

Dangerous liaisons

How businesses are learning to work with their new stakeholders

A report from the Economist Intelligence Unit



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About this research

*D*angerous Liaisons: How businesses are learning to work with their new stakeholders is an Economist Intelligence Unit report, sponsored by Verizon.

In researching this report, we conducted a major survey of 660 executives in March and April 2010. Of the survey respondents, 31% were based in Asia, 28% in North America, and 28% in Western Europe. The rest were based in Latin America, Eastern Europe, and the Middle East and Africa. The companies represented were spread across 20 different sectors; 50% had global revenues between \$500m and \$1bn, and 25% had global revenues above \$10bn; and 54% of survey respondents were C-level executives.

The report also draws upon 17 in-depth interviews with company executives, academics and other experts in the field.

The following individuals were interviewed:

- Gib Bulloch, director, Accenture Development Partnerships
- Bob Corcoran, vice-president of corporate citizenship, GE
- Chris Deri, head of corporate social responsibility and sustainability, Edelman
- Bennett Freeman, senior-vice president for social research and policy, Calvert Group
- Mark Hanny, vice-president, academic initiatives, IBM
- Andrew Kakabadse, professor of international management development, Cranfield School of Management
- Georg Kell, executive director, United Nations Global Compact
- Gavin Laws, head of corporate affairs, Standard Chartered Bank
- Kevin Money, director, John Madejski Centre for Reputation, Henley Business School
- Giles Nelson, chief technology strategist, Progress Software
- Pamela Passman, corporate vice-president, global corporate affairs, Microsoft
- Gwen Ruta, director of corporate partnerships, Environmental Defense Fund



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- Jeff Seabright, head of environment and water resources, Coca-Cola
- George Smith, director, SYS Consulting
- Ros Tennyson, director, Partnering Initiative
- Giles Whattam, head of corporate research, University of East Anglia
- Fokko Wientjes, director of sustainability, DSM

The report was written by Sarah Murray, with additional reporting by Conrad Heine. Paul Lewis edited the report. We would like to thank all those who participated in the survey and the interviewees for their time and insight. The Economist Intelligence Unit bears sole responsibility for the content of this report.



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Executive summary

The concept of company “stakeholder” is not new. For over two decades, companies have been thinking about, and even taking responsibility for, the concerns of a wider circle of interested groups than just management and shareholders. Traditionally, these include employees, customers and suppliers. But in recent years, a new set of “non-traditional” stakeholders has emerged, some of which are pursuing a bigger, societal or even global agenda that has forced companies to take a broader view of the impact of their operations. Alongside this has been the proliferation of the Internet and the concomitant popularity of social networking sites and blogs, which have altered the way in which companies now deal with both old and new stakeholders.

How should companies respond to these new challenges? For many, the first concern is to protect reputation and brand, but a growing group of pioneering corporations are beginning to see direct commercial advantage from taking a more strategic approach to their new stakeholders, despite the risks. It may be that in the longer term there is no sustainable alternative to taking the bigger view.

These new, non-traditional, stakeholders vary widely in nature and goals. They range from universities working on joint research projects to anti-corporate non-governmental organisations (NGOs) such as environmental or human rights activists protesting against perceived corporate abuses. Business relationships with the latter have until recently been largely adversarial rather than collaborative in nature. Today much of the hostility has receded as companies and civic groups increasingly recognise the productive value of collaboration, especially given that so many big social or environmental causes can only be solved through a multi-sectoral approach.

Equally important is the realisation that in an Internet world companies no longer control the “message” about their external affairs. They have had to be more creative in the way they engage outside parties, not least through online communities. Greater openness, if handled smartly, while exposing internal vulnerabilities, may have bigger commercial advantages—product feedback from customers and early warning of potential trouble from pressure groups, to name but two. The key to success is in managing this precarious balancing act, and is the main thrust of this study. Getting that balance right is no easy task. Cultural differences, to say nothing of divergent goals, make for a fraught relationship. But as this report suggests, progress is being made on all sides.

The key findings of this report are as follows:



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Companies must tread a line between partnership and confrontation. Companies and new stakeholder groups increasingly see a future in collaboration rather than confrontation. But differences remain, especially regarding working culture and goals. Thus companies must be prepared to work closely with these groups on some initiatives, while facing attacks by those same groups over perceived abuses in other areas of operations.

Firms most fear damage to their reputation... Some 43%, the largest group of our survey respondents, see reputation damage as their main risk in dealing with online communities, and 38% say the same in reference to NGOs and civic groups. But reputation enhancement and brand building are seen by a plurality of respondents to be the main benefits of engaging with all of these groups. This is also the case when dealing with online communities. Partly as a consequence, management of these stakeholder relationships is often left to PR and marketing departments, without oversight at senior management or board level.

...but positive stakeholder experiences are helping to change the outlook. One-half of our survey respondents say that a change in sustainability strategy is a likely outcome of their relationships with non-traditional stakeholders. These have brought benefits in areas such as supporting regulatory compliance, managing suppliers, entering new markets and recruitment.

Control of information is hard to relinquish... The proliferation of the Internet has made it harder for companies to control the corporate message. "Everything will get out there in the end," says one expert interviewed for the report. The biggest challenge for companies is to allow information to flow freely, as demanded by online channels, often against the objections of legal and marketing departments. In any case, employees, well treated, can be the company's best ambassadors.

... but the future is with online communities. One-third (33%) of our respondents, the largest group in the survey, say that online communities will become their most important non-traditional

Seven steps to put new stakeholder relationships on a secure footing:

- ✓ Take your time and be clear and specific about your aims before entering a stakeholder partnership, remembering that common objectives are not the same as complementary objectives.
- ✓ Draw up an exit strategy: not all partnerships need to, or should, last forever. Defining how and when both parties are going to move on is important to avoid an awkward break-up later.
- ✓ Keep channels of communication with stakeholders open and accessible, and monitor them regularly, so that differences and disputes can be addressed quickly. Many differences are about culture rather than substance.
- ✓ Be clear at the outset which intellectual property rights must be defended and which can be shared, and ensure there's a legal basis to enforce this.
- ✓ In the Internet age, companies cannot control public discussion about their operations; but they can respond quickly to criticism, or better, anticipate problems before they arise. Indeed, think about shifting management of stakeholder relations online.
- ✓ Even a limited internal training program for staff in the "dos and don'ts" of stakeholder management can go a long way in avoiding mishaps.
- ✓ If possible, incorporate the vision of your stakeholders into the corporate strategy and message; this may enthuse your staff as well as stakeholders.



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stakeholders in the next five years; and 42% believe that online social networks will be the most effective means of communicating with these groups.

Experience of handling new stakeholders is limited. Nearly three-quarters (74%) of survey respondents agree that the staff members in their company who most often deal with non-traditional stakeholders have a good understanding of the latter's interests and motivations. But for many, the process is alien: 36% complain of insufficient training in this area, and others confess that they do not know how to communicate effectively with such groups.

Intellectual property rights (IPR) protection poses big dilemmas. Opinion varies as to whether stakeholders should be required to sign non-disclosure agreements. While some firms worry that "the value can walk out the door every night", others feel obliged to trust their partners. The situation is more complicated when IPR derives from the collaboration itself, as the aim of partners is often to publicise innovations as much as possible and without concern for profit.



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Key points

- Reputation risk management was a driving force in the early corporate-NGO partnerships; this concern remains, but many firms now see direct commercial benefits from such partnerships.
- Firms are increasingly turning to web communities and universities to help inspire, design and launch new products; indeed, this a main reason why firms interact with online communities.

Part one: Getting engaged

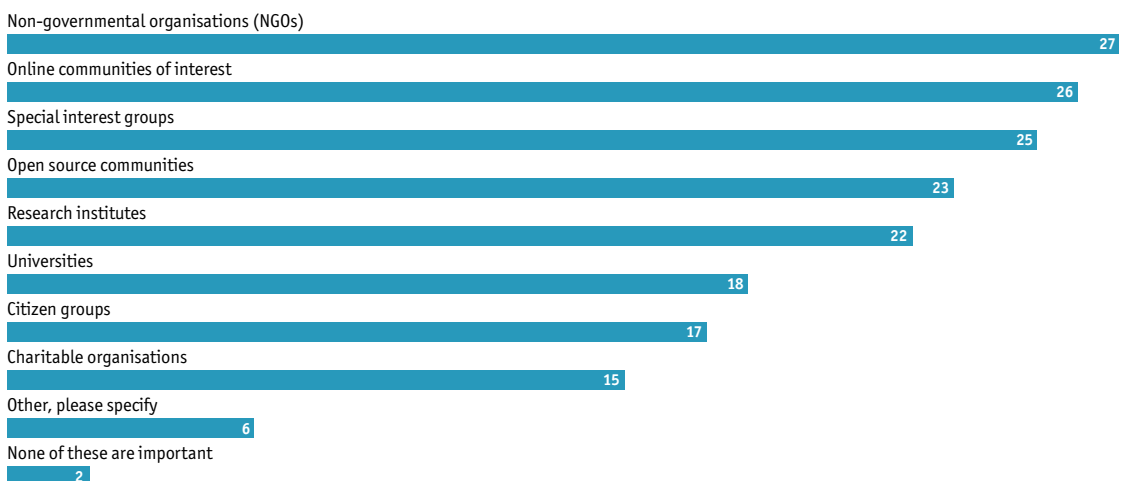
From adversaries to partners

In 2001, responding to an offer by Nike to personalise customers' trainers, a student activist, Jonah Peretti, asked for his shoes to be customised with the word "sweatshop". When Nike refused, Mr Peretti e-mailed the company requesting a photograph of the 10-year-old Vietnamese girl who made the shoes. He posted his exchanges with the company online.

The proliferation of the Internet meant that such exchanges and the long-standing enmity between the corporate sector and activists, non-governmental organisations (NGOs) and civic groups could be played out on a very public global stage. Anti-sweatshop activists attacked big brands such as Gap, Nike and Reebok for their poor labour practices, while companies such as Shell and BP were accused of being party to human rights abuses because of the use of local military forces to defend their mining and oil operations. Anti-corporate sentiment reached its most dramatic moment in 2002, when at a G8 meeting in Genoa, Italy, violent battles between police and demonstrators broke out on the streets, leaving one activist dead.

Since then, the relationship between the corporate world and NGOs or activist stakeholders has

Interaction with which of the following groups – if any – is most important to your business today? Select up to two.
(% respondents)





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“Twenty years ago, these relationships were seen as guerrilla warfare. Now they’ve moved into a more mature phase.”

Bennett Freeman, senior-vice president for social research and policy, Calvert Group

been transformed as social and private sectors began to see each other as partners rather than enemies. In our survey, almost four-fifths (78%) of respondents say that interaction with special interest groups, NGOs or citizen groups is considered important to their business. This rises to 90% among companies in Western Europe.

Within companies, much of the motivation for embracing broader interests comes from the corporate social responsibility (CSR) function. At the same time, as NGOs and citizen groups see the potential to advance their mission by influencing the strategies of large corporations, frosty relations with the business world have thawed considerably. “NGOs are waking up to the fact that there’s a latent socioeconomic impact business can have,” says Gib Bulloch, director of Accenture Development Partnerships, the non-profit consulting arm of Accenture, the consultancy.

In the process, unlikely alliances have been formed, with Oxfam, the World Wildlife Fund (WWF) and Greenpeace on the one side and the likes of Unilever, Kraft and Coca-Cola (see case study below) on the other. “Twenty years ago, these relationships were seen as guerrilla warfare,” says Bennett Freeman, senior-vice president for social research and policy at Calvert Group, a US-based socially responsible investment company. “Now they’ve moved into a more mature phase.”

Data are emerging to support this view. A forthcoming survey of 700 chief executives for the Global Compact, the United Nations’ voluntary corporate citizenship network, confirms the trend towards greater co-operation, according to Georg Kell, the Global Compact’s executive director. “Companies and stakeholders have moved from confrontation to co-operation,” he notes.

General Electric, for example, regularly meets relevant NGOs, environmental advocates and civil society groups to discuss GE’s role in addressing poverty, climate change or human rights. “Twenty years ago, we would have crossed the street to avoid talking to a human organisation or environmental group,” says Bob Corcoran, vice-president of corporate citizenship at GE. “But in the past five years, we’ve had a dozen or more formal stakeholder engagement sessions that are not shareholder or investment meetings.”

