JOINT MANAGEMENT-STAKEHOLDER COMMITTEES – A NEW PATH TO STAKEHOLDER GOVERNANCE?

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Abstract

Purpose – This paper describes the emerging practice of Joint-Management-Stakeholder-Committees (JMSCs) in which corporate executives take decisions in collaboration with stakeholders.

Design/methodology/approach – To identify firms involving stakeholders in their governance arrangements, we analysed 51 companies regularly participating in the Business in the Community´s Corporate Responsibility Index in the UK. We then analyzed the data provided by the index as well as corporate reports to evaluate the impact of JMSCs on corporate decision-making.

Findings – This research finds that JMSCs strongly influence corporate governance mechanisms such as monitoring, measurement as well as policy development of firms.

Research limitations/applications – Our analysis builds on corporate responses given to the questionnaire sent by the Corporate Responsibility Index as well as corporate reports. Future research is encouraged to triangulate findings with stakeholder opinions on the effectiveness of JMSCs.

Practical implications – JMSCs prove to be an effective tool to involve stakeholders in corporate decision-making processes. Due to their effectiveness JMSCs are more likely to create trust between firms and their stakeholders.

Originality/value – This paper is the first empirical investigation into the effectiveness of engaging stakeholders in Joint-Management-Stakeholder Committees, demonstrating the impact and effectiveness of such engagement.

Keywords – corporate responsibility, corporate governance, governance structures, stakeholder, stakeholder governance

Paper type – Research paper

Introduction

Increasingly corporations need to consider not only the financial impacts, but also social and environmental impacts of the decisions they take. Some companies have learnt the hard way that ignoring stakeholder concerns such as child labor issues in the supply chain (Zadek, 2004), or environmental issues in the disposal of oil platforms (Livesey, 2001) can have devastating effects on share price and corporate reputations (Hertz, 2004).

More and more companies have learnt from these experiences and engage proactively with their stakeholders. Research on stakeholder engagement first focused on identifying the right stakeholders for dialogue (Mitchell, Agle, & Wood, 1997) and providing frameworks for engagement (Foster & Jonker, 2005). The few existing empirical investigations (AccountAbility & Utopies, 2007; Mackenzie, 2007; Spitzeck, 2009; Spitzeck & Hansen, 2010), however, raise doubt as to whether the voices of stakeholders find their way into corporate decision-making processes and governance arrangements. Recent research on stakeholder governance (Spitzeck & Hansen, 2010) identified some promising pathways into meaningful engagement with stakeholders, most significantly Joint-Management-Stakeholder Committees (JMSCs).

This paper explores the impact JMSCs have on corporate decision-making based on data extracted from Business in the Community's (BITC) Corporate Responsibility Index (CRI) in the UK. We first present the theory on stakeholder governance, next we explain the methodology applied in this research, then we present the results and examples of JMSCs we found in practice. After a discussion of results we conclude by outlining implications for theory and practice.

Theoretical Background

Stakeholder Governance

Researchers have considered the importance of stakeholders being engaged in corporate decision-making (Andriof & Waddock, 2002; Foster & Jonker, 2005; Sutton, 1993; Turnbull, 1994, 2002; White, 2009). Further, researchers have focused on how to institutionalize such stakeholder influence on decision-making through formal governance mechanisms, specifically referred to as *stakeholder governance* (Hansen, 2010; Spitzeck, 2009; Spitzeck & Hansen, 2010; Turnbull, 1997).

Corporate governance is usually defined as "the system by which companies are directed and controlled" (Cadbury, 2000: 8). Stakeholder governance thus refers to stakeholders influencing the system by which companies are directed and controlled. Central tenants of the governance system are internal policies, codes of conduct, identification of risks as well as performance measurement instruments (Cadbury, 2000; Castello & Lozano, 2009; Mackenzie, 2007). Once these corporate guidelines are in place, management exercises control by monitoring and reporting mechanisms (Blair, 1995).

