



## **People, Planet, Profit: The DSM Business Philosophy**

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### **Abstract:**

Using a case-study approach, this article looks at how a Dutch-based chemical company endorses stakeholder engagement and corporate social responsibility. The DSM Triple P (People, Planet, Profit) business model expresses the core values of the corporation and its aim is to pursue valuable growth for all the company's stakeholders. The three key criteria of this philosophy are, valuable partnerships, respect for people and good corporate citizenship. DSM contributes to communities where it operates through investing in local capital and protecting the surrounding environments, and yet at the same time satisfies the financial interests of its shareholders. The Triple Ps principle indicates that a balance can be struck between shareholders and non-shareholding stakeholders, and could be used as a design guideline for other organizations seeking to improve their social sustainability.

(Keywords: *Communities Contribution, Corporate Social Responsibility, Environment Management, Shareholders' Interests, Social Sustainability, Stakeholder theory*).

### **Introduction**

As far back as the 1930s, there had been calls by certain commentators for corporate managers to take into consideration the interest and well being of constituencies other than shareholders<sup>1</sup>. Professor Dodd in writing his article was actually providing a counter-argument towards another commentator, Berle, who in the same year of the *Harvard Law Review*, emphasised the importance of shareholder interest<sup>2</sup>. Although Dodd never mentioned the phrase "stakeholders" in his article, he did argue that:

"...public opinion, which ultimately makes law, has made and is today making substantial strides in the direction of a view of the business corporation as an economic institution which has a social service as well as profit-making function..."<sup>3</sup>

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<sup>1</sup>Dodd, "For Whom Are Corporate Managers Trustees?"  
*Harvard Law Review* 1932, 45, 7: 1145-1163.

<sup>2</sup>Berle, above n. 1 at 1367.

<sup>3</sup>Supra, n. 1 at 1148.



Dodd particularly looked at how the economic depression of the 1930s was forcing corporations and as well as both the legislative and judicial branches of the government in the United States to take a more “inclusive” approach in considering the interest of employees, customers and the wider community as a whole. Dodd further argued that although it is right to say that the sole function of directors and managers is to seek to obtain the maximum amount of profits for shareholders, yet he proposed that offering high wages and economic security for workers can indeed increase the profits of shareholders because higher wages in the economy as a whole increase the consumption of the things which businesses produce<sup>4</sup>.

However, the stakeholder movement did not really gain much attention until the late 1970s, when there was a significant shift from the traditional shareholder model of the firm. Stakeholder theory focuses on whether the notion of overemphasis on shareholder value ignores the claims of other stakeholders that ought to be represented in the company. In particular, it questions whether the traditional legal scope of directors’ duties in the English-speaking world should be widened to include the interests of “all stakeholders” and not just those of shareholders.

Different commentators may give a different meaning to the term “stakeholder” but the term is broadly defined as any individual who may be affected by the activities or affairs of the corporation. A corporation that embraces the stakeholder theory is thus one which recognises not only its direct legal and statutory responsibilities to its shareholders, creditors, bankers, customers, employees, central and local government, and all those who facilitate the running of its business, but also recognises its need for a “licence to operate” to support the surrounding community and responsibilities to those directly affected by its activities and decisions, past,

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<sup>4</sup>Supra, n. 1 at 1151-1152.



present and future, and including the natural world, with a measured balance achieved<sup>5</sup>.

It has been demonstrated that many businesses which develop a reputation for the ethical treatment of suppliers, clients, and employees are able to build up trust relations which support profitable investments and mutually beneficial exchanges<sup>6</sup>. Firms which build a reputation for ethical collaborations over a long period are able to substitute co-operative outcomes for unsatisfactory ones. These relationships may be the source of considerable competitive advantage<sup>7</sup>.

However, it has been argued that the stakeholder theory of the firm is incompatible with business and is in contradiction with the classical view of the firm. Professor Milton Friedman, who has long been a champion of the free-market economic model, even went as far as arguing that the notions of company social responsibility beyond a duty to shareholders are subversive<sup>8</sup>. More recently, scholars such as Sternberg have argued that balancing stakeholder benefits is itself an unworkable objective<sup>9</sup>. This is because stakeholders are all those who are affected by the organization, thus the number of people whose benefits need to be taken into account is very large, if not infinite. In order for a balance to be struck, their numbers must be limited, yet stakeholder theory offers no guidance as to how the appropriate individuals or groups should be selected<sup>10</sup>. Furthermore, according to Sternberg, stakeholder theory is incompatible with corporate governance because it requires

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<sup>5</sup>Vinten, "Shareholder versus Stakeholder – is there a governance dilemma?"

