Minding your stakeholders’ business: the key to sustainability

A strategic approach to stakeholder engagement

Do you talk to your stakeholders? If you are like a lot of companies, you may talk to some, but not all. And when you do, how far do you involve them in your decision making process? Most companies tend to communicate rather than really engage with stakeholders about their strategic and operational issues. However, as more companies add sustainable development and corporate responsibility to their business agenda, it becomes increasingly important for decision makers to enter into a constructive dialogue with their various stakeholders whose concerns might fuel future claims, crises, as well as strategic opportunities.

You won’t be alone
Recent trends and practices as detailed below prove that engaging stakeholders is becoming a common occurrence:

- Sector leaders known for their corporate responsibility leadership are engaging with their stakeholders as part of their business operations. Standards and references are urging companies to follow this path. Stakeholders and shareholders are becoming increasingly active with respect to environmental and social issues. As illustrated in Box 1, mere regulatory compliance does not guarantee social acceptance and license to operate of a company’s projects or activities.

The risks of not engaging
The risks of not engaging stakeholders can be substantial. Researchers have attempted to estimate and integrate the impacts on a company’s public image into the calculation of Return on Investment (ROI). Stakeholders’ negative perceptions of business practices leads to so-called social risks (Box 1) which can jeopardize business value through boycotts, demonstrations and work blockages and pressure on political leaders to stop, delay or change a project. All these actions increase a project’s costs and may prevent a company from attaining its business objectives. To prevent and mitigate local and large scale actions, companies are investing in people and programs that engage with stakeholders before negative perceptions turn into negative actions.

Box 1: Example of social risks
Risk can be described as the potential for loss and harm or the diminished opportunity for gain, that can adversely affect the achievement of an organization’s objectives. Can poor quality relationships with stakeholders be considered as a risk for a company? Consider this:

- In November 2008, in a claim that started in 1993, the supreme court of Canada ordered a leading cement manufacturer to pay $15 to $20 million to a group of neighbours as reparation for the nuisance caused by dust emissions from their facility, despite the fact that the site had been complied with legal thresholds.

- Claims from communities near a Quebec wind farm about the visual impact of the windmills, caused delays in the project. These difficulties, as well as additional financial issues, caused the abandonment of the project in December 2008.

- In 2008 Greenpeace targeted a large grocery chain because they claimed the company was selling endangered fish. In response, the company undertook a communications campaign to inform customers about their practices and to launch products bearing the Marine Stewardship council (MSC) certification.
This is particularly instrumental for companies in the following sectors:

- **Energy and resources (including oil and gas, metal, mining, cement), forestry and manufacturing**: Access to energy and land is key for business operations. For such companies, the cost of potential delays or failure in obtaining legal and social license to operate could jeopardize the company’s competitiveness, access to funding or ability to operate in the long term.

- **Consumer business and retail**: Reputation and brand are significant intangible assets to be protected from risks linked to direct or indirect (supply chain) environmental, social and ethical threats; companies most vulnerable, such as those operating in the consumer business and retail sector, would be wise to address stakeholders’ concerns and expectations beyond minimum compliance.

**How to engage**

Considering how harmful negative perceptions and social risks can be to a business, companies need to take the initiative to engage and understand the interests and needs of their stakeholders upfront in order to build a constructive and meaningful relationship.

But engaging with stakeholders can be very challenging. A quick glance at your company’s stakeholder map will tell you a lot about the diversity of your stakeholders’ interwoven and potentially conflicting interests and concerns. Indeed, stakeholders’ concerns and expectations cover a wide range of issues (environmental, social, health and safety, well-being of the community, etc.) that may be contradictory or even conflicting in specific situations.

**Bear in mind that stakeholder interests evolve over time as new information becomes public or as scientific knowledge grows, especially in the areas of health and safety and the environment.**

The relationships between a company and its stakeholders can take different forms; from partnership and close cooperation to open conflict and blockage, depending on how willing the two parties are to communicate openly, as shown in Figure 2.

Stakeholder engagement is not only about glossy presentations, good public relations or crisis management. Lack of stakeholder engagement, poor stakeholder engagement or mere crisis-based communication can actually be detrimental to the business or to the company image.