Similarly, in financial services, “ten years ago, our engagement would only have been to refute something or create a discussion,” says Gavin Laws, head of corporate affairs at Standard Chartered Bank. “Now we have a number of open working relationships in the community sector.”

This is not to say that companies and NGOs are now firm friends. In March, for example, Greenpeace published a report accusing Nestlé, a food group, of using palm oil from destroyed Indonesian rainforests and peat lands in some of its products, which Greenpeace says is accelerating climate change and contributing to the extinction of endangered orangutans.

Some activist organisations, while working with large multinationals on some initiatives, continue to campaign against those same companies for what they see as environmental or social abuses in other parts of their operations. Greenpeace, for example, worked with Unilever on the introduction of Greenfreeze—an environmentally friendly technology for refrigerators—while continuing to attack the company on other issues, such as mercury pollution from one of its production sites in India.

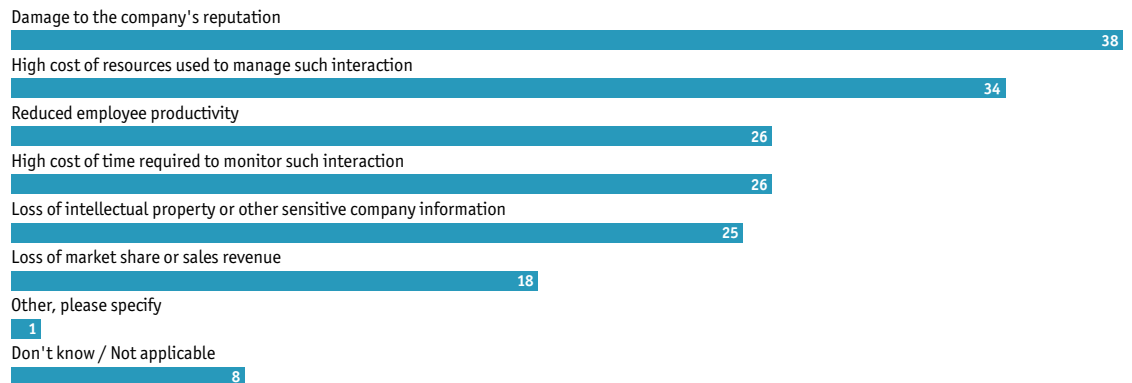
“Organisations such as Oxfam are still radical in the sense that they challenge business and they also work with businesses,” says Ros Tennyson, director of the Partnering Initiative, which runs training programmes and workshops on brokering cross-sector partnerships and how to create effective alliances between business and other stakeholders. “One department advocates and



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Generally speaking, what are the main risks for companies when interacting with civic groups (eg, non-governmental organisations, charities, other public interest groups)? Select up to two.
(% respondents)



criticises them and another works with them to make a difference.”

Some companies see this friend-and-foe phenomenon as a necessary part of the package. “Whether you agree with them or not, they are a loud voice in many of the places where we operate,” says Mr Laws of Standard Chartered. Moreover, savvy companies recognise that if they are to achieve any credibility for their progress on issues such as human rights and environmental sustainability, they can only do so by partnering with organisations that remain uncompromising in their scrutiny of the corporate sector.

Yet despite the progress, executives responding to our survey remain wary of the potential for confrontation—the largest group (38%) see the main risk of interaction as damage to the company’s reputation. “Offending them can cause major issues in any business,” said one executive. “And in the past couple of months, we’ve witnessed the resurgence of more aggressive politically motivated groups in some countries that bring back the agenda of confrontation,” says Mr Kell of the Global Compact. “So this has not gone forever.”

From protecting reputations to building a future

Reputation risk management drove many of the early corporate-NGO partnerships, and this concern continues to hold sway for many firms. When pointing to the primary benefits from non-traditional stakeholder relationships, the largest proportion of respondents (43%) cite reputation, while the next largest group (27%) point to brand building.

Respondents also highlight the ability to improve their brand image as a chief lesson learned from working with non-traditional stakeholders. One respondent says that these relationships offered “good opportunities for marketing and product launches”; another claims that better understanding of social issues had a “direct bearing on the role of marketing”.

Nike, a leading sports shoes producer, has seen both the positive and negative sides. Having been hard hit by campaigns against conditions in its supplier factories, Nike is now lauded for its efforts to improve conditions, after working closely with NGOs and development agencies, and the firm is widely regarded as a pioneer in managing stakeholder relations.

The benefits from well-managed stakeholder relationships go beyond reputation preservation.



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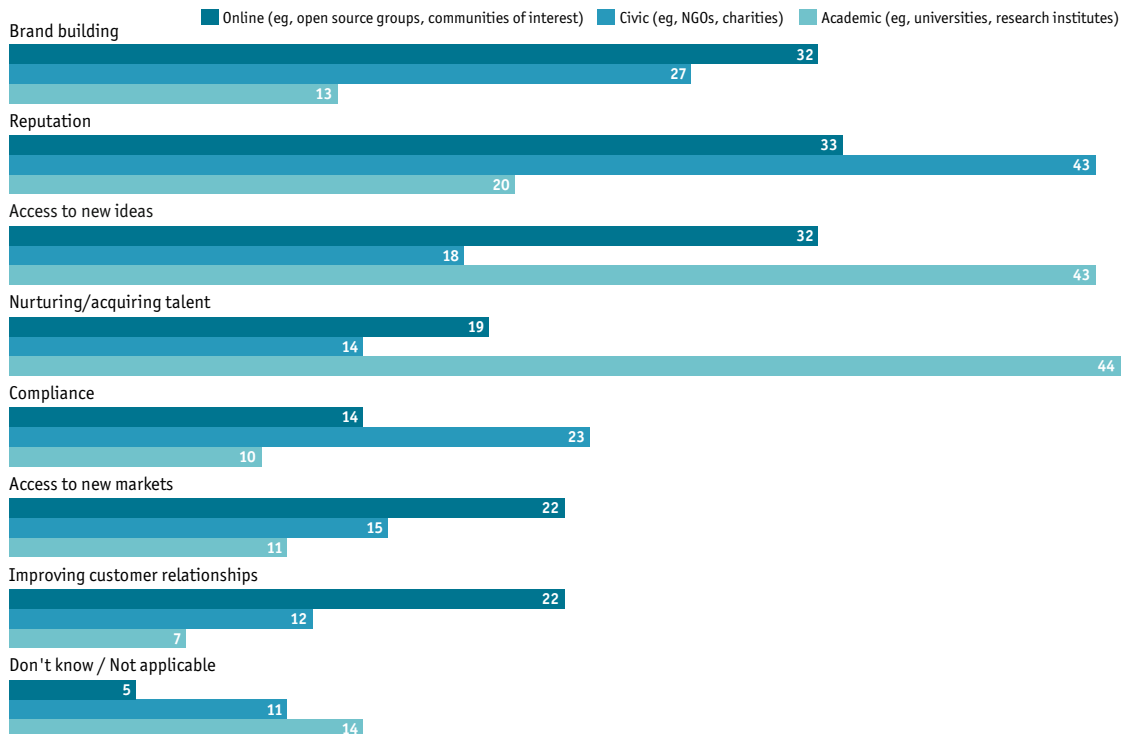
For one, getting stakeholders onside can secure what is referred to as a “licence to operate”, a particularly pertinent issue for mining and oil companies that face popular resentment, labour unrest and even physical attacks in less inviting markets. Exxon Mobil works closely with UN agencies and NGOs such as NetsforLife to combat malaria, not only to secure host country goodwill but also to reduce illness-related absenteeism among its staff.

Concerns over climate change and the threats to natural resources such as water have spurred similar corporate-stakeholder benefits. These not only bolster a company’s reputation for environmental responsibility, but they also address tangible commercial risks. These include regulatory matters such as compliance with the European Union’s Waste Electrical and Electronic Equipment Directive, or the Restriction of Hazardous Substances Directive. Since companies may lack in-house environmental expertise, NGOs and special interest groups can assist. It is noteworthy that a sizeable 23% of our survey respondents say that compliance is the main benefit of relationships with NGOs, charities and civic groups.

There is other potentially fertile ground for co-operation. A threat to companies’ supply chains posed by the potential loss or degradation of natural resources makes it worth partnering with potentially hostile, environmental groups working on water conservation projects. One example is DSM, a Dutch life sciences and materials sciences group, and the International Union for Conservation of Nature (IUCN). “They are explorative relationships. They are designed to deepen our knowledge and help develop solutions,” explains Fokko Wientjes, DSM’s director of sustainability. “That’s what we have with the IUCN regarding ecosystem services and bio-diversity, because it’s an issue we see

When interacting with each of the following categories of “non-traditional stakeholder”, what are the primary benefits your company seeks? Select up to two in each column.

(% respondents)





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“These organisations know the local environment far better than we do and they have local relationships that we might not have.”

Pamela Passman, corporate vice-president, global corporate affairs, Microsoft

emerging but for which we don’t yet have a full understanding.” Indeed, adds Mr Wientjes, “it could be a potential risk, so we will have an advantage if we understand the issue better than our competitors.”

Pamela Passman, corporate vice-president, global corporate affairs at Microsoft, adds: “These organisations know the local environment far better than we do and they have local relationships that we might not have.” This additional market insight helps Unilever, a global consumer goods company that works with Oxfam in Azerbaijan and Tanzania, to link smallholder farmers into Unilever’s global supply chain.

There is evidence too that partnerships help recruitment and retention of key staff, as a younger generation of job seekers is drawn to employers that are helping to solve global problems. “The bar is constantly being raised as to how you attract top talent—talent that’s less interested in making a fortune and more interested in making a difference,” says Mr Bulloch of Accenture. At Standard Chartered, Mr Laws notes that “an overwhelming majority [of graduate recruits] in the first few words of the survey talk about wanting to join a company that shares their values”.

These experiences suggest that a major rethink by companies of their stakeholder strategy could be in the offing. Indeed, one-half of survey respondents cite a change in sustainability strategy as a highly likely or likely outcome of their relationships with non-traditional stakeholders.

From face-to face to online meetings

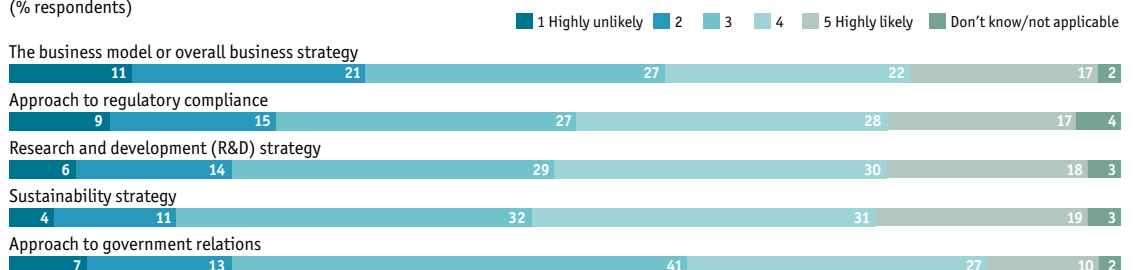
While relations between companies and activist stakeholders are undergoing radical change in sentiment, no less dramatic has been the change in the means of interaction. Blogs, video, twitter and various social networking sites now allow consumers and activists to broadcast their concerns or give vent to their anger relatively easily, thereby severely undermining a company’s traditional command-and-control approach to corporate messaging and reputation management. Kevin Money, director of the John Madejski Centre for Reputation at Henley Business School, stresses the speed with which information can be disseminated via the Internet, breaking down the boundaries between internal and external communication. “Everything will get out there in the end,” he says. “For this reason, you need to be completely honest and not try to manipulate information or put a spin on things.”

Yet viewed positively, the Internet can give firms a head start in addressing social and environmental issues. “Previously, we might not have known a certain NGO was thinking about taking a position on a certain issue until after they’d published it,” says Mr Laws, “by which time it would be a bit late to get a debate going.”

How likely is it that interaction with "non-traditional stakeholders" will lead to significant changes in the following aspects of your company's activity?

Rate on a scale of 1 to 5, where 1=Highly unlikely and 5=Highly likely.