Instruments and Impact of Stakeholder Governance

Empirical research on stakeholder engagement confirms that stakeholders consider it critical to have an impact on corporate decision-making (AccountAbility & Utopies, 2007; Burchell & Cook, 2006, 2008). Based on the components of governance systems presented above, impact specifically refers to alterations in the company´s policies, risk management practices, performance measures, as well as monitoring and reporting mechanisms.

Research, however, confirms that many stakeholder engagement mechanisms have been found to have limited impact (Jonker & Nijhof, 2006; Letza, Sun, & Kirkbride, 2004; Lozano, 2005). For example, *formal stakeholder dialogue fora*, do not go beyond mere exchanges of different stakeholder viewpoints. Stakeholder dialogue fora usually consist of a very large number and broad mix of stakeholders, which may not develop a constructive working relationship due to the lack of trust or the complexity of issues discussed. Moreover, even when companies claim that stakeholder input does in fact lead to certain impacts, the causal link between stakeholder input and corporate decision-making usually remains vague.

Other instruments which may bring stakeholders and a firm's management together, are (pure) *stakeholder advisory boards* (AccountAbility & Utopies, 2007; Hansen, 2010; Lynn & Chess, 1994).

In the scope of the present paper, stakeholder advisory boards (SABs) are considered to be boards consisting solely of external stakeholders (some anecdotal evidence suggests that such boards are sometimes staffed with representatives of the firm, however, as later elaborated in detail, we refer to such boards as joint management-stakeholder committees). They either focus on matters such as the overall corporate responsibility agenda or are focused on selected issues (e.g. community engagement, environment) However, SABs are considered to only have indirect impact on the corporate management via suggestions and critical feedback (AccountAbility & Utopies, 2007).

This vagueness regarding the impact of engagement puts ongoing relations with stakeholders in peril. Stakeholders may discontinue collaboration with companies as they perceive it to be a waste of time and other resources (Burchell & Cook, 2006: 162) or because conflicting interests between stakeholders and a firm may be diminished, but can hardly ever be solved entirely (Pederson, 2006; Suchanek, 2004).

One emerging instrument (Spitzeck & Hansen, 2010) that may have the potential to overcome some of these barriers are what we call "joint management-stakeholder committees" (JMSC), i.e. formal bodies that consist of a number of company representatives as well as internal/external stakeholders that meet regularly. Beyond anecdotal evidence, there are still few empirical investigations about the impact of such mechanisms of stakeholder governance. Therefore, this paper empirically investigates the nature of JMSCs and their impact on corporate decision-making.

Research Methodology

We address this gap with a large-scale empirical analysis of 51 companies in the UK, all listed in the Business in the Community (BITC) Corporate Responsibility Index (CRI). The CRI is a

benchmarking tool to which more than 400 companies in the UK have voluntarily reported since 2002. The index consists of an extensive questionnaire (88 question sets) which is filled out by the participating organizations and evaluated by independent experts for accuracy and credibility. Questions involve a quantitative self-evaluation which needs to be backed up by either measurements and/or qualitative data provided by the company. All 51 companies in the sample have been participating annually in the CRI from 2003 to 2008.

The data in the index was analyzed by an inductive research strategy (Eisenhardt, 1989). Both quantitative and qualitative data were analyzed. For the latter, we used a qualitative content analysis (Miles and Huberman, 2005) and a quantitative representation of qualitative results (Srnka & Koeszegi, 2007). A team of researchers scanned the responses of those 51 companies to relevant sections of the CRI for stakeholder engagement patterns searching for governance arrangements which were composed of a mix of management and stakeholders. Where important information was missing we consulted company websites and reports. Emerging results were discussed within the team as well as with experts from BITC to increase the validity of the results (Yin, 2003). This process facilitated the triangulation of results (Jick, 1979).

