



# DELIVERING TOMORROW

**Exchange, Engage, Excel:  
Creating Value Through Stakeholder Engagement**





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Creating Value Through Stakeholder Engagement**

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“In a truly great company, profits and cash flow become like blood and water to a healthy body: They are absolutely essential for life, but they are not the very point of life.”

*Jim Collins*

*American business consultant and author*

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# Preface



Dear Reader,

The parameters for sustainable business are changing. As a global logistics company, we are seeing that in many industries the deciding factor is no longer solely *what* a company produces or what services it offers. *How* a company acts has become just as important – i.e., which values drive its actions and what impact its business practices have along the production and supply chains. Our customers and partners are increasingly dealing with this change as well.

I am convinced that as companies we will not be able to maintain our economic strength into the future unless we truly understand our environment and practice responsible business to set ourselves apart. I'm talking about redefining our understanding of sustainability so that it is consistent with society's expectations and is integrated into all value-adding processes.

This is the approach we take at Deutsche Post DHL. And it is founded on intense dialogue with our stakeholders – meaning all interest groups that have ties with us and have wide-ranging expectations of us. We cannot form a foundation of trust unless we respect the needs of our stakeholders and ensure that they understand the reasons behind our decisions. And, in order to gain perspective for our own actions, we need a deep understanding of the prevailing attitudes in society.



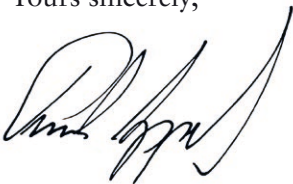
It is time for an in-depth discussion about stakeholder management – a subject that is becoming ever more important in the business context. This study takes a multifaceted look into how dialogue with stakeholders can strengthen companies and become the foundation for a new definition of sustainable value creation. In this fourth edition of our “Delivering Tomorrow” study series you will find essays from distinguished experts, the results of a global survey, as well as examples of stakeholder activities, including explanations of how we – together with our stakeholders – want to achieve more sustainable logistics.

We are drawing attention to this goal because it is at the center of our own aspiration to become the industry benchmark for responsible business. Today we already have a strong value proposition to offer. For millions of customers – even entire economies – logistics is the key to international trade and prosperity. Our services contribute to higher living standards in many countries. Yet, we also want to take every opportunity to be a pioneer in a more sustainable world with low-emission and climate friendly logistics.

Sharing this journey with our stakeholders is a key factor for success. In our experience, we have found that seeking out an open dialogue and exchange brings us forward in every respect. The positive response from our stakeholders reinforces our belief that we have found the right solutions. Constructive criticism shows us where we need to improve. Fresh ideas from the outside generate new energy that can flow into our decisions and development plans. Put simply, dialogue with our stakeholders helps to better prepare our company for the future.

As readers of this study, you, too, can support us in this endeavor. I hope you find it an informative and inspiring read, and look forward to your feedback. Please write us at [delivering.tomorrow@dpdhl.com](mailto:delivering.tomorrow@dpdhl.com).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Frank Appel', written in a cursive style.

Frank Appel  
Chief Executive Officer  
Deutsche Post DHL

# Introduction and Executive Summary

This analysis sets out to trace a seismic shift in how companies perceive, prioritize and address their environments. No longer is it sufficient to craft business strategy with the prime focus on shareholders' interests. Rather, many organizations see their long-term success closely tied to their interactions with the full range of their stakeholders – that is, those parties that can affect or be impacted by an organization's activities. These include customers, employees, suppliers, and investors, as well as trade unions, regulators, NGOs, local communities, and more. By exchanging ideas and systematically engaging their stakeholders, companies build trust and reinforce their own ability to excel.

In fact, this publication addresses the idea of how stronger relationships with stakeholders not only secure a business' 'license to operate,' but also contribute to its sustained innovative strength – creating financial and societal value at the same time. The study's elements – essay contributions, interviews, activity reports as well as an international opinion survey – comprise a rich and nuanced picture that offers a number of key insights:

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*Change is happening, but not fast enough.*

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- *Stakeholder relations matter:* There is an overwhelming level of public support for a business approach that explicitly incorporates the interests of all stakeholders, as opposed to one that places shareholder value first.

- *Change is happening, but not fast enough:* While many observers have indeed spotted a clear trend ‘from shareholder to stakeholder’ in recent years, many still find the current balance inadequate.
- *Stakeholder engagement needs to be strategic:* Instead of an *ad hoc*, piecemeal approach, stakeholder relations must be pursued systematically and in sync with business strategy.
- *Authentic dialogue at eye-level, please:* Dialogue can only facilitate trust when organizations embrace openness and treat all stakeholders with equal respect, regardless of their relative influence.
- *Using dialogue to unlock shared value:* Stakeholder dialogue is much more than ‘risk management’ through building up legitimacy. As part of a company’s innovative arsenal, open exchange with diverse groups holds considerable potential for value creation and new business models.

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*Stakeholder engagement needs to be strategic.*

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The authors of this publication are grateful to all contributors – leading academics, authoritative experts, as well as top global executives – who have graciously lent their views and insights to this undertaking. Their contributions underline how strengthened ties with stakeholders have not only become a *sine qua non* for business, but a source of competitive advantage. Without a doubt, those companies that treat their stakeholder relationships not as ‘nice to have,’ but, rather, as a valuable asset and key capability, will be those that transform value creation in their industry.

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*Companies that treat stakeholder relationships as a valuable asset will transform value creation.*

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## 1. Stakeholder Relations – Why They Matter

Starting with an overview of the topic, two academic thought leaders discuss the rationale and relevance of multi-stakeholder relations to business and society.

**Peter Ulrich (University of St. Gallen)** reasons that, “entrepreneurship has always found its social purpose and virtue by adding value together with stakeholders and sharing it fairly with them.” Progressive companies, according to Ulrich,

follow ethically acceptable business principles and will take into account the impact of their actions on society in their business practices. Furthermore, they assume responsibility for the establishment of standards of fair competition in the interest of all stakeholders.

**Robert A. Phillips (University of Richmond)** considers successful stakeholder relationships as a source of sustainable competitive advantage for companies. He particularly explores the influential role of norms such as reciprocity and fairness in guiding stakeholder interactions. Rather than cold, calculated self-interest – “It’s not personal, it’s business” – a more competitively successful company will understand that, “It’s business *and* it’s personal.”

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*A competitively successful company will understand that, “It’s business and it’s personal.”*

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## 2. Entering Dialogue – Drivers, Strategies and Expectations

**Sunil A. Misser (CEO, AccountAbility)** sees a generational shift in the level and approaches of stakeholder engagement that has also been triggered by external regulatory pressures. However, while more and more companies conduct stakeholder engagement nowadays, there is no ‘off-the-shelf’ solution available. Rather, the ability to benefit depends largely on how each approach is suited to a company’s unique profile. Leading companies even appreciate how stakeholder engagement can contribute to learning and innovation. Misser is convinced that sincere commitment and the ability to embed collaborative governance into core operations will be critical to meet ever-rising expectations and create competitive advantage.

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*Stakeholders must be approached with a true willingness to listen and readiness to learn.*

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**Aditi Haldar (Director, GRI Focal Point India)** explores the link between stakeholder engagement and sustainability reporting – with a specific focus on developments in South Asia. In her view, a growing number of companies in this region realize the importance of their social and environmental performance. Nevertheless, she concedes that there are still many fears that need to be allayed on the part of top management when it comes to greater engagement of stakeholders. Most importantly, rather than entering

dialogue seeking confirmation of preconceived views, she advocates approaching stakeholders with a true willingness to listen and readiness to learn.

**Public attitudes:** What does the public think about corporate stakeholder management efforts? To find out, Deutsche Post DHL conducted an online survey of 1,230 opinion leaders in the US, Brazil, Japan, India, Germany and the UK. The vast majority of those surveyed are of the opinion that companies should not only take into account the interests of shareholders, but also customers, employees and other stakeholders as well – and that they should do so proactively.

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*Companies that maintain a bona fide relationship with stakeholders tend to be more attractive as provider, employer or investment.*

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While the strategic shift away from the classic shareholder value paradigm is still seen as a work in progress, respondents nevertheless indicated that they have noticed positive change on the part of companies. They also emphasized the need for ongoing dialogue between business and society and showed a broad readiness to hold companies to account for any violation of their trust.

The poll reveals, moreover, that active stakeholder management has more and more become a significant success factor. For the vast majority of respondents, companies that are transparent about their policies and activities and maintain a bona fide relationship with stakeholders tend to be more attractive as provider, employer or investment.

Turning to the views of the corporates themselves, stakeholder engagement with various interest groups is a central component of SAP's corporate strategy, according to **Jim Hagemann Snabe (member of the SAP Supervisory Board)**. Through its customer, employee and societal dialogue activities, SAP's goal is to further enhance its role as a solution provider for sustainability.

According to **Paul Bulcke (CEO, Nestlé)**, his company takes the approach of Creating Shared Value to build a business capable of helping people improve their wellbeing and delivering superior shareholder value, while being trusted by all stakeholders. By connecting with its different stakeholders openly and constructively, the company is working to build the necessary level of trust and achieve its ambitions as a business and a good corporate citizen.

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*Shared value can bring the power of capitalism to solve societal problems at scale.*

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**Mark Kramer (FSG Social Impact Advisors; Harvard)** also makes the case of using shared value to utilize the power of capitalism to solve societal problems at scale. Bringing business to the table as a partner with charities and government would be a huge step forward in addressing social issues. And, in doing so, companies can overcome many of the societal limitations that have held back their growth. However, he cautions, companies will only succeed in creating shared value if they genuinely engage stakeholders as partners in the development of a solution.

### 3. Deutsche Post DHL – Listening, Learning, Engaging

**Christof E. Ehrhart (Executive Vice President of Corporate Communications and Responsibility, Deutsche Post DHL)** describes how the increasing connectedness between the spheres of business and society is redefining the conditions under which businesses operate. This requires a new, multi-dimensional understanding of corporate responsibility (CR). In response, Deutsche Post DHL has established a systematic CR management approach that methodically integrates the results of stakeholder dialogues in all activities along the CR value chain. It also leverages the core strengths of the company to address societal needs and generate value for business and society.

A number of contributions then illustrate **how stakeholder dialogue is carried out at Deutsche Post DHL** to drive forward the topics of **sustainable transport and electromobility**.

Deutsche Post DHL has set a goal to switch its mail and parcel delivery in Bonn, Germany, to a **carbon-neutral vehicle fleet** by 2016. Some 80 electric vehicles have already been put into service there as part of a pilot initiative launched in 2013, with another 60 being added. An important component of this pilot project is to engage the public in dialogue, which was the logic behind Electromobility Day in Bonn in September 2013, revealing some key insights. If deemed a success, the pilot project will serve as the blueprint for introducing this scheme in further cities and regions, signifying another major step in realizing the company's sustainability goals.

**Mobility 2.0 – The experts weigh in...** A few months later, some 80 representatives of politics, business, society and the

media were invited by Deutsche Post DHL to a Delphi Dialog discussion with a panel of high-profile experts on the future of transportation. There was broad agreement that a wholesale shift from combustion engines to alternatives would have to be demand-driven, and that a company like Deutsche Post DHL would serve as a valuable spark, with its fleet of some 60,000 vehicles in Germany alone.

**...And the industry ponders the way**

**forward...** The question of the greening of road transport was then addressed by representatives from across the industry at a roundtable in December 2013. The participants concurred that logistics has to play a key role in the shift towards reducing carbon emissions. Further progress, however, requires more transparency on emissions throughout the supply chain. Common industry-wide standards for measuring carbon emissions would represent a major step forward in this context. The discussion, which will be continued, clearly mapped out both challenges and opportunities associated with concluding a joint strategy.

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*Logistics has to play a major role in the shift towards reducing carbon emissions.*

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#### **4. The Way Forward – Creating Value, Leading Responsibly**

**For R. Edward Freeman (University of Virginia)**, the shift to stakeholder focus completely changes our assumptions about and expectations of business. By retelling the story of business in stakeholder terms, we enable it to create more value, be engaged in solving some of our societal problems, and thus be seen as a deeply human institution.

Finally, **Frank Appel (CEO, Deutsche Post DHL)** shares his outlook on responsible leadership and what it takes for companies to write a long-term business success story amid volatility and uncertainty. In his view, a far-sighted strategic compass requires balancing the interests of all relevant stakeholders, especially customers, employees and investors. However, holistic leadership does not stop there. As they enjoy the success of today, leaders need to ask the right questions at the right time in order to develop – together with key stakeholders – the sustainable solutions for tomorrow. As the key facilitator for trade and economic well-being, the logistics industry will play a vital role in this endeavor.

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*Leaders need to ask the right questions at the right time in order to develop – together with key stakeholders – the sustainable solutions for tomorrow.*

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# 1. Stakeholder Relations – Why They Matter

## **Corporations as Pluralistic Value-Creating Organizations – the Business Ethics View of Stakeholder Management**

*by Professor Peter Ulrich*

Doing business means adding value – but what kind of value and for whom exactly? Corporations are pluralistic value-creating organizations, which are right in the middle of multifarious conflicts of interest involving who gets a seat at the table and who gets a piece of the pie. At the same time, they are under pressure to compete in the marketplace, striving to identify market opportunities and develop solid business ideas. To succeed, companies rely on collaboration with partners who possess all sorts of scarce resources: customers and their ability to pay, employees and their ability to perform, suppliers and their ability to deliver, not to mention the public infrastructure in the areas a company does business, and much more. That's why a respectful, consensus-based interaction with all involved parties – known as *Stakeholder Management* – must be a part of any modern concept for good corporate governance.

When everything runs smoothly, companies achieve well-deserved pecuniary success. That success is merited if it creates fair and balanced value for all stakeholders. Investors expect their assets to grow (profits) in exchange for their more or less risky capital investment; employees want compensation commensurate with their performance; customers demand high quality and reasonably priced goods and services; suppliers look for steady sales of their supplies



and services; communities rely upon a fair tax for the public infrastructure; and the general public calls for a wide range of contributions to overall economic development and, not least, protection of the environment. The short and sweet of it is that entrepreneurship has always found its social purpose and virtue by adding value together with stakeholders and sharing it fairly with them.

### **The everyday conflicts of interest surrounding commercial enterprises**

It should be self-evident on logical grounds alone that what matters here is a fair balance of interests among all stakeholders. Meeting everyone's needs or claims completely is simply impossible, even if each is entirely legitimate in and of itself. For example, companies that aim to offer extremely cheap products cannot offer their staff top wages – the cost is too high. To maximize wages, a firm must completely exhaust its customers' ability to pay and keep its investors' expectations for returns as low as possible. Alternatively, maximizing the return of invested capital implies both low wages for employees and high prices for customers.

While this perfectly normal clash of interests in collaborative value-adding processes is trivial as such, it has until recently garnered little attention in the prevailing “corporate philosophies.” Instead of the pluralistic idea of fairly sharing added value, a monistic doctrine captivated the business world for nearly four decades and corporate boards focused strictly on the policy of profit maximization. As Milton Friedman, winner of the Nobel Prize in economics in 1970, famously said: “The *social* responsibility of business is to increase its profits.” This reflects the view that companies represent private capital utilization opportunities for their owners. More precisely, owners are interested in both profit distribution and the entire capital value of the company attributable to them. The *shareholder value* doctrine says that the latter should be maximized regardless of the legitimate interests of other stakeholders.

From that point of view, it is up to the regulatory framework of the market to ensure that corporate strategies focused strictly on the interests of investors will serve society as a whole. However, state regulatory power is weakened by market globalization; multinational and transnational companies can now decide where to invest and divest, giving

them considerable influence over policymakers in the global competition to attract investment.

These publicly relevant interdependencies in the “private economy” today make the social contradictions of doing business obvious. Yet, why did it take us so long to fully appreciate these circumstances? This question can only be answered by looking back through the history of ideas and against the backdrop of early-modern market metaphysics, which is rooted in Christian creation theology.

### Market metaphysics

Adam Smith put the metaphysical nature of the market in the simplest terms when he famously coined the term “invisible hand.” The term is based on the idea that the market, sufficiently free from government intervention, is essentially a “natural” economic order that is part of God’s universe. Therefore, in the free market cosmos, we may assume that a completely harmonious universe of interests will take shape entirely on its own. Basically, we shouldn’t try to mess with the natural order of things – the market will take care of it. Proponents of this way of thinking refuse to be led astray by empirical evidence that calls their world view into question. It is precisely for this reason that their view is metaphysical by nature, i.e., it reflects a deep-rooted sense of basic trust in the natural order of things that goes beyond what can be experienced through our senses.

In the end, the shareholder value doctrine is also based on this almost religious trust in the self-regulating power of the free market. The monistic focus on owner interest in capital generation is not seen as their privilege, but supposedly best serves all stakeholders. Catering specifically to other stakeholder interests is not only superfluous, it actually *upsets* the harmonizing power of the market’s “invisible hand.”

In a world based on this ideology, a one-dimensional culture of profit and returns maximization would likely develop more or less unabatedly. At the same time, it would justify extensive deregulation, especially of the financial markets. And that’s ultimately what it led to: today’s bank, debt and social crises. This grandiose story of harmony was brought back down to earth and shaken to its core by conflict-ridden reality. We are now rubbing our eyes and beginning

to suspect that we have not been able to see the “invisible hand” because it doesn’t actually exist...

### **From shareholder value to shared value**

The time to rethink things has now begun. More and more companies, including well-known global firms, are turning their backs on the cult of “creating shareholder value” (Alfred Rappaport, 1986) and recognizing their mission to “create shared value” (Michael Porter & Mark Kramer, 2011). As new as this guiding principle may be, it very much harkens back to the debates surrounding the understanding of what a sustainable company is, which played out repeatedly throughout the 20th century.

