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Title:

Recognizing definitive stakeholders in corporate environmental management

Abstract

Purpose – This research presents four examples of stakeholder relationships related to issues of corporate environmental management (CEM) and analyzes them based on the model of Michell, Agle and Wood (1997).

Design/ methodology/ approach – Secondary data is used in the case studies.

Findings – The four cases presented show that basically any stakeholder can become definitive over time in the complex network of stakeholders with mutual relationships. The definitive stakeholders in CEM are no longer merely the NGO's and policymakers but now include many diverse groups such as customers, locals and suppliers.

Research limitations/implications – Case studies cannot be generalized, but they could contribute to more comprehensive studies on stakeholder strategies in the future by raising up new CEM issues.

Practical implications – The paper indicates that stakeholder strategies need to be changed in corporations over time. Latent stakeholders can become expectant and definitive stakeholders gradually over time.

Originality/ value – The paper presents and analyses four different cases of corporation-stakeholder relations in the field of corporate environmental management

Keywords – Stakeholder typology, corporate environmental management, definitive stakeholders

Paper type – Research paper

1 INTRODUCTION

Corporations today can not operate alone, but are connected to complex multi-stakeholder networks in society (Key 1999; Rowley 1997; Steurer 2005). Stakeholders are individuals or groups who have some type of stake in or relationship with a corporation; this can be one of support, influence on or being influenced by the corporation in some way (Carroll 1993; Freeman, 1984; Mitchell, Agle & Wood 1997). The stakeholder concept is related to the resource dependence theory (Pfeffer & Salancik 1987) as well as the institutional theory (Meyer & Rowan 1977), and how its stakeholders perceive a corporation will influence their behavior toward it for better or worse.

Stakeholder pressure drives businesses towards levels of sustainable performance beyond legal compliance, which is also the objective of corporate environmental management (CEM). In CEM, the importance of stakeholders has been widely accepted (CSR Europe 2006, UN Global Compact 2006, ICC 2006, OECD 2004, GRI 2006, AccountAbility 2005), yet the existing reports do not address stakeholder expectations nor give direction of possible stakeholder reactions. The corporate environment requires a more strategic approach than mere reporting: societal needs should be discussed through a dialogue between corporations, government policy-makers and public interest groups (Fiksel, 2003). Too often, however, corporations are taking a reactive approach after the urgency in environmental issues has already appeared by a certain stakeholder group. Oxley Green & Hunton-Clarke (2003) noted that stakeholder participation in corporations seems to focus on the resolution of specific conflicts or issues on an ad hoc, rather than ongoing basis. To approach stakeholder reactions ongoing basis, the

paper applies the stakeholder typology of Mitchell et al. (1997). The paper argues that the stakeholder typology of Mitchell et al. (1997) could also be applied to stakeholder analysis related to CEM and that for example customers, locals and suppliers can become definitive stakeholder in environmental issues over time, directly or indirectly, via mutual relationships in the complex stakeholder networks.

1.1 Methodology

Case study methodology is used in this study. Four separate case studies are used in order to describe the different corporate-stakeholder relationships and to test the applicability of the stakeholder typology model of Mitchell et al. (1997) in the different contexts of corporate environmental management. Four separate cases of large corporations Nokia, Tallink, Botnia and Neste are presented and analysed based on the stakeholder typology model. Data consist of secondary data, which include annual, environmental and corporate responsibility reports, corporate web pages, publications of the European Union and various media reports in the biggest Finnish newspaper Helsingin Sanomat. All the empirical data used in the study has been published during 2003-2007.

2 MODELLING STAKEHOLDERS

Stakeholder thinking has come a long way since the first attempts to broaden the concept of stake outside the sphere of corporate shareholders. Whereas the early uses of the concept “stakeholder” highlighted the existence and rights of these stakeholders

(Freeman, 1984; Rhenmann, 1964; Stanford Research Institute, 1963 in Freeman, 1984), later applications have concentrated more on financial benefits (Neville, Bell & Mengüç, 2005) as well as different ways to categorize stakeholders (Mitchell et al., 1997; Oxley Green & Hunton-Clarke 2003; Rawlins, 2006; Savage, Campbell, Patman & Nunnelley, 2000). Stakeholder thinking has been applied to different contexts across disciplines, from information systems (Pouloudi, 1999) to environmental reporting (Steurer, 2005) and accounting (Moneva, Rivera-Lirio & Munoz-Torres, 2007). Despite the different frames, most scholars agree stakeholders to refer to “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman, 1984; 46).

