

THE EVOLUTION OF SHELL'S STAKEHOLDER APPROACH: A CASE STUDY

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Abstract: Shell's efforts to integrate the stakeholder management approach into its business practice worldwide involved the gradual development of a long-term, comprehensive strategy. This paper draws on stakeholder management theory and Shell's experience to identify critical factors that contribute to the process of institutionalizing the principle of stakeholder management in a global company. A key lesson to be drawn from the case is the necessity of ensuring that the process allows for continuous learning, adaptation, and refinement.

Shell has often been identified by practitioners and researchers as a leader among major international oil companies for its efforts to integrate stakeholder management principles into its business practice. Shell's experience, from early change efforts to improve financial performance (e.g., Mirvis 2000; Post, Preston, and Sachs 2002), to the role that the Brent Spar and Nigeria controversies played in accelerating change (e.g., Livesey 2001; Wheeler, Fabig, and Boele 2002), to early attempts to develop corporate systems to respond to stakeholder demands, such as the Shell Reports (e.g., Livesey 2002; Livesey and Kearins 2002), has been well documented by researchers. After nearly a decade since the strategic transformation at Shell was first initiated, the full evolution of Shell's approach into a comprehensive stakeholder management strategy has not been fully examined by researchers. Drawing on a series of new interviews the author conducted with senior managers involved with sustainable development at Shell and the relevant literature on stakeholder management, this paper provides an update of recent developments of Shell's stakeholder management strategy, a comprehensive review of the key components of the strategy, and offers lessons that can be learned from Shell's ongoing efforts to develop and implement a stakeholder management strategy.

Shell's strategic transformation is often identified as beginning in 1994 when then chairman, Cor Herkstroer prompted a reexamination and review of the Group's organization and structure due to the company's poor financial performance relative to its competitors in the industry. This strategic change was vastly accelerated in the wake of two controversies surrounding Shell that erupted in 1995, the Brent Spar and Nigeria controversies. The planned sinking of the Brent Spar, an oil storage buoy in the North Sea, sparked intense protests from Greenpeace, consumer boycotts, attacks on service stations in Germany, and calls to halt the sinking from the national

governments of several western European nations (Livesey 2001; Mirvis 2000; Post, Preston, and Sachs 2002). In response to the protests, Shell ultimately reconsidered plans and worked with stakeholders to devise an alternate means for disposing of the Brent Spar. In Nigeria, the company faced significant criticism for its failure to intervene sufficiently on behalf of Ken Saro-Wiwa, a human rights activist, environmentalist, and the leader of the Movement for the Survival of the Ogoni People, and eight other Ogonis who were detained, tried, and executed by the Nigerian military government for murder, for its continued investments and operations in the region, despite an international outcry against Nigeria's corrupt military regime, and for the environmental impacts of its operations in Nigeria (Mirvis 2000; Paine 1999a,b; Wheeler, Fabig, and Boele 2002).

Much to the surprise of the management and employees at Shell, both events sparked a tremendous amount of public reaction and attracted considerable media attention. According to Mark Wade, a founding member of Shell's Sustainable Development Group,

Shell was badly shaken by these events. While it is true that we lost downstream market share in Germany and some other Northern European countries, the share price stayed firm during this period, and year-end results for the Group worldwide were very much in line with expectations. We were more hurt emotionally. How could it be that a group of companies that prided itself for having business Principles for 20 years or so could be perceived to be falling so short of society's expectations? We had to find out what had gone wrong and quickly—because this was simply unacceptable to us.¹

The Management Challenge

The challenge facing Shell—to operate its business in a manner that is responsive to various stakeholder expectations—is not unlike that faced by many global corporations today. While not all companies will encounter this challenge in such a public or dramatic manner, managers are being confronted with similarly urgent challenges from stakeholders with greater frequency than in previous decades. As the scale and scope of today's corporations become increasingly global, businesses and their managers are operating across a wider diversity of contexts and are therefore also subject to a broader range of stakeholder demands.

