Beyond Risk Management –
Leveraging Stakeholder Engagement and Materiality to uncover Value and Opportunity

Insights from the AccountAbility Global Survey on Stakeholder Engagement and Materiality (part one)
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Stakeholder engagement and materiality determination are two deeply interconnected processes that are often linked with risk. However, not only are stakeholder engagement and materiality key to determining future risks for a company, they are central elements in the majority of a companies’ sustainability programs and initiatives.¹

In order to better understand how companies embed stakeholder engagement and materiality in their organizations and capture value from them, AccountAbility conducted a global survey*. Companies representing a broad range of sectors, geographies and size were questioned on how they approach, manage and communicate on stakeholder engagement and materiality.

*Companies surveyed spanned from North and South America, Europe, the Middle East, Africa, and Asia. Geographically, the respondents were 45% European, 31% North American and 24% Rest of World. Company size varies where 25% employ 2,000-20,000 employees, 31% 20,000-100,000 and 20% employed over 100,000. The market capitalization range of the companies was USD$2.4bn to USD$255bn. Companies represented a broad range of sectors with over 16 sectors included. The most represented sectors were Utilities, Technology—Hardware & Software, Healthcare/Pharmaceuticals, Financial Services, and Energy/Extractives sectors.
This is the first of two articles that detail the results of the AccountAbility’s stakeholder engagement and materiality survey and focus on several key insights based on the responses. The Insight articles articulate selected nuances inherent in the survey results and link them to larger patterns of corporate sustainability shaping the business landscape.

AccountAbility defines materiality as “determining the relevance and significance of issues to an organization and its stakeholders.” Stakeholders can provide vital information that helps to uncover key issues, the drivers of these issues as well as issues that are immaterial but still require a response. This materiality identification process and the actions that follow are key aspects of risk mitigation and reputation management, which often reside at the core of a sustainable business.

![Figure 1: AccountAbility Materiality Framework](image)

Materiality stems from frameworks for risk-analysis, and we find that this ancestry shows. We found in the survey that despite the many benefits stakeholder engagement and materiality processes deliver, these processes are still most embedded in risk mitigation and reputational management.

For example, while 61% of companies surveyed stated that stakeholder engagement and materiality are “very important” to risk management and reputation management, just 38% said the same for strategy, and only 13% for training and development. The results show that most companies are using stakeholder engagement and materiality as risk-based tools rather than opportunity-based.
Stakeholder engagement and materiality processes, while important in risk management, can also contribute considerable value to other operational and strategic processes within companies. Using these processes holistically—as both opportunity and risk-based—can result in value creation. For example:

Novartis conducted a comprehensive stakeholder engagement process to review its materiality assessment for 2014. From the results of this process, Novartis identified three key areas to prioritize for the coming year and beyond, including a) access to healthcare, b) research and development and c) ethical business practice. Novartis used the information gathered from its stakeholder engagement and materiality processes to transform increasing risks into actionable, immediate priorities supported by strategy and data. Specific initiatives identified included:

- Scaling up flagship access programs, Arogya Parivar and SMS for Life, to provide underserved patients access to healthcare and also serve as a key driver in future growth markets
- Redesign employee incentive programs to reduce focus on short-term targets in order to reduce the potential financial impact from poor ethical practices
- Increase R&D pipeline for neglected diseases in order to expand in new growth markets and benefit from increased collaboration with other organizations
DuPont engaged nine distinct stakeholder groups in order to reassess its materiality for its 2013 Progress Report. Stakeholder input helped DuPont conduct a materiality analysis to prioritize sustainability issues and trends for each of its businesses. Its business-focused pillar of materiality, Serving the Marketplace, specified four KPIs that would be used to keep the company on track. From 2010-2012, DuPont referenced its materiality in order to successfully:

- Increase investment on environmental research and development by USD$212 million
- Create 733 new products that help improve the safety of populations across the globe
- Produce USD$400 million of revenue from products that create energy efficiency or reduce Greenhouse Gas emissions
- Produce USD$4.1 billion of revenue from products based on sustainable resources

Clearly, risk management is not the full potential use of stakeholder engagement and materiality. These processes are multi-layered with numerous channels that can lead to previously hidden value.

Checkpoints to a Company’s Sustainability Journey
The level to which companies can integrate their stakeholder engagement and materiality processes into company operations not only can detect new opportunities, but also can be a proxy for a company’s progress on its journey to sustainability.

The journey often starts with stakeholder engagement and materiality used as a knee-jerk response to identified risks and reputational threats. Eventually, these processes evolve into more preventative mechanisms to curb further risk incursions. Then, companies may start to integrate these processes systematically into risk assessment in order to more accurately and effectively manage risks. This proactive approach often results in a more receptive and easier operating environment that allows performance to improve.

When operational activity benefits, the same approach can be applied to strategy. As the examples above showcase, stakeholder engagement and materiality assessment can be a tremendous source of innovation, motivation and value. Companies later on their journey realize that stakeholders and material issues are not merely to be dealt with, but rather signs that can help drive strategic direction and operational excellence.
Stakeholder engagement and materiality can be used to uncover additional resources within and outside companies that, when aligned with organizational decision making and strategy development, can create more successful companies.

As the survey showed, most companies are stopping short of the benefits that stakeholder engagement and materiality can offer. The survey sample, however, is indicative of the larger business picture that is varied in its approach and progress in sustainability. As more companies traverse this journey, we expect to see a greater instance of the total capability of stakeholder engagement and materiality being capitalized.

To conclude, from survey responses, we find:

- The **majority** of companies have set up **formal processes** to manage **stakeholder engagement** and **materiality**. However, the majority use these processes primarily for **risk** and **reputational risk management**.
- A **minority** of companies are **capitalizing** on additional **value** related to **strategy**, **innovation** or **training** via stakeholder engagement and materiality processes.
- **Sustainability leaders** are successfully using these processes to uncover **additional business value** and direct strategic growth, examples of Novartis and Dupont.
- Using these processes as proxy, the results reflect where most companies are on their sustainability journey. There remains, therefore, **considerable unexplored territory** in which to uncover **hidden value**.
Next Up: Influence and Management

Increasingly, the competencies of the staff member that manages these processes, their position within the company and their ability to influence decision making, are key to using materiality and stakeholder engagement as opportunity-based tools. Our survey took into account these factors, assessing who typically manages these processes and how they may be connected with broader business functions as well as senior management, in order to shine light on this important connection. We look forward to sharing these results further in the next AccountAbility Insight.

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About AccountAbility

AccountAbility is a leading international organization focused on mainstreaming sustainability into business thinking and practice. Since 1995 we have been helping corporations, non-profits and governments embed ethical, environmental, social, and governance accountability into their organizational DNA. Our unique value proposition brings together leading-edge research, widely-recognized standards and strategic advisory services to deliver practical solutions for our clients. We have notably been pioneering thought leadership, standards and professional services in the areas of Materiality and Stakeholder Engagement for close to two decades.