Organizational Collaboration and Effective Governance – At the Heart of Successful Stakeholder Engagement and Materiality

Insights from the AccountAbility Global Survey on Stakeholder Engagement and Materiality (part two)
Organizational Collaboration and Effective Governance

The competencies of who manages stakeholder engagement and materiality within a company and their ability to influence strategy and decision-making are pivotal to using stakeholder engagement and materiality to unlock business value and opportunity.

In our previous Insight Piece *Beyond Risk Management—Leveraging Stakeholder Engagement and Materiality to uncover Value and Opportunity*, we highlighted initial results from AccountAbility’s global survey* to understand how companies embed stakeholder engagement and materiality in their organizations and the link to risk and reputation management. In this second article from the survey results, we analyze the governance aspect.

Stakeholder engagement and materiality are both concepts that inform and are central to a company’s sustainability strategy. Therefore, the function or individual managing stakeholder engagement and materiality plays a key role in defining and developing sustainability strategy. Our research illustrates that stakeholder engagement and materiality are mostly managed by Communications / Public Relations (PR), or Sustainability departments. Results show that stakeholder engagement matters are handled mostly by Communications / PR or Sustainability divisions (each around 33%), while materiality processes are primarily handled by Sustainability teams (60%).

*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.*
Sustainability and Communications divisions clearly drive and heavily influence the formation of materiality and stakeholder engagement processes. This comes with the risk that results may be geared more towards reporting and company reputation rather than company strategy and operations. To counter this risk, a formal steering committee is recommended to ensure that these processes extract the most value for the company by including the skills and ensuring the buy in of a broad number of different business functions as well as senior management.

Challenges to Coordinating Stakeholder Engagement and Materiality Activities

In reality, it is often difficult to effectively manage, coordinate and report on stakeholder engagement and materiality processes within companies.

A key challenge companies’ face is transforming the existing organizational culture, which often signifies moving from a more traditional set-up where single divisions own specific topics and manage them fairly independently, to a cross-collaborative environment where multiple divisions or departments need to be actively involved in management tasks. Both materiality assessment and stakeholder engagement processes function most effectively in dynamic and collaborative organizational set-ups, whereby departmental silos are broken down to enable the involvement of relevant individuals and functions.

Figure 1: Collaborative management of Stakeholder Engagement & Materiality. Source: AccountAbility, 2015

Stakeholder engagement is something the majority of companies will tell you they have been doing forever. Different individuals will own different stakeholder relationships and manage these to meet their own or wider departmental needs and objectives. As a company looks at things more strategically and starts to formalize and
structure its stakeholder engagement objectives, processes, activities, engagement methods and monitoring, it can be challenging to effectively coordinate if the company has been managing it informally for many years.\textsuperscript{3} There is often no obvious lead person or function to assume overall responsibility.

Materiality is perhaps a newer organizational concept with a tighter list of tasks and more distinct timeline; therefore, it is often easier to set up a new and dedicated process from the outset that involves different business departments.\textsuperscript{4} Still, in practice, as our research indicates, the materiality determination process is generally closely managed by sustainability professionals, who may sit on the margins of traditional strategic business processes. Many companies that have been through a number of rounds of materiality analyses will point out the need to gain buy-in from and incorporate a broad representation of functions of the business, such as risk, business development, investor relations, Research & Development, legal, finance and compliance.

In our survey, we also asked a question around the importance of internal factors in managing materiality. The results clearly indicate that cross-functional collaboration and senior management participation or leadership\textsuperscript{5} were leading considerations in requirements for managing materiality. Indeed, they both form part of the top three most important aspects along with setting targets and KPIs.

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<th>How important are the following aspects to managing your materiality issues internally?</th>
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<tr>
<td>Setting Targets and KPIs</td>
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<tr>
<td>Involvement of the CEO/Senior Management Team</td>
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<td>Cross-functional Collaboration</td>
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<td>Formal Action Plan</td>
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<td>Staff Owner for Each Issue</td>
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<td>Audits/External Assurance</td>
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<tr>
<td>Establishing a Steering Group</td>
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We believe **stakeholder engagement and materiality** can benefit from the existence of a **formal steering committee that manages sustainability-related topics**. The committee may be equipped with ownership of the processes, influence within the company and competency in conducting stakeholder engagement and materiality assessments.

**Sustainability Committee: Ownership, Influence and Competency**

A Sustainability Committee is an increasingly common and influential instrument within a company’s corporate governance structure. Its principle functions are to **develop, steer and validate a clear sustainability strategy and vision, identify and manage interdependencies of material sustainability issues and stakeholder needs, and provide guidance on managing performance**.