Furthermore, recent years have seen a trend toward growing demands and heightened expectations of corporations from their stakeholders in general, both internal and external. Corporate social performance has garnered the attention of employees, such as managers who are concerned about the impact and role that the organization for which they work plays in society (Greening and Gray 1994; Miles 1987), shareholders, such as investors and fund managers who use social screens for their investment activities, customers who seek to do business with companies that they deem to be responsible corporate citizens, community groups, non-governmental organizations (NGOs), and government regulators (Metzger, Dalton, and Hill 1993; Weaver, Trevino, and Cochran 1999). Finally, scrutiny from the news media (Greening and Gray 1994) and the unprecedented speed with which information about companies is transmitted

today have noticeably altered the environment in which global businesses operate. The increased visibility of business activity and corporate concern for social legitimacy in their actions (DiMaggio and Powell 1983) has had a significant impact on the way many businesses are managed (Ashforth and Gibbs 1990; Greening and Gray 1994; Wartick 1992; Weaver, Trevino, and Cochran 1999).

In light of these trends, managing the multiple, competing interests of stakeholders has become an issue of increasing concern for managers and has even been identified as a key function of management (Ansoff 1984). Today's managers must balance demands for maximizing shareholder returns, maintaining and developing organizational competitiveness, and operating in a way that is considered legitimate and consistent with internal and external stakeholders' expectations (DiMaggio and Powell 1983; Wood 1991). One way for corporations to address this challenge is to apply the concept of stakeholder management, which emphasizes a focus on a broad set of stakeholder relationships rather than a narrow set of purely economic relationships (Freeman 1984).

Stakeholder Management Theory

Definitions of stakeholders range from very broad to more narrow (see Mitchell, Agle, and Wood 1997 for a comprehensive review). Freeman (1984: 46), whose 1984 book, *Strategic Management: A Stakeholder Approach*, is often cited as the seminal piece on stakeholder management, defines a firm's stakeholders as "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman 1984: 46). Freeman's definition is characterized as being one of the broadest, in that it can include virtually anyone (Mitchell, Agle, and Wood 1997). In contrast, Clarkson (1995) defines stakeholders as constituencies that are affected (favorably or adversely) by the operation of the corporation, regardless of whether stakeholders are linked through explicit or implicit contracts. The former includes investors, employees, or customers, while the latter consists of involuntary linkages, such as the local community. While researchers have conceived of a variety of definitions of stakeholders, they tend to converge around the concept of stakeholder management—the notion that managers must be more aware of the diverse constituencies that they are obligated to serve and increase the openness of management processes ("Principles of Stakeholder Management" 2002).

In their review of the stakeholder management literature, Jones and Wicks (1999: 4) outline four basic premises behind the stakeholder management concept. They include the following key ideas as critical to stakeholder management for corporations. First, it is acknowledged that the corporation has relationships with multiple stakeholders that are affected by its decisions (Freeman 1984). Second, the theory is concerned with the nature of these relationships in terms of both processes and outcomes for the firm and its stakeholders. Third, all stakeholder interests are deemed to have intrinsic value and no set of interests is assumed to dominate over any others (Clarkson 1995; Donaldson and Preston 1995). Finally, they argue that stakeholder management theory focuses on management decision-making (Donaldson and Preston 1995).