The aim of categorizing and ranking is to enable corporations to focus on their most influential stakeholders. Mitchell et al. (1997, 865-875) have developed a classification which offers further distinction between stakeholders (MAW-model). They apply the attributes of power, legitimacy and urgency. To them, power is the ability to bring about desired outcomes, to force others to behave as they wish, whereas legitimacy refers to the degree to which the actions of an entity are generalized as desirable, proper, or appropriate. Urgency is simply the degree to which stakeholder demands require instant action from the organization. These attributes may exist independently, but also together. As an example, legitimacy and power together create authority. The stakeholders can be analyzed in terms of these three attributes and their presence or absence.

The authors find seven distinguishable stakeholder groups depending on whether one, two or all three attributes are present in the relationship between the organization and the stakeholder. Those with only one of the attributes are called latent stakeholders,

those with two are called expectant stakeholders and those with all three are called definitive stakeholders. Figure 1 shows this division as well as the names Mitchell et al. have given the different stakeholder groups.

Take in Figure (1).

The argument goes on to state that the more attributes there are present in a stakeholder relationship, the more important the stakeholder. The most important, the definitive stakeholders (7) possess all power, legitimacy and urgency. Those possessing none of the attributes are categorized as nonstakeholders (8). The latent stakeholders consist of those who only have one attribute; either power, legitimacy or urgency. The first latent group are the dormant stakeholders (1) who possess power but no legitimate claims or urgency, which means that the power is not applied and the interaction between these stakeholders and the organization is minimal. The second latent group are the discretionary stakeholders (2) who have a legitimate cause but no power nor urgency; they could rightfully influence the organization but do not. The third latent group are the demanding stakeholders (3) who possess urgency but no power or legitimacy. The demanding stakeholders could be described as disturbing but non-dangerous. The expectant stakeholders possess two of the three attributes. The dominant stakeholders (4) possess both power and legitimacy, but no urgency. Their relation to the organization is often formal and non-personal. The dangerous stakeholders (5) possess power and urgency but no legitimacy. They are described as dangerous, since they may practice coercion. The dependent stakeholders (6), on the other hand have legitimacy and urgency, but no power. This makes the dependent group dependent on those with

power. Any other stakeholder group may enter this realm should they gain more of one attribute or ally with other stakeholders who have what they need. (Mitchell et al. 1997, 874-878.)

The MAW-model has received much interest among scholars, and it has been applied to different contexts, for example, CEO values (Agle, Mitchell and Sonnenfeld, 1999), research and development (Elias, Cavana and Jackson, 2002) and educational policy (McDaniel and Miskel, 2002). Suggestions have been made also for a new attribute to the model, such as frequency (Luoma-aho, 2005). This paper applies the MAW-model in a new, qualitative way to analyze corporation-stakeholder relationships from the environmental management perspective.

3 FOUR EXAMPLES OF CORPORATION-STAKEHOLDER RELATIONSHIPS

In this section, four practical examples of corporation-stakeholder relationships are presented in the context of CEM. Relationships between Nokia and European Commission, Neste Oil and raw material suppliers, Tallink and passengers, and Botnia and local community are described and analyzed based on MAW model.

Nokia and the European Commission

In our first example, the actual CEM issue is related to multiple environmental impacts associated with mobile phones and other electronic and electrical products. The share of mobile communications equipment of all electronic scrap in Europe is about 1 % (Nokia 2006). As one of the largest manufacturers of mobile devices in the information

technology industry, Nokia is responsible for a large proportion of the environmental impacts related to mobile phones. The European Commission (EC) has been a powerful actor in decreasing the environmental load of these products through legislative approaches and voluntary tools. A Commission Communication on Integrated Product Policy (IPP) was adopted in 2003 (European Commission 2004). The IPP aims at reducing the environmental impacts of products at various stages of their life cycles. The IPP was followed by the directive on waste electrical and electronic equipment (WEEE), which was to be ratified by Member States by 2006 (European Commission 2004). According to WEEE, the producers are responsible for taking back and recycling electronic and electrical equipment. The WEEE directive and the complementary directive on the restriction of the use of certain hazardous substances in electrical and electronic equipment (RoHS) aim to reduce the environmental impacts of WEEE throughout the life cycle of the product by encouraging the end-of-life management of the product, eco-design, life-cycle thinking and extended producer responsibility (Savage et al. 2006).

