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**The Politics of Stakeholder Influence in  
Corporate Environmental Governance**

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# **The Politics of Stakeholder Influence**

**in**

## **Corporate Environmental Governance**

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### **Abstract**

In this article I analyse how the multinational oil company Shell has responded to the increasing institutional pressures (DiMaggio and Powell, 1983) related to corporate environmental governance. The corporate culture in Shell appears favourable (Hoffman, 2001) towards the adoption of corporate environmental governance practices. The Shell top management is to this end appearing sincere in the way they monitor (Meyer and Rowan, 1977) the progress in giving secondary stakeholders (Clarkson, 1995) access to environmental information and to environmental decision-making in Shell. Based on the Shell case I contribute in this article to descriptive stakeholder engagement theory by conceptualising a number of new *internal* influence strategies that engaged secondary stakeholders can use in their new *face-to-face* interactions with the corporations. These *internal* stakeholder influence strategies should be seen as adding to the list of *external* stakeholder influence strategies (e.g. Frooman, 1999) that secondary stakeholders can use in their traditional role of operating from the outside.

## INTRODUCTION

Within the field of the natural environment governments have traditionally imposed command and control regulation to ensure that corporations reduce their environmental impacts. However, in recent years the governments' use of this form of green regulation has diminished (WRI, 2003) and a new type of regulation emphasising corporate self-governance has developed (Power, 1997). This new type of government regulation has through coercive pressures assisted in institutionalising (DiMaggio and Powel, 1983) corporate environmental governance processes in companies. In such processes secondary stakeholders (Clarkson, 1995), such as environmental NGOs, get access to corporate environmental information as well as access to internal corporate decision-making processes (WRI, 2003).

The emerging regulation on environmental governance concerns both public authorities and corporations and can be dated back to the UN Rio Summit on Environment and Development in 1992. At this summit Heads of States from around the world agreed on some global policies and principles for how to pursue global sustainable development. A key principle to this end is principle 10 in the Rio Declaration (1992). This principle addresses the concept of environmental governance and recommends that governments ensure that concerned citizens get access to environmental information and access to environmental decision-making. Since Rio, the Aarhus Convention (1998) - an international environmental convention adopted by industrialised countries in 1998 - has turned this Rio principle on environmental governance into international law for developed countries. The convention outlines in detail governments' obligations to give their citizens access to environmental information, including access to corporate environmental information, as well as to give their citizens access to environmental decision-making in public authorities. The citizens' rights to access are in the convention defined by governments as *human rights* in the sense that citizens have a human right to know about and have influence on environmental factors that might be vital for their health. The Aarhus convention was originally an industrialised country convention. However, a growing number of developing countries have shown interest in this convention and have by now become parties to it (WRI, 2003). Furthermore, under the Aarhus convention a specific protocol (2003) on citizens' rights to access to *corporate* environmental information was adopted in 2003. This protocol concerns the establishment of public accessible pollution registers.

The Johannesburg UN environmental Summit in 2002 was held to evaluate how far the world was in terms of implementing the different Rio agreements. On the issue of environmental governance the summit continued the discussions under the Aarhus convention (1998) and confirmed that environmental transparency and environmental governance processes are gaining ground in public authorities and companies around the world. The same conclusion is drawn in the global mapping of environmental governance processes carried out in 2003 by World Resources Institute, UNEP, UNDP and the World Bank (WRI, 2003). While the Aarhus convention and the related protocol are not directly advancing citizens' access to corporate environmental decision-making, but only their access to corporate environmental information, the Johannesburg summit was contributing to pave the way for citizens' access also to corporate decision-making. The summit was to this end instrumental in setting up a large number of voluntary corporate environmental governance processes in companies around the world. The Johannesburg summit is thereby likely to have contributed to add mimetic institutional pressures (DiMaggio and Powel, 1983) to the growing coercive pressures that the primary governmental stakeholders (Clarkson, 1995) put upon corporations to get them to be transparent and involve secondary stakeholders in corporate environmental decision-making.

The above described developments since Rio has contributed to a new development in stakeholder theory. A development where the traditional attention on stakeholder management (e.g. Mitchell et al, 1997) is shifting towards a new attention on stakeholder engagement (e.g. Post et al, 2002). This article contributes to this development in stakeholder theory and produces based on a case study methodology new descriptive stakeholder engagement theory. The overall research question that will be addressed in this article is: *How has the multinational oil company Shell responded to institutional pressures relating to corporate environmental governance and what does such corporate response imply for the conceptual understanding of the politics of secondary stakeholder influence.*

In investigating these questions I merge organisational decision-making theory (Cyert and March, 1963; Cohen, March and Olsen, 1972) and stakeholder theory (Clarkson, 1995; Donaldson and Preston, 1995; Frooman, 1999; Mitchell et al, 1997; Post et al, 2002). Based on the analysed Shell case the article argues that the diffusion of corporate environmental governance practices will change corporate environmental decision-making and add a new list of *internal* influence strategies to existing *external* influence strategies of secondary stakeholders.

### **THEORETICAL FRAMEWORK**

In the theoretical framework theories of organisational decision-making will be discussed. Based on this discussion the following analysis will look into how Shell has changed their corporate environmental decision-making in response to the growing institutional pressures relating to corporate environmental governance. The final discussion will address the new *internal* influence strategies of secondary stakeholder in corporate environmental governance processes.

