to change and demonstrated alignment with the corporation's expanded stakeholder perspective.

□ The expected business impact of changing the behaviors

□ How the change will be accomplished within the corporation and how it will be measured.

□ The role each employee can play in the change process.

Changes to be implemented may include aspects of culture, roles, training, rewards, process and technology. The board will understand if its efforts have been successful as it monitors the corporation's performance with major stakeholders and measures progress. Stakeholder needs are dynamic and will evolve.

Redefining companies' purpose to address all stakeholders rather than only shareholders is well-timed. Business success is the result of more than just profit. Sustainable success is the result of getting it right with a corporation's stakeholders. If accomplished, the result will be a deep reservoir of stakeholder trust and support, with increased company value and shareholders who reap the benefit. ■

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