As early as the 1920s and 1930s, large corporations in the United States postulated the perception of Corporate Social Responsibility (CSR) in light of the rapid consolidation of company operations. An extensive CSR movement developed from this in the 1960s and, as a result, the pluralistic corporate stakeholder model gained recognition. The concept was taken up in Europe and spread by the media when the “Davos Manifesto” was published in 1973, a document worked out by the participants of the 1973 European Management Symposium in Davos, Switzerland, the precursor to today’s World Economic Forum (WEF).

Yet, in the 1980s, in an environment exposed increasingly to global competition to attract investment, a radical market economy policy took hold – and with it a return to the monistic corporate way of thinking and the triumphant advance of the shareholder value doctrine. The real consequence was the onset of ever-increasing problems associated with the lack of human, social and environmental compatibility of this one-sided, profit-maximizing economy. However, over time reality tends to trump ideology and, consequently, the pendulum has swung back again since the turn of the millennium. A more critical public is increasingly demanding that companies consider the interests of all stakeholders. The overwhelming response to the appeal made by Porter and Kramer, two leading authorities on company strategy, for the concept of “creating shared value” published in the Harvard Business Review, signals, above all, how firmly planted the pluralistic – and ultimately realistic – understanding of companies has become in the business world.

## A strategic or ethical stakeholder concept?

From an economics and business ethics perspective, the shift to the corporate stakeholder model is a good thing, but it is not good enough. A closer look shows, in particular, that there is a risk that the criteria for managing the various stakeholders could continue to be held hostage subtly by the shareholder value doctrine. Stakeholder management is not ethically rich per se. In reality, we must distinguish between two interpretations: the strategic and the ethical. The burning question is which criteria will be used to define and weight the “relevant” stakeholders.

In the *strategic stakeholder concept*, those peer groups that have the potential to influence or threaten the company are given higher priority. For instance, customers who feel they are not being well cared for by a company can switch to a competitor, and qualified employees can change employers; the owners of required resources, rights or information could stop being dependable suppliers and a critical public could damage a firm’s reputation. As long as a company’s future success, i.e., the increase in shareholder value, is at risk, it is smart business strategy to pay attention to influential stakeholders – but even this strategy can only go so far. A separate ethical aspect does not come into play. It’s all about securing cooperation and acceptance and nothing more. So there is a high risk that a circular logic will ultimately set in and only the interests of those stakeholders that possess a “relevant” potential to deny the company resources will be seen as “legitimate.”

An *ethically rich stakeholder concept*, on the other hand, involves recognizing the legitimate interests of all those impacted by a company’s activities in their own right – the basis is fairness and not power or interests. The respective power or powerlessness of stakeholders vis-à-vis the company should not play a decisive role here. What is really relevant is whether legitimate stakeholder interests (moral rights) are at stake. Strategic advantage considerations – i.e. cost-benefit analyses – are ill-suited to answer this question.

Instead, it is necessary to justify legitimate interests in light of today’s rationally ethical moral principle, the humanist heart of which is the unconditional, mutual respect and recognition of the inviolable personal dignity of all people and – arising from this – their moral rights. Basically, what this

means is that people meet on equal terms and have a mutual and intellectual give-and-take of ideas, thereby transcending their own interests and recognizing what their fellow man in all fairness is entitled to. In practice, this is done with dialogue aimed at mutual understanding.

## Stakeholder dialogue and business principles

To unlock the potential for a *stakeholder dialogue* to be ethics-centric, all stakeholders must first detach themselves from their own strategic interests and concentrate on understanding the legitimacy of and giving fair consideration to all interests around the table. This does not mean that each stakeholder will forego their own interests going forward – at least not on this ethically enlightened level of interest in legitimacy. For this reason it also becomes clear that an ethical relationship with stakeholders in no way conflicts with a solid business strategy. In fact, the more a business strategy rests on an ethical foundation, the more capable it is of securing the company's sustainable success.

Legitimate profit seeking – and thereby an ethically sound business strategy – complies with ethical principles that ensure the fair treatment of all stakeholders. Only those who otherwise have no principles are able to unabashedly indulge in profit maximization. A credible and voluntary commitment to business ethics can be solidified in the form of publicly declared – and therefore auditable – *business principles* that clearly define what a company will *not* do, out of consideration for its stakeholders, to achieve success. A company that consistently follows a set of principles is best served when it integrates its ethical focus into its business model right from the start. Only then is the guiding principle of *business integrity* thought through to the end.

Likewise, applying the concept of *creating shared value* to the question of distributing the company's success only after that success has been achieved is simply too late. It must be in place when the legitimate methods and tools for achieving success are being created, i.e., in the corporate business model. Creating shared value without business principles falls short in terms of business ethics.

## The business ethics of 'being in the red'?

Because the ethical stakeholder concept is quite literally the greater challenge, the question becomes, won't a company become hopelessly overwhelmed from all sides and risk its ability to compete in the marketplace?

Not necessarily. After dismantling the fiction of total meta-physical harmony in the marketplace, one should not fall into the trap of thinking that the equally hollow opposing ideology will be true – that the situation will be nothing but riddled with conflict. A state of partial harmony among the many stakeholder interests is quite feasible. In fact, to arrive at that state normally requires the company to be competitive in the marketplace. As long as management does not solely serve the particular interests of single stakeholders (or even the managers' own interests), but instead advocates for the sustainable success of the company, it will be able to take into due consideration all legitimate stakeholder interests. Thus it will be, from a business ethics perspective, in a strong position to argue its case.

The process of harmonizing the legitimate interests of stakeholders naturally also includes the shareholders; they have legitimate claims to reasonable compensation (return or interest) for their capital investment. Considering the interests of other stakeholders must therefore be reasonable with respect to them. However, on the other hand, the ethical stakeholder concept requires the shareholders to consider the legitimate interests of other stakeholders, which is why it is not compatible with the monistic shareholder value doctrine.

An enlightened management team, therefore, has no reason to position itself in opposition to the fair treatment of the different stakeholder interests. On the contrary, the team will recognize that its professional duty is to strive to compete in the marketplace in a way that is equally tenable vis-à-vis all stakeholders – and more sustainable precisely for this reason. Over time this is how the company will build a well-earned reputation as a responsible and reliable firm – one that will be rewarded by customers, employees, creditors and public opinion.

## **The standards of good corporate governance: commitment, shared responsibility and regulation**

Nevertheless, it would be naïve to ignore the pressures of competition. A company's ability to be reasonably competitive will be limited if the market exerts the wrong incentives in a way that competitors, which do business with complete disregard for employees, society and the environment, gain unfair cost advantages. The competition should be fair, too! With this in mind, a company's ability to voluntarily commit to business ethics must be facilitated and bolstered by two outside, overarching forces:

Within industry associations, a *collective commitment to high standards of business conduct* can provide for fair competition. Voluntary (industry) agreements that have the character of best practice recommendations and proactive promotion by the associations can serve this aim. Because of the fact that most economic sectors are well organized at the international level today, such standards of good corporate governance are increasingly gaining weight as “soft law” requiring a global commitment, not least in economically weak or poorly governed countries.

National and increasingly supranational regulatory policy needs to govern those prevailing competitive circumstances that are so fundamental to a civilized market economy that market players cannot be trusted to voluntarily comply with them. When it comes to universal human rights, core labor standards, environmental protection, corruption prevention and taxpayer honesty, *legal means must be used to prevent unfair business practices*. An enlightened, ethical company recognizes this as a requirement for fair and socially responsible competition. Therefore, it will not blindly oppose any regulation, but instead, will advocate for regulatory parameters under which it can successfully create and fairly share the added value it is striving for guided by principles.

In conclusion, progressive companies that are out ahead on the issue of business ethics have turned their backs on the ivory tower fiction of a perfect private sector and treat the cause and effect of their actions that impact society just as rationally as they do their internal management duties. Their stakeholder management aims to fairly share added value and follows ethically acceptable business principles.

Furthermore, they assume their share of industry and regulatory responsibility for the establishment of standards of fair competition in the interest of all stakeholders.



*Dr. Peter Ulrich is professor emeritus for business ethics at the University of St. Gallen (HSG). In 1987, he took up the first chair at a German-speaking business faculty for this fledgling interdisciplinary. Following earlier positions as a management consultant in Zurich and as professor of business administration at the University of Wuppertal, he built up the Institute for Business Ethics in St. Gallen, heading up diverse research, teaching and consultancy activities over his 22 years of service. His “Integrative Economic Ethics”, which is available in German, English and Spanish language versions, has come to represent an internationally recognized approach. His current commitments include the function of chair of the ethics committee for “Prime Values”, the oldest continental European ethical funds.*



## Stakeholders, Ethics and Organizational Performance

by Professor Robert A. Phillips

**All businesses manage stakeholders.** The only question is how intentionally, cooperatively and ethically they do so. *All* businesses have employees, suppliers, customers, communities and providers of capital and all businesses interact with some or all of these groups – their stakeholders – every day. But do all businesses, through their leaders and managers, have an intentional strategy that guides these interactions? Do these interactions reflect a set of values that maximizes the cooperative potential of the network of stakeholder relationships? Or, are stakeholders a threat – an obstacle that organizations manage in an ad hoc fashion with a weak or non-existent strategy based on a flawed conception of economic self-interest?

For too many organizations, stakeholders represent something that *happens to* them. Like bad weather, they see stakeholders as a set of dangerous, perhaps irrational, outside forces whose effects must be minimized. Companies that find themselves constantly responding to conflicts with stakeholders or resorting to trade-offs between their interests are in this situation because they fail to recognize the potential benefits of aligning stakeholder interests. This often manifests itself as an implicit, but still compelling, belief in the narrow self-interest of economic actors.

### Notions of fairness and reciprocity

Stakeholders enter relationships because they see an opportunity for mutual benefit through cooperation. Yet many managers *assume by default* that stakeholders are exclusively concerned with their own wellbeing, *irrespective of how others are treated*. Believing this, managers self-fulfillingly treat stakeholders as if they were narrowly self-interested, lazy and even opportunistically dishonest. When people are treated as if they were lazy or greedy, they become more likely to act that way. In the absence of strong, intentionally managed core values, the default values can devolve into a directionless mass of narrowly self-interested individuals.

Contrary to this default belief, findings from a myriad of studies from several different fields indicate that most people, most of the time, are not *narrowly* self-interested.

Rather, most people's self-interest is limited by strong and widely held ideas of reciprocity and fairness. People are in many ways self-interested, but they are also deeply concerned about others getting their due as well. This does not, however, mean that people are altruistic. A common mistake is to assume that the only alternative to narrow self-interest is **altruism**, whereby one's actions are primarily driven by concern for others. But we need not go to this extreme. When making assumptions about human motivation, the most compelling alternative to narrow self-interest is not altruism, but **bounded self-interest**.

Reciprocity pervades all elements of human (and many animal) interactions. Social norms can vary quite widely across cultures. However, *every human society displays norms of reciprocity*. It influences interactions with stakeholders in both positive and negative ways that tend to diverge from standard notions of economic rationality. On the positive side, consider behaviors that go above and beyond the minimum required. The so-called "rational" person has a disutility for work. It is thought that most people most of the time prefer leisure to effort and will only do the minimum necessary to avoid being sacked. But consider your own experience. Have you ever gone above and beyond to keep a customer? Have you ever put in more than what was required of you merely to keep your job? Everyone has. And, how far *beyond* you are willing to go is heavily influenced by perceptions of prior treatment by the organization. Recognizing and encouraging this capacity for additional effort is a significant source of sustained competitive advantage for organizations that attentively manage stakeholder relationships.

On the negative side, it is equally "irrational" to spend time and energy punishing someone you feel has treated you badly by failing to give you what you fairly deserve. However, have you ever known anyone who has engaged in such revenge, even at personal cost to themselves? Perhaps you yourself have taken actions directed at righting some act of injustice, disrespect or breach of reciprocity. If nothing else, we have all appreciated an act of righteous comeuppance in a book or film. Such irrational revenge behaviors and thoughts are a normal part of human psychology. Failing to anticipate (or even unintentionally inducing) such negative reciprocity can have devastating effects on organizational morale and ultimately on performance.

## Balancing cooperation and competition

Leaders who begin by assuming bounded self-interest is behind stakeholder motivation will further recognize the need to intentionally balance cooperation and competition. The tension between cooperation and competition is among the most challenging elements of managing a web of stakeholder relationships. Each day we deal with others on whom we depend for the success of our common efforts. But at the same time, we are not indifferent as to who gets how much of the fruits of our collaboration. We all work together to grow the size of the *Kuchen*, but we also want to know that we are getting our fair slice.

And beyond this, we are constantly pitting our network of stakeholders (our “team” if you like) against other networks of collaborators (other teams). Yet sometimes the competition mindset exceeds its proper arena. Distinguishing the proper balance between cooperation and competition presents another opportunity for stakeholder theory to inform leaders.

There are elements of cooperation and competition in many relationships. From the second chair violin who wants to be *Konzertmeister* to the second goalkeeper on the football team who would like more time on the pitch, to the vice president who wants to be CEO, each of these relationships is characterized by a mix of cooperation and competition. However, for the orchestra, team or company to be most successful, cooperation must outweigh competition. Musicians, players and executives must work together with an aim toward mutual success. The same is true of an organization and its stakeholders.

But not all stakeholder relationships are primarily cooperative. Some relationships are reasonably characterized by greater competition. Examples of often less cooperative stakeholder relationships include those with the media, social activists and, of course, actual competitors. There is something obviously incomplete about a conception of stakeholders that ignores these influential groups. Yet, there is something equally wrong with a conception wherein leaders manage relationships with employees in the same spirit as hostile activists.

To overcome the ambiguity between stakeholders as cooperation partners and stakeholders as threats or competitive opponents, it is helpful to distinguish between **normatively and derivatively legitimate** stakeholders. A normatively legitimate stakeholder is an actor with which the organization has a mutually beneficial, positively reciprocal relationship. Organizations and stakeholders become obligated to one another through their repeated interactions over time. These obligations extend beyond mere contractual provisions and include tacit background assumptions that fill in the gaps where such contracts are inevitably incomplete. The perceptions of fairness described above represent part of the mortar that fills these gaps. Normatively legitimate stakeholders typically include customers, employees, suppliers, capital providers and local communities, among others. It is to these groups that stakeholder managers owe a positive concern for their wellbeing.

Derivatively legitimate stakeholders, on the other hand, do not have such mutually beneficial relationships with the organization. But these groups nevertheless have the power to affect the organization *and the normatively legitimate stakeholders* – for better or worse. The extent of a leader’s concern with these groups is *derived* from this power to affect others for whom and to whom the leader is responsible. Typical examples of derivatively legitimate stakeholders include the media, hostile activist/NGO groups and competitors, among others. Leaders must be aware of the demands of these groups and, in some cases, move to address their concerns.

The key is in distinguishing the cooperative, normatively legitimate stakeholders (to whom the organization owes positive obligations of reciprocity) from the more adversarial, merely derivatively legitimate stakeholders (to whom the organization has no such obligations). Nor are such obligations of reciprocity the only moral values human stakeholders care about.

### **Business is only human**

At its core, business is an inherently human endeavor. We talk about all sorts of resources as sources of competitive advantage, but in the final analysis there is no resource that is valuable apart from some person or persons who give it

value. Moreover, there are no free-floating, un-shepherded resources. Whether in the invention, extraction, production or simple recognition, there are no resources without people. And, the abstract and oversimplified *homo economicus* notwithstanding, real people care a great deal about ethics and values.

In addition to the values of fairness and reciprocity discussed earlier, real stakeholders care about a myriad of values. A vital difference between stakeholder theory and many predecessor theories of strategic management is that stakeholder theory explicitly recognizes and takes seriously the role of ethics and values. Perhaps the key role in managing stakeholder relationships is providing a shared vision – a coordinating ethic – that aligns the interests of values-driven human beings.

For some managers, stakeholder relationships are constraints that must be traded off against one another. For the stakeholder manager, **tradeoffs mark the limits of imagination**. Where conflicts arise, the stakeholder manager sees such tensions as a remnant of the logically prior process of collaboration. Between an organization and normatively legitimate stakeholders, relationships are first cooperative and only secondarily, if at all, in conflict. The job of the stakeholder manager is to remind stakeholders of the mutually beneficial nature of their relationships by elaborating a common vision to direct their efforts and to seek imaginative ways to avoid or mitigate conflicts over time.

There are as many authentic values for aligning stakeholders as there are organizations. One thing they have in common, however, is that they are all ultimately ethical values. There is no vision or set of values that is able to serve this coordinative function that is not at the same time based on some normative, social benefit.

Once again, *all businesses manage stakeholders*. For some organizations, managing stakeholder relationships is an ad hoc matter of squeezing as much as possible out of self-interested actors while attempting to competitively minimize their negative impacts. And for some this is an entirely amoral process – “It’s not personal, it’s business,” they might say. A more nuanced – and more competitively successful – perspective sees stakeholder relationships as a source of sustainable competitive advantage. The

stakeholder view appreciates the proper roles of reciprocity, competition and cooperation, and the organizational benefits of explicit values in aligning effort in free markets. In short, **“It’s business and it’s personal.”**

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## 2. Entering Dialogue – Drivers, Strategies and Expectations

### **Stakeholder Engagement: Creating Value and Delivering Performance**

*by Sunil A. Misser*

As result of multiple systemic global changes, the past few decades have seen a shift in the role of the corporation in society. Consequently, all kinds of organizations, including businesses, have seen an increase in complexity and dynamics in their operating environments.