Results

Our results show that companies involve stakeholders in the identification of risks, development of policies and key performance indicators (KPIs) as well as reporting using a wide array of engagement mechanisms as well as JSMCs (Figure 1).
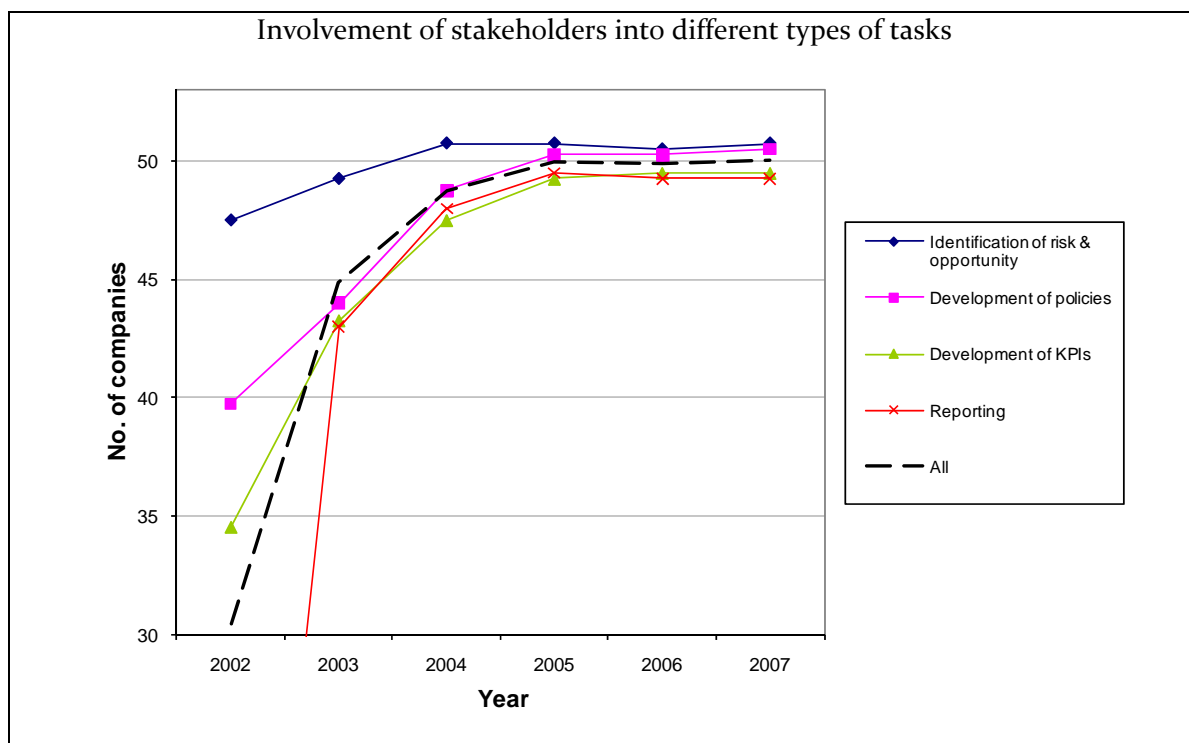
Figure 1   **Stakeholder engagement for selected areas based on quantitative evaluation**