#### **Corporate Environmental Governance**

Empirical observations of real life in corporations indicate that corporate decision-making processes are far from always unfolding as individual managerial rational decision-making. Thus, in describing corporate decision-making - as it develops in the practical reality - one needs to draw on a range of different decision-making models (March, 1994). Decision-making theory has to this end conceptualised four basic decision-making models: The rational model, the trial-and-error model, the coalition model and the garbage can model. While the rational model is characterised by the assumption that there is agreement on goals and methods for making the decision the other three models are characterised by less ideal assumptions about the social order in organizations. The trial-and-error model assumes agreement about goals, but disagreement about methods. The coalition model assumes agreement about methods, but disagreement about goals. And lastly the garbage can model assumes disagreement about both goals and methods for making decisions in organizations (Thompson, 1967; Hatch, 1997).

If corporations respond positively (Hoffman, 2001) to institutional pressures relating to corporate environmental governance processes they will start to engage secondary stakeholders such as environmental NGOs in their corporate environmental decision-making. In principle this should result in decisions that unfold as coalition decision-making (Cyert and March, 1963), where the secondary stakeholders are placed in a new role of being in face-to-face negotiations with the corporation.

As indicated already in the above discussion the coalition decision-making model is a model of social processes of decision-making as opposed to both the rational and the trial-and-error decision-making models that are models of individual managerial decision-making (March, 1994). In the coalition decision-making model (Cyert and March, 1963) individuals with conflicting goals are viewed as forming coalitions to make decisions. The coalition members are in this decision-

making producing a common goal through uniting their interest in ways that are collectively beneficial to themselves. According to the coalition model, the corporations that pursue coalition decision-making do that because they seek ways of making the social environment controllable. In coalition decision-making corporations' negotiations with the social environment (which, in this case, is invited in house) is to this end not necessarily oriented towards the classical goal of profit maximisation. 'Rather, it is an attempt to avoid uncertainty while obtaining a return that satisfies the profit and other demands of the coalition (Cyert and March, 1963, p. 168)'. The 'other demands' of the coalition is called side payments that is often related to some sort of policy commitment. In cases where corporations involve environmental NGOs in coalition decision-making processes the 'other demands' of these secondary stakeholders are likely to be the corporation's commitment to sustainable development. Through such side payments it should be possible for a coalition between the corporation and environmental NGOs to produce common goals and thereby make a coalition decision. Depending on how successful the secondary stakeholders are in their use of the new internal influence strategies available to them in corporate environmental governance a certain level of green side payments can be achieved. The final discussion will address the issue of internal influence strategies of secondary stakeholders engaged in corporate environmental governance unfolding as coalition decisions.

It could be imagined that some corporations establish policies on corporate environmental governance for reasons of legitimacy, but is actually not implementing them. Another somewhat comparable situation could be that the corporation reluctantly engages environmental stakeholders according to corporate policies, while these stakeholders' demands are not taken into consideration in the corporate decision-making. Both these options, however, seem to be problematic for the corporation. This is so since the secondary stakeholders that are to be engaged in corporate environmental governance processes can actually monitor for themselves if the corporation involves them and involves them in a meaningful way. Furthermore, these stakeholders are probably the same stakeholders that together with potential allies (Frooman, 1999; Rowley, 1997) can have a big say over the corporation's green image and sustained legitimacy. Thus, different degrees of decoupling (Meyer and Rowan, 1977) in relation to corporate environmental governance appear to be an untenable strategy to sustain for the corporations.

That decoupling is likely to be an untenable strategy in relation to corporate environmental governance might also become clear to the corporation for reasons other than those relating to legitimacy. This is so, because not least in those cases where corporate managers reluctantly engage secondary stakeholders according to corporate policies, but anyway seek to effectively exclude the secondary stakeholders from any influence over the decisions, the managers might end up with a decision situation characterised by unclear goals and also unclear methods. Such decision situations normally trigger the production of garbage can decisions (Cohen, March and Olsen, 1972). In the garbage can model independent streams of problems, solutions, participants, and choice opportunities flow into and through organisations. The model can be visualised by viewing the organisation as a garbage can and the flows of problems, solutions, participants, and choice opportunities as streams of wastes that get randomly mixed together in the organisational garbage can. Whenever problems, solutions, participants and choice opportunities connect, a random decision is made. March and his colleagues (1972) found to this end that the order in the garbage can is related to that of *time*. There need not be any logical connection between problems and solutions that get attached to each other than that of their simultaneous presence in the organisational garbage can. In the final discussion I will discuss the new internal influence strategies of secondary stakeholders involved in corporate environmental governance unfolding as garbage can processes.

## METHODS

In this article I use a case study methodology in constructing new descriptive theory that contributes to the emerging field of stakeholder engagement theory (e.g. Post et al, 2002). A case study methodology is well suited to build theory in an area where little theory exists (Dutton and Dukerich, 1991).

The first part of the case analysis focus on how Shell has responded favourably to institutional pressures relating to corporate environmental governance and to this end increasingly has engaged stakeholders in their environmental decision-making. The time period that will be analysed is the years between 1992 and 2002. This time period has been selected to trace the developments in Shell's green decision-making following the Rio UN Environmental Summit in 1992 and up until the Johannesburg UN Environmental Summit in 2002.

