

Assessment Resource Guide:

Stakeholder Engagement

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I. Definition: What Are Stakeholders?

The term “stakeholders” generally refers to any individual or group that, either positively or negatively, impacts or is impacted by the decisions and actions of an organization. They are often categorized into two groups based on whether the impact is direct or indirect. Examples include:

Primary or Economic Stakeholders <i>Directly impacted by company decisions</i>	Secondary or External Stakeholders <i>Indirectly impacted by company decisions</i>
<ul style="list-style-type: none"> • Employees (Managers & Non-Managers) • Owners • Investors / Shareholders • Creditors • Customers / Clients / Consumers • Suppliers / Vendors • Distributors • Contractors 	<ul style="list-style-type: none"> • Government (Local, National, International) • Community • Civil Society / NGOs • Unions • Cooperatives • Industry & Trade Associations • Media • Academic Institutions • Competitors

This list is by no means exhaustive. Every company has a unique set of stakeholders based on its geography, industry, size, business model, and stage of growth, among numerous other factors.

II. Why Engage with Stakeholders?

Stakeholder engagement refers to the process by which a company communicates or interacts with its stakeholders in order to achieve a desired outcome and enhance accountability. Companies have, to varying degrees, always engaged with stakeholders in one way or another. Historically, engagement tended to be more reactive or focused on risk mitigation. As the corporate social

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responsibility movement has grown, companies have become proactive under the assumption that stakeholder engagement can enhance the sustainability and profitability of the organization.¹

Benefits of engaging with stakeholders include:

Building Trust: Sincere efforts at engagement can improve relations between a company and its stakeholders. This can diffuse existing tensions and make it easier to solve potential problems down the road.

Risk Management: Working with stakeholders can lead to a more stable operating environment and reveal critical information that is important for company decision-making.

Brand Enhancement: By engaging with stakeholders a company can improve its visibility and reputation. Customers, investors, and other economic stakeholders may also view this engagement as a differentiating factor in the market.

Improved Productivity: Better internal engagement can identify areas in which the company can become more efficient. Additionally, employees that have a greater voice in the workplace tend to have higher morale.

Strategic Opportunities: Engaging with stakeholders can help a company to identify new business opportunities and market segments.

Partnerships: By collaborating with stakeholders, companies can pool resources to achieve a common goal.

Increased Investment: Greater transparency and stakeholder engagement can be an attractive draw for capital, particularly from impact investors.

¹ SustainAbility, *Practices and Principles for Successful Stakeholder Engagement*, October 2007.

The United Nations Environment Programme maps these benefits using a pyramid diagram:²

The Business Case for Stakeholder Engagement: *From Risk Management to Strategic Positioning*



III. Designing a Stakeholder Engagement Plan

Although there are many approaches to stakeholder engagement, more structured plans often include the following basic steps:³

1. Identify Stakeholders and Key Issues

- Profile stakeholders to understand their interests, knowledge, and capacity to engage.
- Categorize or map stakeholders based on the characteristics and issues that are most important to the company or project. This can be accomplished through use of a table, chart, grid, zoning map, or any other methods appropriate for the company and context. Common dimensions used in stakeholder mapping include power, influence, interests, proximity and needs.
- Prioritize the issues and stakeholders that are most important to the business.
- Identify who are the legitimate and accountable representatives of each stakeholder.

² Source: UNEP, The Stakeholder Engagement Manual – Volume 1: The Guide to Practitioners’ Perspectives on Stakeholder Engagement, prepared by Stakeholder Research Associates Canada (July 2005).

³ Adapted from: AccountAbility, AA1000 Stakeholder Engagement Standard 2011 – Final Exposure Draft.

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2. Establish Objectives and Process

- Decide on the scope of the process, timeline, and level of engagement.
- Set strategic goals and agree upon expectations. Determine what methods are best suited to achieve these objectives and how to measure outcomes.
- Identify whether there are any regulatory or financial requirements for disclosure or engagement.
- Assign ownership for the process and outline responsibilities for carrying out the different components of the plan.