In response to the enhanced role of business in society, more and more members or representatives of different impacted social groups claim their right to be informed of, consulted on and involved in corporate decision-making. Over the years, we have seen a resulting generational shift in the level and approaches of stakeholder engagement.

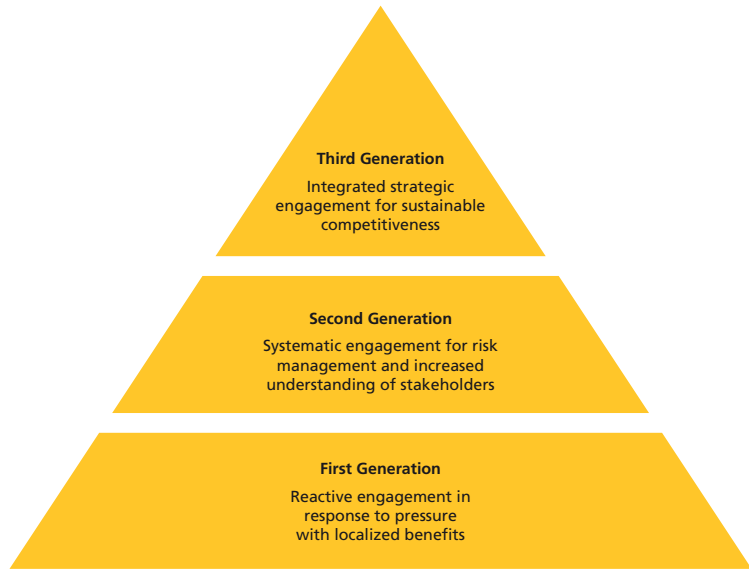
#### **Current landscape – external norms and guidelines**

From a corporate perspective, external sources have played a significant role in this generational shift. Formal norms and guidelines are increasingly being adopted by international finance institutions such as the International Finance Corporation (IFC), the World Bank and the European Bank for Reconstruction and Development (EBRD), all of which have published stakeholder engagement expectations for their



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## THREE GENERATIONS OF CORPORATE STAKEHOLDER ENGAGEMENT



Source: AccountAbility Stakeholder Engagement Manual, Vol. 2, 2010

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adherents.<sup>1</sup> These institutions have recognized the importance of stakeholder engagement in the successful implementation of their projects, principally in managing the risks and impact those projects impose on local communities.

Corporate and sustainability reporting has also been more focused on stakeholder engagement. The International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Facility Reporting Project (FRP) all strongly advocate the role of effective stakeholder engagement in ensuring transparency and accountability in reporting. The recent GRI G4 Guidelines, for example, request companies to provide an overview of their stakeholder engagement during the reporting period in their standard disclosures. Companies are encouraged to include the stakeholder identification process, the engagement approach and key topics and concerns raised during the process.

Rather than creating a separate reporting framework, SASB seeks to improve the current reporting in U.S. public filings

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<sup>1</sup> See, e.g., IFC – Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets; World Bank – Civil Society Consultations Sourcebook; EBRED – PR 10: Information Disclosure and Stakeholder Engagement

through a focus on non-financial information related to various environmental, social and governance factors. SASB asserts that stakeholder concerns, including those of local communities and NGOs, should be considered for disclosure as potentially significant information that a “reasonable” investor or potential investor in the company would want to understand.<sup>2</sup> By including stakeholder concerns in the universe of potential “material” disclosures mandated by the U.S. Securities and Exchange Commission (SEC), SASB has signaled an intention to gradually shift stakeholder engagement from a corporate to a public concern.

At the industry level, many regulators and voluntary membership bodies view stakeholder engagement as a means to collectively improve industry performance and reputation. This is particularly the case in industries such as pharmaceuticals and energy and extractives, whereby a company’s operations and the welfare of local communities are closely intertwined. For example, the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) asserts that the industry addresses mortality and morbidity through multi-stakeholder dialogue and over 220 on-the-ground partnerships (up five-fold over the past decade) between civil society, the private sector and local and national government.<sup>3</sup> Members of the International Council on Mining and Metals (ICMM) – which include Anglo-American, BHP Billiton, Rio Tinto and Vale – all commit to “engage with and respond to stakeholders through open consultation processes,”<sup>4</sup> as well as report on their performance on this commitment and have their performance verified by a third party.

Companies thus face increasing external pressure to conduct meaningful engagement with relevant stakeholders. As companies move into the second and third generation of stakeholder engagement, however, leading companies have started to appreciate that stakeholder engagement can contribute to learning and innovation in products and processes and enhance the sustainability of strategic decisions within and outside of the company. Corporate governance is gradually shifting towards collaborative governance, in which the voices of stakeholders are allowed to be heard by the company, which then adequately responds to their concerns.

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2 See, e.g., SASB’s Conceptual Framework

3 IFPMA, Sustainable Health and Multi-Stakeholder Action, September 2013.

4 ICMM – Sustainable Development Framework: 10 Principles

While *collaborative governance* certainly presents its own risks, skillful management of stakeholder participation can yield significant returns.

## Getting the most out of stakeholder engagement

The benefits of effective stakeholder engagement are several:

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### THE BENEFITS OF STAKEHOLDER ENGAGEMENT

#### Effective and strategically aligned stakeholder engagement can

Lead to more equitable and sustainable social development by giving those who have a right to be heard the opportunity to be considered in decision-making processes

Enable better management of risk and reputation

Allow for the pooling of resources (knowledge, people, money and technology) to solve problems and reach objectives that cannot be reached by single organisations

Enable understanding of the complex business environment, including market developments and identification of new strategic opportunities

Enable corporations to learn from stakeholder, resulting in product and process improvements

Inform, educate and influence stakeholders and the business environment to improve their decision-making and actions that impact on the company and on society

Build trust between a company and its stakeholders

Source: AccountAbility Stakeholder Engagement Manual Vol. 2, 2010

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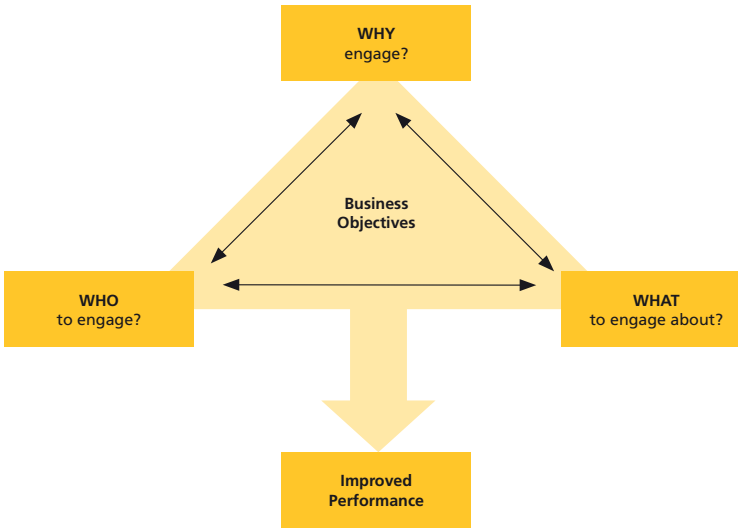
A company's ability to benefit from stakeholder engagement depends on how effectively it integrates engagement into its core business strategies. Doing this requires a more formal and strategic process than the company may have conducted in its first generation stakeholder engagement. Stakeholder engagement is not a simple "off-the-shelf" solution, and each company has to start by choosing the approach best suited to its unique corporate profile.

The specific level and approaches to engagement that a business and its stakeholders choose depends on the strategic objectives of the engagement – resulting in incremental or systemic approaches.

The first stage is for a company to analyze the basic **Why**, **Who**, and **What** behind its stakeholder engagement goals:

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## THE BASIC QUESTIONS BEHIND STAKEHOLDER ENGAGEMENT GOALS



Source: AccountAbility Advisory Services 2012

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**Why engage?** What is the company hoping to achieve? What are the external drivers behind engaging? What are the benefits of engaging? What are the risks of *not* engaging?

**Who to engage?** Keeping those **Why** questions in mind, who are the key stakeholders? For example, to whom does the company have legal, financial or operational responsibilities? Which groups are the most impacted by the company's operations, and which groups are most likely to influence the company's performance? What are the benefits and risks associated with engaging with those key groups? Who would make good potential partners?

**What to engage about?** What scope of engagement is the company interested in and realistically capable of conducting? What form of engagement is likely to yield the greatest benefits, either in terms of information or political capital?

In terms of the actual scope of engagement, the different levels and approaches of engagement, including the direction of communication between a business and its stakeholders, can range across a spectrum. The diagram below shows a sample list of those approaches across levels of stakeholder engagement:

**DIFFERENT LEVELS AND APPROACHES OF ENGAGEMENT**



Source: AccountAbility Advisory Services 2012

When tailoring a strategy for stakeholder engagement, context plays a critical role. It is important to appreciate the contextual variations in the following factors:

**Industry:** Expectations and incentives for more collaborative governance have expanded to nearly every sector. While tailoring an approach to stakeholder engagement, certain

industry-specific factors to keep in mind include applicable regulations and level of enforcement, the existence and role of unions or consumer groups, the variety and network of stakeholders and the history of stakeholder involvement. Those industries with more complex supply chains in terms of both number of links and geographic diversity will likely require a more comprehensive approach than other industries. Industry organizations and member associations can serve as great collectors and conduits of the industry's issues, challenges and best practices when it comes to stakeholder engagement and cross-sector partnerships.

**Geography and culture:** What works in one region may or may not work in another. For example, “town hall meetings” may prove more successful in the U.S. than in certain Asian markets, where guidance-based models such as surveys or one-on-one dialogue may be more culturally appropriate. Similarly, efforts to engage through social media that work well in Europe may not adequately reach stakeholders in certain emerging markets. Companies – particularly those with global impact – need to be sensitive to different market characteristics and open to employing different forms of dialogue and methods of communication in different geographies and regions.

In any culture, it is also important to determine the main “gatekeepers” to the groups with whom the company wishes to engage; those key individuals will vary according to context but may include local authorities or politicians, union leaders, business leaders, religious figures, or town elders. Many cultures or communities consider it imperative that any true engagement initiate with these important figures, and negligence in respecting their local position could seriously impair any further negotiations. For those companies with global operations, local employees or civil society partners can be a valuable source of intelligence when determining the proper cultural approach to stakeholder engagement.

**Company customization:** A company's unique business goals, operating structure, role in society, and prior sustainability and engagement efforts add further complexity when determining the best vehicle for collaborative governance. Relevant considerations also include the current engagement levels and approaches employed by the company's competitors and potential partners, the company's eagerness and ability to engage on a specific issue, and the sophistication of its targeted stakeholder groups.

Companies also need to approach individual company-specific stakeholder engagement and sector-wide or national cross-sector engagement initiatives very differently. Some engagement will be purely consultative while others may be centered on cooperation and establishing partnerships. In any case, companies need to provide those employees leading the stakeholder engagement with adequate authority, structure and resources to ensure a comprehensive and well-designed process.

## **Toward collaborative governance**

The global movement toward *collaborative governance* is a simple reality. The ubiquity of social media and other global drivers will continue to raise the power of external stakeholders in both shaping a brand's reputation and affecting company performance. The number of companies releasing sustainability, corporate citizenship and integrated reports is growing exponentially, and the role of stakeholder engagement in such reporting is nearly keeping pace.

Very soon, it will not be enough to say that a company engages with its stakeholders; efforts and outcomes will be intensely scrutinized. In many ways, that time is already upon us. What is more, as the global emphasis on stakeholder engagement has increased, so has the level of sophistication of many stakeholder groups. More so than in prior decades, companies will encounter stakeholders well-versed in best and worst practices in stakeholder engagement. These stakeholder groups may have greater expectations of fair, transparent and respectful dialogue.

Going forward, therefore, the key to stakeholder engagement will be in the details. Attention to nuance will be critical to strategy, strategy will be critical to success, and success will be measured as much by innovation and achievement of business objectives as by effective risk management. A company's *genuine commitment* to effective and inclusive arm's-length engagement will also be critical. Genuine commitment is demonstrated not only by proactively seeking out appropriate partners for engagement, but also by making sincere attempts to understand those stakeholders and implement their concerns into corporate decision-making. Insincere efforts will become obvious and hamper relations between the company and its stakeholders, potentially creating a bigger risk to corporate sovereignty in the long run.

Those companies that are able to embrace this trend and embed collaborative governance into their core operations through a comprehensive and ongoing stakeholder engagement process will be better primed to recognize and incorporate those nuances. Stakeholder engagement can and will be a source of competitive advantage for those companies skilled enough to use the process to create real value and improve overall performance – collaboratively.

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## Effective Stakeholder Engagement Needs the Ability to Listen

by Aditi Haldar

A business cannot exist in isolation. It relies on a multitude of relationships with customers, employees, suppliers, communities, investors and others – in other words, stakeholders. There are formal and informal ways of staying connected with the parties who have an actual or potential interest in, or effect on the business. In a typical management methodology, engagement implies understanding stakeholders' views and taking them into consideration, and using the information received from the stakeholders to drive change.

Sadly enough, at one end of the spectrum, businesses simply inform stakeholders of their plans. At the other end, stakeholders are involved from early on in the decision-making process – though, to my knowledge there are few examples to show for this. In between are varying degrees of awareness creation, participation and consultation. Many businesses also display three levels of engagement as per their interest and ability to manage information sharing, consultation and collaboration. Importantly, this engagement process must also comprise sustainability reporting.

### Stakeholder engagement and reporting

Over a period of just two decades, sustainability reporting has moved from an exercise undertaken by just a few pioneers to become standard practice for thousands of the world's largest companies. When preparing their reports, the majority of these companies turn to Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines as the *de facto* global standard framework. The expectations and interests of stakeholders are important reference points for many decisions in the preparation of a report.

The latest version of GRI's Guidelines – G4 – places a strong emphasis on materiality and stakeholder inclusiveness. In the guidelines, both reporting principles and disclosure call for the reporting organization to identify its stakeholders and explain how it has responded to their reasonable expectations and interests. As per the GRI Guidelines, the basic purpose of engagement is being accountable to stakeholders

when accountability is questioned or as part of a joint decision-making and collaboration process to resolve a difficult issue. In essence, it should build trust and credibility.

From the various sustainability reports I see, the least developed part of the disclosure tends to be a stakeholder engagement plan or strategy. Years ago, when I was entrusted to design and execute a stakeholder engagement plan for two different businesses, the most difficult aspect was to get top management buy-in. The biggest challenge was to overcome their sense of vulnerability and fear of facing the stakeholders and to get them to understand that the purpose of stakeholder engagement was not actually to agree on everything. Rather, it's a way to open a dialogue and listen to one another in order to gain a better understanding of where one stands and why, and seek common ground.

The most surprising aspect of that early endeavor of stakeholder engagement also led me to realize that our typical pattern of listening to stakeholders who are in difficult situations is premeditated. By that I mean that, most often, we listen for what we expect to hear. We filter the views of others to find what we can use to make our points. We also begin measuring success by how effective we have been in gaining advantage for our desired positions. Unfortunately, this strategy, which is often used by many who initiate stakeholder dialogues, does not lead to a joint decision-making outcome, but is seen to be one-sided and leading to mistrust in the long term.

### **Don't just talk, listen**

In India and many other economies, stakeholder engagement is often seen as a non-essential, all-too painful process, and only appropriate for 'mature' stakeholder groups. The underlying motive behind all these conditions for conducting stakeholder engagement is to ensure only congenial outcomes and avoid opening up hidden issues. Ideally, the process of engagement should begin by identifying the key stakeholders, understanding the reasons for stakeholder engagement, deciding on the methodology of the engagement process, initiating the engagement, and then reviewing the outcome.

The process could even start simply by determining the main stakeholder groups – most often employees, customers and

the local community. Engaging them can be accomplished easily by placing information on the firm's website, sending out e-mail updates or creating a flyer outlining initiatives. It could also mean creating an e-mail address for anyone to use to ask questions and make comments about products or practices. So far, however, many of the activities that I have observed have not been sufficient for building up the social and political capital necessary for a collaborative effort of accountability and trust.

My question is, therefore, if businesses cannot or should not operate in isolation and their core existence is to serve the needs of human beings, then why is engagement with fellow human beings seen to be painful and unconstructive? The major gap is that, too often, the parties involved in the engagement know how to talk, but forget to listen.

I would propose that stakeholder engagement could only truly take place if there is a genuine intent of dialogue. The key to dialogue is respect for the other person, a willingness to listen, and a readiness to learn from them. Listening requires opening our minds first. Dialogue starts by clearly recognizing the positions and interests of the parties involved, carefully identifying the obstacles to progress, and then patiently working to remove and resolve each of them.

As Dr. Daisaku Ikeda, Founder of Soka Gakkai International and a peace builder, puts it: "Dialogue is not some simplistic assertion of one's own position, nor is it necessarily about persuading others of one's own point of view. Dialogue is about demonstrating respect for another's life, and being determined to learn when confronted with differences in personality and perspective. Now, more than ever, we must reach out, making tenacious efforts to understand each other and engage in genuine dialogue."

## **Reporting on the rise**

The original intent of sustainability reporting was to open up business thinking to a wider societal agenda and to spur the introduction of the necessary universal framework and systems. This, in turn, would help create the environment for credible information exchange amongst stakeholder constituencies across continents and global supply chains and, ultimately, better inform the global push for more sustainable forms of development and growth. Unfortunately,

sustainability will not be achieved without broader and deeper forms of accountability and stakeholder engagement.