As a first step in the Shell case analysis two qualitative interviews were carried out as 1½-hour semi-structured interviews (Kvale, 2000). The overall theme in the interviews was the identification of the most influential factors in the greening of Shell since Rio. The interviews were carried out with the Manager for External Affairs in Dansk Shell as well as Shell's Manager for External Affairs for the Scandinavian and Baltic area. The two External Affairs Managers were asked to talk both about their own geographic area as well as about the Shell Group as a whole. The two interviews identified stakeholder engagement in Shell's corporate decision-making as a key driver in the greening of Shell. These two qualitative interviews have to this end been instrumental in defining the overall research question to be addressed in this article.

The primary data for describing Shell's stakeholder engagement in their environmental decision-making processes is coming from the following written sources: Shell's external stakeholder communication (Annual Reports (AR) and Reports to Society (RS)) and Shell's internal stakeholder communication (ShellWorld (SW)). The text data has been read carefully and quotes identified within the two selected themes: sustainable development and secondary stakeholder engagement in corporate decision-making.

In the article it is argued that analysing mediated written data will be able to capture key areas of intersubjectivity among organisational members (Czarniawska, 1997) vis-a-vis the development in Shell's corporate decision-making. Some quite extensive studies of decision-making processes (Witte, 1972; Snyder and Paige, 1958) confirms that mediated data as compared to data from individual interviews of organisational members are surprisingly good at capturing key areas of intersubjectivity relating to decision-making. This situation is not least the case when the analysis covers a long time period. Here the memory of individual interviewees may become a limitation in the analysis as compared to analysing mediated data written at the time where a new development in the corporate decision-making took place.

### CORPORATE ENVIRONMENTAL GOVERNANCE IN SHELL

In the following I analyse how Shell has responded to institutional pressures of engaging secondary stakeholders in their corporate environmental decision-making since Rio. The final discussion will address the implications of the diffusion of corporate environmental governance for the conceptual understanding of influence strategies of secondary stakeholders.

#### Before Brent Spar

By the time the Rio Summit took place in 1992 Shell was not willing to engage concerned citizens directly in their corporate decision-making. However, Shell appears in the data to follow quite closely the primary governmental stakeholders' (Clarkson, 1995) Rio debate on this subject. Immediately before the Rio Summit, Shell Brazil to this end critically comments on the ongoing Rio debate on the engagement of concerned citizens. In an article entitled '*A real involvement*',

Shell Brazil states: *'Social responsibility is a pervasive underlying theme for Shell Brazil's business...The company's community activities derive from its legitimate interest in belonging to the society in which it operates. We believe that in the medium and long term we will prosper as a company if the community prospers, since we are part of it and depend on it for our own development (SW, Feb,1992:10).'* At that time 'a real involvement' to Shell only meant mutual growth for the benefit of both society and Shell. There is no sign in the data from the early '90s that Shell was in favour of the governments' suggestions that concerned citizens should be engaged in corporate decision-making on sustainable development. Meanwhile, later in the '90s, Shell started to respond more favourably to the growing institutional pressures relating to corporate environmental governance. It was the Brent Spar episode in 1995, where Shell was forced to change their decision to dump an old oil storage platform at sea, that radically transformed Shell's response on pressures relating to corporate environmental governance.

### **After Brent Spar**

The change in Shell's response on the institutional pressures relating to environmental governance came as a result of coercive institutional pressures (DiMaggio and Powel, 1983) from the public in the Brent Spar event. The Brent Spar event happened in 1995 and at that time the Aarhus convention (1998) was not yet adding coercive institutional pressures from the governments through legislation. Thus, the pressures coming from the governments were in the mid 90's mostly related to the non-binding Rio principle on environmental governance. To this end what happened in the Brent Spar event was that a primary stakeholder group (Clarkson, 1995) – the European consumers – entered into an alliance and were successfully mobilised by a secondary stakeholder – Greenpeace. Drawing on Rowling (1997) and Frooman (1999) it can be argued that Shell in the Brent Spar event was influenced by their stakeholders in a both indirect and direct way. The secondary stakeholder Greenpeace (supported by some European politicians) indirectly influenced Shell through an ally among the primary stakeholders – the consumers – who influenced Shell in a direct strategy of withholding their money in a consumer boycott of Shell. This combined stakeholder influence strategy managed to force Shell to change its decision on dumping Brent Spar at sea. In this article it should also be argued that this influence strategy became at the same time a usage strategy (Frooman, 1999), where Shell felt following Brent Spar that they had to green themselves and change their corporate decision-making to regain and sustain over time the consumers commitment. Thus, the *external* stakeholder influence strategy on Brent Spar managed to change both the decision on Brent Spar and also change Shell's response to the emerging institutional pressures related to corporate environmental governance. The interview with the External Affairs Manager in Dansk Shell describes these effects of the Brent Spar event in the following ways:

*'We were very sure that what we were doing about Brent Spar was the right thing to do, but that seemed not to matter and it did not matter, because we did not have the public acceptance of our operations. So from being alone and just operating within Shell with all those great people with all the skills we were forced to open up. And of course opening up when you are not sure what way you are going is a tough one. But what has been very important as I see it is that we never open up saying again 'we know the best'. Now we are opening up saying that this is a process. We do not know all the answers but we have to test something, we have to try something, because our ambition is as we have been here for a hundred years we would like to be here the next hundred years. If we want to be here the next hundred years, we have to change along with changes in society. And I think that made a huge impact on our trustworthiness - that we skipped that 'we know best' attitude and we started to listen. And actually what we see is - we are not half*