From Nokia's point of view, the EC can be seen as a definitive stakeholder, as EC holds legislative power, introduces urgent directive (WEEE) and represents all legitimate private and public actors within EU. With respect to CEM, the WEEE directive sets the minimum standard for Nokia's take-back policies and recycling practices and as a big producer of electronic and electrical equipments, Nokia was heavily influenced by the directive. On the other hand, Nokia was one of the founders of the Electronics Coalition, an organization that came into being in 1998 to work on the proposed EU directives on WEEE and RoHS (Nokia 2003). In addition, Nokia proposed a pilot project to the Commission which would bring the industry and NGOs together to

develop new ideas and commit to action in environmental issues, and in June 2004 Nokia's mobile phones were chosen as one of two product pilots aimed at exploring methods and instruments for the implementation of the IPP (Nokia 2005). Under the leadership of Nokia a range of corporations voluntarily committed themselves to cutting the energy consumption of mobile phones, reducing hazardous materials content, and increasing consumer awareness of recycling.

In the IPP pilot project, Nokia was able to demonstrate its environmental achievements, and the EC brought up Nokia's name in the context of the IPP, strengthening its environmental image and legitimacy among stakeholders. Nokia's environmental work with progressive policies in both its chemical policy as well as in the disposal of electronic waste has also been acknowledged by Greenpeace, which ranked Nokia number one in "Guide to Greener Electronics" among 14 top manufacturers of PCs and mobile phones (Greenpeace 2006).

Tallink and passengers

In our second example, CEM issue is about The Baltic Sea, which is bordered by nine nations: Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden. Many ferries and boats travel frequently between the main coastal cities of these countries. Consequently, the ferry operators are responsible for environmental impacts caused by air emissions, waste water and fixed waste. Waste water includes phosphorous and nitrogen, which cause eutrophication in the Baltic Sea. Estonian Tallink Grupp AS is one of the ferry operators in the Baltic Sea. Tallink is a market leader in passenger traffic on the Tallinn-Helsinki route, with a market share of about 43 %, and in 2004 Tallink carried 2,5 million passengers between Tallinn and Helsinki

(Tallink, 2006). Moreover, approximately 97 percent of Finns visiting Estonia arrive by ferry.

In November 2005, the leading Finnish daily Helsingin Sanomat reported that two Tallink ships were dumping their wastewater in international waters in the middle of the Gulf of Finland, in the Baltic Sea. Tallink's practice was not against international regulations, but other ferry corporations in the area were pumping waste water (both grey and blackwater) into the municipal sewage system in the port (Helsingin Sanomat 2005). For example, another ferry operator, Silja Line, began applying a totally closed waste water system already in 1997 (Silja Line 2005). After the news in Helsingin Sanomat, there was a strong reaction among Finns against Tallink's practices. There were campaigns on the Internet and on mobile phones, which recommended passengers to boycott Tallink. The corporation was also criticized in many newspaper editorials and columns. The boycott campaign and the negative publicity intensified to the point, that Tallink soon announced it would stop dumping wastewater in the sea.

From Tallink's point of view, passengers can be seen as definitive stakeholders, who possess power as paying customers, urgency through boycott campaigns and legitimacy as private citizens living by the Baltic Sea. This example demonstrates the fact, that appropriate operative environmental management practices (closed waste water system in this case) within the corporation form a basis for stakeholder strategy in environmental issues. The case also shows, that consumers can directly influence on CEM in organizations. It should be noted that Tallink acquired Silja, including six vessels operating on routes between Finland and Sweden, in July 2006. Through the acquisition of Silja, Tallink may have an opportunity to adopt Silja's CEM approaches.

Botnia and local community

In our third example, the CEM issue relates to the environmental impacts of a pulp mill. Metsä-Botnia (simply referred to as Botnia) is the second largest pulp manufacturer in Europe. Botnia is jointly owned by the Metsäliitto Group (53 %) and by UPM-Kymmene Corporation (47 %). In 2003 Botnia started studying the possibility of building a mill to produce eucalyptus pulp in Uruguay. The actual decision to start the project in Fray Bentos was made in 2005, after an obligatory environmental impact assessment (EIA), socio-economic study and five public forums (Botnia 2007b). In addition to this, regular negotiations with Uruguayan, Argentinean and Finnish authorities had been conducted (Botnia, 2007b). Moreover, Botnia invited NGOs to discuss their concerns, but the invitation was turned down in the press (Botnia 2007b). Fray Bentos is located on the border of Uruguay and Argentina by the River Uruguay and the pulp mill is the biggest industrial investment in the history of Uruguay.