Therefore, in order to achieve corporate responsibility and sustainability in a complex and evolving environment driven by multi stakeholders’ interests, companies will have to become learning organizations that will be aware of and process a much wider range of information.

**Figure 2: Different modes of engagement between companies and stakeholders**

Source: Deloitte
Using a risk management approach

In a recent survey carried out by Deloitte with 120 leading European companies, when asked about their stakeholder engagement practices, most companies provided a list of ad hoc practices that included information meetings, surveys, consumer hotlines and sometimes stakeholder panels. Few considered stakeholder engagement as an actual risk management process.

Although it may look like a soft skill, stakeholder engagement can be approached as a business process requiring a structured approach like any other risk management process, especially for companies operating in sectors where social risk is significant.

Companies will have to identify their stakeholders and decide which ones to engage with, in what priority, on which topics and how. This requires designing and implementing a proper risk management approach to address these issues, defining responsibilities, planning and implementing methods and tools, providing proper training and setting up internal controls (see Figure 3).

Step 1: Plan and analyze

Your first step will be to define the business case for change for all stakeholders involved, both inside and outside the organization. For more impact, engage other organizations within the industry but be aware of the challenges. This form of collaboration demands industry standards and shared collaborative tools that allow action, along with organizations willing to learn.

Approach

Identify your stakeholders

As shown in Figure 4, take the time to identify your stakeholders and their interests and map them out into groups. Make sure to include the following:

- Any organizations that you are legally, financially or operationally responsible to (i.e., investors, customers, etc.)
- Stakeholders who are affected by your organization’s operations. (i.e., community, employees, associations, etc.)
- Include those who are likely to influence your organization’s performance (i.e., authorities, competitors, media, etc.)

Figure 3: Stakeholder engagement risk management approach

<table>
<thead>
<tr>
<th>Plan and analyze</th>
<th>Design</th>
<th>Build and implement</th>
<th>Monitor and report</th>
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<td>Key success factors</td>
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<td>Value</td>
<td>Define the business case for change in a collaborative mode for all stakeholders involved</td>
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<td>Business strategy</td>
<td>Develop a shared vision of the desired state with the input of all stakeholders involved, inside and outside the organization</td>
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<td>Process &amp; IT</td>
<td>Integrate dialogue and engagement into business processes. Adopt innovative collaboration tools and techniques for engaging stakeholders</td>
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<td>People</td>
<td>Inform and train employees through leaders who walk the talk and engage the organization in a learning curve</td>
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<td>Project &amp; program</td>
<td>Build solid project management practices. Experiment with pilot projects. Track and measure results</td>
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Source: Deloitte

Figure 4: Example of stakeholder groups and their main interests

1 Shareholders/lenders
   - Return on investment
   - Responsible investment

2 Public authorities
   - General interest
   - Regulatory compliance

3 NGO and media
   - Transparency
   - Information
   - Environmentally-friendly

4 Communities
   - Transparency
   - Public’s health and safety
   - Local development

5 Clients / consumers
   - Quality and safety of products
   - Environmentally-friendly and ethics

6 Competitors
   - Market position
   - Differentiation

7 Suppliers / sub-contractors
   - Profitability
   - Management & anticipation

8 Employees
   - Need for meaning, achievement
   - Health and safety

Source: Deloitte
**Get to know them**
Once you identify your stakeholders, you need to analyze them based on the following factors:
- Their level of influence and the way they are affected by the company, their willingness to engage, their representatives
- Their needs and expectations, their engagement issues

**Prioritize issues and expectations**
You then need to identify material issues to be addressed by your company by prioritizing potential risks, opportunities associated with stakeholder expectations based on:
- Compliance with existing standards and future regulation
- Direct financial impact
- Alignment with company’s commitments
- Potential impacts on image

**Put it all together**
Make sure your business case for change is in line with your corporate responsibility strategy and the expectations and concerns of your stakeholders.

**Step 2: Design**
Step 2 involves developing a shared vision of your company’s desired state with the input of all stakeholders involved. Based on the stakeholder map and analysis, determine the level of stakeholder involvement you are willing to integrate into your business strategy and operations for each stakeholder group on line with your company’s sustainable development or corporate responsibility vision.