*the way yet but - but what we see is that we in several conferences are sitting together with those NGOs who in 94/ 95 did not even want to go into our shops, did not want to be in a dialogue with us, did not want to have anything to do with us. And now some of them are actually taken in as consultants to help when we are doing new things and the rest we are in very close dialogue with'.*

As described in the above quote the Brent Spar episode forced Shell to open up and involve itself in stakeholder engagement processes. And, in fact, the Brent Spar Dialogue process - initiated in late 1995 following the media storm on Shell - became Shell's first experiment on how to carry out corporate environmental governance processes. *'In the past we decided matters largely internally and with regulatory bodies and then told the public. Brent Spar was a chastening experience and the big difference is that now we listen first and then decide (SW, April, 1997:25).'* The Brent Spar dialogue process engaged a broad number of stakeholders in a face-to-face coalition decision-making process on how to dispose Brent Spar. The green side payment to involved environmental NGOs was of a considerable size in the sense that Shell changed its decision completely and decided to on-shore the Brent Spar platform. The platform is today part of a quay in a harbour in Norway, which was considered the best environmental form of disposal by the engaged NGOs. Thus, the decision that was produced in the Brent Spar dialogue process was ending up not reflecting Shell's original concerns over corporate economy, which in the first round had lead them to decide to off-shore dispose Brent Spar. However, the new green decision, of cause, relates to corporate economy in the sense that Shell used the coalition decision on Brent Spar as a way of starting to make their social environment more controllable again (Cyert and March, 1963).

### **Corporate Environmental Governance on the Project Level**

As will be reflected in the following, Shell has since Brent Spar put a lot of effort into develop, refine and further implement corporate environmental governance practices in their daily world-wide decision-making on sustainable development issues. From the late '90s and onwards Shell's Sustainable Development Management Framework ensures that a broad range of stakeholders, including environmental NGOs, are systematically involved in the Shell group's environmental decision making on the project level.

SustainAbility, an environmental NGO, was asked by Shell in 1999 to evaluate how far Shell had come and how far Shell still had to go on stakeholder engagement. They concluded: *'Stakeholder engagement is now a central plank in the company's Sustainable Development Management Framework. Skills across the Group in this area are mixed and the challenge remains for the company to balance the drive for trust-based stakeholder relations with a need to show leadership and positive proposals for stakeholders to assess and help define. We have been impressed by the commitment of Shell Chemicals to push ahead with meaningful stakeholder engagement, particularly at a time when it has decided to divest 40 per cent of its business (SW,Oct,1999:10).'* By the late '90s Shell appears to be committed to corporate environmental governance - even in rough times. As reflected in the above quote Shell is across the entire Shell group seeking to find ways of giving stakeholders such as environmental NGOs access to Shell's environmental information and decision-making on projects. The Shell management appears to this end to be very closely monitoring the progress on stakeholder engagement. ShellWorld reports *'The Shell Group is considered by observers to be a leader in corporate responsibility (p. 13)...In the revised version of the Statement published in March 1997, an explicit responsibility for fundamental human rights was included for the first time, making Shell the first multinational company in the world to accept responsibility for its full impact on society (p.14)...A lot of large*

*organisations set out similar principles and codes of conduct but not all have the same means of implementation that Shell does (SW,Nov, 2001:14 ).*' The strict implementation mechanisms are described in great detail in the data from the late '90s and onwards. *'A Sustainable Development Council exists to steer the implementation of the SDMF (Sustainable Development Management Framework) across the Group. The council, chaired by Mark Moody-Stuart (Chairman of Managing Directors), comprises senior executives from each of our five core businesses and the heads of the corporate centre directorates. The council is accountable to the Committee of Managing Directors (RS, 1999:36).'*' Each country chairman of each operating company in the Shell group has to annually report personally in writing to the Committee of Managing Directors on the progress on the Sustainable Development Management Framework and its central plank of stakeholder engagement. This procedure has facilitated detailed statistics on the reported progress on stakeholder engagement in different parts of Shell: *'Engagement, as an integral part of business decisions, remains an area to improve upon across the Group'*, the 1999 Shell Report to Society admits and continues: *'In 91 countries Shell companies have processes in place to engage with its communities on issues of local concern. In 67 countries Shell companies produce reports for external audiences. In 48 countries Shell companies measure the effectiveness of their engagement/communication procedures (RS,1999:19).'*' The 2000 Shell report to Society follows up on this detailed evaluation and monitoring of Shell's performance on corporate environmental governance. The report explains: *'Engagement is an essential component of SDMF and the prime difference between it and traditional management frameworks. We have taken big strides in engaging more fully with a broader group of stakeholders...The use of engagement is slowly becoming a routine part of the way Shell companies do business...There is still much progress to be made but the signs are encouraging (RS,2000:33)'*. The 2000 Shell report thereafter provides the following statistics on corporate environmental governance in operating companies throughout the global Shell Group:

Table 1.

Engagement	% of countries		
	Operating a procedure to systematically identify and engage key stakeholders	Measuring the effectiveness of engagement	Operating a procedure to use the results of stakeholder engagement
Exploration & Production	85%	45%	38%
Oil Products	77%	42%	36%
Downstream Gas and Power	78%	43%	26%
Chemicals	73%	35%	29%
Renewables	94%	50%	44%

Thus, it appears that Shell top management closely monitors the progress on stakeholder engagement throughout the Group in relation to Shell's Sustainable Development Management Framework. An activity that also allows Shell to monitor, refine and further develop its corporate environmental governance processes. What is indicated by table 1 above is that most operating companies have procedures for systematically engaging with key stakeholders. Around a third of the Shell operating companies have procedures for using the results of this involvement. The last

column is where the stakeholder engagement process effectively starts to merge with corporate decision-making. Thus, this is where Shell effectively can be said to practice corporate environmental governance.