*Corporate Governance: An International Review* 2001, 9, 1: 36-47

<sup>6</sup>Keasey, Thompson, Wright, "Corporate Governance – Economic, Management, and Financial Issues" *Oxford University Press* 1997, p. 8-11.

<sup>7</sup>Jones, "Instrumental Stakeholder Theory: A Synthesis of Ethics and Economics". *Academy of Management Review* 1995, 20: 404-437.

<sup>8</sup>[1962] *Capitalism and Freedom*. University of Chicago Press

<sup>9</sup>Sternberg, "The Defects of Stakeholder Theory"

*Corporate Governance: An International Review* 1997, 5, 1: 3-10

<sup>10</sup>*Ibid.*, at 4



business managers to balance stakeholder interests where managers may be required to violate the prior obligations to owners (or shareholders) that they undertook in accepting their jobs, which Sternberg calls “inciting betrayal of trust”<sup>11</sup>.

This article reports the findings of an investigation into how one Dutch-based chemical company endorses the stakeholder theory of the firm in its corporate decision-making. DSM, one of the Netherlands’ five largest multinationals, combines stakeholder engagement and economic principles into a unique business model, the Triple P (People, Planet, Profit) that aims to promote long-term sustainability and community prosperity wherever it operates. The company claims itself as a “stakeholder company” and defines this as, “...serving the interests of a coalition of parties in the context of a longer-term horizon”<sup>12</sup>

The DSM business model illustrates how the success of its business is interrelated with the success of the communities it operates in. The aim and objective of this case analysis, is to provide an example of how businesses could improve their contributions to social sustainability through engagement with three stakeholder groups – workers/employees, local communities/environment and shareholders. This enables us to gain a greater understanding as to how businesses can be “redesigned and restructured” to achieve such goal<sup>13</sup>.

### **Research Approach**

The investigation was conducted via the case-study approach to understand how stakeholder engagement is practiced at the business level. DSM was selected for this study partly due to its long-term reputation as a company committed to stakeholder

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<sup>11</sup>Ibid., at 5

<sup>12</sup>DSM Sustainability Report 2004,  
[http://www.dsm.com/en\\_us/html/sustainability/stakeholder\\_engagement.htm](http://www.dsm.com/en_us/html/sustainability/stakeholder_engagement.htm)

<sup>13</sup>Shrivastava, “The role of corporations in achieving ecological sustainability”  
*The Academy of Management Review* 1995, 20: 936-961.



engagement and social sustainability and also partly because the aim of this investigation is to illustrate how a company can strike a balance between the interests of shareholders and non-shareholding stakeholders. Given that the company has a history of producing annual sustainability reports, it provides documentary evidence and secondary data where performance can be easily traced.

Although as a distinctive form of empirical inquiry, many researchers disdain the case-study strategy. One major concern about case studies is that, they provide little basis for scientific generalization<sup>14</sup>. However, the detailed analysis of a single case (frequently used in business research), is generalizable to theoretical propositions and not to populations or universes. That is, in conducting a case study, the aim is to expand and generalize theories and not to enumerate frequencies<sup>15</sup>. DSM's Triple Ps business model could therefore be used as an example to illustrate how a balance can be struck between profitability and the interests of other non-shareholding stakeholders.

Sources of information for this study included extensive company generated documentation, company accounts and the primary source of information for this was an in-depth, semi-structured interview based on a thorough investigation of the documentary evidence. The interview lasted approximately one hour and was recorded and transcribed. Transcript of the interview was submitted to the interviewee for their verification. The DSM Director of Investor Relations, Mr. Dries Ausems, was interviewed as he is the person responsible for communicating with investors (shareholders) and other stakeholder issues.

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<sup>14</sup>Yin, "Case Study Research Design & Methods".  
Applied Social Research Methods Series, 2003, Vol. 5, 3<sup>rd</sup> edition, 10.

<sup>15</sup>Bryman, "Social Research Methods".  
Oxford University Press 2004, 2<sup>nd</sup> edition, 50-52.



