Modernizing Governance: Effectively engaging with stakeholders - Case Study

Managing stakeholder tensions and making strategic decisions

*Please note that this is a **fictious** case study that has been written and developed specifically to be used in our webinar 'Modernizing Governance: Effectively engaging with stakeholders', any similarity to actual persons, organizations or events is coincidental.*

Introduction

Ariel Electrical produces premium small electrical products for the households. Their products are 150% more expensive on average than well-known affordable brands. It has a reputation for high-quality products that are reliable, well-made and durable and a heritage of being a French brand since 1925. Ariel's purpose and Strategy is:

Purpose

We accelerate innovation at Ariel to improve people's lives.

Taking action worldwide to consolidate and expand Ariel's innovative capabilities, we conduct research into the technologies that will shape the future and help to drive today's innovations forward.

Strategy

- Become market leader in the EU for premium small electrical products by 2025 through a program of innovation based on extensive research and development in a new generation of products.
- Provide meaningful returns to stakeholders invested in the business
- Achieve climate change targets by 2030 and recognized as the greenest electrical appliance company

Context

Currently has its main production facilities in France and although there is strong demand for their products, they are being undercut by competitors who have a lower cost base and therefore greater margins. Ariel has increased the components made in China up to 80% in many of its products and the plant in France is mainly focused on assembling products. Almost 90% of their products are sold within the EU with the remainder being sold in the UK and Middle East. A recent survey of customers indicated that 70% would not buy an Ariel product if it was manufactured outside the EU (though if Ariel moves its production there will be no competitor products made in the EU so consumers won't have a choice).

The trade unions have recently met with management wanting security in terms of the current workforce – especially in a post COVID-19 market. Workers have indicated that they will accept a freeze on working conditions in return for production remaining in France and limiting the amount of outsourcing and offshoring the company undertakes in the next three years.

Its total shareholder return is 5-10% lower than that of its peers. Management have met with several institutional investors who hold almost 30% of the shares on issue and they want to see a plan for sustained dividend growth as they believe that the business is not exploiting its market position.

The Taiwanese government is offering subsidies to foreign companies that establish vertically integrated production facilities in Taiwan. Taiwan offers highly skilled labour with good production standards being achieved. They have also agreed to co-locate a dedicated electrical appliance research hub bringing together leading global universities. The subsidy comes with green strings – the business will have to cut its environmental footprint by 35% by 2020 and create 5,000 direct and indirect jobs (currently the plant in France employs 3,000). If those conditions are not met the subsidy has to be repaid in full. The environmental targets are much more ambitious than those currently required under French law. If production is moved to Taiwan it is expected that there will be a small corporate centre remaining in France of 400 employees.

On an NPV basis Taiwan is likely to produce a better result by bringing total costs down by 5% in the first year after covering redundancy costs but more substantial savings are expected.

1. **Which stakeholders should the board prioritize?**
2. **Based on the purpose and strategy what factors do the board need to consider before making a decision?**
3. **Where should Ariel locate its production facilities?**

World Business Council
for Sustainable Development

Maison de la Paix, Chemin Eugène-Rigot 2B,
Case postale 2075, 1211 Geneva 1, Switzerland

www.wbcsd.org