In the last decade, the stakeholder concept has become well established in the management literature. Donaldson and Preston (1995) note that since Freeman's 1984 book, approximately a dozen books and over 100 articles that focus on the concept have been published. Their critique of the literature's state of development is that the heterogeneity of the research has resulted in considerable ambiguity around the stakeholder concept (Brummer 1991; Donaldson and Preston 1995). Donaldson and Preston's (1995) typology identifies three key aspects of stakeholder theory, descriptive, instrumental, and normative, which helps refine the stakeholder management concept. Descriptive stakeholder theory seeks to describe and explain specific corporate characteristics and behaviors. Research on this aspect of stakeholder theory examines such questions as whether managers actually practice stakeholder management (e.g., Clarkson 1991; Wang and Dewhirst 1992). Instrumental stakeholder theory explores the existence of a link, between the practice of stakeholder management and the achievement of various corporate performance objectives, and whether this link is positive or negative (e.g., Aupperle, Carroll, and Hatfield 1985; Cochran and Wood 1984). Finally, the third prong of Donaldson and Preston's typology is normative. Research in normative stakeholder theory seeks to examine moral and philosophical guidelines for management. Stakeholder interests are defined by the stakeholders' interests in the corporation, not by whether the corporation has any corresponding functional interest in them. Normative stakeholder theory makes the case that all stakeholder interests are of intrinsic value and that the concerns of all stakeholders merit consideration for their own sake.

The theoretical development of stakeholder management has advanced considerably since it was first conceptualized, though research on operationalizing stakeholder management theory in business practice has been relatively limited. Some progress has been made on understanding stakeholder management theory in practice, such as how to classify and identify various stakeholder groups (e.g., Savage, Nix, Whitehead, and Blair 1991) and how to manage various stakeholder groups based on their characteristics (e.g., Agle, Mitchell, and Sonnenfeld 1999). Despite these advancements, however, researchers have noted that the stakeholder concept "gives little direction to either the study or practice of management" (Jones and Wicks 1999: 206). For managers, a more pressing issue remains unaddressed: How to move from the theory of stakeholder management to applying it in practice. This paper seeks to respond to the need for the insights from stakeholder theory to be grounded in concrete examples. The Shell case sheds light on the process by which managers actually assess and respond to stakeholder demands and develop a comprehensive, firm-level strategy over time. Through an analysis of the evolution of Shell's stakeholder management strategy, this study proposes an initial framework for thinking about key factors that are necessary for developing and implementing a comprehensive stakeholder management strategy in a global corporation.

Stakeholder Management at Shell

Implementation of stakeholder management in Shell's business operations world-wide has taken place through a long-term, multi-staged transformation process that began in 1994 and continues through 2003. Just as scholars define stakeholder management as managing toward a broader set of constituents beyond the traditional focus on shareholders (Clarkson 1995; Donaldson and Preston 1995), stakeholder management at Shell, referred to as Sustainable Development, translates into integrating economic, environmental and social considerations into management decision-making, balancing short-term priorities with longer-term needs, and engaging with stakeholders in order to make better decisions (Shell International 1998).

As noted previously, the initial events leading up to Shell's strategic transformation to include stakeholder management concepts have already been described and analyzed by researchers, from the initial business case for change, to the acceleration of the strategic change by the Brent Spar and Nigeria controversies, to the initial actions taken by Shell, such as updating its general business principles, initiating numerous roundtable discussions with stakeholders, and publishing the annual Shell reports (see Mirvis 2000; Paine 1999a,b; and Post, Preston, and Sachs 2002 for a more detailed account). This study provides an examination of Shell's stakeholder management strategy where many other studies have left off. I present a more comprehensive analysis of Shell's stakeholder management strategy, by looking at the entire evolutionary process, from its earliest stages to more recent developments and identify some of the critical factors that enabled the strategy to evolve into an integrated approach to stakeholder management.

The key objective of the strategic transformation was to adapt Shell's vision and business principles to address a wider range of stakeholder concerns, to develop management systems to integrate principles of sustainable development into everyday practice, and to measure performance from multiple dimensions throughout the company's operations. Ultimately, it was anticipated that Shell's sustainable development strategy would also contribute to the long-term competitiveness of the firm. Implicit in this strategy is the assumption that commercial success in the long term requires that the company is trusted to adhere to society's expectations. Thus, this strategic transformation was grounded in both normative and instrumental justifications that were relevant to both internal and external stakeholders.