Data were also gathered from documents obtained from the company and other external sources. The data gathered are mainly over the period between 1999 and 2004, including annual reports, earnings, share performance, employee numbers and DSM website. DSM provided copies of internal documents such as organizational profile, strategy, history, company's policy and its sustainability report (Triple P Report). To assist data collection and ordering of notes, a database was also maintained recording certain corporate statistics.

Apart from the senior representative of DSM, a local government representative of the region where DSM is headquartered was also interviewed via email in order to find out how they define stakeholder engagement. The interviewee in this case is a senior project leader, Mr. Alain Nijssen, of *Afdeling Economische Zaken*, which is an economic departmental body of the Limburg regional government, Netherlands, where DSM is based. There are two reasons why a representative of this particular body was interviewed. Firstly, to only interview a representative of the company would potentially bias the investigation. In an attempt to resolve this problem, it was necessary to get a more balanced and diverse opinion on the issue. Secondly, government (local or central) is often seen as a stakeholder group. It represents the interests of the people and society which it governs (at least in theory), therefore, the view of the government as to what constitutes corporate stakeholder engagement is becoming very important.

Existing theories were utilised to support the themes that arose from the data and findings. In reporting the findings, we draw on various literatures from human resources and financial management through to CSR (Corporate Social Responsibility) and stakeholder theory literature, yet at the same time allowing the



interview participants to speak for themselves so as to reveal their own understandings and experiences on the topic.

### **Historical Development of DSM**

DSM was originally founded at the turn of the twentieth century as '*De Nederlandse Staatsmijnen*' (Dutch State Mines) in the Limburg region, based on coal mining operations by the Dutch government. At the time, the state was not able to attract private capital to invest in coal production, a very strategic energy source at the time, because most investments were concentrated in the Amsterdam and Rotterdam region, and Limburg was economically deprived and too far away. The government also realised that private coal mines had very poor social and safety standards. Thus the government decided to create a state-owned company which would provide a model of operation to lift the standard of work. There was arms-length supervision by the state, with a clear social goal and charter. And this was the DSM "genes" and even more than a hundred years later today, the culture of DSM is to provide work at a high quality standard working environment for all employees which shall be explored later in greater details.

From the 1980s, the company began to make in-roads into life sciences and expanded beyond the Limburg region through international acquisitions. In 1989, the Dutch government decided to privatise DSM through the sale of shares on the stock exchange. As of 2006, DSM shares are being traded in the Netherlands via Euronext Amsterdam and in the United States through a Citibank/ADR program. The company is active worldwide in life science products, performance materials and industrial chemicals. The group develops, produces and markets innovative products and services that are "designed to raise the quality of life". DSM's products are used in a



wide range of end-use markets and applications from nutrition and health to electronics market. It has an annual sales of around €8 billion and employs some 22,000 people worldwide, with its headquarter in Limburg, Netherlands<sup>16</sup>.

### **People Matters Program**

From the investigation of the company's documents and the interview with Mr. Ausems, DSM clearly realizes that as a life-science based corporation, it is vital to retain and manage employees of the highest quality. However, according to Mr. Dries Ausems, this has never been easy due to the nature of its business and locality. Firstly, it is very difficult to get younger generations to work in the chemical industries in today's world and secondly, the Limburg region itself is not attractive enough because the young and talented want to work in Amsterdam as it is the Dutch centre of business.

In the year 2003, the company launched the "People Matter(s) Program", providing the framework for its human resources strategy for the period up to 2006. The aim was to safeguard its position as an attractive employer, to create possibilities for personal development and to develop new management styles and skills. In 2004, DSM conducted an internal survey with regards to employees' perceptions of the company policy on personal development. It found that almost 60% gave a positive reply to the question of whether the company provides opportunities for personal development and growth<sup>17</sup>.

In June 2004, DSM conducted a worldwide working climate analysis in order to gain a clearer impression of the motivation and commitment of its employees. The company conducted a global survey covering a representative sample of 4,000

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<sup>16</sup>DSM Company Profile 2006  
[http://www.dsm.com/en\\_US/html/about/company\\_profile\\_2006.htm](http://www.dsm.com/en_US/html/about/company_profile_2006.htm)

<sup>17</sup>Triple P Report 2004, Royal DSM NV – People, Planet, Profit, p. 26



employees from around the world, covering 56 sites. The company received a response rate of 75% and amongst the returned surveys, 71% felt the training courses they followed were good preparation for their work. Most respondents also felt the training was a useful means of increasing professional knowledge and creating opportunities to find a new job.