(% respondents)





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CASE STUDY Coca-Cola: Troubled waters

A couple of decades ago, it might have been surprising to find a drinks company—one whose entire business is based on consumption of water—in a partnership with a major environmental NGO, whose mission includes protecting natural resources. However, in 2007, Coca-Cola and the World Wildlife Fund (WWF) embarked on a multi-year partnership to work on water conservation.

Coca-Cola has been at the receiving end of NGO and activist ire over its water use. In India, for example, it has been accused of using too much water in its bottling plants, leaving villagers in drought-prone areas facing water shortages.

For Coke, engaging with environmental NGOs has a reputation management element to it. However, the drinks company has a far more powerful reason for engaging with environmental groups: its very business model depends on the sustainability of fresh water supplies.

For this reason, the mission of the partnership with WWF is not

only focusing on conserving major freshwater river basins but also accelerating water conservation measures in Coke's own operations.

Working with WWF, the company has set water efficiency targets, to be met by a combination of measures, such as recycling, use of rainwater harvesting and increased operational efficiencies.

Some have accused the company of environmental "window-dressing". However, Coke's alliance with WWF is recognition of the fact that water conservation needs to be fully integrated into its business and that, in order to do so, it needs help as it works to manage its water usage and engage more broadly in the sustainability of global supplies of freshwater.

"A lot of new capability had to be built for us to think more holistically about what we can do to help conserve watersheds," explains Jeff Seabright, head of environment and water resources at Coca-Cola. "Sustainable water management requires us to understand local needs and engage directly with local communities. Our work with WWF has helped us to improve the way we manage water in our bottling plants, throughout our supply chain as well as in local communities."

With growing recognition of the power of online communities—whether activists or customers—some companies have started their own online conversations. In 2006, for example, McDonald's launched Open for Discussion, a blog on which Bob Langert, the fast food chain's head of corporate responsibility, posts notes and responds to the social and environmental issues posted by consumers and activists.

"We're seeing more companies engaged in general in social media," confirms Chris Deri, head of corporate social responsibility and sustainability at Edelman, a global communications firm. "And it's not just brands engaging with consumers for targeted marketing purposes—we're seeing more corporate focussed blogging from companies such as Intel, GM, Adobe and Microsoft."

Other companies are engaging with online stakeholders by establishing Facebook pages and Twitter feeds. Ernst & Young and PricewaterhouseCoopers use Facebook and LinkedIn as a means of connecting with communities of potential recruits, particularly when targeting graduates.

A major issue, however, is whether companies adopt a strategic approach to stakeholder management in the new media. Andrew Kakabadse, professor of international management development at Cranfield School of Management, suggests that there is still little recognition of online communities at board level. "It could be that they aren't sufficiently aware of what's happening in the community and so can't assess their own risk well enough," he says. "It is seen as the public relations officer's responsibility to deal with the public image of the company with various stakeholders, but it doesn't drift to board level as a serious concern."

Even if there is senior-level acceptance of the need to engage with online communities, the challenge for companies is allowing information to flow freely, as demanded by online channels, against objections from legal and marketing departments that are used to controlling the company message. "There's always going to be an element of hedging compared to other participants in



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“Being a fluid, engaged part of online conversations becomes a little more difficult for companies.”

Chris Deri, head of corporate social responsibility and sustainability, Edelman

the conversation, because companies both from a legal and cultural perspective have to take quite seriously things that could be construed as commitments,” says Mr Deri of Edelman. “So being a fluid, engaged part of online conversations becomes a little more difficult for companies.”

Yet unless companies are prepared to communicate through online channels in the same way as their users, they risk looking outdated or out of place. One respondent to our survey cites the need for companies to “start to trust social networking tools”.

IBM has been more open than many. It published guidelines for staff interacting online, encouraging them to exchange ideas, engage in debate and innovate, while ensuring that staff do not publish proprietary or confidential information about partners, clients or suppliers without their permission. “IBM’s policy is not a compliance-centred culture of ‘no’ policy,” says Mr Deri. “It’s one that recognises that the world has changed and that its employees can be its best ambassadors—and this is underpinned fundamentally through trust in the employees.”

Our survey also reflects the rising importance to companies of online communities. Over one-quarter (26%) of our respondents say these are the most important non-traditional stakeholder group to deal with today, and this number rises to one-third (33%) when asked about their likely significance over the next five years. Moreover, these communities are increasingly being managed online: 54% of survey respondents do so through e-mail, and 45% cite the use of web-based collaboration tools. Some 42% say that online social networks will be the most effective means of communicating with non-traditional stakeholders over the next five years.

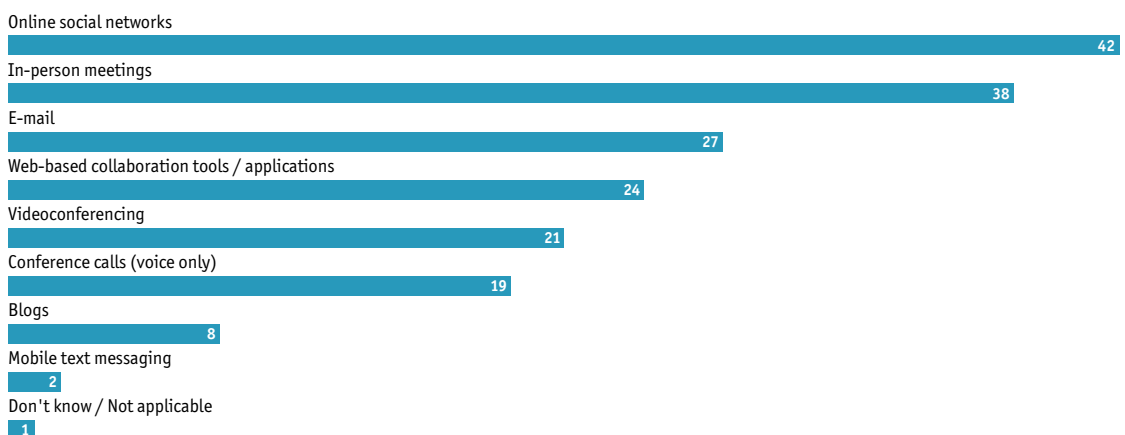
Nevertheless, traditional concerns persist, with around one-third of respondents seeing online activity primarily as a means to build the brand and defend the company’s reputation. Of those companies reporting negative experiences with non-traditional stakeholders, almost one-quarter (24%) of cases involved online communities, with harm done to the company’s brand and its sales, as well as the occurrence of unexpected costs.

From laboratory to open-source innovation

Companies can go beyond simple reputation management in their interaction with online

Which of the following do you think will be the most effective means of communicating with "non-traditional stakeholders" over the next five years? Select up to two.

(% respondents)





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communities. Firms, especially in the retailing sector, have been turning to web communities to help inspire, design and launch new products. “Online communities have led to new idea generation,” says one survey respondent, while another cites the need to “actively correspond with customers using new technologies”. The realisation that innovation does not need to stay within the factory gates has opened up a new dimension in stakeholder engagement—and importantly one that is not primarily fixated on reputation.

Famously, Procter & Gamble, a pioneer of open-source innovation, obtains a large proportion of its new ideas from outside the company. Innovations sourced this way include everything from disruptive technologies and design and packaging ideas to business processes and engineering solutions. Many of them reach the company through P&G’s Connect + Develop initiative. Managed through a website, Connect + Develop allows companies, individuals, developers and scientists to respond to briefs posted by P&G. While the company continues its own research and development activities, it uses this open innovation model to make improvements to products it is developing and reduce the time needed to take them to market.

The views of customers—gathered through chat rooms and social networking sites—are also sources of innovation, helping companies to learn more about what their customers want and so improve their products and come up with new ones. In 2007, for example, Dell launched IdeaStorm, a blog and website that allows customers to post their ideas and suggestions online, vote for the idea they consider most useful and join web-based forums to discuss their thoughts with other individual users of the site.

The site has not only given Dell a better sense of what the customer wants, it also taps into a rich seam of ideas generated by those customers, allowing Dell to tailor its technology more closely to the requirements of its market and launch products more quickly.

Lego, a toy company, even provides ways for its customers to devise new products. Its Mindstorms, a programmable robotics kit, allows people to design their own robots, generating ideas that can be fed back into Lego’s product line.

Starbucks is also asking customers for ideas. Its social networking site, MyStarbucksidea.com, asks them to “share your ideas, tell us what you think of other people’s ideas and join the discussion.” Recent ideas—whether for new types of drinks or recycling innovations—are posted on the home page where users can click on them to view the details, add comments and vote in favour or against.

Companies certainly see the benefits. Nearly one-third (32%) of survey respondents cite access to new ideas as being the main reason for interacting with open source groups and online communities of interest. In the retail sector, almost one-half (48%) of respondents cite the importance of open source communities to their business, double the overall response rate.

It is in pursuit of innovation that another important company stakeholder has arisen in recent years—universities. Their primary interaction is with companies’ R&D departments. The need to nurture talent and access new ideas are cited by nearly one-half of survey respondents (44% and 43% respectively), as the primary benefit of alliances with universities or research institutes. By contrast, only 13% consider it an issue of brand building and 20% a matter of reputation. But there are drawbacks too, from the cultural to the practical, such as ownership of intellectual property (see case study above).



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CASE STUDY **The ideas business**

Doing business with academia

A relationship between business and universities tends to be advantageous to both sides. However, it is a relationship that needs to be carefully managed, and requires each side to have a good understanding of the other's viewpoint and needs—with slightly more onus on business. It is not a case of the piper calling the tune.

Giles Nelson, chief technology strategist of Progress Software, one of whose products—complex event-processing software, known as Apama—has its origins in a model he developed while studying for his PhD at the UK's Cambridge University, points to the advantages. Students get a “real-world” framework to test their research, allowing more commercial ideas to be developed to the university's advantage. Companies get to benefit from academia's greater freedom to explore ideas with less time pressure than in business.

Progress has stayed linked with Cambridge, with an R&D office in the town, and with internships for “blue-sky” projects that do not justify the time of paid staff. Business, he cautions, must go into the relationship “with its eyes open”, especially in time-horizon terms. “Do not expect the same kind of deliverables” as in business, but “set parameters” too. The goals, he says, “should be in academic terms”. Academia should be seen as a source of thinking, and typically knows what is going on beyond the ivory tower.

In particular, it is important that IP issues are sorted out in advance. Giles Whattam, the marketing and systems manager at the UK's University of East Anglia (UEA) in Norwich, concurs. UEA has an office of technology transfer that takes care of such negotiations. Underlying IP is owned by UEA generally.

He also agrees with Mr Nelson on the market-testing advantages to collaboration, especially with British universities coming under increasing pressure to demonstrate the value of research and raise their own funding. UEA measures the enterprise/engagement

activities of its staff, which can have a bearing on promotion prospects.

UEA exploits knowledge gathered at its 23 schools through three “channels”—commercialisation of new knowledge, collaboration with industry (perhaps with government funding) and contractual—that is, research funded by industry to answer a particular problem. This model is, he says, quite well established in the UK—UEA has been consulting for five years, and earnings have gone from £400,000 to £2m per year over that time—although it is still relatively immature in comparison to the US. The university has a team of business development managers, who promote UEA as a “solution finder” in the local market in particular.

A perfect fit

UEA's consultancy project with Start-rite Shoes, a Norwich-based children's shoe company, demonstrates the advantages of the relationship. Start-rite's key selling point—that the shoes must fit properly, so be fitted in-store—posed problems when it wished to move into online sales. It turned to UEA to develop a tool enabling parents to find out their children's shoe size from home by uploading photographs of their feet taken from three different angles. This new tool, known as ‘Click ‘n Fit’, uses the images provided to calculate the correct shoe size and width fitting for each child, enabling parents to order online with confidence.

George Smith, director of SYS Consulting, who manages the project for UEA, says the university environment, combined with Start-rite's understanding of the academic approach, allowed several approaches to be tried before success was achieved. His firm manages the relationship, with UEA owning the underlying IP and able to use it elsewhere (except with direct competitors of Start-rite).

Mr Smith says academic-industry projects work best “when the board is behind them”. There are particular risks with start-ups, he notes, and UEA takes tight control from the start. He concurs with Messrs Nelson and Whattam on the advantages to both parties in the relationship, not least in the huge variation in work offered.



