

Practices and Principles for Successful Stakeholder Engagement

1 Introduction

The private sector today is increasingly called upon to take significant responsibility for resolving some of the world's most intractable problems – from global climate change, to community impacts of business operations, and the health of employees. While opinions may differ on how responsibility should be allocated across private and public institutions, businesses have a broader scope of responsibility today than was the case even a few years ago.

Managing those responsibilities, and even defining them, represents a new kind of challenge for many companies. Within this evolving context, one of the key outcomes from the 2002 World Summit on Sustainable Development was a greater emphasis on the value of 'partnership' approaches to solving complex sustainability challenges. As a result, 21st century business is increasingly working with stakeholders to understand their views and incorporate them into strategic decision-making processes.

So-called "stakeholder engagement" comes in many forms, and businesses are compelled to engage their stakeholders for myriad reasons. This document is both a quick primer to the stakeholder engagement process and a reference point for guiding principles.

SustainAbility has almost two decades of experience in stakeholder engagement and has designed and facilitated engagements for firms as diverse as Ford, Microsoft, Nike, Pfizer, Pharma Futures, Shell, Starbucks, Volvo, and Wal-Mart.¹

2 Who are stakeholders?

Stakeholders are any individual or group that may affect or may be affected by the company's activities. They have a legitimate interest in the company's business and products because they have a statutory requirement to take an interest in company business and products or take an interest on behalf of the public good. Some examples of stakeholder groups are listed in the table below.

FINANCIAL INSTITUTIONS	GOVERNMENT	INTEREST GROUPS	BUSINESS
<ul style="list-style-type: none"> - Banks - Shareholders - Analysts 	<ul style="list-style-type: none"> - Legislators - Regulators - Local Government - Multilateral Agencies 	<ul style="list-style-type: none"> - Community - NGOs / Activists - Faith Based Organizations - Trade Associations - Academia 	<ul style="list-style-type: none"> - Employees - Unions - Suppliers - Customers - Consumers - Competitors

¹ For more information on SustainAbility, our *Engaging Stakeholders* program, and stakeholder engagement services we offer, please visit us at sustainability.com or call us in Washington at +1 202 315 4150 or in London at +44 (0)20 7269 6900.

3 What is engagement?

Engagement is the process of exchanging information, listening to and learning from stakeholders -- with the goal of building understanding and trust on issues of mutual interest. Stakeholder engagement has evolved as the role of corporations in society has changed over time.

- The first generation of stakeholder engagement was reactive. Companies responded to pressure from specific interest groups, in an effort to avoid bad publicity and protests.
- In the second generation, stakeholder engagement has become a systematic part of risk and reputation management. Companies proactively engage a wider variety of stakeholders to understand their perspective and invite their feedback.
- The third generation of stakeholder engagement is just beginning, but will likely gain traction rapidly. Companies will increasingly engage stakeholders further up and down the value chain in order to boost their competitiveness through innovation and the co-creation of new products and markets.

4 Why Engage Stakeholders?

Stakeholders have the ability to influence the success or failure of the business at various levels (e.g. affecting the company's license to operate, eroding levels of trust of the company etc.) A primary objective of corporate stakeholder engagement is to generate a better understanding of stakeholder perspectives on key issues and, consequently, build relationships with key individuals. However, over time, more tangible business value can be realized from these relationships. For example, companies with experience in engaging stakeholders tend to recognize four main areas of value²:

- **Enabling informed decision making by generating business intelligence, and avoiding or reducing risks:** For example, the Norwegian oil company Statoil worked with Amnesty Norway to train Statoil employees to identify and solve business dilemmas in connection with human rights issues, thus reducing the company's exposure to human rights related risks. In addition, Statoil collaborates with Amnesty International on a UN project in Venezuela, training the country's judges and public defense lawyers in human rights — ultimately helping to provide a more stable environment for society and business.
- **Developing and expanding markets or opportunities:** Stakeholder engagement promotes ownership of issues, and allows business to manage how an issue evolves in the market. DuPont, for example, has convened a stakeholder panel on biotechnology to help the company articulate positions on important issues, and guide as well as challenge the company's actions in the development, testing and communications of new products based on biotechnology.
- **Building brand equity and reputation:** Engagement can build stakeholder trust in the organisation, and enhance social licence to operate. 'Choose Positive Energy' was a partnership between The Body Shop International and Greenpeace International aimed at promoting renewable energy. The combination of the two brands was important in assuring the credibility of the campaign among key audiences, including customers and other NGOs.