The findings of DSM's surveys illustrate the importance of employee training to an organization. Studies have shown that employees' training tends to bring positive outcomes for companies. Employees who participate in training are less likely to leave the company than those who do not participate in training.<sup>18</sup> Evidence also suggests that training programs can improve the likelihood of employees in receiving job changes with the same employer and reduces overall absenteeism.

### **Workers' Safety**

According to Mr. Dries Ausems, DSM understands that the nature of its business can be potentially hazardous for its employees therefore workers' safety is "priority No. 1" at DSM (per Mr. Ausems). Every monthly report of Business Group managers must begin with a paragraph on the SHE (Safety Health Environment) performance. This reporting policy is designed to encourage managers in their efforts to make chemicals more sustainable and more socially responsible. In all of the company's presentations to investors, there is mention of the Triple P policy:

"...even though investors themselves may not be interested in it...For the long term sustainability of the company this is essential. It may not convince investors and fund managers today, but the company needs licence to operate..." (Mr. Dries Ausems).

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<sup>18</sup>Krueger & Rouse, "The Effect of Workplace Education on Earnings, Turnover and Job Performance". *Journal of Labour Economics* 1998, 16, 1: 61-94.



The company argues that society must accept that you are there and they will only accept it if you do it in the “most safe and clean way”. In its Triple P Report 2004, it reports that in 2004 there were 41 employees of DSM involved in accidents that led to their absence from work for one day or more and this is an improvement of about 4% compared with 2003. The company has a target to reduce the annual number of Lost Workday Cases by 20%, however, the company’s report confessed that further reduction of this number is difficult because every accident is associated with “human behaviour”.

According to Mr. Ausems, the company handles industrial incidents with “absolute transparency” and has an extensive website where almost everything is reported to the public. Mr Ausems gives an example of an incident which happened in 2003:

“...there was an accident at the company’s site here and 3 people were killed. Immediately, DSM was very open and told the world what went wrong. But the lawyers became very concern, yet DSM thought that it was necessary to be as transparent as possible about the incident even if the company were to get convicted...”.

### **Responsibility to the Planet**

DSM produces chemicals and Mr. Ausems understands that the nature of its business is highly environmentally sensitive. However, he believes that the growth of the world population and the need for greater prosperity does not automatically mean more pollution. In the company’s Triple P Report 2004, it argues that the most important contribution it can make to sustainable development and a better environment is innovation.

In 2001, the company set its environmental targets for 2006 based on the technological possibilities and economic forecasts at the time. The main objective of these targets was to reduce emissions. Its policy is for emissions to water and air,



land-filling of waste and water consumption measured by unit of product to all be significantly lower than in 2000. Table 1A, 1B and 1C below illustrate the environmental targets met by the company. At the time of writing this article, six of the fourteen environmental targets for 2006 had been met and by 2004, this had risen to nine.<sup>19</sup> The company has pledged that by 2006 it will set new targets for coming years and in the process, it will not only use criteria such as historic emissions and the use of energy and materials, but would also benchmark itself by comparing performance with that of similar companies. According to its Triple P report, the group's long-term goal is to be among the "top 25%" of companies engaged in similar activities in terms of environmental protection<sup>20</sup>.

<b>Reduction of emissions to air:</b>	Target 2006	Status in 2004
Sulphur dioxide:	30%	>30%
Nitrous oxide:	10%	>10%
Dinitrogen oxide:	10%	>10%
Volatile Organic Compounds:	50%	20%
Priority Substances:	60%	15%

Table 1A

<sup>19</sup>DSM Triple P Report, pp. 33-36.

<sup>20</sup>It is important to mention here that in March 2006, DSM has set its new environmental targets for 2010. For further information please log onto the corporate website regarding Vision 2010.