A more detailed analysis demonstrates that in comparison to other forms of engagement JMSCs seem to be particularly effective in impacting corporate governance and decison-making processes (see Figure 2).
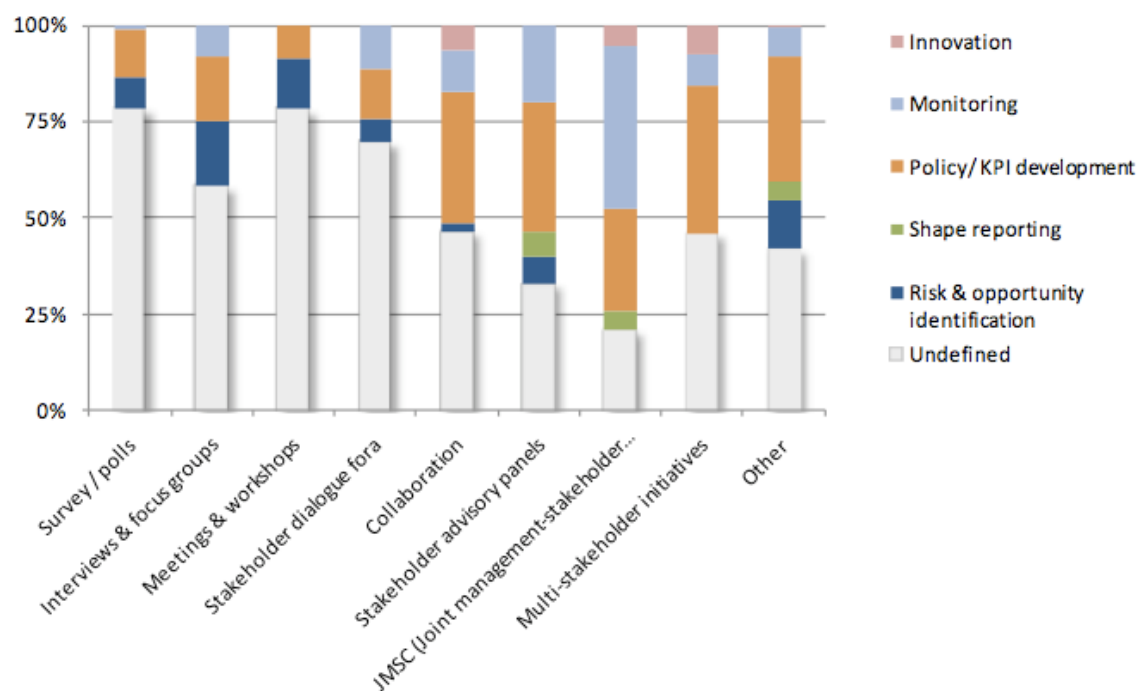
Figure 2   Impacts per instrument of engagement

In comparison to surveys, interviews, focus groups, stakeholder dialogue fora, collaboration, stakeholder advisory panels, multi-stakeholder initiatives as well as other forms of engagement JMSCs demonstrate a measurable impact in more than 75% of the cases. Our in-depth analysis on stakeholder advisory boards and JMSCs found that the growth of (pure) stakeholder advisory boards came to a peak in 2005, JMSCs in contrast are growing steadily (Figure 3).
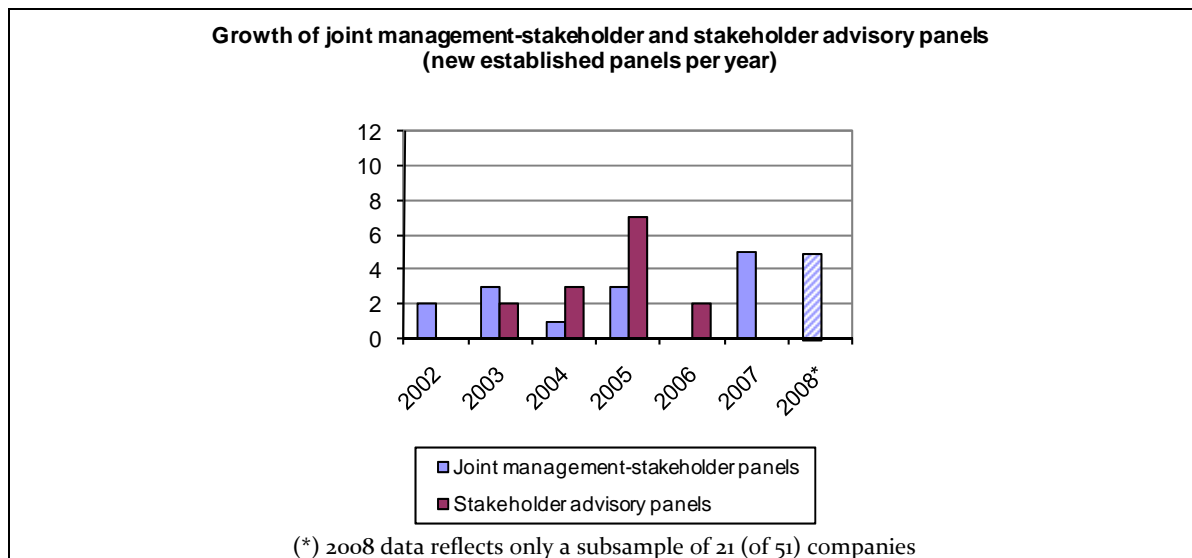
Growth of joint management-stakeholder and stakeholder advisory panels
(new established panels per year)

