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INTEGRATING PERSPECTIVES ON CORPORATE RESPONSES TO CLIMATE CHANGE

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ABSTRACT

The strategic management of corporate sustainability tends to be approached from one theoretical perspective simultaneously in academic research and publications in mainstream journals. In corporate practice, however, a sustainability issue has different dimensions that cannot be captured if only one such lens is taken. This paper uses climate change as an example to illustrate how institutional, resource-based, supply chain and stakeholder views are all important to characterise and understand corporate strategic responses to one issue. It aims to develop a more integrated perspective, embedded in a stakeholder view that forms the starting point. This is subsequently linked to the climate strategies and related capabilities of companies, reckoning with societal and competitive contexts. The paper provides an overview of the different elements relevant to corporate strategy and climate change, and, for academic purposes, proposes areas for further empirical research.

KEY WORDS

Stakeholder view; institutions; supply chain; resource-based view; strategy; climate change
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INTRODUCTION

Climate change is one of the environmental issues that has increasingly attracted business attention in the course of the 1990s, when a range of stakeholders, including governments, started to pay attention to the potentially very serious consequences, and to the need to take action. Companies have developed different strategies to deal with climate change over the years, initially more political, non-market in nature, but currently also market-oriented. Since 1995, companies’ political positions have gradually changed from opposition to climate measures to a more proactive approach or a ‘wait-and-see’ attitude, and many have started to take market steps to be prepared to deal with regulation, or to go beyond that, considering risks and opportunities. Some companies apparently rely on the course set by their national governments following the adoption of the Kyoto Protocol, and wait until the actual implementation of climate policy before they take action. Others, however, have decided to launch initiatives for emission reduction to anticipate future policy, societal or competitive developments, thus facilitating compliance or the development of green resources and capabilities (Kolk and Pinkse, 2004; 2005a; 2005b).

Corporate positions on climate change differ considerably because of location-specific, industry-specific and company-specific factors (Kolk and Levy, 2004). Companies have to comply with different regulations depending on their global spread and the type of industries and activities in which they are involved. Public pressure to take action on climate change is to some extent company-specific, because it often relates to the reputation that a company has built up over the years. Some companies are affected directly by climate change as a result of changing weather patterns or ensuing government policy, while others are more indirectly involved through their stakeholders, broadly defined.

In view of these peculiarities, climate change is an issue that clearly shows the importance of different dimensions of strategic management as noted in the call for papers for the 2006 EABIS
conference. Institutional, resource-based, supply chain and stakeholder perspectives are all important to characterise and understand current corporate strategic responses to this sustainability issue. In this paper, we will analyse aspects of climate change in order to shed more light on what ‘strategic stakeholder management’, as indicated in the call for papers, would entail in this case. Given that this issue is so important for corporate sustainability, we think that this is a contribution to both research and practice.

The insights discussed in this paper originate from previous research by the authors on more specific elements of corporate responses to climate change (Kolk, 2001; Kolk, forthcoming; Kolk and Levy, 2004; Kolk and Pinkse, 2004; 2005a; 2005b; 2005c; 2006; Levy and Kolk, 2002; Pinkse, forthcoming). Especially the empirical papers in this body of work took, in view of the academic audience towards which they were oriented in the first place and in line with publication habits, a particular theoretical approach in most cases (frequently institutional or resource-based). This conceptual paper aims to develop a more integrated perspective, embedded in a stakeholder view that forms the starting point. This will be subsequently linked to the climate strategies and related capabilities of companies, reckoning with societal and competitive contexts. We thus provide an overview of the different elements relevant to business regarding climate change, and, for academic purposes, posit areas for further empirical research.1

TOWARDS A STRATEGIC STAKEHOLDER MANAGEMENT APPROACH

Based on Freeman’s (1984, p. 46) definition of stakeholders as “any group or individual who can affect or is affected by the achievement of the organization’s objectives”, it has been argued that one can view the natural environment as a potential stakeholder of an organisation (Mitchell et al., 1997). If we accept this starting point, then it is clear that the natural environment forms a stakeholder if it is affected by corporate activity, but it is not always apparent that the natural environment can also potentially influence a company in reaching its objectives. Interestingly, climate change is a case in point where the environment has the potential to significantly affect business. Abrupt changes in

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1 Our follow-up research will be part of a long-term research project on business and climate change, for which we have received a grant from the Netherlands Organisation for Scientific Research (NWO).
global climate conditions can seriously disrupt a company’s activities because of changing weather patterns or weather-related catastrophes. Yet, this direct impact on business is currently not as pressing as the indirect impact, which can be attributed to other stakeholders that influence a company (Frooman, 1999; Rowley, 1997). For example, (inter)national governmental and non-governmental organisations are putting considerable pressure on business to reduce greenhouse gas emissions.