**Approach**
- Set current and to-be engagement objectives with each selected group of stakeholders
- Analyze the gaps
- Design a stakeholder engagement strategy detailing the groups of stakeholders you need to engage with, the pursued objectives and the level of required involvement from stakeholders
- Determine roles and responsibilities – who is going to engage with which groups of stakeholders and at what level?

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**Box 2: Rio Tinto case study**
Rio Tinto (RT) has developed a comprehensive process and framework to address stakeholder engagement which they believe is essential to their goal of being the developer of choice by governments and local communities.

Here are a few examples of that process:
- Every project conducts a stakeholder mapping analysis and a social risk assessment included in the risk register of the site, focusing on potential issues related to local governments and communities, access to resources and operational impacts
- Each site also has to develop a multi-year community development plan with social performance indicators jointly agreed upon, monitored and evaluated with communities and stakeholders
- All sites report to the Executive Committee on a yearly basis through an internal reporting mechanism. An information system, linked to the HSE management systems, provides database and supporting documents to people in charge of community relations and external audits
- A community relations person is assigned to every new project team to ensure that community relation and stakeholder engagement is fully embedded into the implementation of the project
- The community relations process is associated with an internal assurance program whereby each site carries out a diagnosis of its overall approach to community relations every three years through a self-evaluation, internally audited by managers at the corporate level and peers14
Step 3: Build and implement
As you integrate communications and engagement into your business processes, it is important to adopt innovative collaboration tools and techniques to engage your stakeholders (see Box 3). Take the time to experiment with different approaches through closely-managed pilots.

Also, keep in mind that internal organizational change starts from the top. A survey conducted by Duke University in 2008 found that skills associated with inspirational and especially ethical leadership develop employees’ sense of responsibility for the entire organization and lead to increased organizational performance.

Approach
- Identify and apply effective engagement tools and methods for each stakeholder group: focus groups, community panels, surveys, multi-stakeholder forums, partnerships (with NGOs, institutes and other business partners)
- Develop and apply supporting technology tools for your engagement strategy (e.g. knowledge management software)
- Review and analyze any impacts on other processes, roles and responsibilities, organization structure and tools
- Identify communication and training needs. Develop managers’ soft skills to deal with diversity, dilemmas and to master dialogue, facilitation and collective inquiry techniques.
- Ensure a visible and committed leadership and make sure to implement the action plan in line with the engagement strategy

Step 4: Monitor and report
Incorporating stakeholder input is an ongoing process that requires you to provide ongoing support and adjustments to the stakeholder engagement processes as required, and that you track and measure results. It is also important to maintain leadership visibility and commitment.

Approach
- Incorporate the review of specific aspects of the stakeholder engagement process in the internal audit program in order to ensure that social and environmental risks are exhaustively covered.
- Manage and measure the benefits of the engagement process; share and foster the spread of best practices internally to achieve critical mass
- Provide feedback on progress to stakeholders in specific meetings and in the annual or corporate responsibility report
- Seek assurance on your stakeholder engagement process to enhance credibility
- Seek stakeholder feedback on your company’s commitments and reporting

Box 3: Collaborative tools and techniques
Different facilitation techniques are available to engage with your stakeholders. Depending on the diversity of people involved and the complexity of the topic, consider partnering with a facilitator to foster participation and creativity. Beyond traditional information meetings, such collaborative and participatory techniques will help building consensus taking into account the interests and needs of the parties involved. Here are some examples:

Open space technology offers a method to run meetings of groups of any size where participants construct the agenda and discuss in groups. It has been used by public and private organizations for more than 20 years.

Appreciative inquiry is the art and practice of asking positive questions that strengthen a system’s capacity to collaborate and innovate throughout the change management process. It invites groups often involving hundreds or sometimes thousands of people to build a constructive and desired organization.

Social analysis system is a collection of participatory techniques and software tools that show how to integrate social and cultural analysis and continuous planning, in project activities.
Conclusion
Overcoming the challenges of stakeholder engagement
Developing a culture of open communications and engagement with internal and external stakeholders can be challenging. It requires organizations to change their own “mental model”, i.e. organizational codes and beliefs, especially if the organization is starting with a culture of secrecy and hierarchy. In that case, managers may have trouble dealing with stakeholder-related issues and a commitment to engage with stakeholders will have to come from the top level of the organization.