(*) 2008 data reflects only a subsample of 21 (of 51) companies

Figure 3   Joint Management-Stakeholder Panels compared to (pure) Stakeholder Advisory Panels

Below we present some examples of SABs and JMSCs which give advice on operational, managerial or strategic issues (Spitzeck & Hansen, 2010).

Table 1: The use of SABs and JMSCs on operational, managerial and strategic level

Scope of participation	Type of body, examples (Sector)	
	SABs	JMSCs
Operational (specific issues)	▪ External advisory board with key stakeholders (e.g. NGOs) advises on biodiversity management (Construction)	▪ One external representative sits on carbon management committee (Construction) ▪ Environmental review committee (5 company representatives, 11 external stakeholders) shapes and monitors environmental policies and impacts of a specific plant (Energy)
Managerial (e.g. reporting)	▪ External report review committee advises overall CR reporting (Automobile) ▪ Sustainable agriculture advisory board consists of external experts and informs company on sustainable agriculture (Food)	▪ External advisors sit on board-level CR committee which develops the overall CR strategy and programmes (Entertainment) ▪ Sustainability advisory committee is chaired by CEO and includes senior directors from across the business as well as 2 external advisors (one chair from a governmental commission on sustainable development, 1 senior leader of a non-profit organization). The committee develops the CR strategy. (Construction) ▪ Values principles committee oversees sustainability and includes non-executive directors drawn from members of the cooperative (Banking) ▪ Steering group with one external stakeholder advises on sustainable construction (Construction)
Strategic (products and markets)	▪ Consumer liaison panels (consisting of user representatives) advises on programme content (Entertainment) ▪ Environmental external stakeholder advisory board advises on green portfolio (Utilities)	▪ Stakeholder board with 14 members (5 company representatives, 5 customer representatives, 2 employee representatives, 1 pressure group, 1 other) advises on transport services and vehicle technology (Public transport)

A total of 14 companies, representing 27% of our total sample, made use of JMSCs. The practices of these 14 companies were analysed in more detail and JMSCs show impacts in monitoring and

measurement, policy development, dialogue, reporting as well as product and service innovations (table 2).

Table 2: Impacts of JMSCs

Impact	Percentage of impact in companies
Monitoring & Measurement	38%
Policy Development	28%
Dialogue	10%
Shape Reporting	5%
Product & Service Innovation	5%
Undefined	14%

Below we present some examples of the data in order to illustrate our findings.

Monitoring and Measurement

An example for engaging stakeholders in monitoring and measurement is Aggregate Industries. In the 2009 Sustainability Report the company states (Aggregate Industries, 2009: 11): "To ensure Aggregate Industries is able to deliver on its sustainability targets, management plans for the

topics water, biodiversity, carbon and community have been created. Each of these plans is supported by a steering group comprising employees and an external expert for each topic." For example, ,the company set up a diversity steering group involving external stakeholders (Aggregate Industries, 2009: 18). An example for internal stakeholder engagement in this area ia "joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs" (Aggregate Industries, 2009: 64)

Policy Development

A British energy company uses an environmental forum which meets regularly every six months to give feedback on environmental strategy and policies. This forum is comprised of senior directors of the company´s operational businesses, the group environment director as well as senior external stakeholders.