Salience of the indirect impact of climate change on business depends, firstly, on the type of stakeholders that put a claim on a company (Mitchell et al., 1997). For many companies the government will be one of the most important stakeholders that demands action to reduce emissions (Kolk and Pinkse, 2004). In recent years many new policies have emerged that regulate energy use (particularly from fossil fuels), such as a carbon tax, emissions trading schemes and technology-oriented measures to stimulate renewable energy (Sorrell and Sijm, 2003). However, there are other salient stakeholders that have put climate change on corporate agendas; these include non-governmental organisations (NGOs), investors, suppliers, customers and competitors.

Secondly, companies will address stakeholder claims of those groups whose claims they see as most salient (Mitchell et al., 1997). In other words, companies can prioritise certain stakeholders at the cost of others, which can be explained by resource dependence theory. Organisations will pay more attention to external actors who control resources that are relatively critical for an organisation to reach its objectives (Jawahar and McLaughlin, 2001; Pfeffer and Salancik, 1978). Jawahar and McLaughlin (2001) argue that the prioritisation of particular stakeholder groups depends on a company’s stage in the organisational life cycle. However, they also note that other factors, such as pressure from regulation and technological innovation or industry membership, lead companies to deal with certain stakeholders more than others. This clearly points at a consideration of institutional factors as well.

Below we will examine attributes that might determine to what extent a company relies on stakeholders who control critical resources or can be relatively independent because it owns these

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2 It must be noted that companies not only deal with stakeholders when their claim actually materialises, but also anticipate possible future claims (cf. Oliver, 1991). This is particularly relevant to climate change. Due to the uncertainty that surrounds this issue, for managers it will not always be clear ex ante which stakeholders will try to impose constraints by demanding emission reductions. A corporate response may thus be aimed at getting ahead of stakeholders that are currently not attempting to influence the company.
critical resources. This will in turn lead to predictions about the type of stakeholders that are expected to be managed more proactively, resulting in a corporate climate strategy that contains (1) internal measures, (2) supply-chain measures, and/or (3) market-based measures. These strategic options for dealing with climate change, developed in earlier work (Kolk and Pinkse, 2005a), operate on different organisational levels: respectively company, supply chain or beyond the supply chain. With the latter two, companies transcend organisational boundaries (Sharma and Henriques, 2005) to try to realise emission reductions. The choices at various organisational levels originate not only from the considerable flexibility of emerging climate policies, such as the introduction of an emissions trading scheme in the EU and a voluntary emission intensity target and technology strategy in the US, but also from the more competitive approach that can be taken towards the natural environment (cf. Hart, 1995; Reinhardt, 1999).

The range of activities at the different organisational levels will now consecutively be analysed somewhat further, reckoning with the societal and competitive contexts with which companies are confronted. We will first discuss the influence of governments and NGOs, followed by suppliers and customers, and finally competitors as part of the broader market environment.

**Government and NGOs**

Since it is almost impossible to reduce greenhouse gas emissions with end-of-pipe technology, most internal measures aim at pollution prevention (Hart, 1995). Companies that intend to reduce emissions within the boundaries of their own organisation generally follow a process in which they first make an inventory of current emissions. Subsequently, a target is set, based on the outcome of the inventory, by which a company commits itself to a particular reduction level. Eventually, activities to reduce emissions are implemented to reach the target that has been set (Kolk and Pinkse, 2004).

