Stakeholders and Stakeholder Engagement

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§1 Introduction

Companies seeking to practice social responsibility recognize obligations to multiple "stakeholders" in their internal and external environments. Daft and Marcic described a stakeholder as "any person or group within or outside the organization that has a stake in the organization's performance"[1], and the GIIRS explained that the term "stakeholders generally refers to any individual or group that, either positively or negatively, impacts or is impacted by the decisions and action of an organization".[2] Organizations generally can identify a number of different stakeholders and each of them has their own unique and specific interest in the organization, its overall performance and the way in which it interacts with and treats its stakeholders. The list of stakeholders for any organization, as well as their relative importance to the organization at a given time, is unique and will depend on a variety of factors such as geography, industry, size, business model and the stage of growth.[3]

Daft and Marcic noted that owners, investors and shareholders, employees (managers and non-managers) and workers throughout the supply chain (and their elected representatives, if any), customers and clients, suppliers, vendors, distributors, contractors and other key business partners (e.g., lenders and insurers) are considered to be a company's primary stakeholders, without which the company would not be able to survive. However, other stakeholders can also be very important to a company: governments (local, provincial and national) and intergovernmental bodies, which provide the licenses for businesses to operate and establish, interpret and enforce the laws and regulations under which businesses must conduct their affairs; the community, which includes local government, the natural and physical environments and the quality of life provided to residents in the areas where the company conducts its business; special interest groups, which include industry and trade associations, political action committees, social activists, cooperatives, professional associations and consumer interest groups; creditors; for- and non-profit partners (i.e., "strategic partners" such as universities and research institutes) that provide support and collaboration on development of new technologies, products and processes; the "media"; competitors; and non-governmental organizations ("NGOs"), international organizations and other affected by the activities of the business.[4]

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[1] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 132.
[2] GIIRS Emerging Market Assessment Resource Guide: Stakeholder Engagement, 1, available at www.giirs.org.
[3] Id.
[4] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 132-133 (citing D. Wheeler, B. Colbert, and R. E. Freeman, "Focusing on Value: Reconciling

A stakeholder relationship is one of mutual dependence and influence. In other words, while stakeholders look for companies to acknowledge, understand and protect their interests, stakeholders can also have a significant impact on the performance and survival of the company, a situation that often raise difficult issues for company management when doing what is best for one stakeholder harms or disadvantages another stakeholder. For example, Daft and Marcic referred to Wal-Mart's well-known tactic of driving hard bargains with their suppliers in order to provide its customers with lower prices and generate profits that benefit Wal-Mart shareholders. Proponents of this strategy point to the benefits for consumers and the overall utility of pushing suppliers to be more efficient; however, many question the ethics and social responsibility of practices that have forced US manufacturers to lay off workers and close factories, sometimes devastating local communities, because they simply cannot pay their employees from the revenue they would receive under Wal-Mart's preferred contractual terms and driven businesses to low-wage countries where local workers work in dangerous conditions in order to fulfill orders from Wal-Mart.[5]

The scenario above illustrates how a company's strategies and performance goals can impact a stakeholder, but stakeholders are not powerless in their relationships with companies. Daft and Marcic provided a vignette about the struggles that Monsanto underwent dealing with certain of its stakeholders as the company implemented a sweeping strategy to transform itself from a chemical business into a biotechnology company. The strategy called for development of a new genetic seed business; however, the initiative was meant with protects from consumer activists in Europe who complained about unlabeled, genetically modified food ingredients that they dismissively named "Frankenstein foods". Research institutes were also unhappy about Monsanto's entry into the new technology and business. All of this discontent placed barriers in the way of Monsanto's progress—regulatory approvals for the company's genetically modified organisms were costly to obtain and time-consuming—and the company's overall reputation suffered, leading to erosion of investor confidence and a tumble in the company's stock price. It was clear that Monsanto needed to do a better job of managing its stakeholder relationship or risk that its stakeholders would actually torpedo the company's new strategy and even drive it completely out of business.[6]