[http://www.dsm.com/en\\_US/html/about/vision\\_2010.htm](http://www.dsm.com/en_US/html/about/vision_2010.htm)



<b>Reduction of emissions to Water:</b>	Target 2006	Status in 2004
Chemical Oxygen Demand:	50%	45%
Nitrogen:	40%	>40%
Phosphorus:	25%	14%
Organic halogen Compounds:	90%	>90%
Priority Substances:	90%	>90%

**Table 1B**

**Reduction of:**      Target 2006      Status in 2004

Ground & mains water consumption:	10%	1%
Energy Consumption outside Netherlands:	5%	>5%
Landfilling of non-hazardous waste:	20%	>20%
Landfilling of hazardous waste:	100%	100%

**Table 1C**

Apart from committing to environmental protection at its home-base in Europe, DSM has also been actively promoting environmental efficiency in developing economies which it operates, where the concept is rather nascent. The best example of operating in a lax national regulatory context where DSM has contributed is its Nanjing Chemical Company in China, which is a joint venture in which DSM has held a stake of 60% since 2002. The site produces a chemical known as caprolactam and the most significant environmental effects are emissions of sulphur dioxide and nitrogen dioxide and dust, mainly as a result of the use of coal to supply energy. In 2003/04, the Nanjing site began to measure a number of



environmental statistics more accurately. The site is also installing filters designed to dramatically reduce dust emissions.

### **Overall Environmental Reputation**

Due to its commitment towards environmental protection, DSM was ranked the No. 1 chemical company in Europe in 2003. In addition to that, in September 2004 it qualified as the global best performing chemical company in the Global Dow Jones Sustainability Index for 2004/05 based on sustainability and profitability<sup>21</sup>. Furthermore, the company was included in the FTSE4Good Europe and the FTSE4Good Global Index in September 2004.

The company has also been highly supportive of the Dutch Government “**White Biotech Agenda**”, which was prepared in 2004 during the Dutch Presidency of the European Union. The aim of the agenda was to outline the importance of industrial biotechnology for the Dutch and European society as well as its economy, and to propose concrete recommendations to boost further development of the government policy within the Netherlands and the European Union.

### **Communities' Contribution**

DSM operates in 50 different countries with well over 250 sites. A key component of its Triple P principle is good corporate citizenship, where it strives to be a good member of the communities in which it operates and encourages employees to adopt a civic-minded and socially responsible attitude.

The company originally began life in the Limburg region as a state-mining corporation, although it no longer operates mines, nor is it as commercially active as it

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<sup>21</sup><http://www.sustainability-indexes.com>



used to be in the region, it still regularly holds meetings with the provincial authority to discuss how to improve the overall economy of the region. In 2004, DSM entered into a covenant with local authorities on measures to attract new companies and promote employment in the region. Moreover, it is also working in association with the local University of Maastricht to provide training and skills in technology, science and business which are intended to benefit the community in the long term.

DSM's approach towards the local communities where it operates is also consistent with the recommendations made by the European Union's Green Paper on Corporate Social Responsibility entitled, "Promoting a European Framework for Corporate Social Responsibility", which was published in July 2001<sup>22</sup>. According to this paper, corporate social responsibility is about the integration of companies in their local setting, "whether this be in Europe or worldwide". Companies contribute to local communities by providing jobs, wages and benefits, and tax revenues. On the other hand, companies also depend on the health, stability and prosperity of the communities in which they operate. The green paper goes on to say that the reputation of a company at its location, its images as an employer and producer, but also an actor in the local sense, influences its competitiveness.

### **Involvement in developing economies**

Like most multinational corporations in the western world, DSM has operations in a number of developing economies, so as to capitalize on the growth potential of these markets. However, apart from profit-making, it encourages its employees to integrate with members of the local communities as much as possible and the company provides many examples of such approach.

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<sup>22</sup><http://europa.eu.int>



According to Mr. Ausems, one program which the company is very proud of is the provision of assistance to victims of the tsunami in Southeast Asia that hit the region in December 2004. When DSM celebrated its centennial in 2002, the company did not give out any super-dividend to shareholders or bonuses to employees. Instead, it used the money and skills to launch the dream-making project to make the world around DSM better. As part of this project, DSM has managed to develop a new water purification unit for victims and refugee camps:

“...immediately after the tsunami disaster, DSM warehouse was handing out these units in Southeast Asia...” (Mr. Dries Ausems).