Recommendations for Small Businesses

Engaging with stakeholders requires time, resources, and knowledge that some small companies may not have. It is important to remember that there is no one-size-fits-all approach. Rather, engagement between a company and its stakeholders should be tailored to fit the capacity of the participants.

When designing a stakeholder engagement plan, small companies can rely on the following tips to make the process more manageable:

- Prioritizing stakeholders and targeting the most important ones first.
- Identify existing channels of communication that may be used to communicate with stakeholders. For example, employee engagement can be a good mechanism for communicating with a broader community in which the employees reside.
- Seek out third party organizations with additional resources that can serve as an intermediary stakeholder and enhance capacity.

- Determine the resources available for engagement and any training needed in order for all stakeholders to engage effectively. This may include sharing knowledge of the issues and process, supporting development of specific skills, or increasing resources, time or access to information.
- Establish a method for documenting progress and outcomes.

3. Implement Plan

- Managers make sure that the process moves forward as planned, gather data, and coordinate with any third parties that are involved.
- Embed commitment to engagement across all levels of company corporate and operating areas.
- Communicate progress to all stakeholders on a frequent and transparent basis.
- Enact written grievance mechanisms to allow stakeholders a chance to provide feedback during the process.

4. Review and Report

- Keep track of how outcomes correspond with original objectives. Empowering stakeholders in this process gives them more ownership and can strengthen the relationship. An independent party is also helpful in certain circumstances in order to improve accountability and credibility of the engagement process.
- Use findings and feedback to revise the plan as needed and capture key learnings that can be applied in future stakeholder engagement initiatives.
- Provide regular and transparent information to stakeholders about the results of the engagement.

No two stakeholder plans will be the same – even for the same company. It is important to strike a balance between welcoming stakeholder input on decisions that impact them directly while maintaining discretion regarding information that could compromise the company.

IV. Methods of Engagement

A variety of tools can be used to engage with stakeholders. These are usually considered across a spectrum depending on the stakeholder’s involvement in the decision-making process.

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Engagement Type	Description & Examples
Communicate / Disclose	<p>Primarily one-way communication from the company to stakeholders about practices or new developments that may impact them. Sharing information can influence stakeholders, build trust, and demonstrate transparency and a willingness to engage.</p> <p><i>Bulletins, letters, newsletters, reports, presentations, speeches, videos, reports, interviews training, performance mechanisms, town hall meetings, open houses, tours, ratings, performance metrics</i></p>
Consult	<p>Company asks for stakeholder perspective and may consider it in decision-making. Primarily a one-way flow of information from the stakeholder to the company. Demonstrates that the company values stakeholder advice and feedback</p> <p><i>Surveys, focus groups, assessments, Public hearings, workshops, online feedback or discussion forums, hotlines</i></p>
Participate	<p>A two-way or multi-party conversation in which stakeholders play a more important role in decision-making. Decisions are often carried out by the company or the parties individually.</p> <p><i>Advisory Board, task force, leadership summit, interviews, research and analysis, workshops, focus groups</i></p>
Partner / Negotiate	<p>Collaboration between two or more parties on an area of mutual interest. The company and stakeholders achieve synergies and reduce risks by combining resources and areas of expertise. This anchors stakeholder relationships around a common purpose and can increase learning between the two groups.</p> <p>A negotiated outcome also allows both companies and stakeholders to come to a mutually agreed-upon decision and may be appropriate for certain situations in which an agreement is needed to continue operations.</p> <p><i>Joint committee, joint ventures, product partnerships, multi-stakeholder projects, alliances, collective bargaining</i></p>
Empower	<p>Stakeholders are given responsibility or legal recourse to influence company governance or operational decision-making.</p> <p><i>Stakeholder representation on Board of Directors, whistleblowing policies, ombudsperson, warranty</i></p>

V. Principles for Successful Engagement

Engage with stakeholders early and often: Proactive, transparent communication with stakeholders helps to build trust and shows that the company is committed to engagement. It is important to remain in communication with key stakeholders even when there is not a pressing need as this can pave the way for more effective problem solving when an issue does arise.

Make it easy for stakeholders to understand: Ensure that the format (language, technology, medium, etc.) of engagement is understood by and accessible to stakeholders.

