Co-Creation with Stakeholders: The Key to Enhancing Sustainable Value

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ABSTRACT

Creating value is the most imperative motive of an organization. To address the future sustainability challenges, organizations need to create value in a way which takes care of not only the environmental and social needs of the growing population but also the economic ones. Sustainable Value (SV) creation is the key for addressing such needs, and it can be enhanced by stakeholder engagement affected through a range of dialogues. This paper presents a 4x4 grid as a prescriptive tool for practising managers. By assessing the organization’s current level of engagement and corresponding level of stakeholders’ value obtained, managers can choose the more enabling dialogue to attain progressive levels of SV achieved by implementing the four sustainability strategies. However, to maximize the possible benefits of co-creation with stakeholders and to simultaneously minimize the risks, managers need to choose the projects carefully and cautiously. Theoretically, this paper serves as a base for encouraging further research on co-creating enhanced SV.

KEYWORDS

Co-Creation, Stakeholder Engagement, Sustainability, Sustainable Value

1. INTRODUCTION

Since the advent of industrialization, maximization of shareholder value has been a major driving force for survival and success of business organizations. However, with the growing ecological concerns of today’s natural environment, environmental sustainability has come to become a source of competitive advantage (Kiron et al. 2012) and research in Sustainable Value (SV) creation brings out the relationship between natural resource-based view and the sustained competitive advantage (Hart, 1997). Environment is a public good, so there is a crucial need to bring in the perspective of other stakeholders in creating value (Hart, 1995). Following the literature on SV, it may be noted that it constitutes creating value that is economically, socially and environmentally responsible. This translates into the need of including all the stakeholders who get directly affected by an organization’s activities when speaking about SV creation.

The stakeholder theory postulates that the purpose of a business is ‘to create value for all stakeholders’ (Freeman et al. 2010). The sustainability management concept urges companies to provide ‘an important contribution toward sustainable development of the economy and society’ (Schaltegger & Burritt, 2005). Both the concepts thus, as brought out by Hörisch et al. (2014), extend the view beyond short-term shareholder value maximization or accounting-based profits to ‘share a
broader understanding of the embeddedness, dependencies, obligations, abilities, and possibilities of companies’.

Trevisan et al. (2012) define co-creation as ‘a process of value creation sequence involving different stakeholders, such as supplier networks, customers and others’. Co-creation has always existed, however its potential is much greater today since now the ‘world is flat’ (Friedman, 2006), thus enabling greater engagement with an organization’s stakeholders across the globe. The purpose of this paper is to bring out that the need of the hour is to co-create SV with all its stakeholders. To this end, an organization must increase the stakeholder participation in organizational decision-making. To thus integrate the view of all stakeholders, organizations have to develop effective mechanisms for Stakeholder Engagement (SE) through which they would be able to co-create SV with them.

Such a scenario prompts two questions:

1. How are stakeholders enabled in playing a contributory role in co-creating Sustainable Value?
2. Which particular Stakeholder Engagement dialogues will help organizations co-create maximal Sustainable Value?

The paper is structured as follows: Section 2 presents the literature background, followed by Section 3 which details the methodology employed in this paper. Section 4 presents the propositions, findings and discussions regarding co-creation. The propositions build on Hart and Milstein’s (2003) Sustainable Value framework to propose a 4x4 grid for Co-creation with Stakeholders and the paper demonstrates the validity of each cell by analyzing relevant real-world organizational examples and discusses each proposition with respect to one organization before presenting conclusions, recommendations and future research directions in section 5.

2. THEORETICAL BACKGROUND

2.1. Stakeholder Theory

Stakeholders are ‘those entities and/or issues, which a business identifies from the universe of all who are interested in and/or affected by the activities or existence of that business, and are capable of causing the enterprise to fail, or could cause unacceptable levels of damage, if their needs are not met’ (Foley, 2005). Freeman and associates (e.g. Freeman, 1984; Freeman et al. 2010) define stakeholders as ‘those groups and individuals who can affect or be affected by the actions connected to value creation and trade’. Garvare and Johansson, (2010) posit Stakeholders as ‘actors who (a) provide essential means of support required by an organisation and (b) could withdraw their support if their wants or expectations are not met, thus causing the organization to fail, or inflicting unacceptable levels of damage.’

Business needs to identify their stakeholder groups and understand their environmental concerns across the product’s entire life cycle so as to better business relations with them (Sangle and Rambabu, 2007). The purpose of organizational sustainability will be achieved if organizations maximise the quality of their products to customers, conditional on meeting the wants and expectations of other stakeholders (Foley (2005) as cited by Garvare and Johansson (2010)). Stakeholder management for organizational sustainability has been described as ‘an organization behaving in such a way as to satisfy the needs and expectations of its stakeholders’ (Garvare and Johansson, 2010).

To contribute to sustainable development, instead of separating the ethical issues from business, social and environmental issues, all have to be linked to the core business of an organization (Freeman et al. 2010; Kolk & Pinkse, 2007; Loorbach & Wijsman, 2013 as cited by Hörisch et al.2014).
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