The drive and commitment to pursue a stakeholder strategy came from multiple levels within the company, from some in senior leadership, to managers, and front-line staff. Mark Moody-Stuart, Shell chairman at the time, and his predecessor, Cor Herkstroter, led the drive to foster greater responsiveness to a broader range of stakeholder demands. By consistently demonstrating their commitment to the approach through both external and internal communications, such as speeches and company publications such as management primers on specific stakeholder management issues (human rights and bribery, for example) and the annual Shell Reports, and through their actions, such as supporting and sanctioning the allocation of resources and staff dedicated specifically to developing Shell's sustainable development strategy. Under

the leadership of these chairmen, the Group's corporate center embarked on a long-term strategic transformation in an attempt to encourage entrepreneurial activity, reduce complacency, and broaden the company's external focus. A governance structure was created to guide the firm toward these goals, from establishing a board level Sustainable Development committee, to a corporate level Sustainable Development Group. With guidance from the Board level committee, the corporate level Sustainable Development Group developed a comprehensive five-year road map of a strategy for developing and integrating sustainable development practices into the company's businesses. The sustainable development strategy consisted of three key components: 1) the annual Shell Report that described the company's economic, social, and environmental performance for the year 2) the Sustainable Development Management Framework (SDMF), a management system geared toward institutionalizing sustainable practices into the businesses, and 3) the development of Key Performance Indicators (KPIs) to monitor progress and drive continuous improvement in performance.²

Shell Reports

The Shell Reports, first published in 1998, are aimed at providing information to a wide range of audiences, from employees, to shareholders, and the general public. The first Shell Report contained the company's five-year strategy and specific targets for when and how it planned to integrate various sustainable development milestones into its businesses. Successive Shell Reports reported on the company's progress on the five-year roadmap that was laid out in the initial 1998 report. An important aspect of the Shell Reports was "Tell Shell." Through the reports, and more recently on a continuous basis via the corporate website, the company encouraged an open and ongoing dialogue with its stakeholders by inviting both positive and negative feedback about its activities. The response from stakeholders was significant enough that eventually a dedicated full time staff was set up to coordinate responses to stakeholder comments and concerns.³

To increase internal awareness about sustainable development initiatives at Shell, the annual Shell Reports were not only circulated to external stakeholders, but were also distributed to every staff member at Shell. From 1999 on, the report format was restructured from reporting on each of Shell's nine business principles to reporting on the three pillars of sustainable development: economic, environmental, and social performance. More importantly, the reports moved toward laying out the strategy and process of implementing a sustainable development strategy in more detail, including describing new management tools, such as the Sustainable Development Management Framework and its accompanying implementation program, and creating measurement standards and verifiable reporting through the development of Key Performance Indicators. (Shell International 1998; Shell International 1999a)

While external verification had always been done on the company's financial data, and more recently on its Health, Safety, and Environmental performance, there were virtually no precedents to follow for formal verification of the reported social information. Consequently, the verification process for social measures was continuously being developed; hence the social reporting in the Shell Reports was enhanced with

each subsequent report. Initially, external verifiers simply made a general statement of confirmation about the information and assertions stated in the report regarding the measures Shell had taken to assure compliance with its business principles, including the distribution of a primer on human rights to employees, and the initiation of large scale engagement processes with employees via an annual worldwide attitude and opinion survey, the Shell People Survey. By the third report in 2000, the economic, environmental, and social performance data in the report were verified to a greater extent by external auditors. By 2001, the data in the Shell Report were verified at three levels of degree and scope. The most comprehensive verification process, consisted of a review of the systems used to generate, aggregate and report these data at all levels of Shell (Group, Business, and Operating Unit levels). This was applied to financial and HSE data. The second verification type covered assessing systems and processes and supporting data and statements on aspects of performance, for example a case study on community development work in Nigeria and progress on developing KPIs. The third type tested the integrity and accuracy of the data aggregation process, including sample-testing of the data from a complete set of Operating Unit responses. This third type was the basis for verification for much of the data relating to aspects of Business Principle performance, for example equal opportunity and incidents of bribery data (Shell International 2001).