Take a long-term approach to engagement: Cultivating a long-term relationship with stakeholders can improve operational stability and sustainability.

Remain thoughtful and sincere: Listening is important. Successful engagement can enhance a company's reputation and brand, and stakeholders will be more willing to participate if they feel they are being heard.

Mutually define expectations: Establishing goals and a feasible engagement plan increase ownership and accountability. These should still be flexible enough to accommodate different interests that arise.

Tailor engagement to the context: Different stakeholders will require different levels of engagement depending on the company or project type, stage, size, and many other factors. What is important is the quality and legitimacy of stakeholder engagement.

Sensitivity to stakeholder dynamics: Culture, gender, and political balance can be important to different stakeholder groups. Make an effort to understand these and ensure that the company is interacting with a person or group that is viewed as a legitimate authority by the stakeholders it is trying to engage.

Recognize challenges: Engagement requires time and resources. It also raises stakeholder expectations and can lead to disappointment if their views are not adequately incorporated into decision-making.

VI. Regional Differences in Stakeholder Engagement⁴

Stakeholder Issues:

- Social issues (education, health, job creation, etc.) tend to be more important than

⁴ United Nations Environment Programme, *The Stakeholder Engagement Manual: The Guide to Practitioners' Perspectives on Stakeholder Engagement (Vol. 1)*, prepared by Stakeholder Research Associates Canada, July 2005.

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environmental issues to stakeholders in emerging markets.

- In developing countries, the environmental impact of extractive industries is more of a concern for urban stakeholders, while rural stakeholders are primarily focused on employment opportunities.
- Civil society groups in developed regions are often focused on advocacy, litigation and policy whereas those in emerging markets, especially in Asia and Latin America, are more focused on capacity building.

Characteristics of Engagement:

- Local community organizations in emerging markets may be linked with NGOs or advocacy associations in developed countries.
- Formal partnerships are more common in Europe, while advisory panels and multi-stakeholder groups seem to be preferred by external stakeholders in the U.S. Especially in Latin America, there tends to be a preference for an individual representative of the community to engage rather than a group or panel.

Engaging with Indigenous Groups

Indigenous groups are often the most vulnerable in a society. It is therefore important to engage proactively to demonstrate a sincere commitment as it can take a long time to build trust with these stakeholders. Make sure to understand the hierarchy of authorities and engage with the right people in the right order. Language and the method of engagement should be appropriate for the culture and context. There are also often regulatory implications of engaging with indigenous communities. For example, engagement could be mandated by law, there may be disclosure requirements, or engaging with these communities might need to go through an approval process.

VII. Additional Resources

Background Materials:

AccountAbility, AA1000 Stakeholder Engagement Standard 2011 – Basic, step-by-step guide to stakeholder engagement.

<http://www.accountability.org/standards/aa1000ses/index.html>

International Finance Corporation, Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets, May 2007 (in Spanish, French, Portuguese, Chinese, and Russian). Chapter on Stakeholder Consultation, pages 33-56

http://www1.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/publications/publications_handbook_stakeholderengagement_wci_1319577185063

SustainAbility, Practices and Principles for Successful Stakeholder Engagement, October 2007. Case studies available.

<http://www.sustainability.com/library/successful-stakeholder-engagement>

United Nations Environment Programme, *The Stakeholder Engagement Manual: The Guide to Practitioners' Perspectives on Stakeholder Engagement (Vol. 1)*, prepared by Stakeholder Research Associates Canada, July 2005. See Chapter 2 (page 15): "Corporations: Why and How Do We Engage?"

<http://www.unep.fr/scp/publications/details.asp?id=WEB/0114/PA>

United Nations Environment Programme, *The Stakeholder Engagement Manual: The Practitioner's Handbook on Stakeholder Engagement (Vol. 2)*, prepared by AccountAbility, the United Nations Environment Programme, and Stakeholder Research Associates, October 2005 (available in English and Spanish). A step-by-step guide. See Chapter 3 (page 79): "Maintain and strengthen the capacities needed to engage effectively"

<http://www.unep.fr/scp/publications/details.asp?id=WEB/0115/PA>