The process of measurement of emissions and target setting is in most cases the outcome of pressure from two stakeholder groups: governments and NGOs. A number of studies has found that government regulation is a significant determinant of corporate environmental strategies (Buysse and

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3 The only available technology is the capture and storage of carbon emissions in underground reservoirs, but this has not been implemented on a large scale yet.
Verbeke, 2003; Fineman and Clarke, 1996; Henriques and Sadorsky, 1999). In her study of multinationals’ environmental behaviour, Christmann (2004) found that government pressure stimulates companies to set relatively high environmental performance standards. This relation particularly holds for the corporate response to international environmental agreements that fall under the umbrella of the United Nations. International agreements such as the Kyoto protocol only set goals in terms of outcomes but do not stipulate the actual implementation process (Christmann, 2004). As a result, in countries that ratified the Kyoto protocol, the national government has made a commitment to reduce greenhouse gas emissions at a pre-specified level, which has a direct impact on companies located in these countries. As part of this commitment, governments have set a similar goal for industries that contribute significantly to climate change. In other words, national commitments have trickled down to the private sector in countries that ratified Kyoto.

Target setting will, however, also take place in countries that have not ratified the Kyoto Protocol, because NGOs, and sometimes also the investor community and local governments, have filled the gap left by the national government there (cf. Peterson and Rose, 2006). These stakeholders put considerable pressure on companies to set targets and disclose information on their activities to combat climate change (Murray, 2004). As a direct outcome of this pressure, many companies have set a target for emissions in cooperation with NGOs to maintain their legitimacy with the public (Kolk and Pinkse, 2004). Emission targets thus have an important symbolic function (Meyer and Rowan, 1977); they are signals that a company takes climate change seriously. However, stakeholder pressure from governments and NGOs to measure emissions and set targets are particularly aimed at manufacturing industries, such as electric utilities and oil and gas companies, and only marginally at service industries. We thus expect a differential influence as to types of industry.

Proposition 1: Manufacturing companies are more likely to set targets for greenhouse gas reduction than service companies.

The outcome of government regulation and pressure from NGOs and other stakeholders in stimulating a company to set an emission target will probably not hold for the implementation of activities that
reduce greenhouse gas emissions. To reach their emission goals most companies will have to initiate organisational policies aimed at resource conservation, such as ‘good housekeeping’ measures and employee awareness creation, or aimed at more radical improvements in the production process based on new technology. However, a company will be more likely to fulfil a commitment that has been enforced by regulation than a voluntary target that stems from cooperation with an NGO (King and Lenox, 2000).

While governments and NGOs are stakeholders that both lay an urgent and legitimate claim on companies to combat climate change, government regulation is more salient because it contains power as well (Mitchell et al., 1997). Most NGOs do not have the power to enforce an agreement made with a company because they do not control resources that are critical to this company (Pfeffer and Salancik, 1978). It will be unclear what kind of penalty will be imposed on a company if it fails to meet such a commitment. Companies are thus likely to attach much more value to demands of governments than to those of NGOs. Since stringent regulatory requirements are currently being enforced in countries that ratified the Kyoto protocol, particularly companies located in these countries will develop organisational policies to reduce greenhouse gas emissions internally. This ‘location’ aspect can either be the fact that they have their headquarters in a Kyoto-country, or that they have a notable presence there. It is particularly production, not sales, in such countries that can be expected to be important in view of the emission-reduction focus of the climate debate.

Proposition 2a: Companies headquartered in countries that have ratified the Kyoto Protocol are more likely to implement internal measures that reduce greenhouse gas emissions than companies headquartered in other countries.

Proposition 2b: Companies with large production facilities in countries that have ratified the Kyoto Protocol are more likely to implement internal measures that reduce greenhouse gas emissions than companies without such a presence.

The European Union is the first region where government has introduced a large-scale emission trading scheme for those sectors that produce the largest share of emissions. This has reinforced
European companies’ tendency to focus more exclusively on governments and on trading-related market-based measures. By contrast, however, the US, which has rejected Kyoto Protocol, offers a much more flexible approach for companies, where there are different initiatives by and with NGOs and local governments, characterised by broader stakeholder involvement (Peterson and Rose, 2006) and a wider array of options to reduce greenhouse gas emissions. This larger room for ‘bottom-up’ rather than ‘top-down’ approaches also applies to other countries that have not ratified the Kyoto Protocol, such as Australia. These differences are likely to be reflected in the type of measures adopted by companies; future years will have to show though what the implications of different approaches will be for actual emission reductions and innovative capacity.