GRI believes that sustainability reporting in developing countries like India can help to:

- Mitigate and improve companies' effects on society, the local economy and the environment
- Strengthen companies' competitive position, domestically and internationally, by addressing key concerns of customers and investors regarding the social and environmental quality of business
- Enable individuals and communities – as employees, voters, and civil society actors – to negotiate a better future for themselves

GRI Focal Point India is deeply engaged with businesses, various government bodies, civil societies and academia in a determined manner to make sustainability reporting a mainstream practice. Fortunately, the number of companies that realize the importance of their social and environmental performance and footprint is growing. But this realization is still far from mainstream practice. On the other hand, only a handful of organizations in India have started acknowledging that accountability and engagement are needed to achieve real change – and honest reporting is the starting point.

A hopeful sign can be found in a recent KPMG report<sup>5</sup>, showing a dramatic rise in corporate responsibility reporting rates in emerging markets across the board, with the highest growth in reporting since 2011 in India, surging from 20% in 2011 to 73% in 2013. In the end, the goal of such efforts can only be to ensure that our present and future, and the future of the next generation, is sustainable.

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5 The KPMG Survey of Corporate Responsibility Reporting 2013 ([kpmg.com/sustainability](http://kpmg.com/sustainability))

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*Dr. Aditi Haldar is an expert on sustainable development with over 20 years' experience. Currently, she is the Director of GRI Focal Point India. She represents GRI primarily in India and in the South Asian region to make sustainability reporting a standard practice. She plays a key role in advising on and facilitating greater exchange and knowledge sharing between the regional and global community on sustainability, transparency and reporting.*



*Dr. Haldar has been part of various national and global advisory committees, networking groups and forums constituted by governments, civil societies, businesses and international institutions, among them the Global Agenda Council Network of the World Economic Forum. She is author and co-author of publications on Environmental Management and Sustainable Development at the national, regional and international level and a popular speaker on sustainability and transparency issues in Indian and international forums. She has a PhD in Environmental Sciences.*

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## Stakeholder Management from the Public's Perspective – Results of an International Survey

More and more companies are working to intensify their relationships with stakeholders and to anchor stakeholder management in their corporate strategies. But who is taking note – and what does the public think? Deutsche Post DHL wanted to know just that, so the company conducted an international opinion survey of socio-politically-minded opinion leaders in six countries.

One thing became overwhelmingly clear as a result: Most of those surveyed think that focusing narrowly on shareholder value is an obsolete strategy. And indeed they have noticed a clear shift in the corporate world toward greater stakeholder orientation. Does this mean that stakeholders today can be satisfied with the extent to which they share in the discourse? No – and, in fact, people are explicitly calling for this dialogue – and often even demanding it. Our findings also make it clear that stakeholders know how to take action if they feel the company has jeopardized their own personal interests, their group's interests or ethical values.

### 1. Shareholder value vs. stakeholder value – ideal and reality

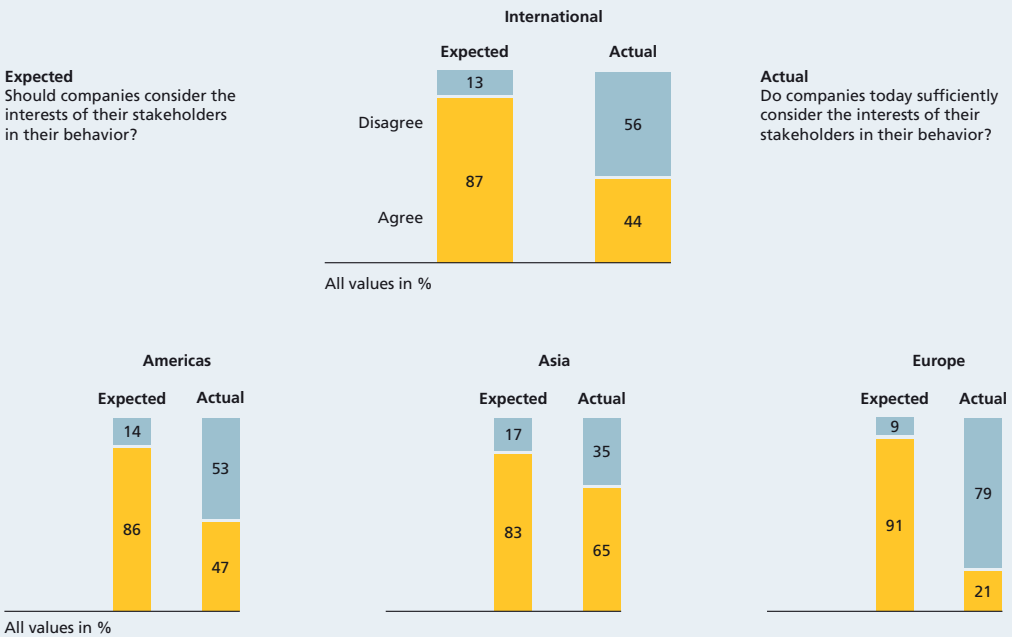
On the question of how companies *should* behave vis-à-vis occasionally conflicting shareholder and stakeholder interests, the respondents internationally were unified: at 87%, an overwhelming majority believes that, rather than focusing their behavior on one aspect alone, companies should take the varying interests of their stakeholders into consideration. Likewise, the vast majority in all regions agree on how this should happen. Only 5% felt that waiting until shareholders raise their concerns was a viable strategy, while 95% believe that it is better for companies to actively seek out dialogue with their respective interest groups.

However, in their view, this is not yet reality. In the global contest between the shareholder value model and a stakeholder-centric approach, the former was still winning 56 to 44 in 2013. In other words, a majority of 56% believes that large companies think about their investors' interests first and place higher importance on financial aspects, while the other 44% see companies looking beyond capital interests to

sufficiently consider the interests of customers, employees and other stakeholders as well.

Opinions on this issue varied widely from region to region. In Europe (Germany, United Kingdom), 79% were of the opinion that companies primarily serve the interests of shareholders, although employees were identified as an important stakeholder group and, for example, employee participation is traditionally given high priority in Europe. By contrast, only 35% of respondents from Asia (India, Japan) think that the shareholder value model currently rules the day. This corresponds with a significant perception gap between Asia and Europe on how far away today's corporate behavior is from the ideal. While 70% in Europe are convinced that most companies nowadays have not yet reached the desired target state, this perceived shortfall is only around 18% in Asia.

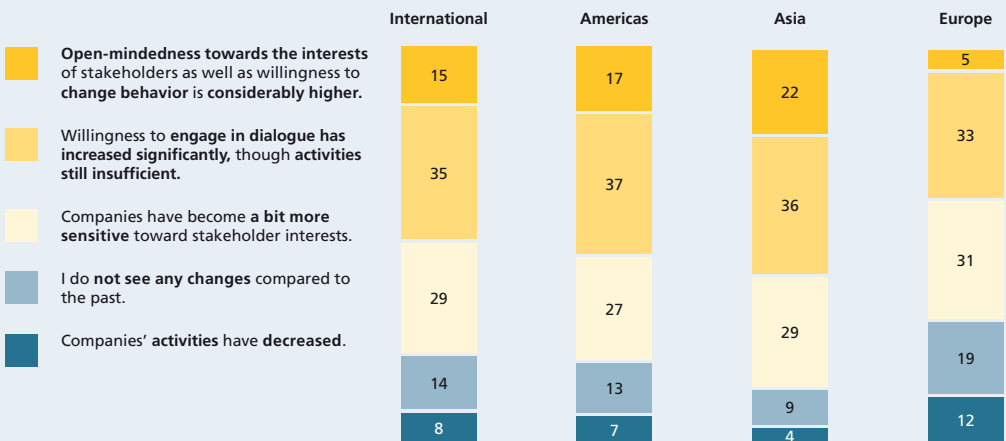
**ARE STAKEHOLDER INTERESTS TAKEN INTO CONSIDERATION?**



## 2. How have companies changed in recent years?

Even if reality falls short of the ideal for a lot of respondents, many still recognize that companies have become much more sensitive and open to the concerns of their stakeholders over the past five to ten years. According to the survey, 15% of respondents have observed more openness among companies vis-à-vis their stakeholder groups as well as a change in behavior. At least 35% have seen a distinct shift in attitude and an increased willingness to engage in dialogue, but feel the actual change in behavior still leaves something to be desired. In the opinion of 29% of respondents, companies have become a bit more sensitive toward stakeholder interests. Only 14% have not seen any change compared to the past, and 8% have observed a decline in companies' stakeholder management activities. Once again, these values demonstrate that respondents in Europe are far more skeptical than their counterparts in Asia or in the Americas.

### WHICH CHANGES ARE RECOGNIZED OVER THE PAST YEARS?



All values in %



### 3. Why the change?

Survey respondents singled out increasing pressure from external stakeholder groups and an increased recognition within companies as the reasons for the change in behavior toward interest groups.

As a whole, 71% agreed that in an increasingly complex world companies can no longer afford to be responsive only to the interests of their investors. A clear majority (62%) also believe that today's stakeholders have become more self-confident and demand more active participation. For 58%, the relevance of stakeholder groups has increased because social media makes it easier to put pressure on companies. Just over half (53%) have seen traditional media in recent years reporting much more about the positions and demands of interest groups than in the past. And just under half of respondents (49%) believe that there has been an overall shift in societal values that is now making its way into the world's boardrooms.

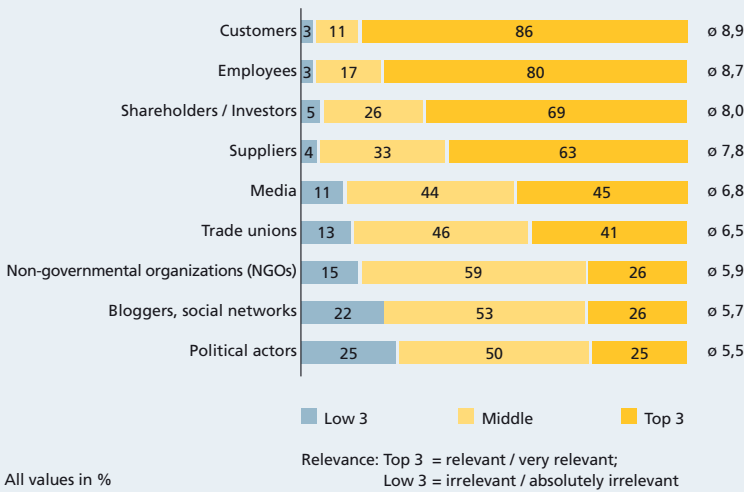
### 4. The most important stakeholder groups

Which stakeholders do the respondents see as particularly relevant? The answer to this question was crystal clear: 86% say the customer is still king. Customers are seen as the stakeholder group with special importance for a company's success. Employees came in second followed by shareholders and suppliers. This shows that people see the greatest influence from stakeholder groups who are insiders or closely linked to the company.

The relevance of other stakeholders is viewed as much lower for the most part. Beyond those mentioned above, traditional media is considered to be the most relevant. Media influence is rated much higher than that of bloggers or other social media actors. However, the responses to this question also varied from region to region. In the industrial countries (United States, Japan, Germany and the United Kingdom), respondents only place minor importance on blogs and social media. Even in the United States, where social media was born, only 18% rate it as a relevant factor. By contrast, over 40% of those surveyed in the emerging countries of Brazil and India are of the opinion that blogs and social media have a greater impact on company decisions.

Although government regulation plays a significant role in determining the economic climate, only one-fourth of respondents feel political actors are a particularly relevant stakeholder group. This view toward government is on par with that of nongovernmental organizations, which could make an impact by mobilizing public opinion. This result is quite surprising, all the more so in light of the fact that legislation in many industries has great influence on the parameters contingent to business success. One possible explanation for this is that the respondents may be distinguishing between stakeholder relations and lobbying.

### HOW RELEVANT ARE THE DIFFERENT STAKEHOLDERS?



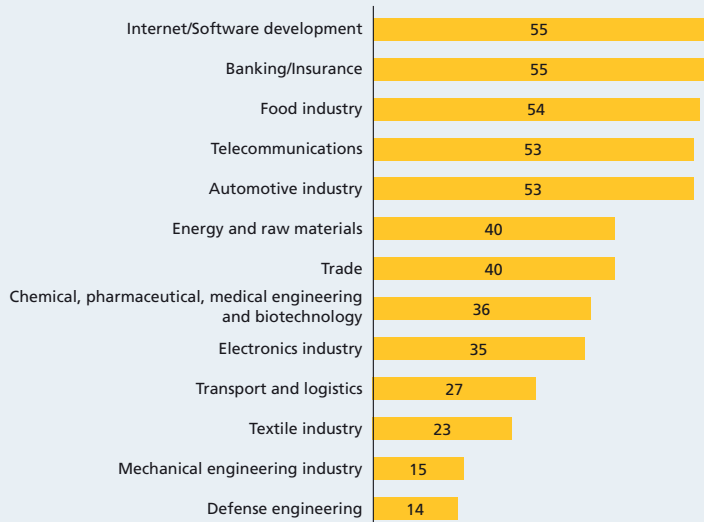
## 5. Increasingly stakeholder-centric industries

The survey showed that B2C companies are increasingly open-minded vis-à-vis stakeholders. These include internet companies, banks, insurance companies, food companies and automobile manufacturers, which were all rated about the same. Clearly positioned in the middle we find energy companies, raw material suppliers, the retail industry, the chemical and pharmaceutical industry as well as the electronics industry.

The transport and logistics industry leads the group of the least open to stakeholder activities, followed by the textile, mechanical engineering and defense engineering industries. These findings are for the most part likely a result of the fact that companies who sell to private customers engage in more marketing and public relations activities than companies that operate primarily in the B2B sector.

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### WHICH INDUSTRIES HAVE BECOME MORE STAKEHOLDER-CENTRIC?



All values in %; multiple responses possible

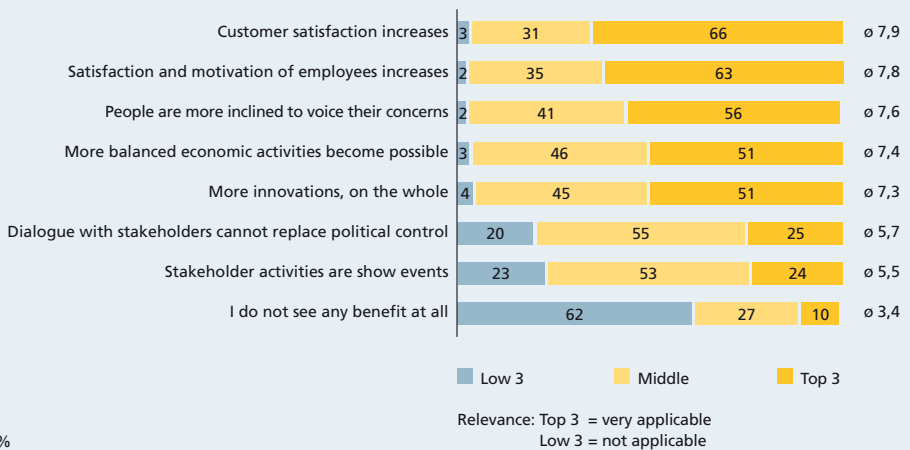
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## 6. Benefits of Stakeholder Management

The majority thinks that companies focused on many different interest groups gain a competitive edge. Two-thirds are sure that stakeholder-centric companies have higher customer satisfaction rates. Likewise, a management approach centered on many stakeholder groups has a positive effect on employee motivation. And at least 51% of respondents are of the opinion that these companies are more innovative than those committed only to the interests of their shareholders.

At the same time, however, the survey indicated a certain level of skepticism in terms of how serious companies are about being stakeholder-centric. The majority (61%) believe that companies, especially in the wake of a scandal, ratchet up their stakeholder activities in order to burnish their tarnished image. In fact, 25% think that stakeholder management is largely done for show. Yet only 10% see absolutely no benefit in increased stakeholder activities. In fact, 62 percent would even refute this idea.

### WHAT IS THE BENEFIT OF STAKEHOLDER MANAGEMENT?



All values in %

## 7. How do stakeholders react if something goes wrong?

Stakeholders respond very assertively if they believe a company is behaving unethically or if they think a company's actions have jeopardized their interests. The most important stakeholder is the customer – and customers respond primarily by boycotting the company if they are upset. In our survey, the majority (71%) admitted that they themselves have stopped buying products for this reason. This response is found most frequently in Europe, where 81% have boycotted a company as a result of conflicts of interest or ethical considerations. Furthermore, making direct complaints and posting critical reviews online is a widespread international practice. At least one in four has avoided buying shares of companies seen as unethical and 9% have even sold shares for ethical reasons. Companies that are considered unethical are also less popular employers. In our survey, every fifth respondent cited this reason for choosing not to apply to a company or for advising others not to work for that employer. In contrast, only a small proportion would consider a more permanent reaction, such as committing to an initiative or an organization.

### HOW DO STAKEHOLDERS REACT IF SOMETHING GOES WRONG?



All values in %; multiple responses possible

## **8. How do stakeholders reward good behavior?**

On the flip side of the coin, companies that make their goals transparent, discuss their activities in public and are honest with their stakeholders are customer favorites. In our survey, 71% of respondents said their first choice would be companies like these. Three out of four would prefer to work for companies that are open with their interest groups and face up to criticism. These results again show that active stakeholder management has become a factor for success that cannot be underestimated.