Summing up, Shell top management appears to be very ambitious and committed in their efforts of getting the company to pursue corporate environmental governance on the project level. Shell top management policies and monitoring of corporate environmental governance are to seriously strive for getting secondary stakeholders, such as environmental NGOs, actual access to Shell's environmental information and green corporate decision-making on the project level. This apparent Shell top management commitment was also confirmed in the interview with Shell's Manager for External Affairs for the Scandinavian and Baltic area. He emphasised that Shell believes it is in Shell's own best interest to actively engage a very broad range of stakeholders, including NGOs, community groups, concerned neighbours to Shell facilities etc. That the full implementation of corporate environmental governance processes is not achieved yet in all operating companies in Shell is openly discussed many places in the data, but the goal is clear: all Shell's green project decisions should move to the last column in table 1 above.

### **Corporate Environmental Governance on the Strategic Level**

As described by Hoffman (2001) contemporary institutional theory seeks to emphasise the importance of the cultural specifics of the corporations involved in institutional isomorphic change. Depending on the corporate culture different corporations might react differently to the same institutional pressures. In case of Shell, it could be argued to this end that the Shell culture may be more favourable towards stakeholder engagement in corporate decision-making than would be the case in many other companies. This cultural readiness is probably not just a result of the Brent Spar event. It might also be traced back to Shell's cultural roots. Shell is both a Dutch and British company and has long traditions for balancing these two cultural heritages in the company's corporate decision-making.

While Shell can be seen as very responsive to institutional pressures on corporate environmental governance it should be noted that Shell's Sustainable Development Management Framework concerns only decisions on the project level. Shell has to this end defined decisions on the strategic level as decisions that should not be made through engaging external stakeholders such as green NGOs. In the data from the early and mid 90's Shell is very silent on the issue of greening their investment decisions. The establishment of Shell International Renewables in 1997 changed this situation. This development in Shell produced a more open discussion on the greening of Shell's investments decisions. This discussion in Shell is according to the data from the late 90's and early 2000 driven forward not least by Jeroen van der Veer, who was Shell's first Managing Director for Renewables. To this end Jeroen van der Veer is in a noteworthy interview in ShellWorld in 1999 suggesting and explaining why he believes that secondary stakeholders, such as NGOs, should be engaged in Shell's corporate decision-making on the strategic level. Jeroen van der Veer explains *'Whereas in maintaining our licence to operate we ourselves decided what products and services we would offer, we now face a situation where society starts saying, "we like your gasoline more because you are also in solar energy"...Acknowledging society's ability – and growing willingness – to influence the shape of Shell's portfolio will have ramifications for the way decisions are made and implemented across the Group (p.26)'*. Jeroen van der Veer continues arguing that getting *'a licence to grow'* requires that Shell *'must actively seek input from stakeholders, particularly NGOs, who might want to place a question mark, over an investment plan, for example (SW, April, 1999:27).'*

Summing up, as it appears Shell Renewables wants Shell's decisions on investments to be included in Shell's new corporate environmental governance processes. However, the cultural

readiness for engaging green NGOs in Shell's strategic decisions appears, according to the data, not to be broadly present in Shell in the time period analysed in this article (1992-2002). However, it should be noted that Jeroen van der Veer, in fact, in 2004 became Shell's new Chairman of Managing Directors. The future will show whether this development will add momentum to the development of Shell's corporate environmental governance practices on the strategic level. If so it would be a quite exceptional corporate development. However, if such a development is *not* happening Shell's early and ambitious stakeholder engagement on the project level will anyway have the implication that other companies are not just facing the increasing coercive institutional pressures coming from legislation. Mimetic (DiMaggio and Powell, 1983) institutional pressures coming from Shell and other successful front runners on stakeholder engagement might also increasingly contribute to the diffusion of corporate environmental governance practices among companies.

### FINAL DISCUSSION

In the Shell Report to Society for 2000, Mark Moody-Stuart, Chairman of Managing Directors, introduces the report by asking the question: '*What is our progress in changing the way we make decisions? (RS,2000:2).*' The answer to this question is, as reflected above, that Shell has responded favourably to the institutional pressures relating to corporate environmental governance. Primary governmental stakeholders want corporations to give secondary stakeholders such as environmental NGOs access to environmental information and access to environmental corporate decision-making. Shell appears to be sincere in its efforts to live up to these new governmental demands. Thus, Shell has since Rio effectively changed its environmental decision making through systematically engaging secondary stakeholders in face-to-face green decision-making on the project level.

#### **Politics of Stakeholder Influence in Corporate Environmental Governance**

Mark Moody-Stuart's question implies another key question to be addressed in the final discussion in this article: What are the implications of the diffusion of corporate environmental governance practices for the conceptual understanding of the politics of stakeholder influence.

