

# **Maximizing Stakeholders' Interests: Empirical Insights**

**As the stakeholder approach to corporate governance catches on, more managers may wonder how to keep so many interests in mind while striving for positive financial performance. This research focuses on corporate social responsibility (CSR) functions and stakeholder engagement measures to offer some answers.**



January 12, 2015

The stakeholder approach to corporate governance considers more than just a firm's financial and market performance. The stakeholder approach takes on responsibility for employees, suppliers, customers and the community, with the long view in mind. It proposes that managers strive to understand the needs, expectations and values of groups previously seen as "outsiders" in the traditional view of the firm.

In many cases, the stakeholder approach links corporate social responsibility (CSR) to a firm's core mission.

However, little research has been done on the significance of elevating a company's CSR function to its board level and how that impacts stakeholder engagement and a firm's financial performance.

In their [article on maximizing stakeholders' interests](#), Silvia Ayuso, Miguel A. Rodríguez,

[Roberto Garcia-Castro](#) and [Miguel A. Ariño](#) seek to advance understanding of the stakeholder theory with an empirical analysis based on data from almost 1,000 large firms in 31 countries. The co-authors examine whether a CSR function at the board level boosts a firm's stakeholder engagement and if that boosts financial performance.

The short answer is "yes." The long answer contains added insights relevant to managers in international settings.

## **CSR and Stakeholder Engagement**

The authors analyzed a sample of 946 large companies operating in 18 market sectors in 31 countries. Included in the 2004 annual review for the Dow Jones Sustainability Indexes (DJSI), the 946 companies were all assessed and scored for many variables relevant to stakeholder theory by an independent firm. The average number of employees per company in the sample was 38,846.

The analysis finds that 46 percent of the sample (i.e., 426 firms) had explicitly assumed board responsibility for CSR issues. The researchers then looked at those 426 firms and found that they show significantly higher mean scores for engagement with internal and external stakeholders. More specifically, the researchers examined companies' scoring for employee grievance resolution and the number of external stakeholders dealt with in regular meetings and long-term partnerships, etc.

The evidence suggests that when firms explicitly handle CSR on the board level, they also engage with their many stakeholders in other ways.

Firms' financial performance, measured via shareholders' return on equity (ROE), was positively affected by stakeholder engagement, the study found. This positive effect was found to be statistically significant for the whole sample.

At the same time, a CSR function at the board level affected financial performance only somewhat positively. In fact, the positive effect was found not to be significant for the sample as a whole.

## **Home Country Differences**

The firms' home countries are distinguished as having Anglo-Saxon, French, German or Scandinavian corporate governance traditions. Previous studies indicate that nations with Anglo-Saxon legal traditions tend to favor a shareholder-centered model of governance

whereas those with German legal traditions generally follow a stakeholder-centered model. French and Scandinavian traditions tend to blend the two.

The co-authors further divide the nations within their Anglo-Saxon group into two subgroups. In one, the United States, Australia and Hong Kong showed lower CSR board responsibility and lower stakeholder engagement in general. These nations are associated with a strong shareholder approach to corporate governance. Yet when the co-authors did observe a CSR function at the board level, it was associated with a significant positive increase in financial performance.

Meanwhile, the second Anglo-Saxon subgroup — made up of the United Kingdom, South Africa and Canada — generally had higher levels of board responsibility for CSR and higher levels of stakeholder engagement. In contrast to the U.S. subgroup, the U.K. subgroup behaved much more like the sample at large: Higher levels of stakeholder engagement were associated with a significant positive increase in financial performance, while a CSR function at the board level was not significant.

The co-authors explain their results by noting that the U.S. subgroup may take a pragmatic approach to CSR, combining positive stakeholder engagement with the pursuit of shareholder benefits.

## **Pragmatism in CSR**

"Instrumental stakeholder theory" is defined as an approach to corporate governance that looks to serve multiple interests (stakeholders) as an effective means to improve efficiency, profitability, competitiveness and economic success over the long term. In contrast, "normative stakeholder theory" seeks to serve multiple interests for moral/ethical reasons.

The results of this study see value in "instrumental stakeholder theory" and pursuing a pragmatic CSR approach, as seen in the U.S. and its Anglo-Saxon subgroup, where companies combine shareholder and stakeholder benefits.

By arguing for the relevance of two dimensions of the emerging stakeholder theory — a CSR function at the board level and broader stakeholder engagement — and finding improved financial results, the authors advance the understanding of this new model of governance, taking the national context into account. This may prove to be helpful to managers striving to serve diverse interests at once.

---

**MORE INFO:** "[Shareholder vs. Stakeholder: Two Approaches to Corporate Governance](#)" and "[Leading the Way Towards the Sustainable Enterprise.](#)"

[www.iese.edu/insight](http://www.iese.edu/insight)