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## THE STUDY

*The Market Research Service Center of Deutsche Post DHL conducted this opinion survey in August 2013. The online questionnaire was completed by 1,230 people from the United States, Brazil, Japan, India, Germany and the United Kingdom. Around 200 people from each country took part.*

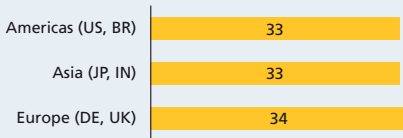
*The survey only used the answers from those who indicated an interest in political, economic and social issues, an interest in discussing current events and expressing their opinion, and that they get their information from quality media sources.*

*The gender breakdown was 39% female and 61% male. The income level of the respondents was above average and in line with their level of education.*

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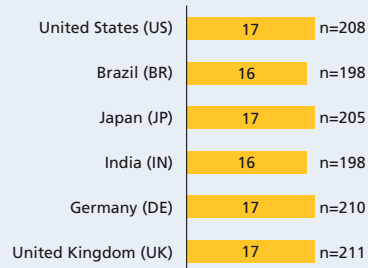
### Regional participation

n=1,229



### Country participation

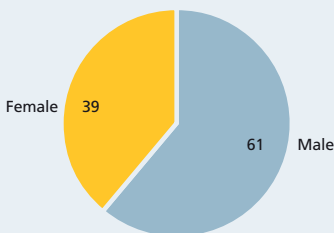
n=1,229



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### Gender

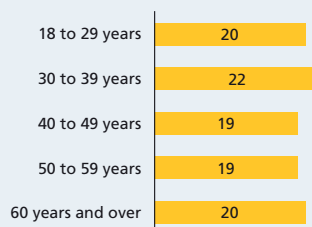
n=1,229



All values in %

### Age

n=1,222



## **Stakeholder Management at SAP: Four Questions to... Jim Hagemann Snabe**

*What is the value of stakeholder management to your company?*

Maintaining a dialogue and cooperating with various stakeholder groups is a central component of both our innovation and development processes, as well as our corporate strategy. As the market leader for enterprise software, our highest priority is to deliver real added value to our customers by responding to their needs with innovative solutions. To achieve this goal we rely on continuous dialogue and close interaction with users – and we do so during the entire development and design stage.

Yet this ongoing dialogue doesn't stop with customers and users of our products. On a regular basis, we reach out to many different stakeholder groups who play an important role in the further development and growth of our company. These groups include our employees, public authorities, IT branch analysts, financial analysts and investors, non-governmental organizations, as well as partners and suppliers. We also maintain a regular dialogue with our Sustainability Advisory Panel. The insight and information we gather from this dialogue is used in our materiality analysis, upon which our reporting is based.

*How do you get in touch and interact with your stakeholders?*

We approach each stakeholder group specifically and with a variety of means. Let me give you some examples.

As I just mentioned, we work closely with customers and do so in what we call “co-innovation projects.” We also meet regularly with customer advisory panels and user groups all over the world. Our Customer Engagement Initiative gives our customers an early look into our product plans. This allows them to play a role in and influence all phases of our product development. In addition, we created our own program called “SAP Listens” in which we conduct regular customer and partner satisfaction surveys.



We are also in constant dialogue with our employees, and we work closely with the works councils and the supervisory board, half of which is made up of employee representatives. In addition to our very close cooperation with company management, the Management Board takes questions directly from employees at quarterly assemblies. Our staff is also able to provide feedback in annual employee satisfaction surveys. And in regular “Coffee Corner Sessions,” our employees have the opportunity to meet with management from all areas of the company in small circles to discuss strategy and other topics.

Our Sustainability Advisory Panel is made up of representatives of customers, investors, nongovernmental organizations and employees. The panel meets with the Management Board or other executives once or twice a year to discuss specific sustainability issues and their significance for SAP’s strategy.

*What are the greatest challenges associated with stakeholder management?*

The various stakeholder groups sometimes have very different and even conflicting expectations of SAP. We occasionally see this also within one stakeholder group. By maintaining a regular dialogue, our stakeholders are able to communicate their expectations clearly, and we have the opportunity to respond right away and explain our strategy and goals as well as which expectations we will be able to meet in line with that strategy.

*Looking forward, in what direction do you plan to develop your stakeholder management approach further?*

So far our approach – dialogue based on trust – has been very successful and therefore we would like to continue it vis-à-vis our various stakeholders. We will expand the dialogue with our Sustainability Advisory Panel even further in response to the requirements stemming from new reporting standards. In addition to the regular meetings, we plan to lead interactive, on-demand discussions using innovative collaboration technologies like SAP Jam. Together with the Panel, our goal is to bolster SAP’s importance as a provider of sustainable solutions and to obtain an even better understanding of our own impact.

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*Jim Hagemann Snabe joined SAP in 1990 and was co-CEO of SAP between February 2010 and May 2014, after which he was elected to the company's Supervisory Board. Since joining SAP, he has held various management roles in consulting, sales, and development. In 2002, he was asked to join the company's global development unit to bring product development efforts closer to the market. In this capacity, and as a member of the SAP Executive Board and Global Managing Board, Mr. Snabe focused on developing and executing SAP's strategy, together with Bill McDermott. The co-CEOs strengthened relationships with customers and partners, drove SAP's innovation portfolio across all markets, and ensured operational excellence across the company.*



*Mr. Snabe's views about the role which leaders and IT need to play in creating sustainable growth and responsible business strategies have been strongly shaped by his commitment to environmental and humanitarian issues. He received a master's degree in operational research from the Aarhus School of Business in Denmark. Mr. Snabe lives with his family in Copenhagen, Denmark.*

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## Stakeholder Management at Nestlé: Four Questions to... Paul Bulcke

*What is the value of stakeholder management to your company?*

Nestlé's strategic ambition is to enhance the quality of consumers' lives, as the leading Nutrition, Health and Wellness Company, trusted by all stakeholders.

Creating Shared Value is the approach we take to achieve this ambition and build a business capable of delivering both superior shareholder value and helping people improve their nutrition, health and wellness. We believe that we can create value for our shareholders by doing business in ways that specifically help address global and local issues in the areas of nutrition, water and rural development.

Effective dialogue with our stakeholders is central to achieve our ambition as a business and a good corporate citizen. Firstly, this is in terms of understanding opinions and concerns, then in responding with appropriate commitments to take action and, finally, in delivering on our commitments. Our stakeholder engagement program helps us to shape responses to shared challenges, drive performance improvements and, ultimately, strengthen collective action.

Trust is fundamental to us: the trust of our consumers and of our stakeholders. Trust is built on transparency. We hope that by connecting with our different stakeholders in an open and constructive manner, we are building this trust.

*How do you get in touch and interact with your stakeholders?*

Our global stakeholder network is vast and ranges from people we regularly engage with as part of our operations, to those whose public positions influence our activities.

While we encourage our businesses to identify and engage with key stakeholders at a national level, our global engagement is coordinated centrally, through Nestlé's Creating Shared Value Forum series, regular stakeholder convenings and surveys, as well as through partnerships, industry alliances and multi-stakeholder platforms.

And there are our publications such as the Nestlé in Society reports that we publish to provide shareholders and stakeholders with a clear sense of the strategic direction we are heading in and the standards to which we hold ourselves accountable. We have recently started to publish specific commitments in different societal areas – such as environment, human rights, nutrition, rural development and water – to allow everybody to see how we deliver on these commitments.

*What are the greatest challenges associated with managing stakeholders?*

One of the challenges is focus – because a company of our size and with such a broad stakeholder base is expected to be accountable for a very wide variety of issues. Through our stakeholder convenings and materiality processes we can focus our efforts specifically in the areas of greatest importance to our stakeholders. You can see the results of this process both in our materiality matrix and in the commitments that have been informed by it and the broader engagement process.

*Looking forward, in what direction do you plan to develop your stakeholder management approach further?*

At the global level, we will continue our strategic engagement with key stakeholders through our Creating Shared Value Forum series, stakeholder convenings and surveys. We will continue to identify and develop new partnerships, participate in multi-stakeholder initiatives, and strengthen our membership and involvement within industry alliances. We are also actively encouraging our markets to replicate these efforts at local level.

We will also continue to report and disclose using accepted standards and benchmarks so that we can improve our own performance. In our 2013 report on Creating Shared Value at Nestlé, for instance, we aim to demonstrate where we are making progress on our recently published commitments, and where there is more work to be done. We have also introduced a number of new commitments and will report on them in future years.

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*Paul Bulcke has been CEO of Nestlé Group since April 2008. Born in Roeselare in western Belgium, Mr. Bulcke graduated from the University of Leuven (Belgium) with a degree in commercial engineering, followed by post-graduate studies at the Vlerick Management School (Belgium). He joined the Nestlé Group in Vevey, Switzerland, as a marketing trainee in 1979. Over the next 16 years he held various positions in marketing and sales, and as division head, in Peru, Ecuador and Chile, before moving to Portugal as market head, followed by the Czech and Slovak Republics, and finally Germany.*



*In July 2004, Paul Bulcke joined the Nestlé Executive Board as Executive Vice President with responsibility for Zone Americas, where he played a decisive role in transforming this region into the Group's largest and most profitable zone. In April 2008, and with a career of almost 30 years with the Nestlé group, Paul Bulcke was appointed Chief Executive Officer. Mr. Bulcke is married with three children and four grandchildren. Besides Dutch (his mother tongue), he also speaks French, English, Spanish, Portuguese and German.*

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## Creating Shared Value Through Stakeholder Engagement

by Mark R. Kramer

Why do corporations engage stakeholders? If the stakeholders are customers, suppliers or shareholders, the business justifications are obvious. But when companies choose to engage with civil society organizations and governments, the purpose is not always as clear.

The most common answer is to preserve the company's reputation and license to operate by anticipating or resolving points of tension and disagreement between the company and those who are affected by its operations. This is a necessary form of stakeholder engagement, and it is generally much more successful than fighting or ignoring societal concerns.

But there is a far more powerful form of stakeholder engagement that comes from the concept of shared value that Professor Michael Porter and I developed.<sup>6</sup> Creating shared value is not philanthropy, corporate responsibility, or the usual form of stakeholder engagement. It is about policies and practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which the company operates.

### A social purpose

Shared value is about finding the profit in solving social and environmental problems, whether those problems are rooted in the company's operations or occur independently, outside its value chain. It is about identifying the one or two key societal problems that matter most to the success of the company and finding ways to address those problems that enable the company to increase its profits. When fully realized, shared value is about building a social purpose into the competitive strategy of the company.

Shared value can be created in three ways:

**New products and markets:** Nestlé, for example, has developed the Maggi Marsala-e-Magic bouillon cube to address

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6 M. Porter & M. Kramer, *Creating Shared Value*, Harvard Business Review, January 2011

nutritional deficiencies. The company knew that, in India, 70% of children under the age of three and 57% of women were anemic, and so they developed a low-cost bouillon cube fortified with the iron, iodine and vitamin A micronutrients that were needed. Since launching the product, Nestlé has sold about 138 million bouillon cubes, improving nutrition for over 200 million people, and creating a vast new and profitable market for the company.

**Reconceiving productivity in the value chain:** When Walmart decided to reduce its energy use, it found ways to save \$3 billion over five years – additional profit straight to their bottom line that came from reducing carbon emissions. But shared value is not only about environmental improvements. Coca-Cola in Brazil found that it could teach retailing skills to unemployed youth in the favelas or slums who could then find work selling different products – including Coke products – that significantly increased Coke’s distribution, strengthened brand affinity, and has improved the lives of more than 60,000 underprivileged young people. These are examples of shared value rooted in a company’s operations.

**Strengthening the cluster:** When Cisco Systems realized that a shortage of network administrators was holding back its growth, the company established the Cisco Networking Academy, which has trained nearly 5 million network administrators in 165 countries and now graduates 1 million more every year. This has brought immense economic opportunity to many people who would never have had the chance, but it has also fundamentally improved market conditions for the company by creating a trained workforce for its customers. Cisco found a way to solve a social problem that affected its industry cluster, which was caused by limitations in educational systems around the world and not by the company’s ordinary activities.

These are just a few of the examples we have found of companies that create shared value by fundamentally changing societal conditions in the regions where they operate. They do so in ways that improve millions of lives and, at the same time, overcome material constraints to the growth of their businesses.

Successfully creating shared value depends on stakeholder engagement, but not on the usual form of engagement aimed at resolving objections to the company’s operations. For a company to be successful in creating shared value, it must

acquire a deep understanding of the problem it is trying to solve and the customers it is hoping to serve. Nestlé, for example, went into the homes of 1,500 low-income Indian families to observe how the women prepared meals. It was that close engagement with the community that led to the realization that the spices in a bouillon cube would hide the bitter taste of the micronutrients. Further community-based research was needed to determine the right combination of spices and a realistic price point to make the product successful.

Similarly, Cisco had to work closely with educational institutions around the world to design the Networking Academy in a way that enabled students to obtain course credit. And Coca-Cola had to engage youth in the favelas as instructors and outreach workers in order to attract enrollment. Each of these examples, and many more, involves a close working partnership between a company and stakeholders – not to silence critics or protect a license to operate, but to develop effective and profitable solutions to social problems.

Shared value does not replace philanthropy, corporate responsibility, or the usual forms of stakeholder engagement, but it opens the door to a new way of engaging with stakeholders that leverages the power of capitalism to solve societal problems at scale.

### **Working as partners**

Often, these solutions are not created by companies alone. Civil society and government help devise and implement solutions. Nestlé uses charities to distribute its bouillon cubes in regions too poor to cover normal distribution costs. Coca-Cola works with local community groups to conduct its classes. Cisco cooperates with schools to house the laboratories for its students.

Although engagement with civil society and government is essential, we can no longer depend on those sectors to solve the world's urgent social and environmental problems on their own. Bringing business to the table as a partner with charities and government in solving social problems is the biggest step forward that we can possibly take to improve social conditions. And in doing so, companies can overcome many of the societal limitations that have held back their growth. But companies will only succeed in creating shared value if they



genuinely engage stakeholders in a new way: as partners in the development of a solution.

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*Mark Kramer is co-founder and Managing Director of FSG Social Impact Advisors and Senior Fellow, CSR Initiative, Harvard Kennedy School of Government. He is the author of influential publications on corporate social responsibility, shared value, catalytic philanthropy, strategic evaluation and impact investing. At FSG, Mr. Kramer oversees the consulting practice and helps drive the vision and growth of the firm. He also leads the research on many of FSG's publications and publishes regularly in Harvard Business Review and Stanford Social Innovation Review. He is co-author with Michael Porter of the Harvard Business Review article, "Creating Shared Value," which won the 2011 McKinsey Award.*



*Before co-founding FSG, Mr. Kramer served for 12 years as president of Kramer Capital Management, a venture capital firm. Prior to this, he was an associate at the law firm of Ropes & Gray in Boston, and a law clerk to Judge Alvin B. Rubin, Fifth Circuit, US Court of Appeals.*

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# 3. Deutsche Post DHL – Listening, Learning, Engaging

## **From Shareholder Value to Stakeholder Value – for a Multidimensional Understanding of Corporate Responsibility**

*by Professor Christof E. Ehrhart*

We are living in a time that has seen the key factors for corporate success change markedly in only a few years. The protagonist of the story is the fading boundary line between the business and social spheres. The consequences of this development are penetrating into the very core of corporate decision-making. Creating value is measured less and less in terms of maximizing shareholder value, which until recently was among the guiding principles of management in both theory and practice. It is becoming increasingly clear that financial success is tied ever more closely to enthusiastic customers, motivated employees, strong business partners and social trust.

A series of developments have greatly raised awareness of this idea – which is not necessarily new. One of these is the fact that the globalization of many markets has created production and supply chains of enormous magnitude. Today, due to an extraordinarily high international distribution of labor, a decision by one single company can affect (directly or indirectly) more people than ever before. On top of that, people around the world are monitoring, discussing and passing judgment on the decisions made by companies more than ever before.

This is due to an explosion of information and interaction resulting from the dense network that has followed in the wake of globalization and the rapid increase in digital channels. News, opinions and waves of attention are spreading like wildfire and ever more frequently around the globe. This means that companies nowadays find themselves under a much more powerful microscope than before – one being looked into by a more interested and critical public. Yet there are also many opportunities to be had in this new plurality of digital media and heightened awareness. Today, companies have countless ways to speak directly to their target groups or start a specific dialogue with stakeholders.

In short, we are experiencing a clear redefinition of the parameters for how companies do business. This development is reinforced by the fact that a new generation is coming of age – one that understands this new environment better than anyone else and that masterfully strokes the keys of participation in order to make a difference. This group is made up of proactive consumers, confident investors and employees who want to be fully engaged.

Although this shift has not reached every industry and region with the same intensity, there are more and more signs that companies sail a risky course in today's dynamic world if they only look through a narrow telescope. An excessively unilateral focus on quarterly figures, share price fluctuations or individual target groups, for example. These companies are liable to overlook risks and opportunities and be overtaken by events. In today's world, if you follow a business model that is totally at odds with the social dimension, you risk your "license to operate."

There's a flip side to that coin, namely, that companies can only build sustainable economic strength if they are open to the world around them and if they design their business to unite economic success *and* social contribution. Companies that rely on an open exchange and dialogue not only secure deep trust but also tap into a plethora of ideas that could prove to be crucial for success.

## What corporate responsibility objectives can we derive from this?

This widens our perspective and leads us to responsible corporate leadership. Rather than “business as usual” when it comes to sustainability, a new, all-inclusive approach is called for – one that takes three dimensions into account. This approach is

1. *Participatory*, because it relies on continuous dialogue with stakeholders, absorbs a high number of influences and measures its own impact based on the pulse of society. By being open to external points of view, this approach triggers innovation, heightens self-awareness and increases flexibility.
2. *Integrative*, because it avoids the trap of developing in a bubble. Instead, it looks at the company’s activities at all points in the value chain and paves the way for a more sustainable business in every respect.
3. *Inspirational*, because it helps companies recognize how to use their own skills to not only meet customer needs, but at the same time contribute to social and environmental progress. Those who are also able to utilize their core expertise to benefit an intact and prospering environment will open up completely new business opportunities.