Based on the Shell case analysis it should be argued in this article that the diffusion of corporate environmental governance implies a new conceptual understanding of the politics of stakeholder influence. In this new conceptualisation, secondary external stakeholders, such as NGOs and community groups, play a double role. They become part of the internal face-to-face process of corporate decision-making and can thereby influence the corporation from the inside. They are, however, also still potentially playing their old role of influencing the corporation from the outside through corporate image. Thus, the diffusion of corporate environmental governance is not replacing existing conceptualisations of *external* stakeholder influence strategies (e.g. Frooman, 1999). Instead it is adding some new *internal* secondary stakeholder strategies to the repertoire.

In addressing these new internal influence policies it should be argued, as discussed above, that corporate environmental governance processes is likely to drag corporate environmental decision-making in a direction where goals and sometimes also methods become unclear. In these decision situations corporate decision-making will tend to unfold as coalition (Cyert and March, 1963) or garbage can decision-making (Cohen, March and Olsen, 1972). In both coalition and garbage can decision-making goals are unclear until the decision is produced (Thompson, 1967). Thus, goals are *products* and not precursors for the decision-making in corporate environmental governance. This implies that the precise content of the produced green goals cannot be fully predicted before the corporate environmental governance process has come to an end and the decision is made (March, 1994). The level of the achieved greening depends not least on the

following two things. First of all, it depends on how favourable the corporation's culture (Hoffman, 2001) is to the actual adoption of the corporate environmental governance practices. As discussed above Shell might belong to the group of companies that has a very favourable culture in relation to the primary governmental stakeholders' increasing coercive pressures in relation to corporate environmental governance processes. In such corporations it might be easier to achieve green outcomes of these processes than in companies with more sceptical cultures. The level of greening achieved in corporate environmental governance also depends, as already mentioned in the theoretical framework, on how well the involved green NGOs and community groups understand and use their new internal stakeholder influence strategies. Below I will first discuss these new influence strategies and then before finalising this article address the corporate factor.

### **Influence Strategies in Coalition and Garbage Can Decision-making**

The new internal influence strategies available to secondary stakeholders involved in corporate environmental governance are not entirely new. In fact, corporate decision-making theory has already for long been describing how to get influence on corporate decision-making that follow the coalition or the garbage can model. Thus, based on this knowledge I will below discuss a number of new internal influence strategies available for engaged secondary stakeholders.

In coalition decision-making (Cyert and March, 1963) a goal and a decision is produced if the coalition that is formed is strong enough to win over other possible coalitions that might be interested in forming the goal and making the decision. March (1994) to this end explains how to form a coalition and influence coalition decision-making. 'Forming a coalition in order to support a policy, whether in a legislature or in a board room, involves standard techniques of horse trading, persuasion, bribes, threats, and management of information. Those are the conventional procedures of discussion, politics, and policy formation. They are well conceived to help participants form coalitions, explore support for alternative policies, and develop a viable policy. Much of the genius of modern organizational leadership lies in skills at producing policy from the conflicting and inchoate ideas, demands, preconceptions, and prejudices of the groups to which organizational leadership must attend (p. 170).'

Depending on the perceived salience (Mitchell et al, 1997) of the involved NGO's and their possible allies (Frooman, 1999; Rowley, 1997) a particular winning coalition between the NGOs and a particular set of other coalition members can be formed. In influencing the coalition formation and the level of green side payments that can be produced in the coalition decision the involved environmental NGOs are likely to use, in particular, two new internal influence strategies. Both these strategies are related to making threats and are in that sense also related to the traditional external influence strategies for how NGOs operating from the outside through corporate image can have a say over corporate decision-making (Frooman, 1999). The first internal threat-based strategy concerns the secondary stakeholders' face-to-face influence on the corporation's dynamic *perception* of the secondary stakeholder's power, legitimacy and urgency (Mitchell et al, 1997). The second internal threat-based strategy concerns the face-to-face influence on the corporation's dynamic *perception* of the likelihood of the secondary stakeholder breaking out of the coalition to pursue traditional influence strategies directed at the corporate image.

Having access to the face-to-face negotiations with the corporation is providing the secondary stakeholders with the above two new internal secondary stakeholder influence strategies. This face-to-face access to the corporate decision-making are furthermore likely to give the engaged secondary stakeholders valuable detailed inside information about conflicting demands of the other coalition members. Also, increasingly they are likely to get increased access to the behind the doors negotiations that is so characteristic for coalition decision-making. In total this new internal insight

and access provides the secondary stakeholders with even more new internal secondary stakeholder influence strategies. Strategies that are not necessarily threat-based.

To this end engaged secondary stakeholders with the right detailed inside information and the right access to behind the door negotiations as well as with the right skills can use the above traditional coalition decision-making influence strategies directed at producing high levels of green side payments. Not least secondary stakeholders with skills for seeing opportunities to produce a greening out of the conflicting demands of the other coalition members will likely be those engaged stakeholders that are able to influence the decision-making.

At the heart of all coalition decision-making influence strategies are three features that must be attended to, including by secondary stakeholders that wants to achieve final high levels of green side payments in coalition decisions. These three features concern the unstable nature of coalitions and the problems related to the implementation of coalition decisions. March (1994) lists the three features that makes coalitions unstable:

‘1. *Decision ambiguity*. Ambiguity is frequently an advantage in the development of a coalition to support a decision...In assembling a coalition to support a policy, it is often necessary to make the terms of the agreement unclear in order to hide or suppress conflicts...When ambiguities are clarified in the course of implementation, the coalition tends to fall apart.