Sustainable Development Management Framework (SDMF)

Shortly after the first Shell Report was published, The Sustainable Development Group focused its efforts on building the stakeholder management through the creation of additional tools to aid managers in operationalizing stakeholder management into their work. The SDMF is a management tool designed to introduce sustainable development to managers in a consistent and structured way. Created by a cross section of Shell employees, it was based on the company's vision and Principles and also took into account current best practice and existing systems in order to minimize the need for new procedures. The most fundamental features of the framework included the integration of the economic, environmental, and social elements in day-to-day business practices, engagement and learning from stakeholders, and transparency through open reporting and verification. The framework consisted of eight interlinking steps: identify stakeholders and risk and opportunities, prioritize risk and opportunities and set objectives, define strategy, targets and plans, mobilize resources, carry out plans, monitor and measure, report and communicate performance, review and incorporate learning, and demonstrate leadership (Shell International 1998). Although the Shell Group had already begun applying some of the steps outlined in the framework, the objective of the framework was to increase the company's focus on the process by which sustainable development aims could be achieved, enable monitoring and reporting, and allow for continuous improvement of concrete tools for implementing sustainable development.

In February of 1999, in the wake of Shell reporting the worst financial performance in the last 100 years, the SDMF was distributed by the Chief Executives of each business to 3500 senior managers worldwide. The SDMF was intentionally distributed

at the business level, not the corporate Group level, in order to emphasize the fact that the implementation was to be owned and managed by the individual businesses. Managers were expected to experiment with applying the SDMF and adapt it to their specific business and market contexts. The philosophy behind this strategy was for the Sustainable Development Group in the corporate center to provide a uniform framework for sustainable development, namely, guidance, support, and resources to aid in its implementation rather than to prescribe and mandate a standardized set of procedures. Furthermore, the corporate center encouraged experimentation with this concept at the local level and sharing of best practice throughout the company. While some questioned the focus on sustainable development at a time when the company was struggling to improve its financial performance, in the eyes of then Chairman Sir Mark Moody-Stuart, "the answer is quite simple—financial performance is essential, but without working on the other two legs of the stool, environmental, and social performance, we will not have developed a business platform that is balanced and sustainable in the long term" (Shell International 1999b: 1).

Key Performance Indicators (KPIs)

As the Shell Reports continued to develop, and the various businesses began experimenting with ways to apply the SDMF in their operations, Shell sought to build on its commitments to stakeholder management by creating greater accountability for performance. This necessarily entailed somewhat subjective measures, in the sense that the measures must be tailored to suit the particular business context. It was felt, however, that in order to report on the company's overall performance and to ensure implementation of the SDMF throughout the company, a consistent set of measures that could be independently and objectively verified needed to be developed. A multi-year effort was initiated in 1999 to develop KPIs through a stakeholder engagement process. While the KPIs were developed in large part to satisfy external stakeholder demands for greater transparency, Shell managers also recognized that the KPIs could serve as a valuable internal management tool that would help to set targets, measure baseline performance, and motivate continuous improvement in the company's various businesses. According to Mark Wade,

KPIs don't try to measure sustainability per se. They allow us to drive toward improvements in various components of sustainable development and improve performance. Contributing to sustainable development is to integrate social, environmental, and economic needs while balancing short-term priorities and long-term needs. We use engagement as a tool by which to better understand the context in which we are making decisions—to identify the risks and the opportunities so we can make better decisions. This is the essence of the Shell sustainable development approach.⁴