Also, organizational transformation of any kind typically results from the combination of an external constraint and the internal “will for change” – adopting a more open business approach is no different. Companies committed to stakeholder engagement as part of their corporate responsibility strategy or general business strategy have to be prepared for their established corporate beliefs and assumptions to be challenged as a result of stakeholder input.

Nevertheless, including the contributions of internal and external stakeholders will allow companies to exercise a new economic and social leadership, to develop a collective intelligence, to become learning organizations and to better perform. In the current context of financial uncertainty, acknowledging the interdependent links between a company and its stakeholders as a path to value creation will be instrumental to long-term success.

“Engaging with stakeholders implies that the company is ready to promote a new business strategy that requires systems thinking to ensure maximum positive net impact from our operating presence around the world. Mutually beneficial projects are essential for long-term business sustainability.”

Claude Perras, Director, Community Relations, Rio Tinto
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Deloitte’s Corporate Responsibility and Sustainability team is dedicated to assisting businesses and public organizations in the identification and mitigation of their business risk and the implementation of a strategy related to corporate responsibility and climate change issues, in particular:

• Corporate responsibility strategy and implementation
• Climate change strategy and risk assessment
• Environment, Health & Safety (EHS) excellence
• Corporate responsibility internal audit and external assurance

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<tr>
<td>Vancouver</td>
<td>Joe Solly</td>
<td>Sylvie Nuria Noguer</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>Senior Manager</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>604-640-3393</td>
<td>905-315-6722</td>
<td>514-212-8176</td>
</tr>
<tr>
<td><a href="mailto:hstoch@deloitte.ca">hstoch@deloitte.ca</a></td>
<td><a href="mailto:jsolly@deloitte.ca">jsolly@deloitte.ca</a></td>
<td><a href="mailto:snoguer@deloitte.ca">snoguer@deloitte.ca</a></td>
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<td>Jamie Ross</td>
<td>Thibaut Millet</td>
</tr>
<tr>
<td>Senior Manager</td>
<td>Senior Manager</td>
</tr>
<tr>
<td>403-298-5970</td>
<td>514-393-5532</td>
</tr>
<tr>
<td><a href="mailto:jaross@deloitte.ca">jaross@deloitte.ca</a></td>
<td><a href="mailto:tmillet@deloitte.ca">tmillet@deloitte.ca</a></td>
</tr>
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<tbody>
<tr>
<td>David Greenall</td>
</tr>
<tr>
<td>Senior Manager</td>
</tr>
<tr>
<td>613-751-5402</td>
</tr>
<tr>
<td><a href="mailto:dgreenall@deloitte.ca">dgreenall@deloitte.ca</a></td>
</tr>
</tbody>
</table>

About the authors

Sylvie Nuria Noguer
Deloitte Canada
514-212-8176
snoguer@deloitte.ca

Sylvie Nuria is a Senior Manager in Deloitte’s Corporate Responsibility and Sustainability services. She has 18 years of professional experience in project management, advisory and audit services in the field of environment and sustainable development. She first joined Deloitte in 2003 in Paris, where she developed and led a team of 15 consultants dedicated to providing advisory, training and audit services in environment and sustainability management to private companies in different sectors (oil & gas, energy and utilities, mining, tourism and air transportation, automotive, retail, consumer business), as well as to public organizations. Sylvie has an engineering degree in general mechanics with a specialization in psycho-sociology of organizations. She has a master’s degree in business administration and in environmental engineering and management. She is a mediator accredited by the Quebec Institute for Mediation and Arbitrage and has been trained in non-violent communication, open space technology and social analysis system.

Sandra Houillier
Deloitte Canada
514-393-6589
shouillier@deloitte.ca

Sandra Houillier is a Manager for Deloitte’s Consulting practice. She has 10 years of experience in management consulting with a focus on organizational development and transformation, process review, change management, training, e-Learning, communication and project management for the public and private sectors. She is a certified human resources professional (CHRP and holds a Master of Sciences in Management (M.Sc) from the École des Hautes Études Commerciales de Montréal and a Bachelor of Administration and Political Sciences from l’Institut d’Études Politiques de Paris in France.
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