The learning from the stories above is that each of the company's stakeholders has a different interest in the company and these differences mean that each stakeholder has its own ideas about what is "responsible" and that company management will be challenged when their pursuit of strategies that are aligned with the interests of one group of stakeholders conflicts with the interests of other stakeholders. For example, while

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Corporate Social Responsibility, Sustainability, and a Stakeholder Approach in a Networked World", Journal of General Management, 28(3) (Spring 2003). 1; and J. E. Post, L. E. Preston, and S. Sachs, "Managing the Extended Enterprise: The New Stakeholder View", California Management Review, 45(1) (Fall 2002), 6).

[5] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 132.

[6] Id. at 133.

investors and shareholders are interested in profits, a company can expect troubles if they fail to recognize the desire of its employees for fair pay and work satisfaction and turn out products that are competitively priced but fail to meet reasonable expectations of customers with regard to quality and safety. Actions of a company that management truly believes to be socially responsible may nonetheless disappoint and agitate members of a particular stakeholder group. Complicating the situation even more is that simply following the letter of the law does not, in and of itself, guarantee that an act will be socially responsible. In this way, the puzzles and problems of pursuing social responsibility are very similar to those that appear in the field of business ethics. Finally, companies that operate in the global marketplace will quickly find that societal culture plays a big role in people's attitudes about what is right and wrong, how companies should act and who is the appropriate subject to their attention and respect in making strategic and operational decisions.

While all stakeholders have a stake, or personal interest, in the performance and actions of a company, their specific needs, expectations and levels of interest will vary depending on the type of business and other circumstances.[7] For example, government regulators will have a high level of interest in the activities of pharmaceutical companies, given the serious health and welfare issues associated with the development and marketing of new drugs, but will generally have little interest in a small pottery business beyond assessing fees for business permits and requiring certifications that the company's worksite is clean and safe. In the same vein, strategic and competitive factors will often influence the relative importance of a stakeholder relationship in the eyes of the company, as is the case when a company is dependent on an exclusive relationship with a particular supplier or the ability of the company to commercialize its products hinges on obtaining the approval of a government regulator.

§2 --Investors and shareholders

Obviously investors and shareholders expect to receive a fair return on their investment and this drives management to pursue a steady and predictable stream of profits from the operations of the business. In addition, however, investors attuned to social responsibility expect the managers of their portfolio companies to adhere to legal requirements, avoid conflicts of interest, follow sound accounting and governance practices, and practice transparency in the compilation and dissemination of business and financial information.[8] They also demand that managers spend corporate funds wisely and responsibly and deal fairly with other important stakeholders such as employees, customers, suppliers and the communities in which the company is operating.

Failure to address the social responsibility concerns of the investment community will result in difficulties in raising funds for important projects such as development and launch of new products and services. In addition, managers of companies with

[7] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 58.
[8] Id. at 61.

disgruntled investors will quickly find themselves besieged by shareholder activists who have become empowered by laws, regulations and new communication tools to advocate for changes in the boardroom to shift the direction of company strategies towards goals and objectives that are more aligned with socially responsible behavior. Daft and Marcic noted that the interests of investors and shareholders are generally best served by managerial efficiency, specifically the use of company resources to achieve profits.[9]

§3 --Customers

Another important development driving companies to consider and embrace CSR initiatives is the potential for stronger engagement with customers, an increasing number of which are seeking out products and services that address stakeholder needs, such as health focus or environmental responsibility or societal consequences. CEO surveys indicate that company leaders are acknowledging that cost, convenience and flexibility, the traditional criteria that customers applied when selecting products and services, will soon be joined by believing that the vendor is committed to addressing wider stakeholder needs.[10] While the connection between customer engagement and CSR is growing in the US, it is even more important in other areas of the world such as Japan, India and the European countries. Overall, a 2015 survey by Nielson found that 66% of global consumers say they're willing to pay more for sustainable brands—up 55% from 2014.[11] The trend will only get stronger in years to come given that Millennials around the world are willing to pay extra for sustainable offerings, or switch brands to one associated with a cause; expect companies to have a real public commitment to good corporate citizenship (i.e., "authentic", not just "lip service"); and are prepared to take to social media to praise or criticize the CSR efforts of particular companies. Millennials also enjoy storytelling and opportunities to participation, which means that companies need to do a good job of spreading the work about their sustainability activities and create ways in which customers can actively engage in the causes that the company is supporting.

