2. Entering Dialogue – Drivers, Strategies and Expectations

Stakeholder Engagement: Creating Value and Delivering Performance
by Sunil A. Misser

As result of multiple systemic global changes, the past few decades have seen a shift in the role of the corporation in society. Consequently, all kinds of organizations, including businesses, have seen an increase in complexity and dynamics in their operating environments.

In response to the enhanced role of business in society, more and more members or representatives of different impacted social groups claim their right to be informed of, consulted on and involved in corporate decision-making. Over the years, we have seen a resulting generational shift in the level and approaches of stakeholder engagement.

Current landscape – external norms and guidelines

From a corporate perspective, external sources have played a significant role in this generational shift. Formal norms and guidelines are increasingly being adopted by international finance institutions such as the International Finance Corporation (IFC), the World Bank and the European Bank for Reconstruction and Development (EBRD), all of which have published stakeholder engagement expectations for their adherents.¹ These institutions have recognized the importance of stakeholder engagement in the successful implementation of their projects, principally in managing the risks and impact those projects impose on local communities.

Corporate and sustainability reporting has also been more focused on stakeholder engagement. The International Integrated Reporting Council (IIRC), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB) and the Facility Reporting Project (FRP) all strongly advocate the role of effective stakeholder engagement in ensuring transparency and accountability in reporting. The recent GRI G4 Guidelines, for example, request companies to provide an overview of their stakeholder engagement during the reporting period in their standard disclosures. Companies are encouraged to include the stakeholder identification process, the engagement approach and key topics and concerns raised during the process.

Rather than creating a separate reporting framework, SASB seeks to improve the current reporting in U.S. public filings


through a focus on non-financial information related to various environmental, social and governance factors. SASB asserts that stakeholder concerns, including those of local communities and NGOs, should be considered for disclosure as potentially significant information that a “reasonable” investor or potential investor in the company would want to understand. By including stakeholder concerns in the universe of potential “material” disclosures mandated by the U.S. Securities and Exchange Commission (SEC), SASB has signaled an intention to gradually shift stakeholder engagement from a corporate to a public concern.

At the industry level, many regulators and voluntary membership bodies view stakeholder engagement as a means to collectively improve industry performance and reputation. This is particularly the case in industries such as pharmaceuticals and energy and extractives, whereby a company’s operations and the welfare of local communities are closely intertwined. For example, the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) asserts that the industry addresses mortality and morbidity through multi-stakeholder dialogue and over 220 on-the-ground partnerships (up five-fold over the past decade) between civil society, the private sector and local and national government. Members of the International Council on Mining and Metals (ICMM) – which include Anglo-American, BHP Billiton, Rio Tinto and Vale – all commit to “engage with and respond to stakeholders through open consultation processes,” as well as report on their performance on this commitment and have their performance verified by a third party.

Companies thus face increasing external pressure to conduct meaningful engagement with relevant stakeholders. As companies move into the second and third generation of stakeholder engagement, however, leading companies have started to appreciate that stakeholder engagement can contribute to learning and innovation in products and processes and enhance the sustainability of strategic decisions within and outside of the company. Corporate governance is gradually shifting towards collaborative governance, in which the voices of stakeholders are allowed to be heard by the company, which then adequately responds to their concerns.

While collaborative governance certainly presents its own risks, skillful management of stakeholder participation can yield significant returns.

Getting the most out of stakeholder engagement

The benefits of effective stakeholder engagement are several:

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<tr>
<th>THE BENEFITS OF STAKEHOLDER ENGAGEMENT</th>
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<td>Effective and strategically aligned stakeholder engagement can:</td>
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<td>Lead to more equitable and sustainable social development by giving those who have a right to be heard the opportunity to be considered in decision-making processes</td>
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<td>Enable better management of risk and reputation</td>
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<td>Allow for the pooling of resources (knowledge, people, money and technology) to solve problems and reach objectives that cannot be reached by single organizations</td>
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<td>Enable understanding of the complex business environment, including market developments and identification of new strategic opportunities</td>
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<td>Enable corporations to learn from stakeholder, resulting in product and process improvements</td>
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<td>Inform, educate and influence stakeholders and the business environment to improve their decision-making and actions that impact on the company and on society</td>
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<td>Build trust between a company and its stakeholders</td>
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A company’s ability to benefit from stakeholder engagement depends on how effectively it integrates engagement into its core business strategies. Doing this requires a more formal and strategic process than the company may have conducted in its first generation stakeholder engagement. Stakeholder engagement is not a simple “off-the-shelf” solution, and each company has to start by choosing the approach best suited to its unique corporate profile.

The specific level and approaches to engagement that a business and its stakeholders choose depends on the strategic objectives of the engagement – resulting in incremental or systemic approaches.

The first stage is for a company to analyze the basic Why, Who, and What behind its stakeholder engagement goals:

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2 See, e.g., SASB’s Conceptual Framework
3 IFPMA, Sustainable Health and Multi-Stakeholder Action, September 2013.
4 ICMM – Sustainable Development Framework: 10 Principles
THE BASIC QUESTIONS BEHIND STAKEHOLDER ENGAGEMENT GOALS

Why engage? What is the company hoping to achieve? What are the external drivers behind engaging? What are the benefits of engaging? What are the risks of not engaging?