Dialogue

British retailer Tesco invites external stakeholders to the twice yearly meetings of its corporate responsibility committee. "In addition to the regular committee meetings, we hold two away days each year. External speakers are invited to comment on our corporate responsibility performance, strategy and provide insight on key issues. In 2005/06 speakers have included Stephen Tindale, Executive Director, Greenpeace, Dr Sally Uren, Director, Forum for the Future, Emma Howard Boyd, Head of Socially Responsible Investment and Governance, Jupiter Asset Management, and The Rt. Hon. John Gummer MP, former Secretary of State for the Environment". (Tesco, 2006: 9)

Shape Reporting

An international media company used its corporate responsibility committee as well as a group of external stakeholders to review and shape its corporate responsibility report.

Product & Service Innovation

The Oxford Bus Company forms part of the Go-Ahead group and has established a stakeholder board comprising management (managing director and directors), customer representatives, representatives of large employers, local pressure groups and employees. The board not only reviews key performance indicators such as service punctuality and reliability, but also decides on product innovations such as design changes to its vehicle fleet (e.g. relocation of exhaust pipes in order to decrease emissions directed at pedestrians on the pavements) or new routes to better serve customers (Oxford Bus Company, 2008).

Discussion

Our research finds JMSCs to be an effective tool in engaging stakeholders in corporate governance and decision-making processes. In contrast to other forms of engagement JMSCs demonstrate measurable impact, thus translating the dialogue with stakeholders into alterations of governance arrangements. This is particularly important as limited impact of dialogue can be a major cause of stakeholders withdrawing from board membership (Hooghiemstra & van Manen, 2002) .

We find that companies involve internal as well as external stakeholders in the composition of JMSCs. Engaging internal stakeholders in board decisions has a long tradition in some countries, as in some it is legally mandated, e.g. Germany (White, 2006).

In line with previous research (AccountAbility & Utopies, 2007) we also find that dialogue is often unsubstantiated regarding its impact on corporate governance arrangements as the earlier example of Tesco illustrates. Engaging stakeholders in the design and structure of reporting seems to be becoming more and more mainstream (Spitzeck & Hansen, 2010).

One surprising finding was that engagement of stakeholders in JMSCs does not only alter governance arrangements, but might also lead to innovation such as in the example of the Oxford Bus company. While previous research pointed out that innovations might result from engagement with stakeholders, especially with customers (Ayuso, Rodriguez, & Ricart, 2006; Holmes & Smart, 2009; Spitzeck & Hansen, 2010), this seems at present an emerging trend.

Conclusion

This paper set out to describe the impact of JMSCs on corporate decision-making. Whilst the experience of this sub-group is over too short a time-frame to enable definitive conclusions, the development of JMSCs suggests that, for some companies, this may become a more important instrument of stakeholder governance. The use of JMSCs leads primarily to alterations of measurement, monitoring, policy development and reporting.

Theoretical implications

Our research contributes to the stakeholder theory by providing an empirical account of how stakeholders impact corporate decision-making. In particular, the paper combines stakeholder theory with research in corporate governance, explaining how the views of stakeholders lead to alterations in corporate governance arrangements. Our research is limited by the fact that we rely on corporate accounts and reports detailing corporate practices of stakeholder engagement.

Therefore, we encourage researchers to explore how stakeholders perceive the effectiveness of different forms of engagement with companies in general and JMSCs in particular. The use of JMSCs as well as SABs has been found to impact on operational, managerial as well as strategic decisions (Spitzeck & Hansen, 2010). However, in some cases it remains vague on which organizational level these boards and committees are located (Roy, 2009). Their use ranges from corporate boards and their sub-committees to very operational issues which are unlikely to be discussed on board level. Future research might help to understand which instruments of stakeholder governance are used on which level within the organization.

Practical implications

Despite the limitations we see that there is an increasing trend of engaging with stakeholders by the use of JMSCs. In comparison to other forms of stakeholder engagement, for example focus groups, JMSCs are better equipped to demonstrate how the dialogue with stakeholders frames future corporate decisions by adopting policies and performance indicators. Demonstrating effective dialogue might become important if corporations are interested in creating long-term and trustworthy relations with their stakeholders.

Acknowledgements

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