Proposition 3: Companies located in countries that have not ratified the Kyoto Protocol undertake a wider variety of measures that those in other countries.

**Suppliers and customers**

Companies do not only depend on the non-market environment – government and NGOs – for legitimacy and resources, but also on the market environment (Baron, 1995). To begin with, companies are part of a larger economic structure formed by supply chains and related networks in which they are embedded. As a result, they depend on suppliers for the acquisition of inputs to be used in the production process. Likewise, companies also act as suppliers themselves and provide their customers with products and services. The environmental impact of upstream and downstream activities in the supply chain is increasingly taken into consideration (Florida, 1996; Handfield et al., 2005).

The impact of suppliers has grown over the years because companies tend to focus more on their core competencies, outsourcing other functions (Prahalad and Hamel, 1990). Consequently, companies depend considerably on their suppliers for competitive success, but are also more vulnerable to environmental risks emanating from this relationship (Handfield et al., 2005). Companies basically have two options to deal with their suppliers on the issue of climate change.
Firstly, a supply-chain strategy can focus on reducing climate risks by continuously monitoring suppliers’ greenhouse gas emissions. Hence, an assessment of emissions can be integrated into procurement policies, evaluating supplier bids partly based on climatic impacts. Secondly, a company can reduce supplier-related risk by replacing inputs with a high potential for emissions by those with lower emissions. A common method is fuel switching; instead of fossil fuels companies can start purchasing energy from renewables.

It is the level of vertical integration that determines the extent to which a company depends on its suppliers and is vulnerable to supplier-related climate risks. A company that has outsourced many non-core activities depends for many of its critical resources on outsiders and will most likely take a proactive approach to supply-chain management (Handfield et al., 2005). A highly integrated company, on the other hand, still has many of its emission-generating activities, such as resource extraction, electricity generation, and transportation and distribution, within the boundaries of the organisation and is directly responsible for the emissions related to these activities.

Proposition 4: Less vertically integrated companies are more likely to implement supplier-related measures to reduce greenhouse gas emissions than highly integrated companies.

For particular types of companies climate change is more associated with the use of their products than with the activities of the company itself. For example, the automotive industry is often subject to public scrutiny because of the high climatic impact of cars. To anticipate pressure from customers, companies can measure product emissions and take the climatic impact of product use already into account in the design phase (Shrivastava, 1995). Companies can also initiate programmes aimed at creating customer awareness and stimulate customers to use their products responsibly. A different approach is to develop whole new products based on clean technologies. As many scholars have argued, product differentiation based on environmental attributes can create a price premium and lead to a competitive advantage (Christmann, 2000; Reinhardt, 1998).

The position of the company in the supply chain determines to which extent a company depends on its customers and thus follows a concomitant climate strategy. Probably only companies
that operate in the consumer market see opportunities in rethinking product design or developing new products, because this depends on the ability to differentiate products from those of competitors. Companies that are positioned higher up the supply chain do not always have the same opportunity to differentiate their products, because they deliver merely commodities instead of consumer products. It is the dependency on environmentally-conscious consumers and the possibility to change a product that will have a bearing on the climate strategy in consumer-oriented industries.

Proposition 5: Consumer-oriented companies are more likely to implement product-related measures to reduce greenhouse gas emissions than commodity-oriented companies.

**Competitors**

Current climate policies are highly flexible because they only tend to set goals for emission reduction but do not stipulate the kind of environmental technologies that should be used (Christmann, 2004; Kolk and Pinkse, 2005a). This flexibility gives companies the opportunity to use their climate strategy to better anticipate a stakeholder group on whose actions they also depend in the market context: competitors. Climate change opens up new markets because many companies do not have the resources and capabilities within their own organisation that are necessary to cost-effectively reduce emissions.

Demand for renewable energy is likely to increase significantly: not only traditional energy companies, but also companies from other industries may start to supply renewable energy. An example of the latter is Stora Enso, a pulp and paper company, that intends to use its by-products (sawmill and logging residues) as a biofuel for the green electricity market (Kolk and Pinkse, 2005a). While the feasibility to develop ‘climate-friendly’ substitutes and ‘solutions’ is partly industry-specific, also companies outside these industries can enter new markets, or create them, for example by developing new products or new product/market combinations.