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Key points

- Treating a stakeholder as an equal partner makes a big difference in the performance of such alliances, and there is a need to be clear from the outset about mutual objectives.
- Although legally binding agreements on intellectual property are not always necessary or desirable, companies must take great care in agreeing what company information can be made public.

Part two: Stormy marriages

Cultural challenges

If companies and non-traditional stakeholders—particularly NGOs and civic groups—have spent the past couple of decades acquiring new respect for one another, they have also had to overcome the cultural clashes that arise from organisations with very different motivations and ways of working. “The rhythm and style of working of non-traditional stakeholders is quite different from that of business stakeholders,” says one survey respondent.

Yet most companies seem confident that they can handle these differences. Some 74% of survey respondents either agree or strongly agree that the staff members in their company who most often deal with non-traditional stakeholders have a good understanding of the latter’s interests and motivations.

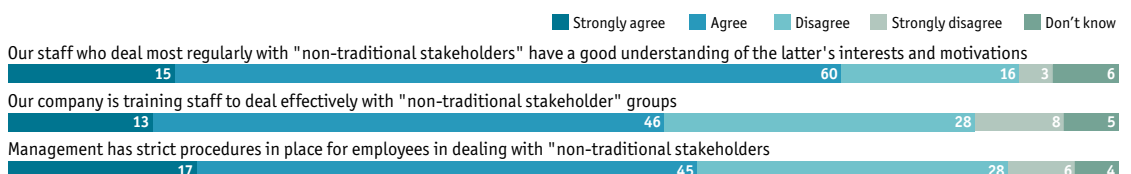
Ms Tennyson of Partnering Initiative believes that this common understanding is important. “The most successful partnerships have an overarching agreement that tries to enshrine shared goals,” she says. “That gives the partnership much more power when projects become difficult and personalities clash.”

Respondents to our survey agree. “Treating them as equal partners makes a significant difference in the quality of information exchanges,” says one, while another highlights the need to “be clear on mutual objectives”. As Ms Tennyson notes: “It’s taken a lot of getting it wrong for people to understand how important are things like equity and the need for facilitation. The process doesn’t happen by magic.”

Nevertheless, some 36% of survey respondents confess that their company is not training staff to deal effectively with non-traditional stakeholders, even though, as one respondent remarks, it is “still challenging to know how to reach out to different groups of people and know how to connect with

Do you agree or disagree with the following statements?

(% respondents)





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them". Another summarises the whole process, simply: "we don't know what we're doing."

Dividing up the intellectual assets

While dealing with the softer side of alliances is key, companies may be in for some hard bargaining when dealing with such issues as who should own the intellectual property arising from the collaboration, and how existing intellectual property rights (IPR) should be protected. One-quarter of respondents to our survey see risks to IPR when dealing with NGOs and civic groups, while nearly one-third (32%) believe there are such risks when interacting with online communities.

This is a particular concern when an external party has access to the company's data, ideas and technologies during the life of the partnership. "Intellectual property is a big issue," says Mr Bulloch. "At ADP we use the same safeguards that Accenture does. So pre-existing IP is ours and we licence back IP that we create together [with NGOs]."

Mr Corcoran of GE also advises caution when working with partners. Where valuable technologies or ideas are involved, companies such as GE will often enter non-disclosure agreements when working with non-traditional partners. "The value can walk out the door every night," he says. "Make sure that you have good control on some of the really critical competitive technology, particularly if it's sensitive."

The situation is different when the intellectual property is the result of the collaboration itself. In March 2010, the Carlyle Group, a private equity firm, launched EcoValuScreen, a new due diligence methodology designed to measure the environmental risks and opportunities in potential acquisitions. The methodology was the result of a joint project with Environmental Defense Fund (EDF), a US-based advocacy group.

Yet although the new methodology could provide competitive advantage for the Carlyle Group, its partnership agreement with EDF included making public much of their joint work. "How we came up with this methodology and the essential elements of how to do it if you are another private equity firm are on our website," says Gwen Ruta, director of EDF's Corporate Partnerships programme. "And that's not the way these guys normally do business." It is difficult to resist publication when the purpose of the alliances is to protect the environment, cure disease or address social problems.

Although legally binding agreements are not always necessary or even desirable, caution is advised. Even P&G takes great care when publicising its "open-source" wish list not to reveal too much to competitors about the company's innovation strategy in the process.

GE's stakeholder dialogues on issues such as human rights with organisations including Human Rights Watch and Oxfam have been open forums. "We didn't make them sign anything," says Mr Corcoran. "In some cases, we've asked that they follow Chatham House Rules [use of the information without attributing it to a particular company or individual] and in others we just ask they don't misrepresent anything discussed in the meetings."

It is important for companies to recognise that their partners not only want to alter behaviour of one company but an entire industry or even global change. Their aim from the outset may be to spread the information, not guard it. "Our goal is the ripple effect and industry transformation," says Ms Ruta. "So we need to make sure there's enough information available to allow another company to adopt the innovation."

For many companies, the situation simply is not clear cut. Mr Wientjes of Dutch life science group

"Our goal is the ripple effect and industry transformation. So we need to make sure there's enough information available to allow another company to adopt the innovation."

Gwen Ruta, director of corporate partnerships, Environmental Defense Fund



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CASE STUDY FedEx: No truck with emissions

With corporate fleets of trucks major generators of greenhouse gases, delivery and logistics companies are under pressure to cut their carbon dioxide emissions. It was for this reason that FedEx formed a partnership in 2000 with Environmental Defense Fund (EDF) to develop the first fleet of commercially viable hybrid trucks.

The aim was to produce a truck that performed as well, if not better, than a regular truck, but which would be more fuel-efficient, and emit fewer particular emissions (or soot) and fewer nitrogen oxide emissions. The result of the partnership was the launch of a new, greener truck with a hybrid system designed by Eaton Corporation of Cleveland, Ohio.

Eaton retained ownership of its designs, technology and engineering. However, the agreement drawn up between FedEx and EDF required that all information about the emissions reductions,

fuel efficiency, performance, and maintenance and operational requirements be made available to competitors.

"It was everything from letting other drivers ride in the trucks and getting other companies to talk to the FedEx fleet manager about how the trucks were working," says Gwen Ruta, director of EDF's Corporate Partnerships programme.

She believes that, in these types of joint developments, a balance can be struck as to what kind of information is made freely available and what is retained. So plenty of data were available on the increase in fuel efficiency of the hybrids over conventional trucks, but FedEx's average fleet fuel economy remained confidential.

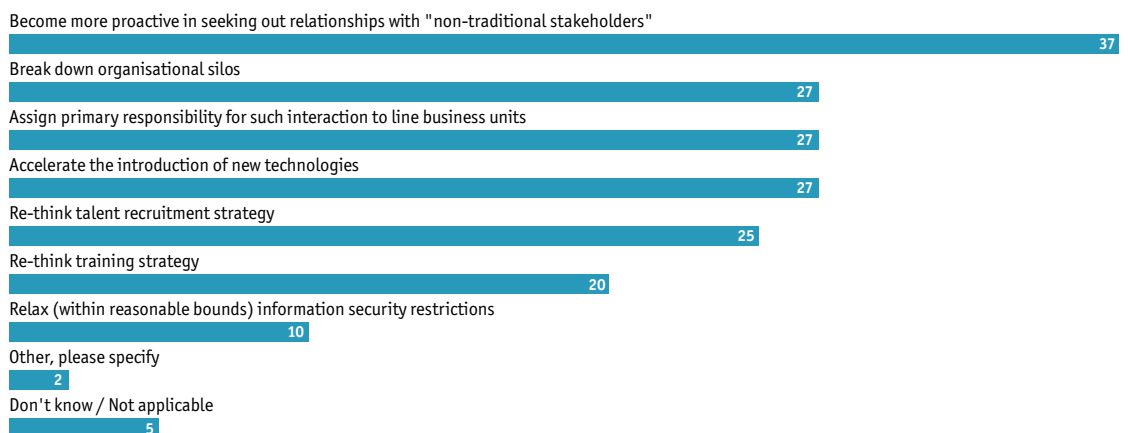
"And we talked about the pricing of the trucks relative to a conventional truck but we never said what FedEx actually pays for its trucks, because they considered that to be confidential business information," explains Mr Ruta. "So we're not giving other companies the secret recipe—we're giving them access to the cake."

DSM, which has been working with NGOs to develop fortified food products designed to improve nutrition in poor countries, confirms that the company enters non-disclosure agreements with partners on some projects. However, the company's decisions on when and when not to set up formal agreements may change as DSM's non-traditional partnerships broaden. "As we engage in more of these partnerships we will be learning what comes out of them," he says. "Sometimes you don't know what you don't know, so it could well be that our approach needs revision."

Strategic restructuring

Notwithstanding the centrality of guarding the reputation, firms that are taking a more strategic approach to stakeholder management are also reassessing, and even restructuring, company reporting lines and responsibilities. Two-thirds (66%) of survey respondents agree or strongly agree

What types of changes do you think your company most needs to make to be able to interact effectively with "non-traditional stakeholders"? Select up to two.
(% respondents)





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that their company would consider changing its organisational structure to work more efficiently with these stakeholders.

In addition, 27% are in favour of assigning responsibility for managing these alliances to specific business units, and the same proportion see it as necessary to break down organisational silos.

Over three-fifths (61%) of those surveyed agree or strongly agree that their company has procedures in place for executives dealing with these relationships; and 56% report regular meetings between executives and relevant line managers in order to assess and prioritise the knowledge gathered from working with non-traditional partners.

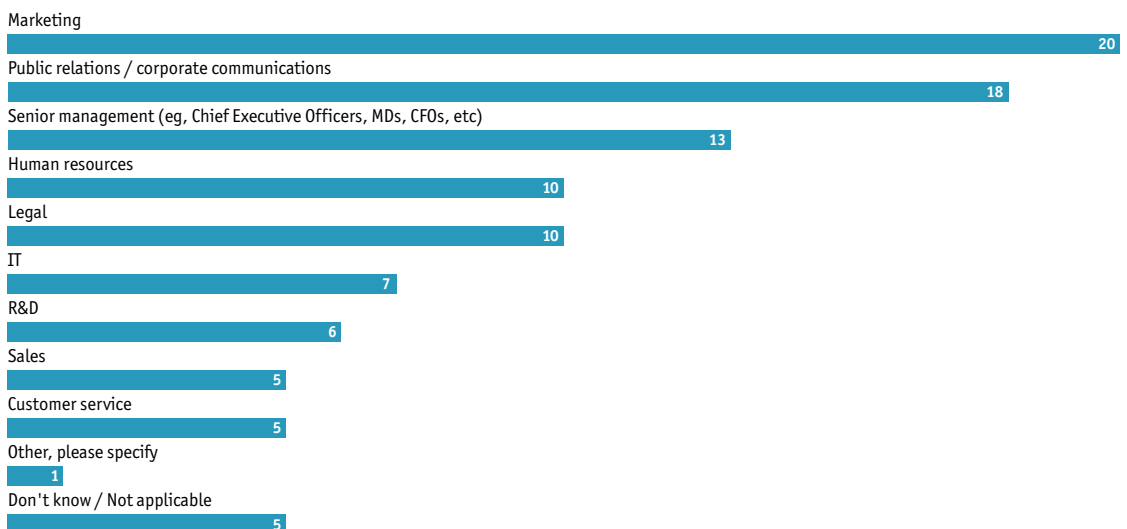
“My organisation is the central hub but we try to leverage people and efforts across the company,” says Ms Passman of Microsoft about stakeholder management. A similar strategy exists at GE, where the heads of initiatives such as Ecomagination are supported by the corporate citizenship group but will engage directly with governments, environmental groups, customers, and partners and suppliers. “It’s embedded in normal business,” says Mr Corcoran. “It’s putting that responsibility, authority and accountability into the business process and the operational mechanisms.”

When it comes to relationships with universities, our survey reflects this outlook too, with the largest proportion of respondents (31%) saying that the R&D department would be most likely to manage relations with academia.

Yet although companies such as GE and Microsoft are integrating management of non-traditional partnerships throughout their organisations, in our survey companies still appear to be treating this organisationally as a public relations matter, with the largest group of respondents (38% for online communities and the same proportion for civic groups) saying they would handle stakeholders through their marketing, PR and corporate communications departments. As one respondent points out: “Current organisation structures and role definitions are not built to maximise the value of such interactions.”