The problems started when the local people on the other side of the river (Argentines) were still worried about the environmental impacts of the pulp mill and many of them felt that their livelihoods (tourism, agriculture and fishing) would be threatened because of pollutants in the river and bad odour from the mill. A civic movement called Asamblea Ciudadana Ambiental de Gualaguaychú, which was supported by many local people, began to resist the Botnia project. In 2006, a petition with the signatures of 40,000 residents of Argentine town of Gualaguaychú, calling for the cancellation of the project, was brought to Finland (Helsingin Sanomat 2006).

The worries of the local people soon reached the Argentinian government and this led to a conflict between the governments of Uruguay and Argentina. This has been followed by a temporary suspension of the construction site, legal process in the

International Court of Justice in Hague (United Nations) and an additional EIA required by the World Bank. Botnia has even announced its willingness to treat the domestic sewage from the city of Fray Bentos in the effluent treatment plant of the pulp mill in Fray Bentos (Botnia 2007a). However, frequent demonstrations, protests and traffic blockades introduced by the local people have continued, as The Hague court didn't forbid them despite Uruguay's request. In April 2007, there was a demonstration of approximately 100,000 Argentinean people against the Botnia project. Also, the dispute between the governments of Argentina and Uruguay over the mill's environmental impacts has continued. The Spanish corporation ENCE, which was also planning to construct a pulp mill in Uruguay, decided to withdraw from the country because of the strong resistance to the plants. Botnia finally started the pulp production in Fray Bentos in November 2007.

From Botnia's point of view, local community of Gualeguaychú can be seen as definitive stakeholder as they possess urgency through demonstrations, protests and traffic blockades, legitimacy as local inhabitants living in the neighborhood and power by involving governments of Argentina and Uruguay in the conflict. Urgent stakeholders often form different NIMBY coalitions (Not-In-My-Back-Yard; see Freudenburg & Pastor 1992; Cvetkovich & Earle 1992), as they are constantly exposed to the issue, for example in their immediate neighborhood. For Botnia, in Uruguay it was relatively easy to justify the project among the local residents by referring to the economic benefits that would be accrued (jobs etc.). From the economic point of view, Fray Bentos is an appropriate place for a pulp mill, as the infrastructure, employees and raw material (eucalyptus) are readily available. From the environmental point of view, the EIA conducted by Botnia showed that the environmental impacts of the pulp mill can be

controlled precisely. Since the pulp mill is located on the border of the two countries, the main economic and social benefits will be reaped by Uruguay only, but the negative environmental impacts will be shared equally by Uruguay and Argentina.

Neste Oil and raw material suppliers

In our last example, the CEM issue relates to introduction of biofuels. EU has decided in 2003 that at least 5.75 % of all petrol and diesel should be biofuels by 2010 (European Commission 2006). The shift from fossil fuels to biofuels provides new business opportunities and alternative sources of income for the farmers globally (European Commission 2005b). As reducing the effects of climate change very much depends on the actions of the energy corporations, traditional oil companies are also focusing more on renewable energy sources, such as biofuels. Neste Oil is an oil refining and retailing company, in which biodiesel is nowadays one of the four business divisions. The biodiesel division focuses on producing and marketing renewables-based diesel and Neste Oil is currently committed to investing billions of euros in oil refining and biodiesel over the next 10 years (Neste, 2007). The new strategy document issued by Neste Oil states that the company aims to be the leading producer of biodiesel globally, using a range of cost-effective raw material inputs (Neste 2007). Neste is currently using mainly imported palm oil as a raw material for biodiesel. In the future, Neste plans to use a larger variety of biomass, such as wood, peat and waste. For example, Neste Oil plans to turn wood scraps into biofuel in co-operation with forest industry corporation StoraEnso (Helsingin Sanomat, 2007). According to the 2006 report of Neste Oil, biofuels are seen as important in providing local agriculture with

valuable new opportunities, in helping moderate climate change and as offering a useful way of reducing Finland's dependence on imported crude oil.