Specific guidance for companies on engaging with customers can be found in the results of a 2015 global survey by The Nielson Company that identified the following top sustainability drivers among consumers willing to pay more for sustainable products[12]:

- Products from a brand that the consumer trusts
- Products known for their health/wellness benefits
- Products from fresh, natural, organic ingredients
- Products from a brand known as being environmentally friendly

[9] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 134.
[10] CEOs and the New CSR Priority (Boyden Executive Monitor, September 2017), https://www.boyden.com/media/ceos-and-the-new-csr-priority-2909935/index.html
[11] See Green Generation: Millennials Say Sustainability is a Shopping Priority, available at http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html
[12] The Sustainability Imperative, available at http://www.nielsen.com/us/en/insights/reports/2015/the-sustainability-imperative.html

- Products from a brand known for its social value
- Products with environmentally friendly packaging
- Products from a brand with a commitment to the community
- Customer saw a TV ad about the social/environmental good of the brand

In early 2017, Unilever released the results of a study that found that a third of consumers were actually choosing to buy from brands they believed were doing social or environmental good, and a growing number of companies are publicly committing to sustainable sourcing guidelines to improve environmental and human rights management within their supply chains. However, all of this comes with important caveats and additional challenges and responsibilities for companies. For example, studies by McKinsey & Company found that customers will pay a most premium for sustainability, but that their enthusiasm generally wanes if the premium gets much above 5% of the "normal" price. In addition, "green" products must meet the same performance standards as a "non-green" alternative.[13] Research conducted by Gopaldas suggests that companies also need to understand the emotions that drive consumers to engage in make responsible choices when selecting the products they buy, which she classified as "contempt", "concern" and "joy/celebration". Specifically, Gopaldas found that consumers purchase green products out of contempt toward companies and governments that they consider responsible for environmental pollution and for the exploitation of labor; out of concern for the victims of consumerism, such as workers, animals and ecosystems; and out of a sense of joy and celebration for making responsible choices and being part of collective action to make a positive impact for sustainability.[14] In other words, consumers want to fulfill certain emotional needs when engaging and doing business with companies offering sustainable products and services.

In Practice

Tips for Marketing Eco-Friendly Products and Businesses

While the evidence remains mixed, more and more surveys are indicating that global consumers are willing to pay more for sustainable brands; however, in order to convert those who say they are interested into actual customers companies must build trust; establish a reputation for being environmentally friendly and supporting social values; demonstrate the health/wellness benefits of their products; source the inputs for the products in a responsible manner; use environmentally friendly packaging and make a real commitment to the communities in which they operate and sell their products. In order to be successful in reaching and converting customers who will pay more for environmentally friendly products, companies need to make some important changes in the marketing and overall customer engagement strategies. Here are some tips on how to get started, based on recommendations from several experts on marketing eco-friendly products and businesses:

- Use packaging that highlights social welfare and warm relations as virtues of green consumption. Green consumers want to feel connected to the brands they purchase from and are emotionally drawn to feelings of contributing to the solution of a particular environmental or social problem.
- Tell consumers why they should buy green products, which can be done through information cards,

[13] M. Miremadi, C. Musso and U. Weihe, "How much will consumers pay to go green?", McKinsey Quarterly (October 2012).
[14] A. Gopaldas, "Marketplace Sentiments", Journal of Consumer Research (December 2014).

window displays and videos that educate consumer about the environmental and social effects of their purchasing decisions. Companies should also educate customers about how products are created including information on the company's natural ingredients, earth-friendly manufacturing processes and policies regarding purchasing of inputs from developing countries and overseeing the environmental and social responsibility of suppliers.