As in previous efforts to engage in dialog with stakeholders, the company convened a series of thirty-five face-to-face meetings with stakeholders ranging from shareholders, NGOs, labor organizations, academia, and government, in an effort to establish the basic components of social accountability and to gather suggestions and feedback on the preliminary set of KPIs. Shell wanted to learn which KPIs would be most relevant

and valuable to its different constituents. The company struggled to balance the need for clear, concise measures and more ambiguous measures that capture more about the quality of performance. Based on learnings from stakeholder engagement, Shell developed seven categories of KPIs that spanned economic, environmental, and social concerns. In all, sixteen KPIs were developed, five of which were measures already reported on by Shell, Return on Average Capital Employed, total shareholder return, critical environmental data, health and safety data, and greenhouse gas emissions. The remaining eleven were still being tested as of 2002. These KPIs fell into two categories, those which could be aggregated from local data and be reported on for the company as a whole, and those in which aggregation was less meaningful. Examples of the former included, reputation, brand performance, acceptability of environmental performance, integrity, staff feelings on whether they are treated with respect, and diversity and inclusiveness in the workplace, while examples of the latter included, stakeholder perception of the quality of engagement, social performance, and acceptability of environmental performance at the local level. The former were set to be reported on beginning in 2003, while the latter were either still under development and piloted. Given these ambitious aims, the KPI process, much like the integration of the Sustainable Development strategy as a whole, was viewed as a work in process that would continue to advance over the next several years. The initial KPIs would be field tested and further refined through ongoing engagement with stakeholders.⁵

The Shell Reports, the SDMF, and the KPIs are the critical components of Shell's stakeholder management strategy. While each of these components was developed successively, work on each component continued to advance as the next component was initiated. They were designed to reinforce each other and enable Shell to institutionalize stakeholder management strategy throughout the company. Wade summarized the overall approach,

There are many people who we still need to reach and to help them see the business value that SD thinking can bring to their part of the business. We need to do two things: (1) to hardwire this type of thinking into processes and (2) encourage an awareness, general understanding, and enthusiasm for sustainable development. If all you do is generate a froth of enthusiasm without aligning the systems and processes that support people, it will simply evaporate. If you just make a manual, without helping people having the "will, thrill, skill" to make a difference, then it will just sit on the shelf. The road map we created for sustainable development reflects the reality that it takes years for this all to come together. The challenge is to win the hearts and minds of staff, and to hardwire SD into the systems and processes.

While we have top-level commitment and many of our younger staff are enthusiastic, there are still some who find it harder to see the relevance to them. Others say that it is the most fabulous, empowering thing that has ever happened. There is a full range of views and behaviors in the organization. Skeptics know that some management fads have come and gone. They have taken a wait and see attitude to find out what will become of sustainable development. With the high level of senior leadership and commitment, internal and external communications, increasingly people are recognizing that sustainable development is actually

here to stay. Although not everyone understands it yet, increasingly people see sense in it, especially as it is becoming translated from abstract concepts into day-to-day business practice.⁶

Critical Factors To Implementing Stakeholder Management

Drawing on Shell's experience, several critical factors stand out as being central to the company's efforts to implement stakeholder management. These include senior leadership commitment, a long-term perspective, stakeholder engagement, experimentation and learning, and performance measurement. What is particularly notable is that the Shell case illustrates the importance of each of these factors throughout the evolution of a stakeholder management strategy.

Senior Leadership Commitment

Research suggests that external pressures for social performance may encourage decoupled processes, but top management commitment is necessary for social performance practices to be integrated in the organization (Weaver, Trevino, and Cochran 1999). While the role of senior leadership is identified as critical in many other types of corporate initiatives, it is particularly important for the implementation of stakeholder management for a number of reasons. Because stakeholder management does not necessarily give priority to shareholder interests, it may at times conflict with financial objectives. Much research has sought to determine the relationship between a stakeholder management approach and financial performance (e.g., Arlow and Gannon 1982; Aupperle, Carroll, and Hatfield 1985; Cochran and Wood 1984; Vance 1975) but no clear link has been established, and researchers continue to debate the issue. Thus, it is likely that in implementing stakeholder management strategies, conflicts between economic and social objectives will inevitably arise. Furthermore, since management systems and incentives for stakeholder management are still in their infancy, managers and employees may have a tendency to continue with business as usual, and focus on more tangible outcomes, such as financial performance, rather than social performance which tend not to be evaluated as readily. To overcome these and other significant obstacles, strong leadership commitment to stakeholder management is imperative for stakeholder management to become established as a strategic priority in managers' minds and for its continued development throughout the company.