Which function/department is most likely to handle most of your company's interaction with online communities (eg, open source groups, communities of interest)?

(% respondents)



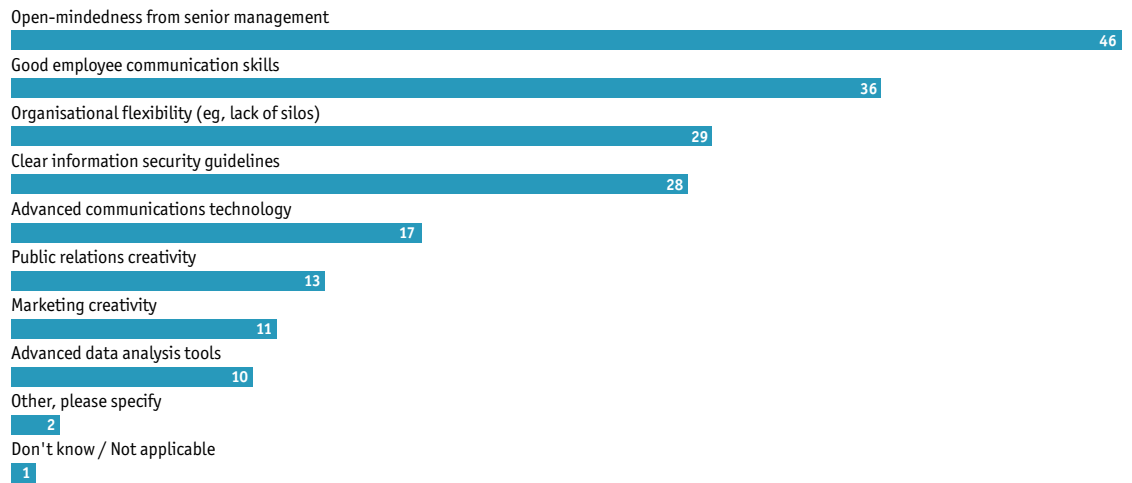


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Which of the following attributes do organisations most require to capitalise on interaction with "non-traditional stakeholders? Select up to two.

(% respondents)



Too often, boards only become interested in non-traditional stakeholders when a crisis arises. Professor Kakabadse, attributes this to short-term thinking. "There is a lack of attention given to, for example, online communities or political stakeholders, until it becomes a crisis because it doesn't quite fit with the model of meeting quarterly returns," he says.

Ultimately, the success of a non-traditional stakeholder strategy depends on the attitude at the top—the CEO or the board. "When you have superb leadership of the board, usually from the chair, that's when stakeholder management does take off," insists Professor Kakabadse, "because the reality is that reputation, risk and vulnerability are all part of a package of conversations about the role and purpose of the board."



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Conclusion

For many, partnerships with civic groups, NGOs, online communities and universities are often difficult to manage, prone to misunderstandings and lack clear business benefits. Caution is often the byword.

Yet this has not stopped many pioneering companies in this important area of business from developing mature partnerships. As our research reveals, business understands that successfully managed alliances, despite all the difficulties, provide not only a strong defence against external criticism, but also tremendous commercial opportunities. Quite simply, “you cannot ignore them,” says one survey respondent. Those opportunities include brand building, customer insights, government relations, market access, recruitment and regulatory compliance, to name but a few.

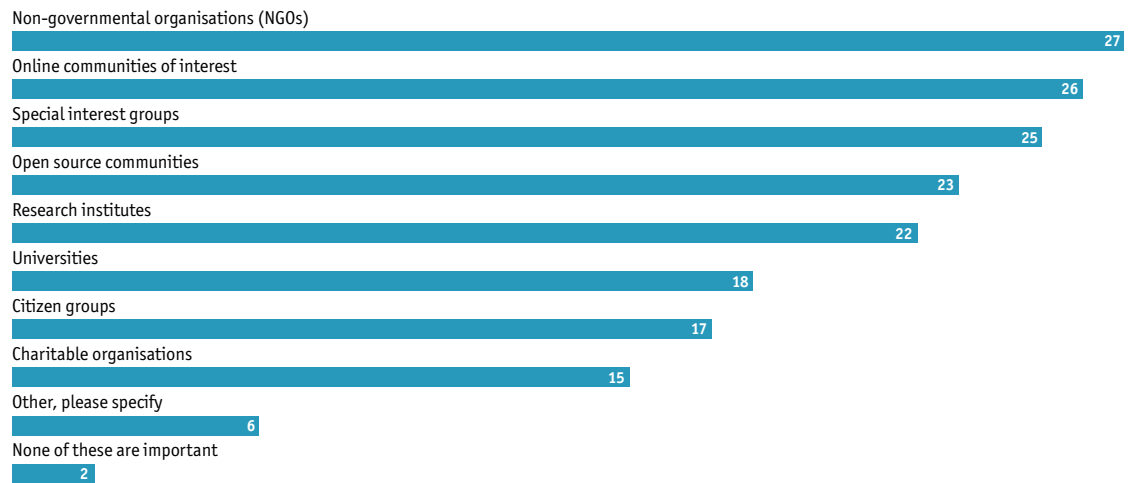
Such benefits do not come easily, however. Differences in culture, working methods and goals can make these relationships fraught, especially when it comes to information management. The Internet has not only created a host of online groups, but increasingly requires companies to manage these relationships online as well. This can require a leap of faith for firms, abandoning control of content and delivery of the corporate message. As some have found to their cost, blogs, social networking sites and Twitter can quickly take over. The best way for companies to deal with this loss of control, however, appears to be a combination of frankness, trust and engagement with new partners. The information will always get out, so it is best to be as honestly engaged in the discussions, and at as early a stage, as possible.

The growth of online interaction also holds lessons for business relations with universities and academic institutions. These have proved to be a vital source of commercially viable innovation, much of which arises from effective use of open source and online channels. As with NGO relations, issues of confidentiality and ownership of the intellectual property arising from such alliances must be thought through and resolved early on if such partnerships are to be successful.

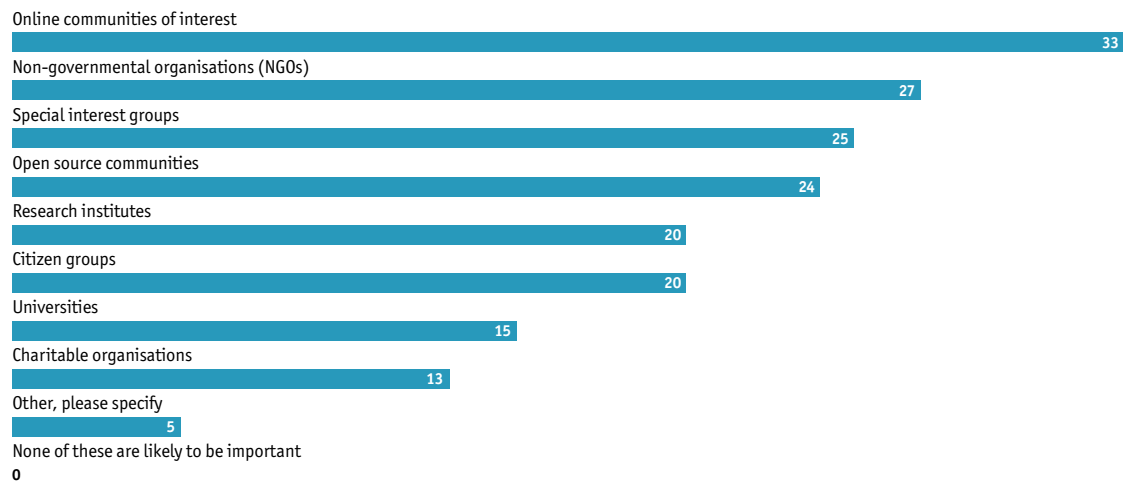
The evidence emerging from this research paper and survey is that companies are increasingly aware of the necessity and advantages of new stakeholder relationships, but are treading cautiously, with one eye focused on reputation risks and the other on the opportunities. Asked about the speed and effectiveness in building relationships with their “non-traditional” stakeholders, 45% of survey respondents say “slow and steady”, 17% say “actively and rapidly”, and 30% report “intermittent and ad hoc”. This is a fair assessment of the balance between caution and optimism.

Appendix: survey results

Interaction with which of the following groups – if any – is most important to your business today? Select up to two.
(% respondents)

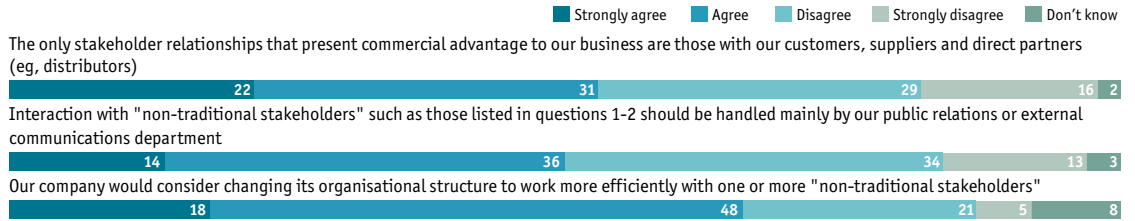


Interaction with which of the following groups – if any – is likely to be most important to your business in 5 years? Select up to two.
(% respondents)



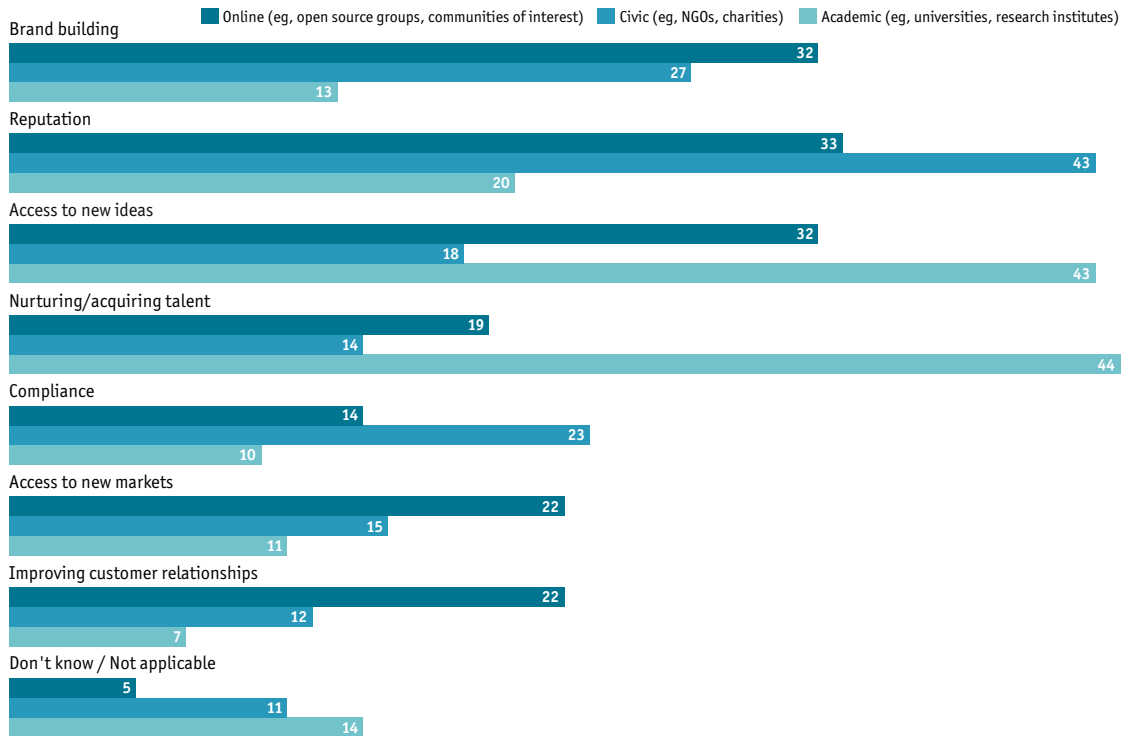
Do you agree or disagree with the following statements?

(% respondents)



When interacting with each of the following categories of "non-traditional stakeholder", what are the primary benefits your company seeks? Select up to two in each column.