- Manage reputation by complying with environmental and social regulations and not misrepresenting products as being green. Trust is essential for successfully marketing green products and one mistake, such as a public announcement of problems in the supply chain, can undo all the work done by the company and permanently tarnish the company's brand. Surveys show that consumers quickly develop contempt for companies that have been found to engage in activities that harm the environment or demonstrate disrespect for human or animal rights.
- Persuade consumers that each person can make a difference. Ad campaigns showing people improving the environment are more likely to convince consumers to buy green products, and surveys indicate that consumers enjoy feeling that their purchases are helping to address an environmental or social issue and that they are collaborating with others of the same mind.
- Provide regular feedback to consumers to show they are making a difference. This reinforces behavior from green consumers and motivates others to consider the environment when buying. Companies should post information on their websites and ask customers to provide e-mail or other contact information so that the company can send them personalized updates; however, when implementing this strategy the company needs to focus on informing customers as opposed to simply bombarding them with sales pitches.
- Rather than touting products as "eco-friendly", companies should identify a specific "selling point" that should be a central focus of all of their marketing messages and, of course, be based on practices during the commercialization process. For example, companies might use phrases such as "low-energy solution", "non-toxic ingredients", "low waste (or emissions)" or "recycled materials". Educational tools prepared for the products should provide consumers with the information necessary to verify these claims. A strong and verifiable selling point lets customers know exactly what the company stands for.
- Companies should make use of a variety of logos and insignias for their marketing and company branding that represent being "green". Logos and insignias used with the permission of trusted independent bodies (e.g., Energy Star Rating logo) provide credibility and should be included on the company's website, advertising, marketing materials, signage, business cards, packaging and vehicle graphics.
- Make sure that everything about your company, not just the features of the particular product or service, demonstrates a deep commitment to environmental and social responsibility. For example, print marketing materials, business cards and product instructions on recycled paper; promote local vendors and encourage customers to shop for the company's products in their own neighborhoods so that purchasing the products also helps the business community in which the customer lives; deliver products using fuel-efficient vehicles and establish campaigns that provide for a portion of the premium charged for green products to be donated to assist a local environmental cause.

Companies should look beyond considering customers as sources of revenue to interactively engaging with them as partners in improving the company's products and finding new ways to improve the company's green profile and increase the impact of its efforts. Companies should seek out customer's opinions and ideas on new products, set up meetings with customers in their own neighborhoods to try new products and hear what they have to say about the brand and, most importantly, continuously tell customers how much they appreciate their business. Another approach for attracting interest and support among customers is taking on a special social mission or cause, such as what Ben & Jerry's Ice Cream did when it launched its initiative relating to Campaign Finance Reform; however, this type of strategy can be quite risky and alienate customers who enjoy the green aspects of the products but don't necessarily agree with the specific cause or want the businesses they work with to get too partisan. Moreover, taking on a broader social cause is time-consuming and requires collection and analysis of extensive amounts of data and resources to become and remain an effective advocate of the cause.

Sources: Adapted from L. Rakowski, "Attract Customers by Showing They Make a Difference", Network for Business Sustainability (September 26, 2017), available at https://nbs.net/p/attract-green-consumers-by-showing-they-make-a-differen-9b4eb5d7-c11c-49b2-8e6b-544f8c4fff0a; and D. Seltzer, Green Marketing Ideas to Promote Eco-Friendly Businesses (Small Business Marketing Tools), available at http://www.sbmarketingtools.com/green-marketing-ideas-to-promote-eco-friendly-small-businesses/

Daft and Marcic noted that customers are concerned about quality, safety and availability of goods and services and, in general, companies are required and expected to provide value to their customers by offering quality products at fair prices and engaging in honest communications about the risks associated with the use of those products.[15] Socially responsible companies understand that their obligations to customers are actually much broader and include attentiveness to certain "customer rights" first recognized in the 1960s in the earliest days of the consumerism movement[16]:

- *The Right to Be Safe:* Sweeping and tough laws and regulations have placed responsibility for injuries and damages caused by their products squarely on businesses, even in situations where it is not reasonable for them expect that their products might cause harm. As a result, it is now common practice for companies to provide extensive warnings and instructions with their products and to rigorously test their products in various usage scenarios to identify risks and problems before they are released into the marketplace.
- *The Right to Be Informed:* The most obvious example of how this right is being addressed is the explosion of required information mandated by regulators in industries such as financial services, food and pharmaceuticals. Nutrition information is mandated for most items available in grocery stores and more and more restaurants are providing customers with information on the calorie count for items available on their menus.
- *The Right to Choose:* Companies work hard to achieve a strong market position and high market share for their products, each a sign that customers prefer those products over others; however, customers also value the opportunity to choose among a range of products to find those that are best suited for their particular needs and budget. Socially responsible companies understand and follow antitrust laws that seek to protect freedom of choice by preventing companies from engaging in various types of anticompetitive behavior such as predatory pricing, collusion and monopolies.
- *The Right to Be Heard:* Kelly et al. noted that socially responsible companies make it easy for consumers to express legitimate complaints by creating and supporting customer service departments with personnel trained in addressing and resolving questions and issues that customers have with their products. The companies do not perceive customers complaints as a nuisance but rather as an opportunity to build stronger relationships with those customers, and avoid having customers simply move their business to competitors, and design better products.

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[15] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 134.

[16] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 59-60.

All of the rights described above are important; however, socially responsible companies invest substantial time and resources in various aspects of product quality and safety. While implementation of quality management systems is an obvious example of the actions of businesses in this area, there are other, more subtle, ways that companies build trust with their customers regarding the utility of their products. For example, socially responsible companies design and offer products that are built to last rather than pursuing a strategy of planned obsolescence based on predictably short product life cycles that will force customers to repeatedly return to their bricks-and-mortar or virtual stores to spend more money buying another version of the product. Customers also appreciate it when companies quickly step up and admit mistakes with their products and services and proactively work to make amends with their customers and assure them that they are valued and that they can feel secure that steps have been taken to avoid the same problems coming up again in the future. Socially responsible companies treat all their customers fairly and don't take advantage of pre-release marketing hype for a new product to charge high prices to initial buyers and then turn around months later and reduce prices to expand their customer base while leaving the early adapted with a feeling that they have been duped.[17]

Case Study: Wells Fargo Bank—Post-Crisis Customer Engagement

The story of the sham accounts scandal at Wells Fargo Bank is really pretty simple. An article published on October 13, 2016 in *The New York Times* explained it clearly: "Under intense pressure to meet aggressive sales goals, employees created sham accounts using the names—and sometimes, the actual money—of the bank's real customers, and in some cases the customers did not discover the activity until they started accumulating fees." On September 8, 2016, it was announced that the bank had entered into a settlement agreement with the federal Consumer Financial Protection Bureau that included fines and other payments of $185 million and included an acknowledgement from the bank that thousands of its employees, reacting to intense pressure from management to meet aggressive sales goals, has opened as many as two million sham accounts without the knowledge of customers and had often opened those accounts by forging the signatures of those customers.

However, the settlement was just the first act in what has become a scintillating story of widespread criticism of the bank's treatment of its customers and employees and, more importantly, the apparent failure of members of the executive team and the board of directors to effectively carry out their oversight responsibilities and respond appropriately to the situation. As time went by, the bank's then-chief executive, John G. Stumpf, was aggressively criticized by members of Congress, notably Senator Elizabeth Warren, and forced to forfeit approximately $41 million worth of stock awards and his bonus for 2016. Stumpf eventually resigned and the former senior executive vice president of community banking, who ran the business unit where the fake accounts were created, "retired" and forfeited significant amounts of stock compensation and enhancements in retirement pay.