Studies have shown that it is increasingly important for many multinational corporations to establish goodwill relationships with both the state and civil society in developing economies where they operate. In a paper presented at an international conference for marketing in 2004/05, Krishnan and Balachandran of the Indian Institute of Management, Ahmedabad, argue that developing countries' governments are more inclined to give preference to companies which take care of the interests of all the stakeholders<sup>23</sup>. Emerging markets have been identified as a source of immense talent with the rising levels of education. In order to draw from this vast labour pool, companies need to gain a foothold in these markets by establishing sound business practices addressing social and cultural concerns of the people. Krishnan and Balachandran warn that multinational companies neglecting the interests of the public in developing markets where they operate do so at their own peril:

“...many MNCs also take the markets for granted and exploit the laxity in the norms of operations to their advantage. The lack of concern for the local community, the consumers and the environment by these corporations has created large scale public debate and action. It is important in this context to understand that the sustainable business growth is associated with care for the

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<sup>23</sup>Krishnan & Balachandran, “Corporate Social Responsibility as a determinant of market success: An exploratory analysis with special reference to MNCs in emerging markets”. Marketing Strategies for Firms in Emerging Markets, IIM K-NASMEI International Conference 2004



community and markets the corporations operate in. The negative publicity caused by the actions of MNCs has led to suspicion about their operations in the general public in these markets...”.

### **Relationship with Investors/Shareholders**

According to Mr. Ausems and the company’s report, profitability and the interest of its shareholders are just as important to DSM. The company believes that People, Planet and Profit are “mutually reinforcing” and contribute to the long term success.

Many of DSM’s shareholders are institutional investors either based in the Netherlands or overseas (see Table 2). These include investors from the UK, North America and other parts of Europe. The wide geographic spread of DSM’s shareholding is partly a result of cross-border transactions and globalization.

<b>In%</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
Netherlands	26	28	25	29	33	29
North America	14	19	30	27	24	38
Belgium/Luxembourg	22	19	15	15	14	12
United Kingdom	19	21	17	16	12	10
Germany	5	3	4	4	5	5
Switzerland	5	6	5	7	7	3
Other Countries	9	4	4	2	5	3
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

**Table 2 Geographic spread of DSM Shares 1999-2004**  
 (excl. cumulative preference shares A)

Over the years, DSM has proven to be a value company from a financial point of view. According to its Investor Relations Report 2004, between the year 2000 and 2004, DSM share prices measured at year-end on Euronext Amsterdam have risen



from €37.31 to €47.62 (see Fig. 1 below). Its final dividend has also remained constant, lying between 1.17 and 1.24 Euro for the same period. Moreover, its payout to shareholders as percentage of net profit has also risen from 32% in 2000 to 70% in 2004. These figures show that DSM has performed well in satisfying the interest of its shareholders in relative to the market.

Between the year 2000 and 2004, DSM performed well on the stock market. In 2001 and 2002, it was the best performing stock in the AEX index on Euronext Amsterdam in terms of shareholder return. In 2004, it was the third best performing stock on the AEX with a total shareholder return of 27%. This is despite an overall bear market during the same period.

per ordinary share in €	2004	2003	2002	2001	2000
net profit from ordinary activities	3.52	2.23	3.38	3.62	5.7
net profit	2.51	1.24	12.08	14.5	5.8
cash flow	7.98	5.76	16.67	19.92	11.03
shareholders' equity	47.71	47.73	49.64	40.49	28.06
Dividend	1.75	1.75	1.75	1.75	1.75
interim dividend	0.58	0.58	0.58	0.58	0.51
final dividend	1.17	1.17	1.17	1.17	1.24
payout as % of net profit on ordinary activities after taxation	84%	79%	54%	51%	32%
payout as % of net profit	70%	142%	15%	13%	32%
dividend yield	4.30%	4.50%	3.90%	4.50%	5.10%
share prices on Euronext Amsterdam					
Highest price	47.7	45	51.25	45.15	40.1
lowest price	35.75	31.29	37.9	28.8	30
at year-end	47.62	39.03	43.38	41.01	37.31
(x 1,000)					
no. of ordinary shares outstanding	95,978	95,768	96,589	96,146	95,990
Average daily trading volumes on Euronext Amsterdam					
Average	507	563	517	1,086	857
Lowest	13	65	70	47	161
Highest	3,247	3,270	1,932	5,338	6,668

Fig. 1 DSM Share prices & Dividends in €(2000-2004)<sup>24</sup>

<sup>24</sup>Source: Presentation to Investors, Annual Results 2004, 1.