Having stakeholder engagement and materiality overseen by a centralized Sustainability Committee benefits a company in several ways:

- First of all it ensures control and consistency across the business. It guides and validates the sustainability vision and strategy and aligns these with important business and stakeholder issues.
- Secondly, the committee generally consists of cross-functional management members who are competent to understand and assess the impact of broad material sustainability issues, while at the same time ensuring the buy-in of different business functions to the stakeholder engagement and materiality processes.
- Thirdly, the Committee often incorporates a member of senior management or the Board, thus ensuring consideration of these processes in strategy development and organizational decision-making at the highest level of the company.

Many companies both have mature business processes to manage stakeholder engagement and materiality as well as a robust formal governance structure managing sustainability themes, for example:

**Practice Examples**

In order to determine key sustainability issues, **Swiss Re** uses a formal over-arching process known as the **Group Management Process**. The process helps the company identify key topics that are strategically important to the company, clients and society. Swiss Re’s Group Management process relies on a **broad range of its own internal capacity and expertise to apply risk knowledge**.
to its sustainability strategy. After the Group Management Process finalizes strategic priorities, this priority list goes through several review sessions where different departments of the company can weigh in and give suggestions. From review session feedback, Top Topics are identified that later figure prominently in Swiss Re’s product development, stakeholder dialogue and internal environmental management.

Swiss Re aligns stakeholders from different departments to inform the Group Issue Management process. For example, Human Resources professionals are included to use their expertise to increase the quality of company diversity, inclusion, development, training, employee relations and compensation and benefits. This expertise from the Human Resources department is then integrated into the process in order to strongly influence the company’s long-term performance.

This defined ownership, commitment from top management and different departments, plus a refined competency in pulling together these myriad perspectives, certainly contribute to Swiss Re’s unique success as a sustainable company.

PG&E has demonstrated both cross-collaboration as well as senior management involvement in their internal materiality and stakeholder engagement processes. The company recently conducted a materiality assessment designed to engage stakeholders, identify opportunities and risk, and sharpen its corporate sustainability strategy and reporting. First, PG&E interviewed nearly forty internal and external stakeholders, reviewed PG&E and industry research and reports, and reviewed media articles and related information.

As a result of bringing in different stakeholders for their diverse perspectives and input, the company was able to identify 18 material issues for PG&E’s long-term sustainability and business strategy. From this, a materiality matrix was formed, discussed, validated and finalized with PG&E’s Utility Strategy Committee. This Committee, which is comprised across senior leaders across the lines of PG&E’s business, affirmed that each issue was material to PG&E and should be prioritized in its sustainability strategy.

The results from PG&E’s stakeholder engagement and materiality process has supported the company’s strategic planning process and prompted modifications to its corporate reporting. PG&E’s clear accountability of who manages stakeholder engagement and materiality, their top influence in the company, and obtaining multiple perspectives from diverse parts of the company resulted in a useful and effective tool to guide PG&E’s strategy.
Conclusion

Based on our research there are three keys to success when implementing stakeholder engagement and materiality processes:

- **Broad functional input and buy-in internally** - Although there is no standard way to achieve this, delineating distinct ownership, authority and accountability for the practical implementation of sustainability processes, such as stakeholder engagement and materiality, is essential. Incorporating different functional viewpoints early-on in these processes will make it much easier to push through with a broad set of concrete actions at a later point. Implementation should involve the Sustainability Committee where one is in place within a company.

- **Strong link to strategy and decision-making** - A Sustainability Committee itself should not only have an organized structure, but must span across diverse sectors of the business, both functionally and hierarchically, and the members must feel that they have ownership, ability and capacity to influence strategy and decision-making in the company, and a strong competency towards managing stakeholder engagement and materiality processes.

- **Systematic approach with regular review cycle** - Effective sustainability governance though will weigh on unique characteristics of each individual organization, driven by industry sector, region and culture. By adhering to a fundamental set of building blocks, a systematic approach and a regular review cycle, any company is able to develop efficient and effective stakeholder engagement and materiality processes that can build business success into the future.
1 AccountAbility (2013) Beyond Risk Management—Leveraging Stakeholder Engagement and Materiality to uncover Value and Opportunity


3 AccountAbility (2011), Stakeholder Engagement Standard AA1000SES

4 AccountAbility (2013) redefining Materiality II: Why it Matters, Who’s Involved, and What it Means for Corporate Leaders and Boards


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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.