[17] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 60. Kelly et al. described how Apple introduced the first IPhone on June 29, 2007 at a price of $599, which reflected not only the innovativeness of the product but the anticipated high demand for the product, and then dropped the price of the product by $200 just two months later to build on the momentum and dramatically and rapidly increase the size of the user base. As Kelly et al. noted ". . . early adapters were livid" and felt that Apple had ripped them off when they had trusted and supported the company in its high risk new product release. Apple apologized quickly and offered the customers who had paid the high initial price in-store credits that could be used for other products.

The board announced an extensive reshuffling of the bank's top management team; however, for new leadership they stayed in-house and appointed Timothy J. Sloan, a long time insider, as president and COO and then CEO, but not chairman. Sloan was accused of being slow to act on making pronouncements about changes in the bank's culture, a culture he was groomed in and helped to evolve and which has often seemed to be more interested in aggressively overwhelming and confusing customers as opposed to focusing on providing good service. Early indications were that the quality of the customer experience would be given greater weight in compensation decisions, as opposed to qualitative metrics like numbers of accounts; however, while some claimed the change could take effect quickly others expressed skepticism given the embeddedness of the prior culture and the fact that bank leadership remained essentially unchanged even through roles and reporting channels among senior executives and managers were restructured with great publicity..

The scandal initially had a devastating impact on customer perceptions of the bank. The bank reported significant drops in banker and teller "interactions", consumer checking account openings and applications for the bank's credit cards. However, in spite of all this, Wells Fargo stock enjoyed the surge that other banks and financial institutions experienced in the wake of the election results of November 2016 and the share price, which had fallen to $45 in early November, had risen to $55 in mid-January of 2017. Had the bank weathered the storm? Macroeconomic conditions looked promising: rising interest rates, robust job market, strong "credit quality" among potential borrowers and the real possibility of reduction of banking regulations. At the same time, Wells Fargo faced stiff competition from traditional banks and new players in the financial services industry offering innovative products and services without the large expense of maintaining a "brick-and-mortar" infrastructure. Whatever the future held, it was clear that Wells Fargo had failed several stakeholders, particularly the customers who were bilked and the communities in which the bank operated.

The bank has admitted that it has a long road ahead with respect to recover on measurements of loyalty among its customers. There will be customers who pledge never to do business with Wells Fargo again, customers who cannot or will not remove the image of a bank shoving unwanted products on its customers using fraudulent practices out of their minds. Others may be more open; however, analysts have argued that the bank needs to be willing and able to make sweeping changes in the way it does business including offering products and services with pricing and rewards that are better than "middling" and in line with checking account and credit card offerings of competitors. Critics have also noted that Wells Fargo also needs to do a better job of tracking its huge mortgage loan portfolio and proactively working with borrowers to ensure that they understand the terms of their mortgage and remain on track for retiring their debt. In addition, it does not look good for a bank that has been tarnished by admissions of fraudulent actions by employees vis-à-vis customers to have one of the industry's highest percentages of financial advisors with a history of some form of prior misconduct (e.g., fired from a previous job, consumer complaint or severe personal financial problems).

Emails were sent to customers in mid-October of 2016 after the settlement was first announced that included an acknowledgement from the bank that it had not lived up to its commitments to serve its customers and their financial needs. The bank argued that the fraudulent accounts were inconsistent the with the bank's values and the culture that the bank had worked hard to maintain and that it was committed to "making things right", restoring customers' faith and trust in the bank and ensuring that customers received the very best experience when interacting with the bank. The email then listed the following steps that the bank had already taken:

- "Putting your interests first: We have eliminated product sales goals for our Retail Banking team members who serve customers in our bank branches and call centers.
- Proactively communicating with you: We send a confirmation after you open a new consumer or small business checking, savings, or credit card account so that you know what is happening and can tell us if anything we've confirmed is different than what you expected.
- Full transparency: You can always see your eligible accounts any time when enrolled in *Wells Fargo Online®*.
- Fixing what went wrong: We have provided full refunds to customers we have already identified

and we're broadening our scope of work to find customers we may have missed. If we have any doubt about whether one of your accounts was authorized, and any fees were incurred on that account, we will contact you and refund fees."