Like many listed companies with diverse shareholding, DSM admits that it too faces pressure from various institutional investors or shareholders when operating its business. According to Mr. Dries Ausems, the usual pressure is that they want more returns for their investment. However, DSM has always tried to maintain a good relationship with investors through proper dialogue instead of confrontation.

One example of pressure from institutional investors which Mr. Ausems gives is that when DSM sold its petrochemical unit to SABIC (Saudi Arabia Basic Industries). DSM received 3 billion Euros from this sale and at that time, institutional investors demanded share buyback and super dividend from DSM. But DSM resisted that pressure. It told investors that it would transform the company and use the money to re-invest in the company:

“...we informed the shareholders that they will get their dividend and will not be hurt by the transformation. We kept our promise and continued to distribute dividend to the shareholders. Even when the company was shrunk in 2003, the shareholders still received a high dividend...and we used the money to re-invest in the company. We told them (shareholders) there will be a new DSM with a modernised composition and not a miniature DSM...”  
(Mr. Dries Ausems).

Over the last decade across the US and UK, there has been a concentration of share-ownership in a handful of institutional investors. For example in the United States, institutional investors hold approximately 52% of all listed domestic corporations and 57% of the outstanding equity of the largest US corporations. Similarly, in the United Kingdom, half of the UK equities in the domestic stock market are owned by fifty institutions, the top twenty own about a third of the market and top ten about a quarter. Some commentators refer such a concentration of share-



ownership as “fiduciary capitalism”, where these institutions are legally required to act as a fiduciary for the interests of the beneficiary<sup>25</sup>.

Traditionally, Anglo-American investors are more concerned about share price performance and profit maximization and when asked whether the growing number of such investors is having any influence on the management of Continental European corporations like DSM, Mr Dries Aulsems gives this reply:

“...Ever since the 1990s, DSM has had a fairly strong Anglo Saxon investors base. There is nothing new here and DSM has been perceived as a value option and value investing was an Anglo Saxon thing. This is still there... There have been a growing number of European investors as Europe become more integrated. DSM is no longer just a Dutch company and we get investment from throughout Europe... However, there is no fundamental difference between the needs of US/UK and European investors. Today investors ask more in depth questions and what is happening in that part of your business. Investors today regardless of where they are from have more or less converged and they all want value for their investments...”.

### **Alternative views on DSM Business Philosophy**

We have examined how DSM itself defines corporate stakeholder engagement and how it is being practiced on a daily basis. But these are only views expressed by the company. In order to avoid bias, an alternative view on the topic was gathered by conducting an interview with a representative from the local government of the Limburg region via email. The interviewee, Alain Nijssen, is a senior project leader of the *Afdeling Economische Zaken*, which is an economic departmental body of the Limburg regional government, Netherlands. The underlying rationale for conducting an interview with this body is because DSM was originally founded in this region and although it has now been privatized, the company still collaborates with the local government in many projects in the surrounding areas. Therefore, the view of the government on corporate stakeholder engagement and DSM is very important.

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<sup>25</sup> Hawley & Williams, “The Emergence of Fiduciary Capitalism”.  
*Corporate Governance: An International Review* 1997, 5, 4: 206-213.



According to Mr. Nijssen, the Limburg Provincial government shares the views on stakeholder engagement and good CSR practice as that of DSM, which is “embracing the idea of Planet, People, Profit”;

“...that is striving for a durable economy in which we try to find a balance. We have to take our responsibilities for future generations...”.

Mr. Nijssen argues that a company primarily has a business orientation in order to be competitive in an international market. That means that a company is focused on the business and not the region in order to make sound business decisions. In this respect it is necessary that at a regional level government does everything that is needed to make the region attractive to invest (labour, infrastructure, culture, living etcetera). However Mr. Nijssen believes that companies also have their responsibilities and commitment to the local area:

“...responsibility to be involved in the region in order to keep the region attractive. They have to be involved in the triple P’s (people, planet, profit), not only within their company but also outside their company...”.