Neste has been heavily criticized by Greenpeace of using palm oil as a raw material for biodiesel. The main critics concern claimed deforestation caused by palm cultivation. Neste, in turn, has argued that all its palm oil-based raw material comes from certified forests only. Negative publicity on the issue had also business implications, as a major Swedish client of Neste refused to purchase palm oil-based biodiesel.

From Neste's point of view raw material suppliers can be seen as definitive stakeholders, as their actions can cause urgent claims through NGO's (Greenpeace), which, in turn, can cause powerful actions by big international clients. As suppliers, they are also possessing legitimacy. In other words, raw material suppliers became dependent stakeholder with a NGO and definitive stakeholder with a NGO and a final customer.

4 CONCLUSIONS

4.1 FINDINGS

The case examples showed CEM-related stakeholder groups identified in terms of power, urgency and legitimacy in different contexts and levels of engagement: the case of Neste Oil concerned global environmental impacts (greenhouse gas emissions and climate change), whereas the case of Nokia was mainly restricted to the European context (EU directive) through re-take and recycling schemes for mobile phones.

Examples of Tallink and Botnia presented regional, yet multinational cases, in which an Estonian corporation and a Finnish corporation faced resistance abroad (Tallink in Finland by the Finns and Botnia in Uruguay by the Argentineans). The regional examples were associated with the local environmental impacts in the Baltic Sea and in the Rio Uruguay. Nokia's example illustrated the positive impacts of a successful stakeholder engagement, whereas the examples of Tallink, Botnia and Neste showed some of the negative impacts of a failure to engage stakeholders. Tallink struggled with intra-organizational environmental management, Botnia with regional environmental management and Neste with environmental supply chain management. Intra-organizational environmental management is a fundamental issue in the corporations, which are directly in touch with their final customers every day, such as in transportation business. Regional environmental management is especially important for heavy industries, such as pulp and paper industry. Although environmental impacts are managed properly, there may be associated social impacts, such as local livelihood aspects, which should be carefully taken into account. Corporations with global supply chains are required to consider environmental impacts along the whole supply chain. Especially corporations in food and energy industries have to tackle with environmental issues related to their suppliers of raw materials and intermediate products.

The paper contributes to a broader understanding of stakeholders in the context of CEM. The case studies show that when urgency appears in the stakeholder relationship, corporations may find that they have few options to manage the relationship. Identification of the stakeholders needs to be flexible enough, as the positions and the relative importance of the stakeholders changes rapidly over time. Basically any

stakeholder can become definitive over time in the complex network of stakeholders with mutual relationships. Next, the managerial implications are discussed.

4.2 MANAGERIAL IMPLICATIONS

It is argued here that not only are many stakeholder groups often ignored, but also that stakeholders are not stable but change over time and emerge in different contexts. These contexts range from time and issue agenda to trends and even geographical characteristics. For managers, identifying stakeholders based on power, urgency and legitimacy can provide a way to predict stakeholder actions and reactions also in CEM. However, it is vital to remember, that the importance of stakeholder groups changes, for example, with the organizational life cycle (Jawahar & McLaughlin 2001). Also the attention stakeholders require varies as their importance to the corporation grows or diminishes over time. Non-stakeholders can undergo a change of status and quickly become active. Ranking stakeholders can create an artificial and false sense of importance and therefore all stakeholders by virtue of their holding potential stake in the corporation should be considered primary (Fombrun & van Riel 2003).

Key stakeholders in environmental issues are not necessarily the legislator, policymaker or NGO anymore, but rather a client, local community or supplier. Proactive corporations do not wait until policymakers or NGOs act. They engage clients, local people and suppliers into their stakeholder strategies from the beginning. Moreover, proactive corporations aim to co-operate with policymakers and NGOs in order to promote their good environmental management practices and to achieve competitive advantage. Non-stakeholders and legitimate stakeholders are easily

neglected, when stakeholders with direct power and urgency are dominant in conventional stakeholder strategies. However, government involvement may strengthen the stakeholder status (power) of local community and NGO involvement, in turn, may strengthen the stakeholder status (urgency) of suppliers, as illustrated in the case studies. In many cases, governments and NGOs can affect the decisions of clients and investors, which highlight the complex chains of stakeholder relationships. Organizations may decrease the risk of urgent claims by strengthening CEM in supply chains, in regional contexts and in internal operations. Hence, for further research, MAW model could be extended to predict stakeholder reactions in CEM issues.

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