Analysts believe that Wells Fargo does have the capacity to innovate, but wonder whether the bank will simply opt to lay low and offer the same products and services while just trying to keep its hands clean and avoid unnecessary risks. If that's what bank leadership decides to do, Wells Fargo may be missing an opportunity to bring people, particularly members of the struggling middle class, back into the banking system by offering products and services that are simple to use and come without the burdensome fees that have driven customers away from traditional banks that seem to only be interested in catering to the wealthy and into the hands of check cashing businesses and pay-day lenders that have become ubiquitous around the country.

Sources: G. Morgenson, "Wells Fargo Board, Now in Spotlight, Recalls Its Role", *The New York Times* (September 28, 2016), B1; M. Corkery and S. Cowley, "Bank's Leader Exists Abruptly Amid Scandal", *The New York Times* (October 13, 2016), A1; J. Stewart, "Justifiably, This Buck Stopped with the Chief Executive", *The New York Times* (October 13, 2016), B3; M. Corkery and S. Cowley, "Shake-up at Wells Fargo Fails to Dispel Skepticism From Lawmakers", *The New York Times* (October 14, 2016), B1; K. Sweet, "Wells Fargo earnings fall after scandal", *San Francisco Chronicle* (October 15, 2016), B1; K. Pender, "Wells board is also to be blamed for fiasco", *San Francisco Chronicle* (October 16, 2016), D1; G. Morgenson, "Wells Fargo Must Make Clean Break", *The New York Times* (October 16, 2016), Sunday Business 1; M. Corkery "Wells Fargo Struggling in Wake of Fraud Scandal, Quarterly Data Show", *The New York Times* (January 14, 2017), B2; and R. Lieber, "What Does Wells Fargo Do Now?", *The New York Times* (January 14, 2017), B1.

§4 --Employees

The minimum obligation of companies to their employees is to abide by applicable legal standards in key areas and activities such as recruiting and hiring (i.e., equal opportunity laws), compensation and benefits (i.e., minimum wage and overtime requirements), job design and placement (i.e., laws pertaining to reasonable accommodation for disabilities), protection from discrimination and harassment, workplace safety, family and medical leaves, union relations, performance evaluation and promotion, and prohibitions on unlawful termination.[18] However, socially responsible human resource management ("HRM") is based on the proposition that employers have an obligation to exceed legal standards when forging relationships with their employees and take steps to ensure that employees are treated with dignity and value and that their contributions and hard work brings both financial and non-financial rewards.

Daft and Marcic noted that employees expect work satisfaction, fair pay and good supervision.[19] Socially responsible employers provide their employees with safe and healthy work areas and assist employees who need to balance work with their obligations to take care of their children and elderly parents (e.g., by providing on-site day care, referral services for elder care and adopting flexible policies regarding working remotely

[18] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 58-59.
[19] R. Daft and D. Marcic, Understanding Management (5^{th} Edition) (Mason, OH: South-Western Publishing Co., 2006), 134.

and required arrival and departure times). Human resources professionals at socially responsible companies have been called upon to engage in new and sophisticated activities relating to personnel development; dispute resolution; development and maintenance of information and communication systems; designing and implementing strategies for motivating and incentivizing employees; employee safety, welfare, wellness and health; and employee services and counseling.

Case Study: Wells Fargo Bank—Employee Engagement

Another important stakeholder group swept up in the fraudulent accounts scandal at Wells Fargo Bank described above were the many employees who were fired for following the directions of their superiors. Reports indicate that Wells Fargo employees had been complaining for years to the bank's internal ethics hotline, its HR department and individual managers and supervisors regarding bank employees who had opened sham accounts, forged customer signatures and sent out unsolicited credit cards. Many of those employees complained numerous times over extended periods. In at least two cases in 2011, employees wrote directly to John Stumpf, the bank's CEO, describing activities they had witnessed which they believed to be illegal. It is noteworthy that a Wells Fargo sales quality manual was updated in 2007 — just months after Stumpf became CEO, and with his executive guidance — to remind employees that they needed to obtain a customer's consent before opening an account. Nonetheless, the bank's response was to fire the complaining employees while failing to take action again those who were the subject of the complaints, many of whom were instrumental in shaping the fraudulent policies and creating the organizational culture in which the practices flourished. Many culpable managers and supervisors not only retained their employment with the bank after hearing of the complaints and doing nothing, but also received bonuses and promotions.