According to Mr. Nijssen, historically DSM has had a great involvement in Limburg in employment, education, and culture. But in the past few years this has changed as a result of the fact that they have become more and more a global player and they are making different business decisions where more and more investments are made elsewhere as a result of cost and market growth. However, despite many of its outward expansion activities, DSM still contributes significantly to the local area, still having a strong role in education and the local community as a result of their historic ties. Furthermore, there are also examples where DSM has pledged to make commitments to the Limburg region:

“...also as results of these historic ties labour unions asked DSM in 2004 if DSM was still willing to invest in the local Chemelot site. As a result of that parties (DSM, Province of Limburg, Sittard-Geleen) agreed to invest €60 million in the Chemelot site in order to improve the business climate and to attract new companies. DSM does invest €40 million and governmental parties invest €20 million...As a result of the program and the positive



developments in the region DSM feels welcome in Limburg...they have decided in the vision 2010 to strengthen the position of Limburg as the location where they do their research and development on materials. Also they will develop 2 new business opportunities (Biomaterials and Packaging) in Limburg. If successful these could be huge growth areas...". (Mr. Alain Nijssen).

## **Summary and Discussion**

The objective of this paper was to examine an organization's approach to implementing stakeholder engagement and how it can contribute to social sustainability and yet at the same time be profitable. While DSM or Limburg's Triple Ps business philosophy can be viewed as stakeholder-focused, its principles present a challenge to the economic theory of the firm. The DSM case-study illustrates the corporate structure and culture required to implement a social sustainability model. Although it is not appropriate to generalize from a single case<sup>26</sup>, DSM's Triple P may still be used as a design guideline for organizations intending to develop sustainability. As Mr. Dries Ausems puts it, the Triple P does create tensions and conflicts between different stakeholder groups, at least in the short term. However, he believes that in the long term, that sort of tension can be resolved and that all stakeholders then share common interests.

Both DSM and the Limburg provincial government argue that a balance can be struck between profit and social needs. The Triple P principle is endorsed by both parties. From its origin as a state-owned mining corporation to its transformation as a publicly-listed worldwide scientific-based chemical and performance material company, DSM has always tried to balance the interests of different stakeholders and

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<sup>26</sup>Bryman, "Social Research Methods".  
Oxford University Press 2004, 2<sup>nd</sup> edition, 50-52.



this contributed to it becoming one of the most successful companies in the Netherlands and Europe. On 6 September 2006, DSM was elected as leader in the Chemicals Market Sector of the Dow Jones Sustainability World Index for the third year in a row, making it the worldwide sustainability leader in the chemical industry<sup>27</sup>. According to the report, the company was able to retain its top position because it has integrated sustainability into its decision-making and management processes to a very high level. This integration of sustainability into the company's core activities has resulted in stable high scores for all criteria.

DSM's approach to implementing social sustainability is a reflection of stakeholder networks where organizations and stakeholders co-exist in a shared community. This case-study contributes to the understanding of how stakeholder networks can be implemented. According to Rowley, the stakeholder network theory puts the organization within a web of relationships, where the network relies on cooperation between stakeholders who have objectives relating to social improvements in addition to conventional value creation<sup>28</sup>. Also, according to a more recent argument provided by Blair and Stout, the board of a large public corporation should more accurately be referred as a "mediating hierarchy", where the conflict of interests between different constituencies (shareholders and non-shareholders) is resolved<sup>29</sup>. That is, the interests of the corporation include the joint welfare and interests of all the individuals and organizations that have committed their investments to the corporation and they are not exclusively the shareholders. They include employees and other parties that have contracted to provide goods and

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<sup>27</sup><http://www.sustainability-index.com/>

<sup>28</sup>Rowley, "Moving beyond dyadic ties: a network theory of stakeholder influences". *The Academy of Management Review* 1997, 22: 887-910.

<sup>29</sup>Blair & Stout, "A Team Production Theory of Corporate Law". *Virginia Law Review* 1999, 85, 247-328.



services to the corporation such as creditors, suppliers and even the local community.

Thus the role of the board is to “mediate” these differing interests. This concept is more in line with the stakeholder theory of the firm.

This article provides example of how stakeholder theory is practiced at the firm level and illustrates how a stakeholder network could be developed. But there are limitations with this study. Firstly, only the senior representative of the company was interviewed and it would have been more ideal to interview other members of the company such as lower level employees to gain a broader perspective, yet due to time and resources constrain this was not possible. Furthermore, DSM’s Triple P business model is just one example and that further research is required to assess whether it is an approach that could be adopted by more companies or whether there are barriers to its use in various contexts.



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