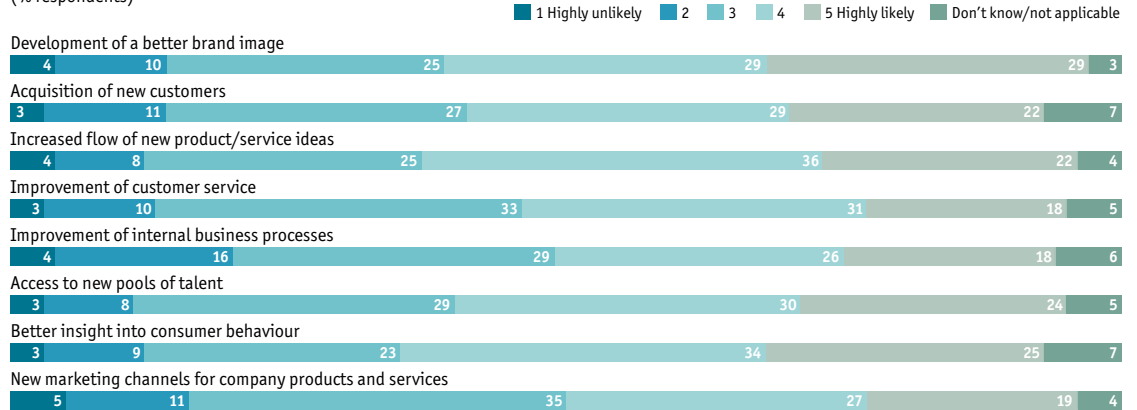
(% respondents)



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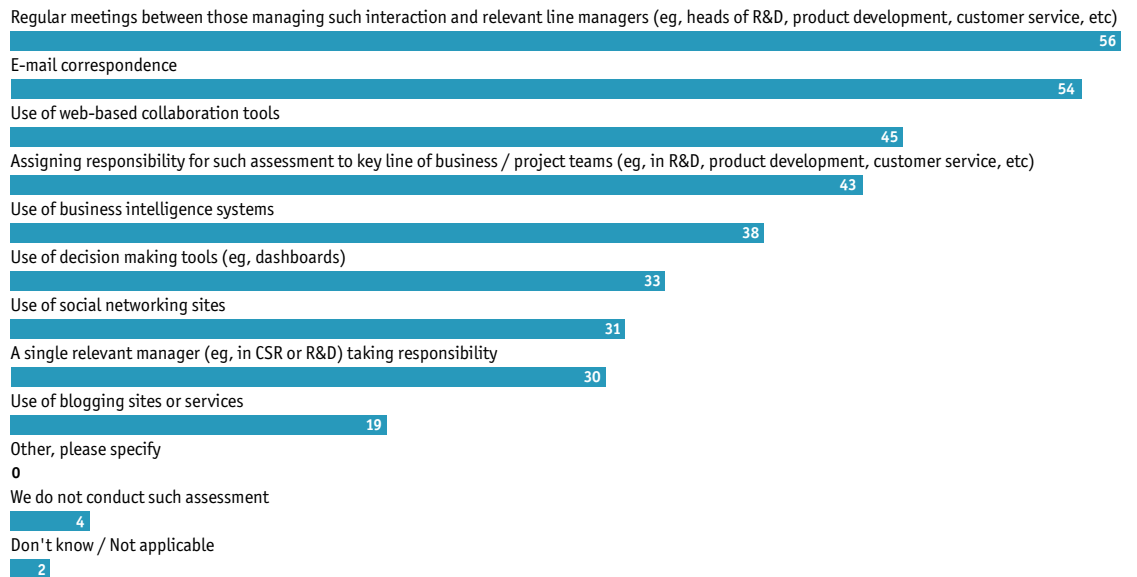
How likely is it that, in the next 5 years, your company will be able to reap the following types of direct commercial advantage from its interaction with "non-traditional stakeholders"?

Rate on a scale of 1 to 5, where 1=Highly unlikely and 5=Highly likely.
(% respondents)



Which of the following methods does your company use to assess and prioritise the knowledge gathered from interaction with "non-traditional stakeholders"? Select all that apply.

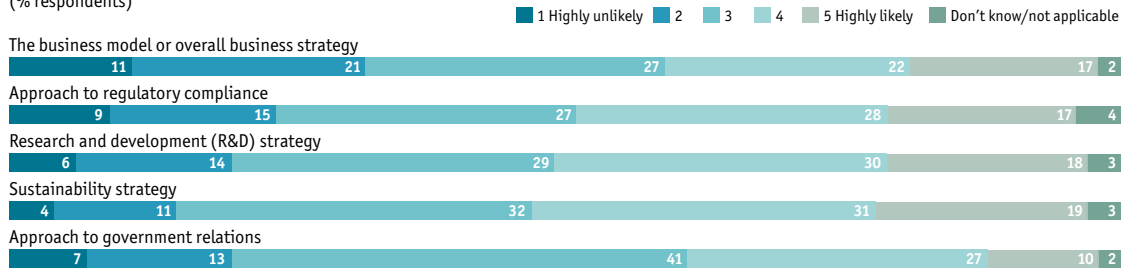
(% respondents)



How likely is it that interaction with "non-traditional stakeholders" will lead to significant changes in the following aspects of your company's activity?

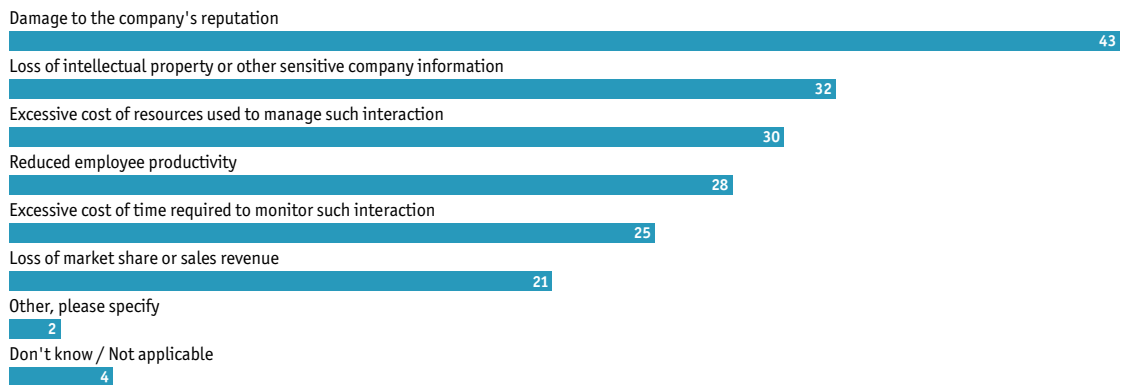
Rate on a scale of 1 to 5, where 1=Highly unlikely and 5=Highly likely.

(% respondents)



Generally speaking, what are the main risks for companies when interacting with online groups (eg, communities of interest, open source groups, other online communities)? Select up to two.

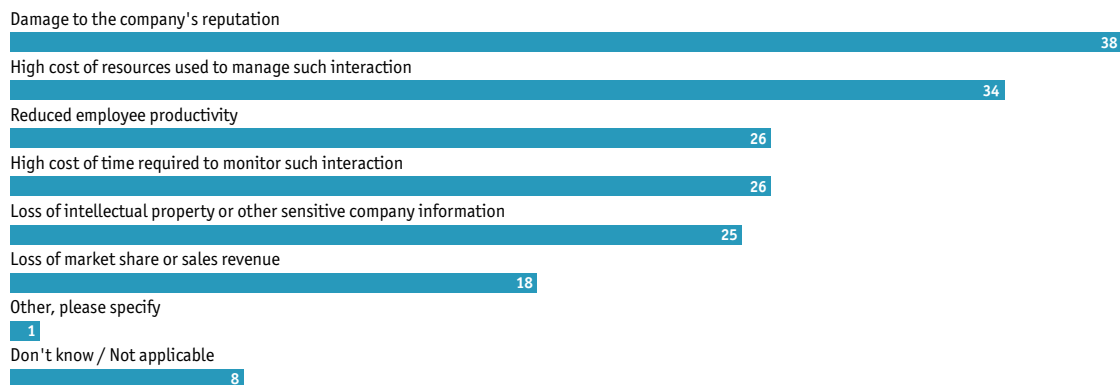
(% respondents)



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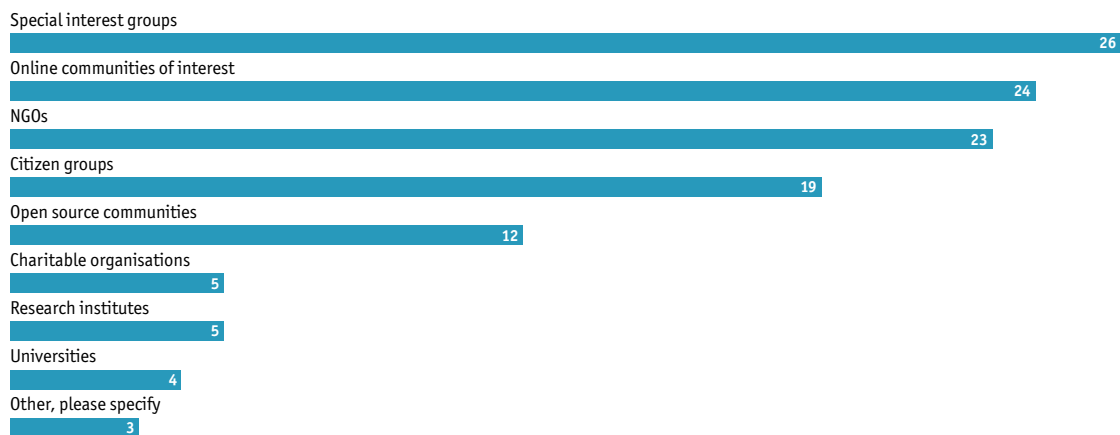
Generally speaking, what are the main risks for companies when interacting with civic groups (eg, non-governmental organisations, charities, other public interest groups)? Select up to two.
(% respondents)



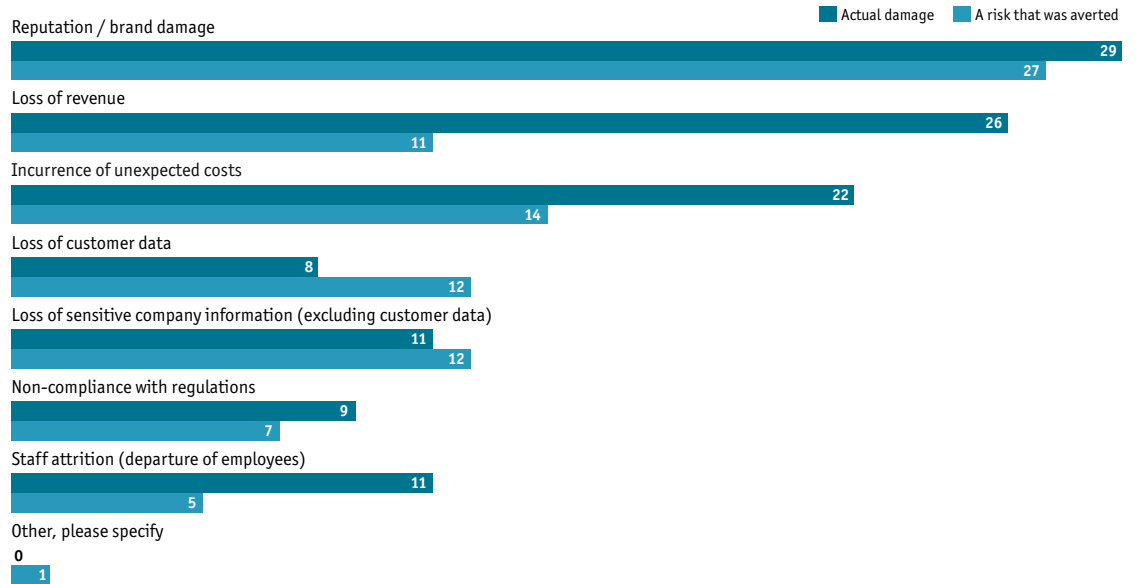
To the best of your knowledge, has your company had negative experiences in the past five years in dealing with a "non-traditional stakeholder" as described above?
(% respondents)