This multidimensional approach to responsible corporate leadership is definitely not a simple “add-on” – rather, it is demanding because it fundamentally shapes your entire business philosophy. And that’s precisely what makes it so powerful. For it is not *in spite of* but actually *because of* setting ambitious standards for all the dimensions of their businesses that companies are able to build the engine that allows them to keep pace with the rapidly changing requirements and set themselves apart from the competition.

## **Corporate responsibility at Deutsche Post DHL**

An integrated business approach like this plays a very important role for a leading global logistics company like Deutsche Post DHL – a role that is bigger than the company itself. For it not only strengthens our own capabilities and fitness for the future, it also benefits our customers and society as a whole.

After all, as part of a key branch of the economy, we enable international exchange, link people around the world and are deeply embedded in commercial processes. Given the fact that we orchestrate production chains worldwide, we have a unique understanding of the challenges and success factors for sustainable business at every link in the value chain. With our network and our know-how, we work to make business models more sustainable and prepare the way – often blazing new trails – to a carbon-efficient economy.

Guided by our strategic goal to make corporate responsibility at Deutsche Post DHL a clear success factor, we have used the past few years to systematically advance our approach to sustainability. We established a multistep management process that gives equal weight to the external and internal dimensions of responsible corporate leadership. The process ensures that we systematically receive new impetus from stakeholders, that we solidly anchor the principles of sustainable business within our entire organization and that our external activities in the areas of Corporate Citizenship and Shared Value achieve their full impact.

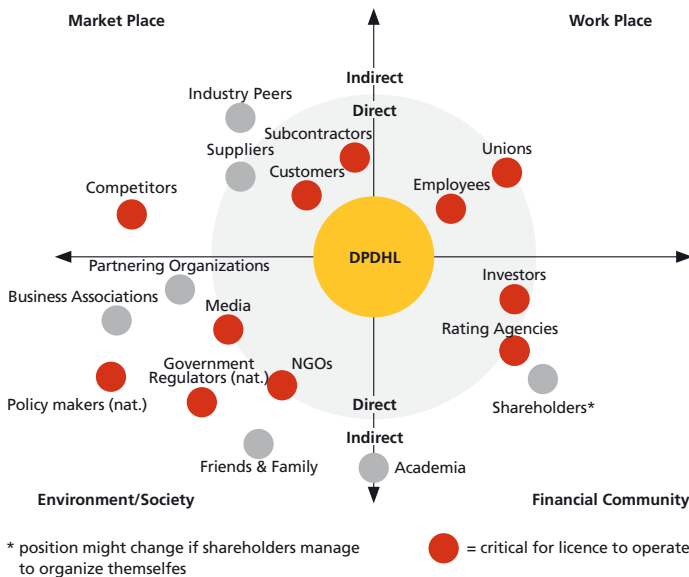
### **Listening to what stakeholders want requires dialogue**

For us, the starting point and fundamental requirement for responsible business is listening to our stakeholders and maintaining a dialogue with them at all levels. We talk to a lot of actors. It's the nature of our global business. And we find a wide range of different positions among them, not to mention conflicting interests. These actors are not only customers, employees and investors, but also a large number of suppliers, policymakers, administrations, the media, NGOs and unions around the world (see graphic, p. 68).

We actively integrate our stakeholders using a variety of different activities and platforms. These include regular customer or employee opinion surveys, in-depth discussions at forums and conferences, as well as collaboration in working groups or partnerships. And in 2013 we conducted a structured and multifaceted stakeholder survey in order to gain a more comprehensive picture of the various points of view. It covers all dimensions of responsible corporate leadership.

## DEUTSCHE POST DHL STAKEHOLDER MAP

The map shows relevant stakeholders who affect or can be affected by Deutsche Post DHL

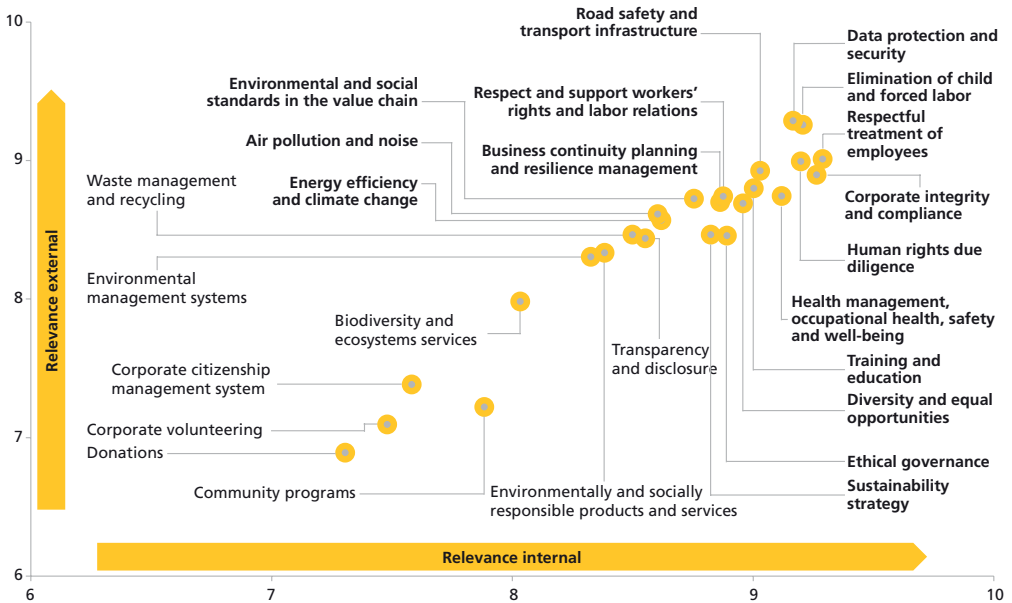


With the help of a materiality analysis based on the survey, the results showed which topics were considered significant for Deutsche Post DHL (see graphic, p. 69). It turns out that stakeholders assign particularly high relevance to business-critical issues in the context of corporate responsibility. The topic clusters “Labor Practices and Human Rights,” as well as “Fair Operating Practices” were regarded as issues of high relevance by both internal and external stakeholders.

We intend to repeat our stakeholder survey on a regular basis. By comparing the results with previous surveys, we can measure the progress in certain areas. This will also

ensure that we respond appropriately and at the right time to the changing positions of our stakeholders.

**RESULTS OF THE MATERIALITY ANALYSIS – RELEVANCE FOR DEUTSCHE POST DHL VS. RELEVANCE FOR EXTERNAL STAKEHOLDERS\***



\* Relative rating of relevance from 1 (very low relevance) to 10 (very high relevance). None of the surveyed topics were regarded as of little or no relevance. Matrix depicts topics rated between 6 and 10 on the relevance scale.

**Permanently embed responsible business practices**

One of the goals of interacting with stakeholders is to systematically integrate the results into our corporate activities. In particular this means that our stakeholders fundamentally shape the work of our new network for Responsible Business Practice (RBP). This internal, cross-divisional network aims to collect external ideas, identify what action is needed, and ensure that we maintain ethical standards and meet the demands of society.

All areas of the company that are relevant for CR are represented in Deutsche Post DHL's RBP network. Beyond our divisions, these include corporate functions such as Compliance, HR, Communications, Corporate Responsibility, Procurement and Corporate Security. Members of the network analyze all areas relevant to the Group, set priorities

and develop any necessary measures. They take advantage of the insights gained from our dialogue with stakeholders, a variety of studies and customer surveys, as well as the results of our materiality analysis. The network thereby helps Deutsche Post DHL better identify business opportunities and risks and respond more quickly with appropriate measures.

We have also established a committee of international advisors in order to maintain an ongoing external review of our entire sustainability agenda. The Sustainability Advisory Council (SAC) is made up of independent experts and opinion leaders from a number of disciplines (science, business, environment, logistics, politics, media and ethics). The SAC is intended to help us ensure that our sustainability activities are always in line with social requirements and developments. The group met for the first time in Bonn in March 2014.

## **Creating social and corporate value**

The above-mentioned activities are aimed at increasing our performance with respect to society, the environment and the economy. We also organize two fields of activity pertaining to Shared Value and Corporate Citizenship that have a stronger external focus. As corporate citizens, we apply our strengths and core competencies to address social needs. Shared value means we want to create value for the company and its customers that society and the environment can benefit from as well.

### *Corporate Citizenship*

At the heart of our Corporate Citizenship activities are our Group programs, GoHelp and GoTeach, which we run together with experienced partners. GoHelp involves supporting disaster management at airports in cooperation with the United Nations. This includes our Get Airports Ready for Disaster (GARD) program, which we use to help prepare airports in areas at risk of natural catastrophes. In addition, our Disaster Response Teams (DRTs) provide on-site support at affected airports in the wake of a natural disaster.

GoTeach is a program we employ to improve the educational and career opportunities of young people. After all,



the ability to remain innovative and fit for the future in our society depends on a good education and specific vocational preparation. Here, too, we are engaged around the world with experienced partners, for example, the Teach for All initiative and SOS Children's Villages, in order to support and foster children especially from disadvantaged socio-economic backgrounds.

Beyond our GoHelp and GoTeach programs, we encourage volunteerism among our staff, an example of which is our Global Volunteer Day. In 2013, nearly 100,000 employees in 127 countries volunteered their time in over 1,500 community projects. Furthermore, we launched the Living Responsibility Fund, which we use to support local environmental protection and aid projects in which our employees are involved. And, our internal "We Help Each Other" financial assistance fund leverages donations from many employees to provide emergency financial assistance to colleagues affected by disasters.

### *Shared Value*

Our environmental protection activities are based on the Shared Value approach, the heart of which is creating a reasonable and credible link between our sustainability efforts and our business. This means that we also want to increase our business success through the contribution we make to society and the environment.

Our GoGreen program is the primary platform we use to pursue this aim. As part of this program, we have set ourselves a goal to improve our carbon efficiency by 30 percent by the year 2020 compared to the base year of 2007. This includes not only reducing the impact our business activities have on the environment, but also lowering our dependence on fossil fuels and reducing costs. We have made good progress toward this target as a result of much action taken over the past few years. In 2013, we had already improved our carbon efficiency by 18 percent compared to the base year – meaning we are over halfway to our goal.

As part of our GoGreen program, we are also developing new environmentally friendly products and services that benefit our customers. These include, for example, carbon-neutral shipping solutions. In 2013, we shipped 2.365 billion items carbon-neutrally for our customers. The number of

carbon-neutral parcels rose from 157 million in 2012 to 175 million in 2013. Carbon-neutral express shipments increased from 4 to 9 million. Such growth rates are normally reserved for startup companies.

We are continuing to develop our portfolio of sustainable services. And we are offering our customers more and more customized solutions, leveraging our experience to help them achieve their own carbon and efficiency targets. With our expertise, we optimize their supply chains, minimize emissions and make sure climate goals are reached.

For example, we developed green solutions for the transport needs of a leading aerospace manufacturer – particularly their road transport requirements. This was possible by employing a mix of technologies to considerably reduce fuel consumption and significantly increase the use of alternative fuels. Using these and in some cases even more comprehensive solutions, we are opening ourselves up to new business opportunities, contributing to global climate protection and ensuring that our customers benefit from greener logistics.

**CR APPROACH AT DEUTSCHE POST DHL**



## Dialogue breeds trust

Today, companies that want to play a key role in the market over the long term must do more than focus solely on continuously improving their competitive edge. Their business activities must also be in line with the complex expectations and demands of many stakeholders. We are convinced that the only path to responsible corporate leadership is through dialogue.

The more open a company is to its stakeholders and their diverse points of view, the more heightened its awareness of its own surroundings and the more insight it will gain about how its own positions, services and values are perceived. Those who choose dialogue increase their credibility as good corporate citizens in the public eye and build trust. At the same time, companies with a lot of experience in this regard develop a good sense for how to shape their own added-value so that economic success *and* social responsibility go hand in hand.

Our corporate responsibility strategy enables us to anchor a corporate culture driven by sustainability and dialogue at Deutsche Post DHL. We are extremely pleased with the insights we have gained through comprehensive dialogue with our stakeholder groups. Part of our culture is to see corporate responsibility *and* corporate performance as inseparably linked. The way we are handling our corporate responsibility is receiving a lot of attention, not least because we are already making a measurable social *and* corporate contribution using our green expertise.

Our goal is to continuously expand our knowledge and experience by systematically maintaining a comprehensive dialogue with our stakeholders. With this as our basis we will be in a much better position in the future to tap into new markets and further strengthen the economic *and* social capabilities of our company. To us, this positive feedback mechanism is synonymous with the corporate responsibility of tomorrow.



*Professor Dr. Christof E. Ehrhart joined Deutsche Post DHL in 2009. He serves as Executive Vice President of Corporate Communications and Responsibility. From 2007 to 2008, Christof Ehrhart was head of worldwide corporate communications at the aerospace group EADS. He began his career in communications management in 1995 at Bertelsmann. Mr. Ehrhart is a member of the board of econsense, the Forum for Sustainable Development of German Business, and an honorary professor for international corporate communications at the Institute for Communications and Media Studies at the University of Leipzig.*

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## Stakeholder Dialogue at Deutsche Post DHL: The Example of Sustainable Transport

As the leading mail and logistics company, Deutsche Post DHL is part of an industry that plays a crucial role in the world. Logistics strengthens economic ties and contributes to social prosperity. Given the enormous challenge of environmental protection, the logistics industry is also increasingly called upon to reduce its CO<sub>2</sub> emissions and help promote sustainability through environmentally friendly transport solutions. This is a high-priority, future-oriented mission and it is a change that affects the interests of many different stakeholders and requires dialogue and close cooperation among all those involved.

Deutsche Post DHL is pursuing this dialogue and cooperation at all levels. Together with customers and logistics partners, we are working to make logistics more efficient and environmentally friendly. We are also committed to the establishment of industry-wide emission standards and, in turn, carbon emission transparency along the entire supply chain. Furthermore, we cooperate with different vehicle manufacturers around the world in order to gain insight to further develop sustainable technologies. Today our green fleet totals some 11,500 vehicles.

Together with partners we have even developed an all-new, customized electric vehicle for mail and parcel delivery – the StreetScooter. This delivery van plays a main role in our world premiere pilot project, “Carbon-Free Delivery in Bonn”. Supported by the German federal government’s electromobility program, Deutsche Post DHL is completely converting its delivery services in Bonn (Germany) and the surrounding area to electric vehicles.

In the following pages we shine a spotlight on several of our stakeholder activities related to sustainable transport. The examples demonstrate how we engage in dialogue with stakeholders in order to understand their perspectives, gather ideas and gain acceptance. Our partners in these efforts include local residents, customers, as well as members of the logistics and automobile industries, government,

media and science. These reports of our activities provide evidence of the level of sustainability already possible today when business, research and government cooperate. They also sometimes serve to remind us that there is still a considerable way to go before we achieve fully sustainable logistics.

We are determined to go down that road and, in our view, the dialogue and close cooperation with our stakeholders are paving the way. That's why we will continue to pursue these activities, and we are certain that the new impetus and insights we gain will play an important role in making transport more sustainable.



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*Developed together with partners, StreetScooter is an electric vehicle designed specifically for mail and parcel delivery. Even when making frequent delivery stops, the vehicle has a cruising range of 80 kilometers.*

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## **A Public Dialogue on Electromobility**

In the summer of 2013, Deutsche Post DHL put 80 electric vehicles on the streets of Bonn, Germany. By 2016, another 60 will be added, making the delivery of mail and parcels in the former capital city carbon-free. It is a world premiere – the first time ever that an entire city is being served by a carbon-neutral vehicle fleet. Delivery operations with electric vehicles have never before been attempted on this scale.

Like most ground-breaking projects, Deutsche Post DHL is running a long pilot phase to ensure that the many fundamental questions surrounding electromobility and its application in large vehicle fleets are answered. For instance, how will the motors and batteries handle the stop and go of delivery operations? What effect will charging the batteries have on power grids? And, under what conditions will electromobility pay off?

Although the outcome of the project is still up in the air, expectations are high at Deutsche Post DHL. A successful test will create a blueprint for other cities and regions, and the company would take another step toward its sustainability goals.

The scale of the project is not the only reason Deutsche Post DHL is breaking new ground. Public opinion is also an important issue in all of this, and the company is going out of its way to find out what the public thinks about electric vehicles delivering their mail and parcels. Electromobility is generally seen as an environmentally friendly technology. However, wind energy and solar parks, for example, were also viewed positively early on but are now under growing criticism. That's why, over the course of the project, Deutsche Post DHL has sought a dialogue with residents of the city of Bonn and its surrounding communities. At "Electromobility Day" on September 14, 2013, the company reached out to the community and gained a lot of important insights.

### **Carbon-Free Bonn**

Launched in May 2013, Deutsche Post DHL's pilot project is transforming Bonn into a model city for carbon-neutral delivery vehicles – and it instantly became the city with one of the largest integrated electric commercial vehicle fleets in the world.

In the first phase of the multiphase project, the company's electric vehicle fleet in Bonn and the surrounding areas has expanded to the current 81 vehicles. If the vehicles and the charging technology meet expectations in phase 1, the electric fleet will be expanded in two additional project phases.

New vehicles will be added by the end of 2014, bringing the total to around 120. That figure is enough to cover mail and parcel delivery in the entire city of Bonn and three surrounding regions during normal operations. Some conventional diesel vehicles will be in reserve, but only put into operation during peak traffic times – above all, during the pre-Christmas period. Once another 20 electric vehicles are added in 2015, diesel-powered delivery vehicles will be a thing of the past in Bonn. During the final phase, a total of more than 140 electric vehicles will be on the streets, generating a total savings of over 500 metric tons of carbon per year.