2. *Outcome optimism*. Forming a winning coalition almost always leads coalition members to overestimate the positive consequences to be expected...great hopes lead to action, but great hopes are invitations to disappointments. This in turn leads both to an erosion of support and to an awareness of “failures of implementation”. As the policy is revealed to provide fewer payoffs to coalition members than they anticipated, the coalition tends to fall apart.

3. *Support exaggeration*. Few major policies could be adopted without supporters for whom the policy is relatively unimportant except as a political bargain. They may be persuaded to join a coalition by claims of loyalty or friendship, or by a logroll in which their support is traded for support in other issues. In addition, a prominent feature of decision-making is that individuals and groups enter a decision arena for a variety of reasons, only some of which are concerned with the content of the decision. A typical coalition includes members who support the decision primarily so that they will be recorded as a supporter. For them, the decision has symbolic significance, but its implementation does not. As history moves from the adoption of a decision to its implementation, the coalition tends to fall apart (p. 171-2).’

Thus, an important aspect in influencing coalition decision-making concerns persistence and attention. To this end the final level of green side payments will depend on how good the secondary stakeholders are at sustaining attention to green issues in the coalition and how good they are at contributing to keeping a favourable green coalition together right until the decision is implemented. In this effort the secondary stakeholders will have to continually draw on the above discussed new internal secondary stakeholder influence strategies.

The emphasis on attention and persistence is relevant not just in relation to secondary stakeholder influence strategies in coalition decision-making. Attention and persistence is also relevant if the corporate environmental governance process ends up unfolding as a garbage can decision. March (1995) has listed a number of traditional strategies that are typically used to influence garbage can decisions. A key strategy to this end is, according to March (1995), simply to use time on the process. Garbage can decisions are random and those that use a lot of time will eventually succeed in influencing the process. Another important and related influence strategy in

garbage can processes is to overload the system. In other words, those who contribute to substantially enlarge the streams of problems, solutions and choice opportunities are likely to get influence as opposed to those that are not adding much to these streams.

The strategy of overloading the system is likely to be used automatically by engaged secondary stakeholders in corporate environmental governance. This is so since a broad group of potential green decision-makers (here secondary green stakeholders) has been activated in the corporate environmental governance process and this flow of potential green decision makers might - just as a consequence of having been involved - collectively produce a quite large flow of new green problems, solutions and decision occasions that potentially can enter the company's organisational garbage can and there produce a random green decision.

The strategy of using time is also likely to be used automatically by engaged secondary stakeholders in corporate environmental governance. The corporation that engages stakeholders is likely to get secondary stakeholders to spend a lot of time on them. This time use will according to March (1995) eventually produce influence on the corporation's garbage can decisions.

Summing up, depending on their salience, and their skills in using available internal influence strategies in coalition and garbage can decisions secondary stakeholders will succeed to a greater or a lesser extent in greening the corporate decisions. The remaining discussion will look into another important factor for the outcome of corporate environmental governance. This last discussion concerns the corporate factor.

### **The Corporate Factor**

A favourable corporate culture in relation to corporate environmental governance is likely to increase the green effect of the above new internal secondary stakeholder influence strategies. This is not least so, since the favourable corporation will likely be more eager than sceptical ones to use for example proposals for how to integrate green aspects in conflicting demands in their corporate coalition decision-making.

In the sceptical corporations different degrees of decoupling (Rowan and Meyer, 1977) might occur. However, as argued in the theoretical framework decoupling in corporate environmental governance is not an easy strategy, because the supposedly engaged stakeholders can monitor their own engagement. Thus, the safest way ahead for corporations having reluctantly adopted corporate environmental governance practices appears to be pursuing coalition decisions where the green side payments to green NGOs are kept at the lowest possible level, while still sustaining these stakeholders in the coalition. This can be done by the sceptical corporation drawing on the traditional influence policies in coalition decision-making. The management of information might be one of the influence strategies that sceptical corporations will tend to use for that purpose. This is also likely why the primary governmental stakeholders are pressuring for increased environmental transparency in corporations. The best example on this pressure is the new protocol under the Aarhus convention that establishes public assessable pollution registers.

The corporate strategy of keeping the secondary stakeholders in coalitions with low green side payments is having the potential of also safeguarding the decision against ending up as a green garbage can decision. As argued above, when corporate managers engage stakeholders in corporate decision-making and then try to pursue business-as-usual decision-making, they may end up producing a decision situation favourable towards the production of garbage can decisions. Secondary stakeholders with sufficient experience in corporate environmental governance processes and sufficient time to fully exploit the influence strategies in garbage can decision-making might be able to benefit from such a scenario. From the corporate perspective this scenario is not appearing as beneficial, since it makes corporate environmental decision-making rather unpredictable.

### **The Benefits of Corporate Environmental Governance**

In this last part of the final discussion I will based on the analysis of Shell point to some of the benefits that companies might discover are produced in corporate environmental governance when they start adopting these practices. When discovering these benefits some corporations might change their perhaps sceptical attitude towards corporate environmental governance. This last discussion is indicating that the corporate factor might be quite dynamic in relation to corporate environmental governance.