² These examples are from *The 21st Century NGO*, SustainAbility, 2002.

- **Bringing diverse perspectives together for creativity and innovation:** FedEx partnered with the Alliance for Environmental Innovation (part of Environmental Defense) to reduce the environmental impact of their vehicle fleet. It is hoped that the new hybridelectric vehicles — which were introduced in 2004 — will ultimately replace the company's 30,000 strong fleet, leading to significant reductions in environmental emissions.

5 Principles of Engagement

There are many challenges to successfully engaging with stakeholders, but they are small in comparison to the risks of failing to engage external stakeholders in a timely and strategic manner. For companies looking to actively manage their reputations and brands, and for leaders committed to active listening not only in the marketplace but in society more broadly, knowing how to engage stakeholders effectively is now a critical business function. The following *Principles of Engagement*, based on SustainAbility's experience working with companies and their stakeholders over the past two decades, provide a good starting point for successful engagement.

1. **Engage on issues that matter.** Focus on clear objectives and material business needs that require action. Show how engagement will add value to the business.
2. **Be ready to act:** Use engagement to drive decisions, not as a public relations exercise. Stakeholders have limited time and prefer to engage with companies that are serious about change.
3. **Engage the right stakeholders:** Identify the right stakeholders. Ensure the process is inclusive and diverse. Consider stakeholders' expertise, level of influence, willingness to engage and impact on the company.
4. **Engage empowered representatives:** Engage representatives who are empowered to take decisions on behalf of their constituents and have the mandate to 'step out of the comfort zone'.
5. **Determine shared value:** Ensure that each stakeholder benefits directly from the engagement and understands how the others benefit.
6. **Agree rules of engagement:** Establish the scope, objectives, roles, rules and risks of engagement at the beginning. Agree on the processes for decision-making, conflict resolution and evaluation.
7. **Manage expectations:** Make certain that all parties have realistic ambitions and agree on clear outcomes of the engagement. Stakeholders' perspectives are used to *inform* decision-making, but the responsibility for the decision rests with the company.
8. **Provide adequate resources:** Devote adequate resources (time, money and people) to ensure success. Where appropriate, reimburse stakeholders for their time and expenses, or allow them to nominate a charity to receive an equivalent amount as a donation.
9. **Choose the right format:** Choose the appropriate format (e.g. private meetings, roundtable discussions, stakeholder panels, etc) to achieve the objective of the engagement.
10. **Level the playing field.** Be sensitive to perceived or actual power differences and facilitate the process to allow fair participation. Facilitators should be objective and trusted, striving to amplify stakeholder voices where required.

11. **Listen to (critical) stakeholder views:** Ensure engagement is a dialogue and not a one-way information feed. Allow stakeholders to voice their views without restriction and fear of penalty or discipline.
12. **Build trust:** Take time to build trust based on the personal chemistry of the individuals and the common values of the organizations involved. Commit to long term relationships with stakeholders.
13. **Be open:** Be open, responsive, consistent and timely in communications. Communicate well in advance, document the engagement rationale and processes and allow for stakeholder feedback.
14. **Be accountable:** Link the engagement process to core business decision-making and corporate governance. Provide clear actions and/or response following the engagement
15. **Look beyond the engagement.** Learn from the engagement. Involve stakeholders to assess the success of both the *process* of engagement as well as its *outcome*. Examine whether any next steps are required.

6 Reference Materials and Additional Guidance

Stakeholder dialogue, *World Development Business Council*

<http://www.wbcd.ch/plugins/DocSearch/details.asp?type=DocDet&ObjectId=Mjcz>

Stakeholder Engagement, *Business for Social Responsibility*

<http://www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=48813>

The Stakeholder Engagement Manual Vol. 1&2, *U.N.E.P.*

<http://www.unep.fr/outreach/home/Stakeholder%20Engagement-Volume%201.pdf>

[http://www.unep.fr/outreach/home/SE%20Handbook\(sm\).pdf](http://www.unep.fr/outreach/home/SE%20Handbook(sm).pdf)

Materiality, *SustainAbility*

<http://www.sustainability.com/insight/issue-brief.asp?id=65>

AA1000 Stakeholder Engagement Standard, *AccountAbility*

<http://www.accountability21.net/publications.aspx?id=384>

21st Century NGO, *SustainAbility*

<http://www.sustainability.com/insight/research-article.asp?id=51>