There is another, specific type of new markets emerging as a direct consequence of the Kyoto protocol: the market for emission credits. Kyoto introduced three policy instruments, emission
trading, the Clean Development Mechanism and Joint Implementation, which give companies the opportunity to trade emission credits or earn credits with international offset projects (Grubb et al., 1999). However, the emission market cannot only be used to trade emission credits, but also to offer services that help companies to use this new market. Many companies do not have any experience yet with emission trading; banks and insurance companies can thus offer them support services, thus creating new products based on existing capabilities or on new capabilities that they develop.

Hence, companies have two types of market-based options related to climate change: trading emission credits and supplying climate-related products or services. Which types of companies will enter new climate-related markets depends on the resources and capabilities they currently possess. A resource-based perspective on market entry suggests that companies with a wide variety of resources are more likely to enter new markets (Montgomery and Hariharan, 1991; Miller, 2004). The rationale behind this is that in order to exploit a range of resources optimally, each resource will be used for several products in different markets. In other words, if companies have the possibility to further take advantage of economies of scope of their resources they will enter new markets. Moreover, Montgomery and Hariharan (1991) assert that more diversified companies will be capable of managing diversity and have less difficulties to further diversify into new markets.

Proposition 6: Highly diversified companies are more likely to enter new climate-related markets than less diversified companies.

A final aspect related to competitors is the sector dynamic in which companies are involved. Companies compete for external funding on the best conditions, and want to increase market share, attract new customers and talented staff, and maintain good relations with investors. This leads to continuous efforts to be more ‘attractive’ and agile than competitors. There is growing investor pressure related to climate change, as shown by requests for disclosure and shareholder resolutions on the issue, be it from a risk reduction or market opportunity perspective (Innovest/CERES, 2002; Tang, 2005). Companies also closely watch the behaviour of competitors, with a tendency to ‘follow the leader’ (cf. Knickerbocker, 1973) or to jump on the bandwagon (cf. Abrahamson and Rosenkopf,
1993), regardless or even despite of the fact that this may imply inefficiencies or losses. The clearest example is the automobile industry, where major companies are following Toyota’s (first) move towards hybrid vehicles, even though they all view it as a transition technology, and certainly not a very profitable (even loss-making) niche market. There may also be a simple lack of knowledge about what the ‘winning’ approach will be; this is notable in the oil industry where companies follow different routes regarding (future) energy sources that they all seem to be exploring. It is particularly in the market-based options where these competitive effects are most likely to be seen.

Proposition 7: In highly concentrated industries, market-based measures taken by leading companies are more likely to be followed by others than in less concentrated industries.

CONCLUDING REMARKS

This paper has examined different aspects of climate change, an issue that clearly shows the different dimensions of strategic management, to shed more light on what a ‘strategic stakeholder management’ approach, as mentioned in the EABIS call for proposals, would entail. It aimed to capture this concept by showing how climate strategies at different organisational levels can be linked to the societal and competitive contexts that companies face, embedded in a stakeholder view. Climate change is currently a prominent example of an environmental issue that primarily has a bearing on business through stakeholders who are trying to influence corporate objectives. Companies have three types of strategic options to respond to or anticipate this stakeholder pressure, each aimed at different stakeholder groups. Depending on attributes such as location, geographical spread, industry, degree of vertical integration and diversification, companies prioritise particular stakeholder groups, which is reflected in their climate strategies containing internal measures, supply-chain measures and/or market-based measures that move beyond the supply chain.

The insights in this paper build on previous publications by the authors, where more empirical information that support the arguments can be found. Compared to that output, however, that usually adopted a particular theoretical perspective, the current paper has attempted to develop a more
integrative approach, to illustrate how institutional, resource-based, supply chain and stakeholder views are all important to characterise and understand corporate strategic responses to a sustainability issue. In the process, an overview has been given of different elements relevant to business and climate change. For academic purposes, we have proposed areas for further empirical research in the years to come.

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