In Shell it is according to the data Shell International Renewables that have the most positive attitude towards corporate environmental governance. However, the data reveals that there is a quite broad consensus in Shell that corporate environmental governance processes on the project level is an attractive option for Shell. Shell Exploration and Production (E&P) explains why: *'We (E&P) are now thinking about a broader range of issues much earlier in the decision-making process for new projects. This encourages people to solve potential social and environmental problems in innovative ways at the same time as they are considering the technical and financial aspects of investments decisions (RS,1999:21).'* Apparently, Shell's corporate environmental governance processes on the project level works for Shell, including for Shell Exploration and Production. Of key importance here is the fact that it is Shell who determines the projects to be discussed in the governance processes. The discussion is not about whether projects should be carried out by Shell, but about what can be done to carry out these projects in the most environmentally and socially benign way. In that sense old values that sustain Shell as an oil company is protected. To carry out oil projects in an environmentally benign way does not necessarily accentuate Shell's transition from being an oil company towards becoming an energy company also selling renewables. Thus, the scene is set by Shell for what types of decisions secondary stakeholders can influence. This set up appears according the data to be frustrating for Shell International Renewables and satisfactory for Shell Exploration and Production.

Awaiting the outcome of this internal disagreement in Shell one can based on the above quote anyway start to identify some of the key benefits coming out of Shell's corporate environmental governance processes on the project level. Three key benefits are touched upon in the quote. First of all, as reflected in the quote, corporate environmental governance can assist corporations in thinking about a broader range of issues in the decision-making process. In other words, involving secondary stakeholders can benefit the corporation through solving problems related to bounded rationality (Helper et al, 2000). Secondly, engaging green secondary stakeholders can assist in solving potential social and environmental problems in new innovative ways. In other words, corporate environmental governance can benefit the corporation by producing eco-innovations and new knowledge, which is an increasingly important intangible asset (Post et al, 2002) in the contemporary knowledge society. Thirdly, environmental reputation, which is also an increasingly important intangible asset (Post et al, 2002), are ensured while green issues early on are integrated into business-as-usual instead of being dealt with in an expensive add on and repair strategy.

To the above list of possible benefits potentially coming out of corporate environmental governance should also be added that engaging stakeholders might benefit the corporation through limiting opportunism in business-as-usual decision-making (Helper et al, 2000; Kristensen and Zeitlin, 2005). Within the myth structure of rationalised societies (Power, 1997) there is a tendency to discuss the benefits of greening business in a way where business-as-usual is described as unfolding as a fully rational process of profit optimisation. Organisational decision-making theory (Cyert and March, 1963; Cohen, March and Olsen, 1972) has for decades successfully documented that this is not the case. Interestingly, it might be, therefore, that green

stakeholder engagement is not just having the potential of producing the different benefits mentioned above, which are all related to the environment in some way. Perhaps one of the greatest benefits of engaging a broad range of green stakeholders in corporate decision-making might be that opportunism in business-as-usual decision-making is limited through what Helper et al (2000) characterise as processes of ‘learning by monitoring’. In other words, corporations can produce new knowledge and monitor opportunism in one and the same process. The monitoring of opportunism comes as a consequence of greater transparency in the processes in the sense that engaging stakeholders produces a situation of increased dialogue and information sharing. It is these knowledge and transparency related effects of stakeholder engagement that makes Helper et al (2000) as well as Kristensen and Zeitlin (2005) to suggest that learning by monitoring might also work on the strategic level. This argues in favour of Jeroen van der Veer’s proposal from 1999 that Shell’s decisions on the investment level should be included in Shell’s new corporate environmental governance processes. The future will show whether Jeroen van der Veer, Shell’s new Chairman of Managing Directors, is able and willing by now to operate as an institutional entrepreneur (DiMaggio, 1988) and pursue his own proposal from 1999.

Summing up, following Donaldson and Preston’s (1995) categorisation of stakeholder theories, the emergent field of stakeholder engagement theory is not just to be considered a normative theory. It is also by now to be considered a descriptive stakeholder theory. A theory that reflects the increasing diffusion of corporate environmental governance practices following the Rio summit. This is not to argue that traditional stakeholder management theory (e.g. Mitchell et al, 1997) is not qualifying any longer as a descriptive stakeholder theory in Donaldson and Preston’s (1995) categorisations. However, it is to argue that corporations are not just managing the stakeholders that have a perceived high level of power, legitimacy and urgency. Corporations increasingly also seek to engage a quite broad array of less salient stakeholders in their corporate decision-making. This new engagement provides the secondary stakeholders with new internal influence strategies that they can use in their new face-to-face negotiations with the corporations. The new engagement provides the corporation with a number of benefits it has been argued. This discussion on benefits of engaging stakeholders relates to the instrumental category in Donaldson and Preston (1995). In this article I have added a new benefit in suggesting that corporate environmental governance might potentially be able to reduce opportunism in business-as-usual decision-making.

## CONCLUSION

In this article I analyse how the multinational oil company Shell has responded to the increasing institutional pressures (DiMaggio and Powell, 1983) related to corporate environmental governance. The corporate culture in Shell appears favourable (Hoffman, 2001) towards the adoption of corporate environmental governance practices. The Shell top management is to this end appearing sincere in the way they monitor (Meyer and Rowan, 1977) the progress in giving secondary stakeholders (Clarkson, 1995) access to environmental information and to environmental decision-making in Shell. Based on the Shell case I contribute in this article to descriptive stakeholder engagement theory by conceptualising a number of new *internal* influence strategies that engaged secondary stakeholders can use in their new *face-to-face* interactions with the corporations. These *internal* stakeholder influence strategies should be seen as adding to the list of *external* stakeholder influence strategies (e.g. Frooman, 1999) that secondary stakeholders can use in their traditional role of operating from the outside.

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### **Written data**

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