The Shell case provides a rich illustration of this point. From taking the initiative to increase the transparency of the company's operations through the publication of the Shell Reports, to developing and implementing management tools to drive the stakeholder management concept into management practice through the SDMF, and the ongoing investment made to increase accountability through the development of KPIs, the executive leadership has remained committed to the implementation of stakeholder management even despite multiple changes in the company's chairman, from Herkstroter, to Stewart, to current chairman Phil Watts, and periods of financial difficulty. Although pressure from external stakeholders certainly played a role in the

development of Shell's stakeholder management strategy early on, without strong, ongoing support for its development through its various stages, the development and evolution of the distinct, but complementary components of the strategy would have been limited.

Long Term Perspective

From the Shell case, it becomes apparent that the development of a holistic stakeholder management strategy requires sustained investment and over a considerable period of time. Shell took a phased approach, beginning with the publication of the Shell Reports to address immediate external calls for transparency and to map out its plans for sustainable development. This public commitment served as a relatively quick response to internal and external stakeholders, while also communicating the company's long term plans for sustainable development and demonstrating its commitment to respond. This action allowed for additional time to develop the specifics of how to operationalize the stakeholder management strategy as the company's understanding of stakeholder demands and potential corporate responses began to emerge through continued engagement. The company then focused on developing the internal management frameworks and tools to institutionalize the strategy among managers and employees in their business operations. Finally, Shell turned to the development of KPIs in order to report on its performance to stakeholders through tangible measures, track its performance over time, and to improve on its performance through feedback from internal and external stakeholders. For every aspect of the company's sustainable development strategy, the company took a long-term perspective, allowing for the fact that continued developments and advancements would be made.

Stakeholder Engagement

In their research on managing and partnering with external stakeholders, Harrison and St. John (1996) make a case for proactive partnering to manage uncertainty in an organization's environment. They argue that in complex and uncertain environments, going beyond traditional stakeholder management techniques, which tend only to buffer the organization from uncertainty by predicting external influences, to proactive partnering, increases organizational control and flexibility. In essence, traditional stakeholder management focuses on satisfying stakeholder needs and demands while proactive partnering enables firms to build bridges with stakeholders in the pursuit of common goals.

This approach was instrumental in Shell's development of its sustainable development strategy. From the outset, the company relied upon consultation and interaction with external stakeholders to determine what issues it needed to address. As the sustainable development strategy became clearer, the highly involved stakeholder engagement process became a cornerstone of further strategy development. From the "Tell Shell" dialogue, to the involvement of stakeholders as a critical component of the KPI development, Shell relied upon proactive partnering and engagement with stakeholders in an effort to identify and understand stakeholder concerns and build its business strategy in response to these concerns.

Experimentation and Learning

Virtually every aspect of Shell's stakeholder management strategy is characterized by experimentation and learning. Shell's leadership acknowledged that it did not have all the information or know how for implementing a comprehensive stakeholder management strategy at the outset. Nonetheless, it felt compelled to act and become more responsive to a broader set of stakeholders promptly, even if the exact process was not clearly defined at the outset. Much of the company's work on this effort, from engagement with stakeholders, to reporting on the company's social performance, to seeking to measure its environmental and social performance were virtually unprecedented among multinational companies. Thus, the company built in flexibility and allowed the strategy to be refined and further developed as the stakeholder management strategy evolved. For example, the Shell Reports gradually included more data and were verified more rigorously by external auditors, while the KPIs were field tested and were intended to be adapted and refined based on additional data and experience.