The fleet operates electric-drive minivans, vans weighing up to 2.8 metric tons and parcel delivery trucks. Most of the vehicles hail from Iveco, Renault and Mercedes, but part of the fleet comprises 20 StreetScooters. This new vehicle was





“The pilot project in Bonn is unique and serves as a model for the industry. As one of the largest fleet operators in Germany, we have a strong interest in utilizing innovative and eco-friendly vehicles. I am particularly pleased that we can make use of our own electric vehicle in the project. The StreetScooter has been specifically developed for our needs in the daily mail business.”

*Jürgen Gerdes  
Corporate Board Member Post - eCommerce - Parcel  
Deutsche Post DHL*

specially designed for mail and parcel delivery as part of a joint development with StreetScooter GmbH, a spin-off of the RWTH Aachen University.

The fleet will deliver parcels inside the city and both mail and parcels in the city suburbs and surroundings, all running on electricity from renewable resources.

One of Deutsche Post DHL’s project partners is Langmatz, a German company based in Garmisch-Partenkirchen that is supplying the charging infrastructure and intelligent control systems intended to ensure that battery charging has the smallest possible impact on the power grid. Moreover, an interdisciplinary team of scientists from a number of institutes at the RWTH Aachen University is documenting the project and examining the charging infrastructure as well as battery systems, not to mention the overall economic aspects of the project.

The German federal government’s electromobility program is supporting the project, and the public subsidies received as part of this support will make the project economically viable. The initial cost of electric vehicles is considerably higher than that of conventional vehicles. The public subsidies are tied to extensive publication requirements, which means that the test results will be made available to the general public and, in turn, other delivery fleet operators.



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*Deutsche Post DHL's green fleet includes electric vehicles from a number of manufacturers as well as the StreetScooter*

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### **A perfect fit with the company's global GoGreen program**

The pilot project in Bonn is part of a Group-wide environmental protection program called GoGreen that was started by the company in 2008. By launching the program, Deutsche Post DHL committed itself to improving the carbon efficiency of its own operations as well as those of its transportation subcontractors by 30% by 2020 compared with the base level from 2007. By the end of 2013, Deutsche Post DHL had already achieved an increase in efficiency of 18% by optimizing networks, shifting the flow of goods to environmentally friendly modes of transport, modernizing its vehicle fleet and deploying a total of 11,500 climate-friendly vehicles.

Moreover, as part of GoGreen, Deutsche Post DHL has joined in the development of industry calculation standards for carbon emissions, for example within the “Green Freight Europe” initiative (see also page 93).

Another component of GoGreen is the development and marketing of green products and services. For example, Deutsche Post DHL provides its business customers with a report detailing the amount of carbon emissions resulting from the transport of their goods. Furthermore, the company advises its customers on how to design their logistics operations in a way that reduces costs and energy. Finally, Deutsche Post

DHL offers climate-neutral solutions and products by offsetting the greenhouse gas emissions resulting from customer shipments through investments in climate protection projects.

## **Media coverage**

The project was initially introduced to the public at a press conference in Bonn on May 21, 2013, at which Deutsche Post DHL's CEO Frank Appel and Jürgen Gerdes, Corporate Board Member, Post - eCommerce - Parcel (PeP) division, were joined by Germany's then-environment minister, Peter Altmaier and Bonn's mayor, Jürgen Nimptsch. There was a large media presence and the coverage was both broad and positive. Beyond the many daily print and online media outlets, the story was picked up by magazines, various specialized media and environmental blogs. The project also resonated on social media.

## **A conversation with the public on Electromobility Day**

Beyond communicating the project to the media, Deutsche Post DHL has introduced it to the residents of Bonn by way of an information event and, in the process, has launched a dialogue with them. "Electromobility Day" on September 14, 2013, was the second event of its kind, and was held in cooperation with the city of Bonn, the Rhein-Sieg area as well as the public utility company and other – mainly energy – companies. Deutsche Post DHL was a co-exhibitor. The event took place on Bonn's Münsterplatz – the city's central square. The goal was to demonstrate the possibilities of innovative and climate friendly mobility, generate interest in the topic and get a sense of public opinion.

## **A colorful program and invaluable feedback**

The event itself was designed to provide a kaleidoscope of activities. Young newcomer bands took to the stage to entertain and moderated discussion panels were held to inform. Contests and other activities encouraged visitors to do more than simply look around. The main attraction was, of course, the Group's electric vehicles, which were right there on display. Both a postal carrier e-bike and e-trike were parked alongside the electric vehicles currently being tested in the pilot project.



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*Deutsche Post DHL presented its pilot project “Carbon-Free Delivery in Bonn” to residents of the city on Electromobility Day.*

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Two Deutsche Post DHL experts were on hand (see interview on page 86) along with several of the test vehicle drivers. People could also visit an information pavilion to learn more. Inside, they were asked to fill out anonymous feedback cards. A total of 142 cards were received, which were then later sorted by topic and given to the project teams.

The public response was extremely positive: 82% of the respondents see carbon-neutral mail and parcel delivery in their city as progress and consider it a positive development. When asked why they support the project, 67% indicated that they felt it was good for the environment. About one-tenth see Deutsche Post DHL as a role model for other delivery companies. Another 4% were for the project because they expect it to result in reduced street noise. Likewise, 4% indicated that they generally support innovation. Some 15% of respondents provided additional reasons for their support, including that electric vehicles could ease the workload of postal carriers.

Some 10% indicated that they had not yet formed a clear opinion about the project; only 8% (ten feedback cards) were opposed. The reasons for their objections included the lack of green electricity, which could be exacerbated by an electric fleet (three mentions), a general concern about rising electricity prices (two mentions), as well as the lack



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*Bonn's historic 11th-century Minster Basilica provides the backdrop as the future takes center stage: How can electromobility promote sustainability?*

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of practicality in the technology and the danger of lower vehicle noise from e-vehicles (one mention each).

The survey showed that environmentally friendly delivery with electric vehicles plays a large role in customer acceptance of logistics services. Some 80% of respondents indicated that they would choose Deutsche Post DHL over other postal companies and parcel delivery services because of the carbon-neutral mail and parcel delivery services. This quick survey in downtown Bonn validates earlier surveys conducted by the company's Market Research Service Center, which had similar results. Respect for the environment is increasingly becoming a strategic success factor for logistics companies.

At the end, the survey asked participants for their overall opinion of the future of electromobility. Several answers were possible. Some 60% see it as part of solving the carbon problem 56% believe that electric vehicles have a future, 47% think electromobility is an opportunity for the automotive industry. However, just as many feel the technology is still too expensive for widespread application. Some 28% feel the success of electromobility depends on whether enough green electricity is available to charge the vehicles. And, only 7% of respondents were of the opinion that other alternative technologies and drive systems would become mainstream more quickly.



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*Visitors left their opinions on electromobility on feedback cards.*

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### **Talking with stakeholders**

The opportunity was taken to talk directly to people and note down their opinions. These anonymous interviews were actually more like open conversations. For example, the interviewers did not run down a list of prepared questions. The interviewees were asked about their attitude toward electromobility, their prior knowledge of the Carbon-Free Bonn project and why they decided to visit that day.

Like the feedback cards, these qualitative interviews also showed that people generally support electromobility and see the Carbon-Free Bonn project as making an important contribution to environmentally friendly mobility in the future. The only criticism involved traffic safety. While some saw the reduction in traffic noise from electric vehicles as positive, others expressed concern that they would be surprised by the nearly silent oncoming vehicles. Prior knowledge of the project varied among those interviewed. About half of them specifically mentioned reading about the event and Deutsche Post DHL's test in the media.

When asked about why they came, most people expressed a general interest in electromobility. When asked if they would purchase an electric vehicle, most said they would at least consider it, however the consensus was that electric cars are still too expensive for private use. Most of those interviewed

consider fleet operators like Deutsche Post DHL to be leading the way. They feel that their demand for electric vehicles might stimulate mass production and ultimately reduce the price of vehicles with electric drive systems.

### Talking with the experts

The picture painted by the interviews was also seen in the discussions the delivery vehicle drivers and Deutsche Post DHL experts had with the public. The drivers mainly received questions about how the vehicles handled in everyday traffic situations and whether there were any fundamental differences compared to cars with standard combustion engines. The two experts, on the other hand, were asked about the economics of electromobility as well as Deutsche Post DHL's strategic focus. The discussions also made it clear that people hope the pilot project will be expanded (see following interview).

### A successful dialogue

The residents of Bonn are highly interested and supportive of the Carbon-Free Bonn project. And they welcome direct dialogue with Deutsche Post DHL. Many residents also see the company's commitment to electromobility as an initiative that they will personally benefit from. They expect the large-scale application of electromobility technology to make it more affordable for private consumers.



“The positive feedback on our test run in Bonn is encouraging. It confirms that we are on the right track with this ambitious project. The pilot helps us to gain valuable experience and knowledge that will be decisive for the expansion of CO<sub>2</sub>-free delivery in the future.”

*Uwe Brinks  
Chief Production Officer (CPO)  
Post - eCommerce - Parcel  
Deutsche Post DHL*



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*How does it drive? How far can it go on one charge?  
The StreetScooter stole the show on Electromobility Day.*

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### **“Like Talking to a Curious Neighbor”**

*Interview with Michael Lohmeier and Jörg Salomon*

*Mr. Salomon, Mr. Lohmeier, you two represented Deutsche Post DHL as electromobility experts on “Electromobility Day” in downtown Bonn. What kinds of questions did people have?*

Michael Lohmeier: They were across the board. Near the vehicles we talked mostly about them and the technology. People are simply fascinated with motorized vehicles. It was a little like driving home in a brand-new sports car and being approached by curious neighbors. People asked questions like how much energy is consumed, what was their horsepower or kilowatts, how far they could go, how much they cost, how fast they could go, and how comfortable they are to drive. Most were especially fascinated by the StreetScooter, which of course looks quite different from the other delivery vehicles.

Jörg Salomon: And, of course, we also got questions about electromobility, about the range in the summer as opposed to winter, handling, charging time, and about whether a rapid charging station or a completely normal electric socket was the better solution. People also had a lot of



economics-related questions, such as how expensive one battery charge is for a range of 100 kilometers.

*And, how much would the electricity for 100 kilometers cost?*

Jörg Salomon: That depends on the vehicle class as well as on load and weather conditions, but you could use less than half of the energy cost of a conventional vehicle as a ballpark figure.

*Wow – that should make huge savings possible!*

Jörg Salomon: I got that same response often over the course of the day. However, the purchase price of electric cars is much higher than standard diesel or gasoline-powered cars. We are hoping that this is balanced in the medium term by declining battery costs.

*What do residents think about the Carbon-Free Bonn project?*

Michael Lohmeier: That was something mostly discussed in the info tent. The overwhelming majority of people supported our project and had high expectations of it. Many would like to see us expand the test to other cities and regions very soon. And they think this way out of a certain level of self-interest: They see Deutsche Post DHL as a pioneer and think that our demand for electric vehicles will see to it that they are mass produced and become more affordable for private consumers.

Jörg Salomon: I can confirm these high – maybe even too high – expectations. I was actually asked why the test was even necessary considering the fact that the vehicles already existed and functioned.

*What was your response?*

Jörg Salomon: That there were things we don't yet know, and that we can only understand them by testing for an extended period of time. The main thing is a vehicle charging infrastructure. We want to find out what effect charging a commercial vehicle fleet has on the city's power grids. And we need to observe how the vehicles and battery systems age. The constant stop and go of delivery operations is very hard on a vehicle. We also know very little about

maintenance intervals. An electric car doesn't have spark plugs, it doesn't require an oil or air filter change, and it doesn't have an exhaust that can rust. So, in theory at least, electric vehicles are very low maintenance. But we'll only know more about this by carrying out the test.

Michael Lohmeier: There are more than just opportunities in this project – there are also a number of technical and financial risks. I hope that we were able to communicate these risks to the people we spoke to as well.



*Jörg Salomon heads the Carbon-Free Bonn project at Deutsche Post.*



*Michael Lohmeier is the head of GoGreen at Deutsche Post.*

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*Over 80 guests followed the panel of top-notch experts at Deutsche Post DHL's Delphi Dialog VII.*

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## **Expert Discussions on Electromobility**

Two months after presenting its Carbon-Free Bonn pilot project to locals a top-notch panel of experts then met in Bonn to discuss the future of mobility at Deutsche Post DHL's Delphi Dialog VII.

Over 80 guests from politics, business, society as well as representatives from the media came to the Post Tower event on November 18, 2013. Experts on the podium included the former auto industry manager, Daniel Goeudevert, Prof. Stephan Rammler, Director of the Institute for Transportation Design in Braunschweig, and Jürgen Gerdes, CEO of Deutsche Post DHL's Post - eCommerce - Parcel (PeP) division. The topic under discussion was, "How do we leave the fossil-fuel era behind us and generate new momentum for the German economy?"

The panel quickly agreed that the question was not easy to answer, but that it was certainly a crucial one. Carrying on as we have up to now is hardly an option, they said. The impact on the environment from the use of traditional combustion engines is already too high. Limiting mobility would mean restricting the flow of goods and limiting people's freedom of movement. So what could the future look like?



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*Prof. Stephan Rammler (left): “Our goal cannot be to replace 1 million combustion engine vehicles with 1 million electric vehicles.”*

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Will electric vehicles take over? Do hybrid engines have a future or will vehicles with traditional but more efficient combustion engines become the transportation standard?

The last option is not a solution, said the panel. After all, more efficient combustion engines will not prevent the Earth’s oil reserves from being depleted. Despite their unanimous assessment of the situation, a lively discussion ensued on mobility in the future. Prof. Rammler posited that a simple shift in technology from combustion to electric engines was not a viable solution, as it would in no way diminish traffic levels or congestion. “Our goal cannot be to replace 1 million combustion engine vehicles with 1 million electric vehicles,” explained the futurologist.

According to Rammler, “the mass model private motorization” will become obsolete in the long term anyway, meaning that in the future one car per person or family will be the exception, not the rule. An “integrated mobility approach” must take the place of today’s model and include electric car sharing, pedelecs and bicycles as well as efficient local public transportation networks. Daniel Goeudevert also pointed out that mobility in the future would entail an element of sacrifice, whilst Jürgen Gerdes underlined the importance of making Mobility 2.0 focus on sparking

people's enthusiasm for innovative technology. Without this, change is unlikely to succeed.

### **Demand-generated impetus**

The former auto industry manager, Daniel Goeudevert, was somewhat skeptical that the automotive industry would be inclined to push ahead with alternative drivetrains of its own accord. The impulse needs to come from customers. Only then are car manufacturers likely to respond with the right products. He sees large customers like Deutsche Post DHL as being in a strategically important position. After all, the company operates over 60,000 vehicles in Germany alone and could therefore have a key impact on demand for electric vehicles. As such, Goeudevert's expert opinion was aligned with that of many of the locals who were in attendance at Bonn's Münsterplatz in September. They, too, expressed hopes that demand for electric vehicles from the operators of large fleets would push forward large-scale series production and thus render the technology affordable.

## DELPHI DIALOG 2020

### **Background: Delphi Dialog 2020**

With its Delphi Dialog 2020 discussion series, Deutsche Post DHL has established its own format for exploring future-relevant issues and challenges. Members of the Board of Management engage in dialogue with renowned experts from the business community, the scientific/research community and the media, and then field questions from audience members, including customers, business partners, journalists, analysts, investors and political representatives. The first Delphi Dialog took place in 2010 and since then, eight events have been held.

The Delphi Dialog 2020 event series focuses on topics relevant to both the future of logistics and society as a whole. Individual Delphi Dialog events are often held in connection with the publication of new Deutsche Post DHL future studies.

### *Previous events*

#### **Delphi Dialog VIII in Berlin**

*The Future of E-Commerce: Staying ahead of the game*

#### **Delphi Dialog VII in Bonn**

*Mobility 2.0 – How do we leave the fossil-fuel era behind us and generate new momentum for the German economy?*

#### **Delphi Dialog VI in Columbus, USA**

*The Future of E-Commerce*

#### **Delphi Dialog V in Frankfurt/Main**

*Is Globalization Still the Answer? Maximizing economic and human potential*

#### **Delphi Dialog IV in Berlin**

*Is E-Commerce the Key to Consumer Happiness? How the Internet is changing our buying behavior*

#### **Delphi Dialog III in Shanghai, China**

*Gridlocked Megacities and Global Environmental Problems: Challenges for the logistics industry and their solutions*

#### **Delphi Dialog II in Hamburg**

*About Pirates and Electronic Fingerprints: How future logistics can address the challenges of a global world*

#### **Delphi Dialog I in Frankfurt/Main**

*Wonderful New World of Logistics? How new technologies could radically change world trade*



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*More transparency with regard to our actual carbon footprint is needed in order to reduce the environmental impact of our own actions.*

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## **Green Road Freight – Do We Need More Transparency? The Findings of an Expert Roundtable Discussion**

On December 9, 2013, Deutsche Post DHL, in partnership with the German mobility advocacy platform Deutsches Verkehrsforum, hosted a roundtable discussion on green road freight and emissions transparency. The agenda of the event in Berlin revolved around how Germany could become more sustainable through more efficient and eco-friendlier road freight transport. Participants included representatives from industry, logistics companies, as well as logistics industry associations. Transparency with regard to road freight emissions was the primary focus of discussions, with the aim of shedding light on the various points of view and identifying areas where action could be taken.

Background to the dialogue event: The transport and logistics industry is responsible for about 13% of the world's greenhouse gas emissions. As such, the sector has a particular responsibility to reduce the environmental impact of business operations. Various stakeholder groups, including numerous major customers, increasingly expect logistics companies such as Deutsche Post DHL to do everything in their power to live up to this responsibility.