Who to engage? Keeping those Why questions in mind, who are the key stakeholders? For example, to whom does the company have legal, financial or operational responsibilities? Which groups are the most impacted by the company’s operations, and which groups are most likely to influence the company’s performance? What are the benefits and risks associated with engaging with those key groups? Who would make good potential partners?

What to engage about? What scope of engagement is the company interested in and realistically capable of conducting? What form of engagement is likely to yield the greatest benefits, either in terms of information or political capital?

In terms of the actual scope of engagement, the different levels and approaches of engagement, including the direction of communication between a business and its stakeholders, can range across a spectrum. The diagram below shows a sample list of those approaches across levels of stakeholder engagement:

DIFFERENT LEVELS AND APPROACHES OF ENGAGEMENT

When tailoring a strategy for stakeholder engagement, context plays a critical role. It is important to appreciate the contextual variations in the following factors:

Industry: Expectations and incentives for more collaborative governance have expanded to nearly every sector. While tailoring an approach to stakeholder engagement, certain
industry-specific factors to keep in mind include applicable regulations and level of enforcement, the existence and role of unions or consumer groups, the variety and network of stakeholders and the history of stakeholder involvement. Those industries with more complex supply chains in terms of both number of links and geographic diversity will likely require a more comprehensive approach than other industries. Industry organizations and member associations can serve as great collectors and conduits of the industry’s issues, challenges and best practices when it comes to stakeholder engagement and cross-sector partnerships.

**Geography and culture**: What works in one region may or may not work in another. For example, “town hall meetings” may prove more successful in the U.S. than in certain Asian markets, where guidance-based models such as surveys or one-on-one dialogue may be more culturally appropriate. Similarly, efforts to engage through social media that work well in Europe may not adequately reach stakeholders in certain emerging markets. Companies – particularly those with global impact – need to be sensitive to different market characteristics and open to employing different forms of dialogue and methods of communication in different geographies and regions.

In any culture, it is also important to determine the main “gatekeepers” to the groups with whom the company wishes to engage; those key individuals will vary according to context but may include local authorities or politicians, union leaders, business leaders, religious figures, or town elders. Many cultures or communities consider it imperative that any true engagement initiate with these important figures, and negligence in respecting their local position could seriously impair any further negotiations. For those companies with global operations, local employees or civil society partners can be a valuable source of intelligence when determining the proper cultural approach to stakeholder engagement.

**Company customization**: A company’s unique business goals, operating structure, role in society, and prior sustainability and engagement efforts add further complexity when determining the best vehicle for collaborative governance. Relevant considerations also include the current engagement levels and approaches employed by the company’s competitors and potential partners, the company’s eagerness and ability to engage on a specific issue, and the sophistication of its targeted stakeholder groups.

Companies also need to approach individual company-specific stakeholder engagement and sector-wide or national cross-sector engagement initiatives very differently. Some engagement will be purely consultative while others may be centered on cooperation and establishing partnerships. In any case, companies need to provide those employees leading the stakeholder engagement with adequate authority, structure and resources to ensure a comprehensive and well-designed process.

**Toward collaborative governance**

The global movement toward collaborative governance is a simple reality. The ubiquity of social media and other global drivers will continue to raise the power of external stakeholders in both shaping a brand’s reputation and affecting company performance. The number of companies releasing sustainability, corporate citizenship and integrated reports is growing exponentially, and the role of stakeholder engagement in such reporting is nearly keeping pace.

Very soon, it will not be enough to say that a company engages with its stakeholders; efforts and outcomes will be intensely scrutinized. In many ways, that time is already upon us. What is more, as the global emphasis on stakeholder engagement has increased, so has the level of sophistication of many stakeholder groups. More so than in prior decades, companies will encounter stakeholders wellversed in best and worst practices in stakeholder engagement. These stakeholder groups may have greater expectations of fair, transparent and respectful dialogue.

Going forward, therefore, the key to stakeholder engagement will be in the details. Attention to nuance will be critical to strategy, strategy will be critical to success, and success will be measured as much by innovation and achievement of business objectives as by effective risk management. A company’s genuine commitment to effective and inclusive arm’s-length engagement will also be critical. Genuine commitment is demonstrated not only by proactively seeking out appropriate partners for engagement, but also by making sincere attempts to understand those stakeholders and implement their concerns into corporate decision-making. Insincere efforts will become obvious and hamper relations between the company and its stakeholders, potentially creating a bigger risk to corporate sovereignty in the long run.
Those companies that are able to embrace this trend and embed collaborative governance into their core operations through a comprehensive and ongoing stakeholder engagement process will be better primed to recognize and incorporate those nuances. Stakeholder engagement can and will be a source of competitive advantage for those companies skilled enough to use the process to create real value and improve overall performance – collaboratively.

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