Not only were the management tools developed through experimentation and further refinement, the implementation of the stakeholder strategy itself was also developed through local experimentation. Shell corporate allowed its various businesses to test new ways of applying the sustainable development concept and responding to their stakeholders as they saw fit. It was felt that mandating sustainable development practice from the corporate level would not only be impossible given the complexity of the company's many businesses and markets, but also less effective at institutionalizing the concept among managers and employees. Instead, it was decided that by allowing staff to take a more proactive role in applying the concept in their particular business contexts, experimentation would foster new ideas and strategies and allow best practices to emerge. By facilitating communication and enabling learning amongst staff across businesses, it was hoped that cross-fertilization of strategies for effective stakeholder management would occur. It was up to the managers themselves to take the responsibility for implementing stakeholder management within their own businesses. The risk of noncompliance was reduced by the fact that managers were informed that certain business decisions, such as their capital allocation requests, and indeed their own performance evaluations would be based in part on the way their businesses contribute to sustainable development performance.

Performance Measurement

A final critical factor in Shell's implementation of stakeholder management strategy is the performance measurement aspect. Despite the fact that the precise measures for performance were still in their infancy, in every component of Shell's stakeholder management strategy, the drive was toward greater accountability and measurement of performance. As noted previously, each successive Shell Report contained more concrete data and more rigorous verification of the data as the state of the art advanced. The internal exercise of gathering and compiling the relevant performance data for the Shell Reports on an annual basis served to highlight to employees that they, and the company as a whole, were accountable for not only financial, but also social and

environmental performance, while the Reports themselves served to communicate the company's commitments and performance to external constituencies. Although, the SDMF was disseminated to managers without precise performance expectations at the outset, as the company's various businesses began experimenting with ways to implement the framework, performance could begin to be tracked on a relative basis among business units. Ultimately, the KPIs would become a key means by which to track operating unit implementation of the SDMF, and perhaps more importantly, could be used for continued learning and further refinement of Shell's business practice with respect to its social performance. It is this latter aspect of performance measurement that enables the company's stakeholder management strategy to remain dynamic and to continue to advance.

Conclusion

Many managers of today's global businesses seek to put the stakeholder management concept into practice. As noted previously, a key challenge in stakeholder management is making the concept accessible to practitioners. While the critical factors identified above have been distilled from Shell's particular experience with stakeholder management, they offer a basis on which managers can apply the concept in their own organizations to create a comprehensive, firm level stakeholder management strategy.

Examining Shell's SM strategy from a holistic perspective helps demystify the process for managers seeking to institute stakeholder management in their organizations. Notwithstanding the fact that Shell's stakeholder management strategy is still a work in progress, as pointed out by many outside observers and acknowledged by its own leadership, much can be learned from the strides that the company has made through nearly a decade of development and practice. A key contribution from this study is that it identifies key factors that are critical to developing and institutionalizing the stakeholder management concept in business practice and illustrates some of the management levers that can be used to support them through various stages of the process. Additionally, by examining the phases of evolution of the Shell approach, from the initial impetus and motivation to respond, to the Shell Reports, to the introduction of governance and management structures aimed at embedding stakeholder management in business operations, to measuring performance to ensure accountability, this study shows how the various management levers can be used in concert to institutionalize stakeholder management in an organization. While managers can use this initial framework derived from the Shell case in implementing a stakeholder management approach in their organizations, the most valuable lesson that underlies Shell's experience is the necessity of ensuring that the implementation process allows for learning, adaptation, and refinement of the strategy. From the Shell case, it is apparent that stakeholder management is an iterative, continuously evolving process, better understood as a journey rather than a destination.

Notes

¹ Author's interview with Mark Wade, founding member of the Sustainable Development Group, Shell International, April 10, 2001.

² Author's interview with Tom Delfgaauw, Vice President, Sustainable Development, Shell International, December 12, 2000.

³ Author's interview with Joanne Chandler, Staff member of Sustainable Development Group, Shell International, June 21, 2001.

⁴ Author's interview with Mark Wade, founding member of the Sustainable Development Group, Shell International, June 21, 2001.

⁵ Ibid.

⁶ Ibid.

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