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*The Green Freight Europe initiative aims to create emissions transparency along the value chain.*

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There are already a number of means by which it is possible to improve efficiency and minimize the respective environmental impact, including alternative drivetrains and network optimization. However, lowering emissions in a meaningful way will in future entail a significantly higher degree of emissions transparency along the entire delivery chain. Common standards can play a decisive role in this objective, ensuring the transport partners all along the logistics chain retain a clear and reliable picture of the CO<sub>2</sub> emissions generated in the individual transport phases. Thus, they can ultimately account for their activities to customers on the basis of verifiable data.

What's more, those involved are fully aware that common standards are a complex topic that should, as far as possible, be promoted sector-wide, not least in response to the general increase in customer demand. The agenda of the half-day event was correspondingly based on concrete action. After a brief introduction and discussion on existing tools and measures for increasing transparency on emissions, participants engaged in a lively exchange on various questions surrounding the topic.

One of the core challenges in the longer term revolves around the requirement for generating emissions data that



will stand up to scrutiny. This entails uniform measurement parameters that take all the relevant criteria into account. Although there are already methods for the calculation of shipment-related CO<sub>2</sub> emissions, such methodologies are diverse and do not result in comparable data. It became evident that there are still many questions to be answered before it will be possible to gather commonly supported, meaningful data with the cooperation of all stakeholders.

The independent initiative, Green Freight Europe (GFE), was founded in a bid to generate good quality, comparable emissions data. To date, over 120 logistics companies of all sizes, and their customers, are involved Europe-wide in this overarching initiative – among them Deutsche Post DHL. The objective is to collect, collate and make available standardized CO<sub>2</sub> emission data right along the transport chain. Over and above this, the initiative promotes the exchange of best practices and offers members financial incentives to increase CO<sub>2</sub> efficiency through investment measures. During the dialogue, participants also discussed, among other things, how it would be possible to anchor the GFE platform even more widely and motivate even more companies to take part.

The discussion was open, critical and constructive. For Deutsche Post DHL, it was particularly important to learn more from the logistics associations about the views and interests of smaller logistics companies. As such, the event succeeded in achieving a better understanding of the various perspectives and points of view. At the same time, those present were largely in agreement about the increasing relevance of sustainability and the necessity of a common strategy to reduce CO<sub>2</sub> emissions and fuel consumption.

We plan to continue the discussions initiated in the Berlin roundtable event. After all, the need for action is unequivocal. It behooves the logistics sector as a whole to establish appropriate parameters for the industry-wide standardized collection of CO<sub>2</sub> emissions – and thus ensure increased transparency right along the supply chain. Success in this matter depends on the close collaboration of all stakeholders – suppliers, shippers, haulage firms and customers alike. Only then will steps towards increased sustainability and the ultimate goal of climate protection be achievable.

# 4. The Way Forward – Creating Value, Leading Responsibly

## **Stakeholders and the Future of Business**

*by Professor R. Edward Freeman*

It's an idea that is now well accepted. Businesses need to be responsive and responsible to their stakeholders – groups and individuals that they can affect or be affected by. The last 40-plus years have produced a body of theoretical and practical knowledge about how to understand business as an institution that creates value for stakeholders, rather than just a narrow set of actors such as financiers.

“Stakeholders” as an idea originated at the Stanford Research Institute, the Tavistock Institute, and with founders such as Eric Rhenman, Igor Ansoff, Marion Doscher and Robert Stewart, among others. Originally, the idea was primarily used to organize the information that was relevant in strategic planning around understanding the external environment. However, both Tavistock and Rhenman used the idea to think about how to engage others, especially employees, in a meaningful way.

In 1984 I wrote a book that was the result of my reading of these early theorists, and the work of my colleagues and mentors at the Wharton School, Russell Ackoff, James Emshoff, Ian Mitroff and many others. I tried to make sense of the stakeholder problems that executives seemed to have, and that their existing models of business just could not handle. My work with companies led me to understand how managers struggled with:

- (1) how to create value in a world of fast moving global change that was likely to accelerate;
- (2) the question of the ethics of business and capitalism; and
- (3) the question of what to teach in business schools and executive development programs.

### **Priorities and trade-offs**

The main idea at this time was that there were many stakeholders and executives needed to create clear and compelling priorities among them. Pressure groups could emerge almost overnight, even before the Internet Age, and organize to act against a company. Furthermore, these kinds of protests seemed to be growing. If a company was unaware of its stakeholder environment and, for instance, only paid attention to customers and shareholders, it could stand to lose quite a lot – especially in terms of the public trust. My colleagues and I at the Wharton Applied Research Center formulated a strategic approach, which we called “Stakeholder Management.” It focused on how a wide range of stakeholders could affect corporate objectives and purposes, whatever they turned out to be. We argued that the more coherent a corporate purpose was with what stakeholders expected, the more likely the company was to be successful.

This strategic view, which I would today call “The Priorities and Trade-offs View,” was adopted by many companies but failed to find much purchase in the academic literature. Instead, many academics became enamored of the idea that, by using the stakeholder approach, there could be more legitimacy for non-traditional stakeholders. Many of these thinkers were engaged in research on Corporate Social Responsibility, and they took the Priorities and Trade-offs View and showed how it could be used to analyze social, ethical, and societal issues. I would now call this second view of stakeholder theory “The Civil Society/CSR View.” There is much current research going on within both of these traditions, and there are many companies that use the stakeholder idea both strategically, and to frame their approach to CSR, sustainability and ethics.

I now believe, however, that there is a third and more useful way to understand the stakeholder idea that has emerged from the work of many companies and business thinkers.

This new “Value Creation Stakeholder Model” goes something like this:

Businesses have always created (and sometimes destroyed) value for customers, suppliers, employees, communities and financiers. How could they do otherwise? As executives become more conscious of the effects of their actions on stakeholders, they begin to see that success lies in understanding the jointness of stakeholder interests. Where stakeholders conflict is precisely the place where value can be created. Rather than focus on trade-offs this view asks executives to focus on how stakeholder interests can be harmonized.

The harmony analogy is important, since stakeholder interests are different, but harmony implies they can “sound good together.” When disharmony results, either the business figures out how to be creative and re-harmonize by creating new products and services or redefining interests, or the stakeholder leaves to find someplace else where his interests can be met. Sometimes trade-offs do have to be made, but they should be seen as a failure of imagination, and they should immediately lead to trying to improve the trade-offs for both sides.

Central to the Value Creation view is the idea that businesses must engage their stakeholders. Therefore, ethics must be at the center of this view, since stakeholder engagement requires values such as respect, dignity, some level of transparency and a genuine willingness to help others. There are levels of engagement, and those companies on the cutting edge have taken engagement all the way to actually co-creating the very method of engagement itself. With the advent of social media customers, employees, suppliers, community members and groups, and shareholders can have intensive interactions.

One company actually has a stakeholder search conference every several years in which representatives of key stakeholder groups come together to think about the future of the company and to talk about the strategic initiatives that have worked, that have failed, and that could take the company forward and create more value for the stakeholders. They focus in part on the jointness of stakeholder interests in the upcoming initiatives. Communication with stakeholders has moved from gathering input to engaging with the managers in the company and garnering commitment on an ongoing basis.

## A new narrative

The Value Creation Stakeholder Model recognizes that business is firmly set within a societal framework. Of course free markets operate but they are embedded in a set of societal institutions that are highly interactive. The individuals acting in these institutions are complex human beings, not the one-dimensional self-interested maximizers of classical economic theory.

In essence, the stakeholder idea, in whichever guise it is used, is a way to create a new narrative about business. Especially in the Value Creation view it changes the unit of analysis from the economic transaction to the stakeholder relationship. Businesses create a multitude of different kinds of value for every stakeholder. Trying to sort out what is economic value from what is social value, or political value, is a moot point in this view.

The Value Creation view lets us ask a set of new questions that is more appropriate to 21st century businesses. Can we think about one role of government as encouraging/assisting/enabling value creation? Can we understand the role of civil society groups as central to the process of value creation? For instance, in the case of government, can some parts of it encourage stakeholder engagement (note that “encourage” is different from “require”)? Are there infrastructure programs such as basic education, healthy living, healthcare, and entrepreneurship education that will further the process of starting new businesses? Can civil society organizations work with businesses to produce credible products and services that address societal needs? Can they be credible critics of businesses so that companies can create more value for stakeholders? And, can we change the narrative of business so that executives as well as society members become more aware of creating value for stakeholders?

In addition, the Value Creation view raises at least four key challenges that need to be addressed. The first is how to overcome “crony capitalism”: the way that businesses and governments collude against the idea of creating as much value for stakeholders as possible, favoring one stakeholder – usually shareholders but sometimes employees and managers. To address this challenge we need to continue the transparency that naturally evolves in our Internet Age, and we need to involve and engage governments and civil society groups here. Companies need to take the lead and

acknowledge that their business models are based on value creation for stakeholders.

The second challenge is a bit more theoretical, but it has enormous practical implications. How do we measure the total performance of a business? If we change the unit of analysis from the economic transaction to the stakeholder relationship, we need to be more precise about the actual value created for each stakeholder. This is easier for some stakeholders than for others. Ultimately, we may need to rethink how accounting is done, since the current system places the investor in the center. What are the appropriate measures if you wanted to assess the risk of being a customer, an employee or a community member of a business and, conversely, how would you manage the business to create value for them all simultaneously?

This is not as daunting as it seems. Businesses actually do measure how they are doing with stakeholder relationships. Think about the myriad measures for customer satisfaction, the employee survey, measures of community trust, etc. However, these activities do not usually tell the whole story, as they do not capture the interconnectedness among stakeholders. There is a lot of work to be done and businesses have to lead the way.

### **Rethinking business**

The third challenge is that the disciplines of business need to be rethought. Stakeholders have multiple roles. Employees who are customers are very different from customers. In some cases, suppliers are also competitors, and financiers can be both customers and employees. There is not much knowledge about how these multiple role-sets are related to their simpler counterparts. In addition, we need to end the separation of “business” and “ethics,” especially in the disciplines. We need to see “consumers” as fully moral human beings. Brands become promises. Markets are societal institutions where human beings create value and trade. Suppliers are part of the value chain, yes, but they are also part of the chain of responsibility for which more and more iconic brands are being held accountable. Changing the unit of analysis to the stakeholder relationship makes it easier to put business and ethics together.

Finally we need to develop new business models and new narratives about these business models. We need to give up the search for the one best way to do business all over the world in every industry, and that probably means recognizing that traditional economics is only one among many lenses through which to view a business. Let a thousand flowers bloom. The beauty of capitalism is that it is a process of social cooperation. We cooperate together to create something that no one stakeholder could do alone. Competition adds fuel to the fire in a free society, but capitalism works because we can create value for each other and for ourselves.

We can be the generation that makes business better. By retelling the story of business in stakeholder terms, we can enable it to create more value, engage in solving some of our societal problems and come to see business as a deeply human institution.

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## **Outlook: An Integrated, Value-Adding Approach to Responsible Corporate Leadership**

*by Frank Appel*

Not so long ago, companies could count on everything moving on a linear path, making it easy to base their current and forward planning on events and trends of the past. Companies could also be fairly confident in relying on forecasts. Believe me, those days are gone!

Over the last few years, our world has rapidly become more complex, volatile and dynamic than ever. We are seeing ever-shorter innovation and product cycles, global trade flows shifting to emerging markets, the profound effects of financial and currency crises, resource scarcity and climate change. Sudden, unpredictable events – so-called “black swans” – which have a major impact on our economies, can significantly disrupt economic cycles at any time. These are the buzzwords that paint the picture of the rapid and far-reaching transformation we are witnessing around the globe.

### **Navigating the new normal**

In this environment, companies are faced with two critical challenges:

- How can they successfully navigate this complex “new normal”?
- What is corporate responsibility in this context? How does a company manage the interests and needs of its stakeholders – first and foremost, its customers, employees and investors?

At Deutsche Post DHL, we believe that writing a success story in this environment requires three factors: (1) a long-term strategic compass, (2) a holistic leadership style and (3), a flexible and lean organization. These three factors are the strategic cornerstones of a successful organization.

I am absolutely convinced that a company’s strategic compass must point toward a clearly defined guiding principle paired with a clear agenda and a solid customer promise. Such a compass not only articulates the strategic objectives for the coming years, it also defines a company’s underlying



value proposition. For Deutsche Post DHL, that is the following: We want to be the provider of choice, the employer of choice and, consequently, the investment of choice in our industry.

Holistic leadership always has an eye on the interests of employees, customers and investors and tries to live up to the expectations of all three without playing favorites – unlike when companies followed the shareholder value model. In addition, an open dialogue with other key stakeholders, such as suppliers, trade unions, politicians and NGOs, is imperative. What is more, there is another factor not to be forgotten if a company wants to deliver a sustainable value contribution: our planet. It is our duty to ensure that the Earth is kept livable for future generations.

### **Respect fosters results**

At Deutsche Post DHL, we call this principle of balance, ‘Respect & Results.’ This means that we respect the needs of employees, customers and investors, without compromising our results. In effect, our activities center on high employee satisfaction and strong customer loyalty. And, if we do things right, financial success will follow. Thus, respect and results are not opposite ends of the scale – rather, they go hand in hand. Respect fosters results.

As a world market leader, we also use our strategic compass to shape the logistics industry – an industry that has seen its importance grow immensely over the past quarter century. For me, one thing is indisputable: Logistics is the backbone of global trade. It creates the infrastructure necessary for global connectedness and is key for development, prosperity and inclusion for everyone on this Earth. Logistics is now deeply embedded in the everyday life of billions of people.

Not only is it one of the world’s largest employers, but the industry also plays a fundamental role as an innovator and pioneer, for example, in climate-efficient mobility. Logistics connects people and improves their lives. All Deutsche Post DHL activities need to be in accordance with this commitment to the global community.

We can only do this at a consistently high level of quality with the support of motivated, committed and well-trained people. It is a basic human need – both in private and

professional life – to have meaning in one’s life and to be a part of something bigger than oneself. It is my firm belief that employees want to make an active contribution with their work, in exchange for recognition and a long-term perspective for themselves and their families.

They expect – and rightly so – open communication that actively and honestly includes them in the company’s strategic course, even – and especially – when unpopular decisions are made. Employees want to understand why painful measures are sometimes necessary. Transparency is a fundamental principle for active leadership and legitimacy, for it is an expression of respect and appreciation towards other people.

It is also a central component of the leadership culture at Deutsche Post DHL. Alongside financial results and customer satisfaction, employee satisfaction is the third performance indicator by which we manage the company. Regular Group-wide employee opinion surveys provide the barometer we need for this.

People rise above themselves when given the chance to do so. That is why the continued development of our employees is an integral part of our corporate development. One concrete example is our Certified International Specialist (CIS) program at DHL Express. CIS training ensures that all of our some 100,000 DHL Express employees worldwide are familiar with the fundamental cornerstones of our strategy.

Everyone, from board members and country managers to local supervisors and couriers, has taken part in the program. The results have been truly exemplary. The program has created a common understanding of the needs of our customers and reinforced a “can-do spirit” that has raised the customer service bar. The approach is now being adopted in many other parts of the company.

For me, employee satisfaction is inseparably linked to active leadership. In concrete terms, that means that long-term business success requires authentic managers who continuously develop themselves and their teams and, in this process, create an atmosphere of mutual improvement and innovation. Active leaders build committed and high-performing teams. They use these means to take the company to the highest level of performance through forward-looking solutions that simplify the lives of customers.

## Keep moving, keep improving

With this holistic leadership style as a component of our guiding compass, we are on the right track to achieve our strategic objectives and define our industry. What is important is to never stop moving forward, because standing still means being left behind. We have solidly anchored the principle of continuous improvement in our company – even giving it a name: the “First Choice Way.” This is the only way a company can distinguish itself in the market, respond rapidly to change, enter new business sectors and – wherever possible – seize growth opportunities.

For me, our top priority should always be making our customers’ lives easier. This is the fundamental value-add that a service provider like Deutsche Post DHL can and should offer. And our customer promise is just that: “We make our customers’ lives easier.” This requires innovative solutions and processes that we often develop together with our customers. In this context, flexibility and innovation form the foundation for further growth and lasting success.

Deutsche Post DHL is on the right track with this approach, as evidenced by our latest company results and share price performance.

However, that does not mean we can sit back and relax. If you don’t make progress you will simply be eclipsed. Experience has shown that the path of development is always shaped like an S-curve. It begins slowly at first, accelerates when success is achieved, but then reaches a plateau and slows back down – a point where development often comes to a halt. The best leaders ask the right questions at the right time in order to prepare early for the next stage of development – the next sharp, upward turn in the S-curve. That step has to be taken before the first curve reaches its plateau.

I am convinced that every company has to think about the challenges it might face in five to ten years, even while accelerating through that rapid phase of growth and success. In our industry, these questions include changes in trade flows and people’s lifestyles, along with increasing resource scarcity and urbanization, to name but a few.

It is crucial that we ask these questions early and work toward answers now if our companies are to remain fit for

the future. And, it's nearly impossible to develop sustainable solutions alone. You need to have constant dialogue and exchange with all relevant stakeholders – employees, customers and investors – as well as with policymakers, industry leaders and the general public. For, whatever the future holds, it will be shaped by those who act in a farsighted way and manage their business responsibly on the basis of an integrated, value-adding approach.

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*As CEO of Deutsche Post DHL, Dr. Frank Appel is responsible for the global management of the world's leading mail and logistics group. The Deutsche Post and DHL corporate brands represent a one-of-a-kind portfolio of logistics (DHL) and communications (Deutsche Post) services.*



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