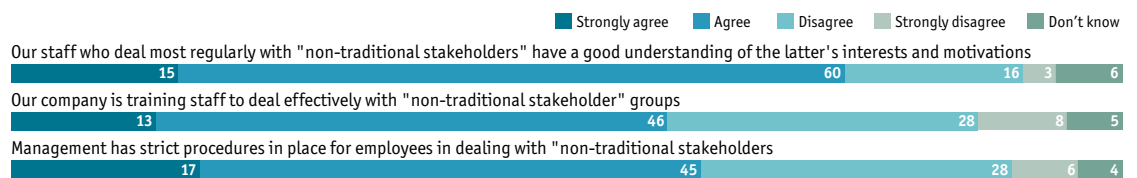
If you answered "yes" to the previous question, what type(s) of organisation did the experience occur with?
Select all that apply.
(% respondents)



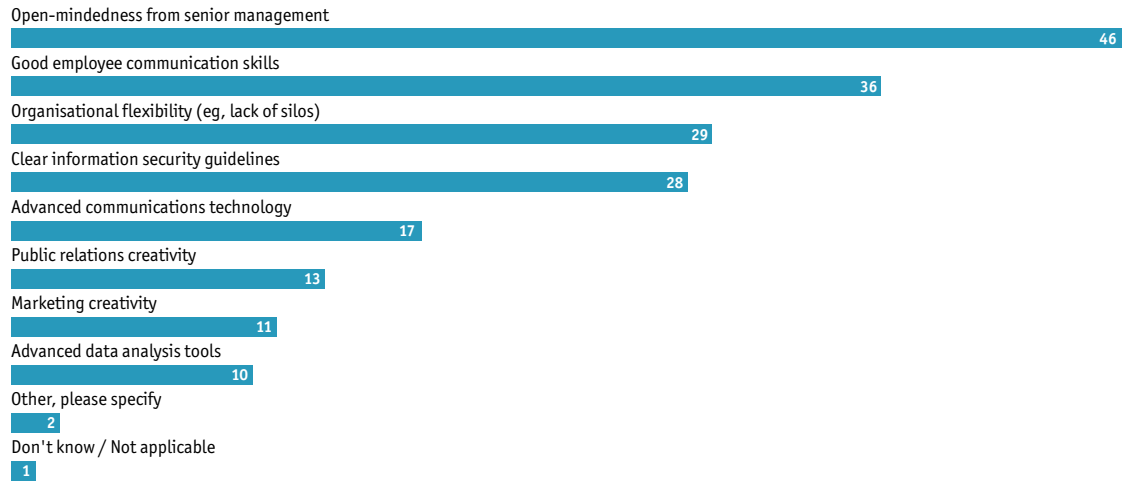
If you answered "yes" to the previous question, what were the consequences experienced? Select all that apply and indicate whether it was actual damage or a risk that was averted.
(% respondents)



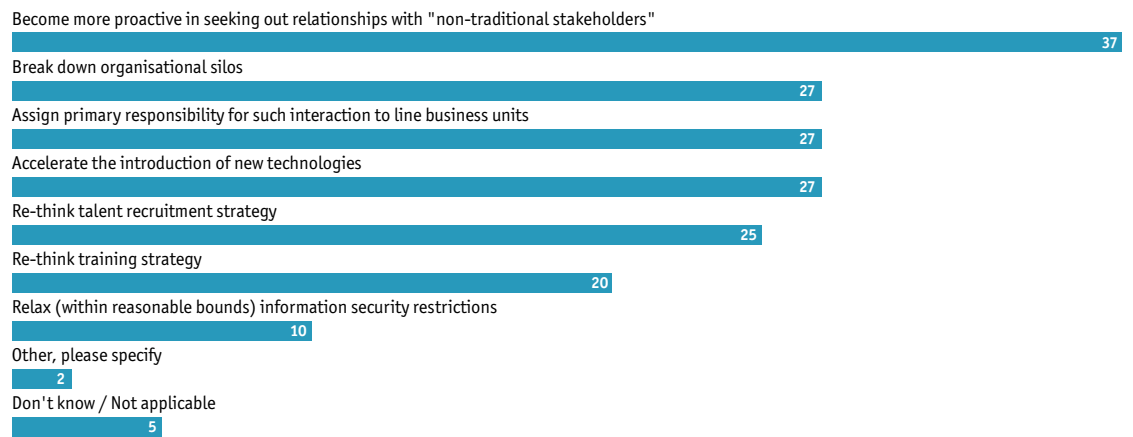
Do you agree or disagree with the following statements?
(% respondents)



Which of the following attributes do organisations most require to capitalise on interaction with "non-traditional stakeholders?" Select up to two.
(% respondents)



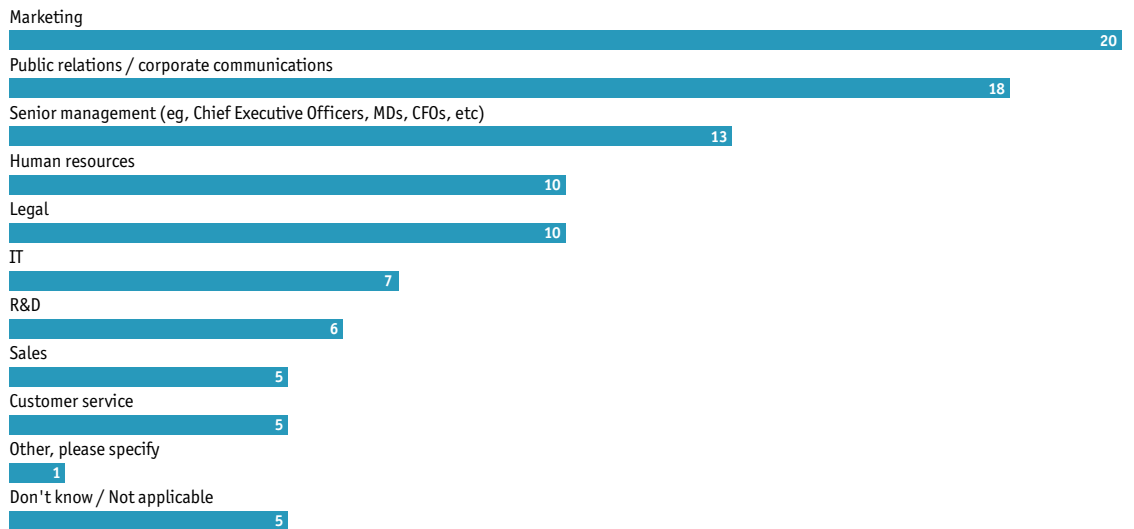
What types of changes do you think your company most needs to make to be able to interact effectively with "non-traditional stakeholders"? Select up to two.
(% respondents)



To what extent would you say your company is taking steps to improve its ability to interact effectively with "non-traditional stakeholders"?
(% respondents)



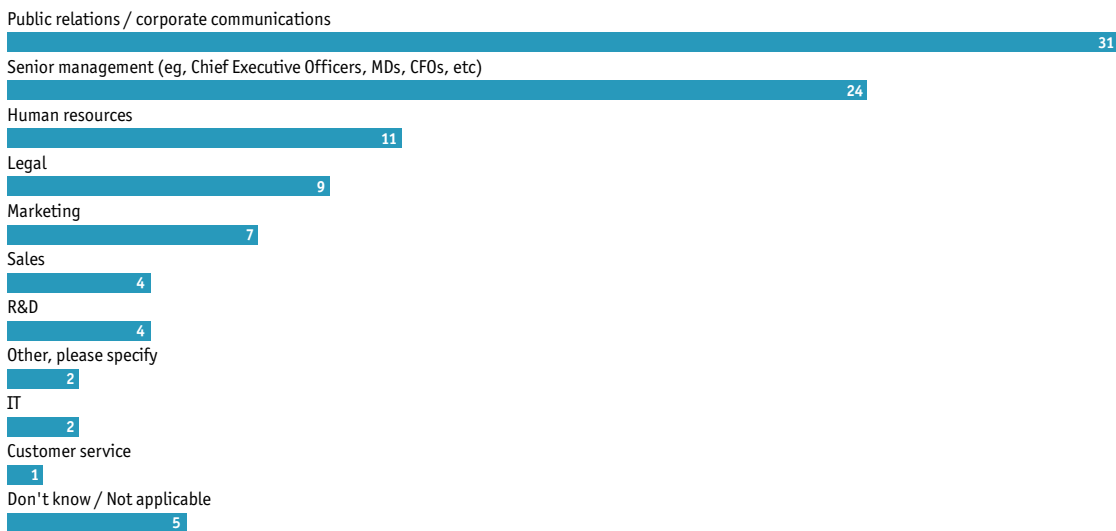
Which function/department is most likely to handle most of your company's interaction with online communities (eg, open source groups, communities of interest)?
(% respondents)



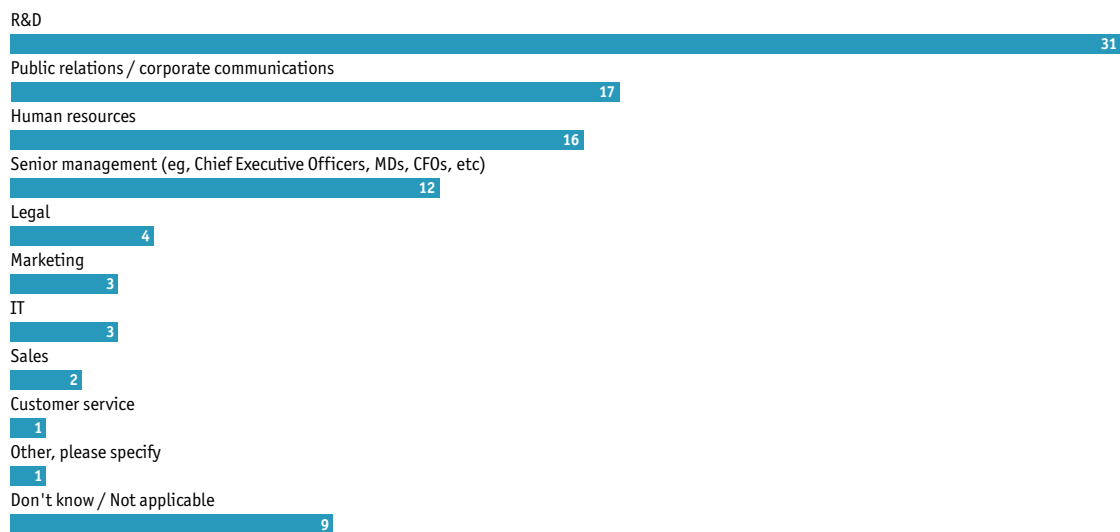
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Which function/department is most likely to handle most of your company's interaction with different categories of "non-traditional stakeholder"? Select one only in each column. - Civic (eg, NGOs, charities)
(% respondents)



Which function/department is most likely to handle most of your company's interaction with different categories of "non-traditional stakeholder"? Select one only in each column. - Academic (eg, universities, research institutes)
(% respondents)

