

WHITE PAPER

THE 4 STAKEHOLDERS APPROACH: A GREAT RECIPE FOR SUSTAINABLE LEADERSHIP SUCCESS

Abstract:

CEOs and business leaders who put stakeholders' interests ahead of profit generate greater workforce engagement, leading to increased customer satisfaction and retention – and thus delivering superior financial results that they have made their secondary goal. Combined with respect and fairness for the society and the environment, it earns them the admiration of their employees, colleagues, customers, members of society, friends and family.

Organizations perform best when they balance financial goals with respect, care, and fairness for the well-being of everyone involved.

During the last few years, more and more people all over the world have been suffering from the financial crisis. Caused by the greediness of banks, other financial institutions and selfish company executives, the impact was (and is) felt all over. The folding up of several companies, massive lay-offs of employees, rigid cost-saving measures, and a substantial impact on the financial and emotional well-being of people have (and still are) been observed. Even whole governments and their countries struggle. In surveys about the most respected professions, business executives regularly rank at the bottom.

In the 21st century, the mindset of people towards companies and businesses has changed. This puts their senior management under considerable pressure. Activist groups gain more and more influence, in some cases to the extent that they deny businesses their "licence to operate".

Companies often find themselves in a downward spiral with low employee engagement, sharply declining customer loyalty and shrinking profits. You as a company leader are facing now the dilemma how to deliver superior sustainable results for your stakeholders in a changed public environment. You might decide to make profit your top priority. That is an approach chosen in the past by many companies and even by many still today.

However, let us pay attention to what Nathan T. Washburn, Assistant Professor of Management at Thunderbird School of Global Management in Glendale, Arizona has written in the December 2009 issue of Harvard Business Review:

"Making the bottom line your top priority may not be the best way to improve profitability. Recent research shows that CEOs who put stakeholders' interests ahead of profits generate greater workforce engagement—and thus deliver the superior financial results that they have made a secondary goal.

This finding is based on survey data gathered from 520 business organizations in 17 countries, many of them emerging markets. We were testing the hypothesis that if a CEO's primary focus is on profit maximization, employees develop negative feelings toward the organization. They tend to perceive the CEO as autocratic and

focused on the short term, and they report being somewhat less willing to sacrifice for the company. Corporate performance is poorer as a result.

But when the CEO makes it a priority to balance the concerns of customers, employees, and the community while also taking environmental impact into account, employees perceive him or her as visionary and participatory. They report being more willing to exert extra effort, and corporate results improve. This research, which was conducted with Mary Sully de Luque, of Thunderbird School of Global Management; David A. Waldman, of Arizona State University West; and Robert J. House, of the University of Pennsylvania, underscores the risk of single-mindedly pursuing profit.”

The results of that study have not been any surprise to me. After all, I have experienced the findings of that survey first hand at my previous company, Merck Ltd., Thailand, for over a decade.

Over there, we went away from deriving at meaning and purpose for our employees from our products or businesses. We rather focused on a more general concept: **the 4 stakeholders approach**. We positioned our company as a caring company: a company that does not care only about shareholders, but also about employees, customers and the society. With other words, balancing stakeholders’ interests. As caring leaders, we helped our people to find purpose and direction. And so, people became energized and passionate about what they were doing.

The care-concept was holistically implemented throughout our company. It was part of our business strategy and became a key component of our culture; the DNA of our organization. It was communicated intensively internally and externally. Employees and customers became familiar with our 4 stakeholders concept. Actions for employees and customers were developed regularly and frequently. And twice a year, we asked our employees and our customers in surveys how we were doing in terms of providing meaning and purpose showing that our concept worked.

Balancing the interest of stakeholders served us very well at Merck Thailand for many years and led to outstanding results for **all** stakeholders.

Results for shareholders: The company achieved profitable double-digit sales growth in 14 out of 17 years. Continuously, a very high return on investment was recorded.

Results for employees: Surveys twice a year showed a very high level of employee engagement.

Results for customers: Customer engagement surveys every six months indicated high customer satisfaction and very high customer retention levels.

Results for society: Merck Thailand was widely recognized and acknowledged. The corporate brand of Merck Thailand was seen as a unique experience in the pharmaceutical and chemical business in Thailand. The company was identified as a leader in the field of CSR (=Corporate Social Responsibility) by the Thai Ministry of Social Development and ranked among the top four companies in the country. Merck Thailand's partnership with the NGO Raks Thai Foundation / CARE Thailand has a role model character for a meaningful, successful, and sustainable cooperation between a company and a NGO. Merck Thailand developed innovative concepts for employee volunteering and for customer volunteering leading to increased employee and customer engagement. Merck Thailand won the Regional Leadership Excellence Award in the Asia Regional Competition against companies from all over Asia and the U.S.. And last, but not least, within the Merck Group itself, Merck Thailand was perceived as the "gold standard" in Corporate Social Responsibility.

Balancing the interest of stakeholders served Merck Thailand for many years very well and led to outstanding results. More economic value and at the same time more happiness for all stakeholders was created.

Concluding it can be said that it pays having a meaningful purpose behind your business that matches people's interest. The 4 stakeholders approach is an ideal tool for that. Organizations perform best when they balance financial goals with respect, care, and fairness for the well-being of everyone involved. The human side of the business must never be neglected, since it has a major impact on the willingness of subordinates to follow their leaders.

If you intend to improve the performance of your organization while at the same time experiencing higher personal satisfaction levels, then please get in touch with us **now**. Let us discuss how we can work together.

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