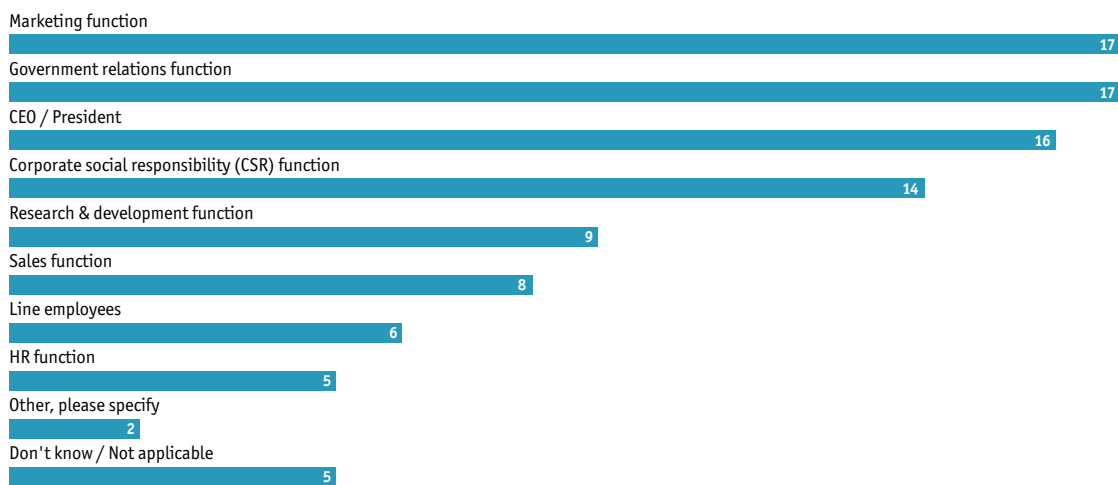


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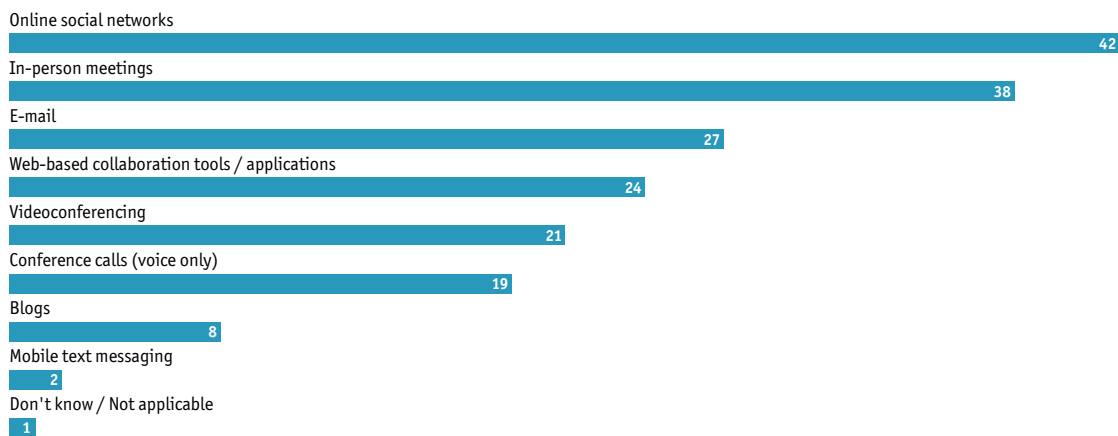
From where within your organisation is the pressure strongest to work actively with "non-traditional stakeholders"?

(% respondents)



Which of the following do you think will be the most effective means of communicating with "non-traditional stakeholders" over the next five years? Select up to two.

(% respondents)



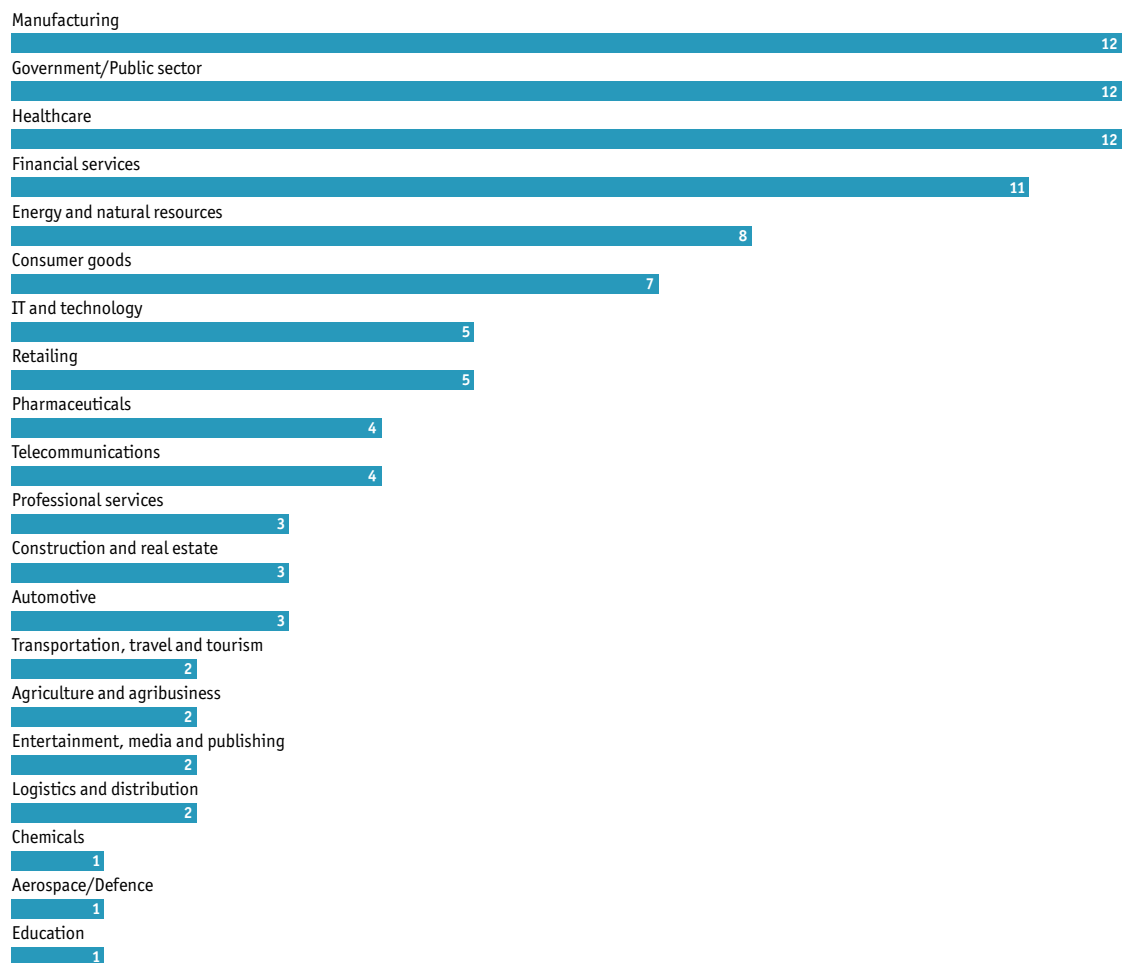
In which region are you personally based?

(% respondents)



What is your primary industry?

(% respondents)

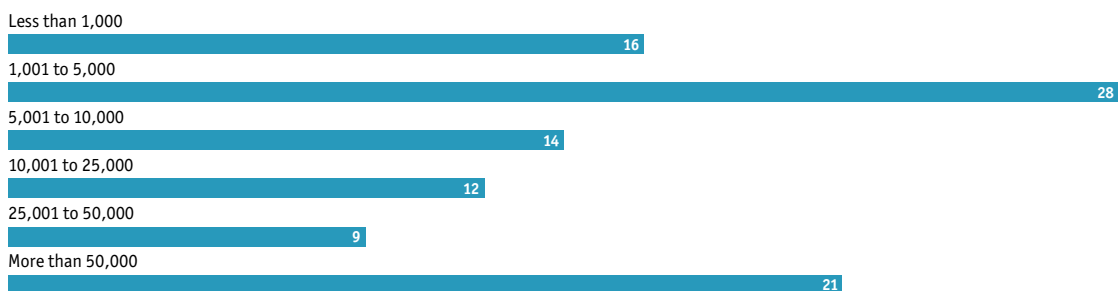


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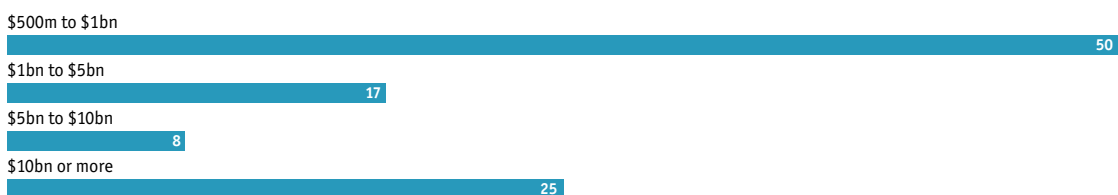
How many employees does your organisation employ globally?

(% respondents)



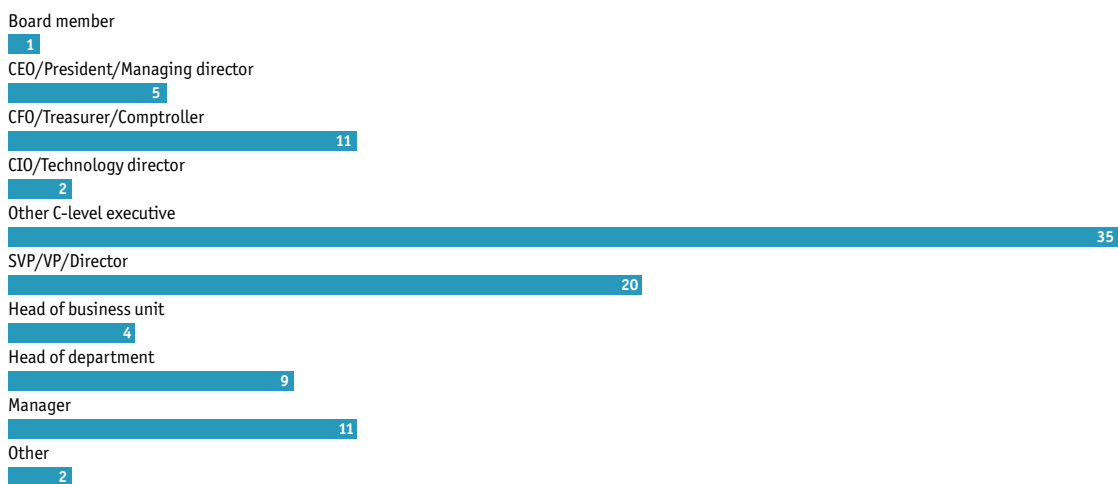
What are your organisation's annual global revenues in US dollars?

(% respondents)

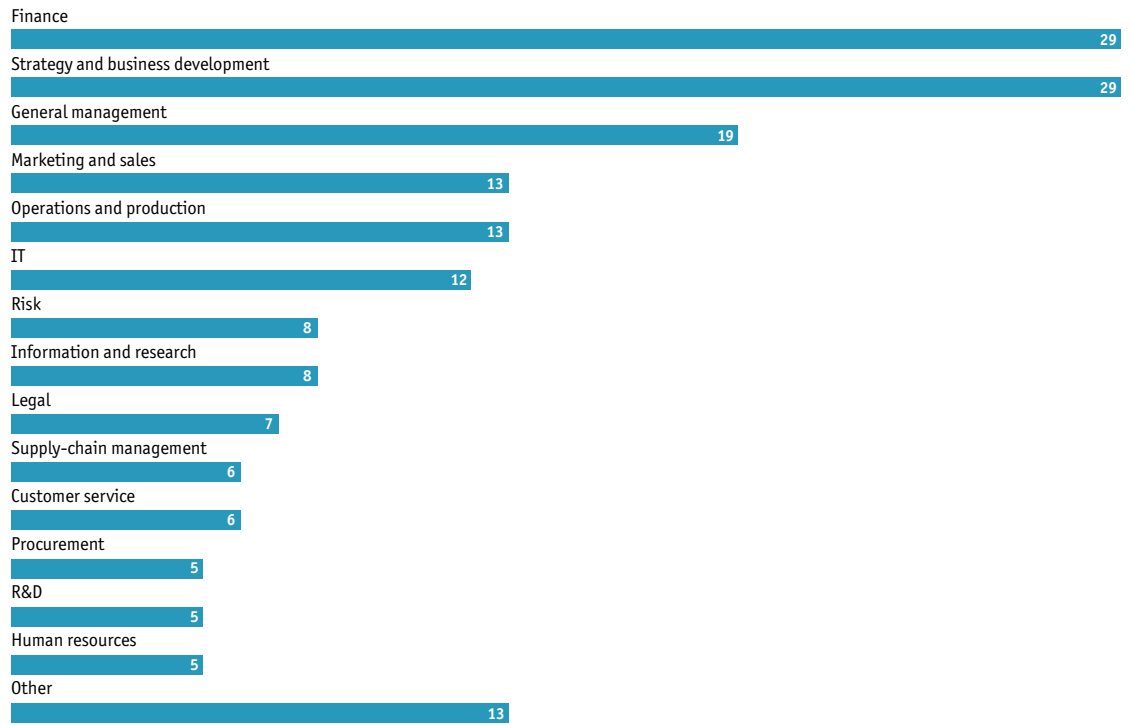


Which of the following best describes your job title?

(% respondents)



What are your main functional roles? Select up to three.
(% respondents)



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