The bank has claimed that its practice has always been to investigate all complaints of impropriety that it receives through its ethics hotline or other channels; however, until 2013 each fraudulent accounting complaint was apparently investigated individually, thus making it difficult to identify a pattern that would signal a broader problem. An extremely troubling disclosure that came out of the intense scrutiny of the bank's actions was that bank investigators used information collected by reporting employees to substantiate their complaints against them as a basis for termination on the grounds that they improperly looked up customer account information.

Soon after the scandal broke, the bank announced that its previous ill-advised compensation scheme would be replaced by a program that assessed employee performance based on factors such as customer service, increase in primary customers, household relationship growth, risk management and team (rather than individual) performance. The bank also decided to provide more of employee wages in the form of salary rather than bonuses and increased its lowest hourly wage rate from $12.00 to $13.50, well above the national minimum wage rate. Base wages could be even higher, up to $17.00 per hour, depending on factors such as geography and experience. While these are encouraging signs, many long-time employees of the bank are likely looking to move on rather than remain with an institution that has suffered significant reputational damage. Moreover, while employees at branches are encouraged to build a sense of local community with their customers, they remain hamstringed by all of the rules that come with being part of a large nationwide bank. In addition,, many of the middle-level managers and supervisors involved in the fraudulent accounts program are still with the bank and the process of rebuilding trust between them and their subordinates will take a long time. Finally, all employees will need counseling in how to forge relationships with customers who now view the bank more than a little skepticism.

Sources: For information on the timetable of events regarding the reaction of Wells Fargo to the whistleblower activities of its employees, see S. Cowley, "At Wells Fargo, Complaints about Fraudulent Accounts since 2005", *The New York Times* (October 11, 2016); and J. Kingson and S. Cowley, "Wells Fargo Employees Started Blowing the Whistle in 2005", The New York Times (October 12, 2016), B1.

§5 --Suppliers

Like investors and shareholders, suppliers are concerned about managerial decisions regarding efficiency and the use of company resources[20] however, suppliers are only indirectly interested in company profitability—they do want the company to survive and thrive so that supplier relationships can be sustained—and are more focused on ensuring that their contracts with the company include fair and reasonable terms that will allow them to continue paying fair wages to their employees and provide their own investors and shareholders with a reasonable return on investment. Suppliers are not keen about the aggressive bargaining tactics used by large companies such as Wal-Mart that allow Wal-Mart to offer low-priced products to its customers but drastically reduce the profit margins of suppliers. The propensity of large retailers to outsource their procurement needs to manufacturers in foreign countries with lower wages has also taken a toll on their relationships with domestic suppliers, many of which have been forced to lay off workers and shutter their manufacturing facilities. From their side, companies are concerned about the business practices of suppliers and the way in which they treat their own workers.

§6 --Community

Daft and Marcic described the community stakeholder as including local government, the natural and physical environments, and the quality of life provided for residents in close proximity to where the company operates and in distant areas where the company’s products and services can improve living conditions.[21] For example, a pharmaceutical company may launch a program for distributing its products free of charge in low income areas and providing people in those areas with access to health care counseling, including doctors and nurses, that would not otherwise be available to them.

Kelly et al. noted that while businesses generally benefit their communities by improving the standard of living and providing community members with products and services that fulfill their needs, companies can also contribute to society through philanthropy and CSR. Philanthropy can take many forms and includes donations of cash, products and employee time (i.e., volunteering) to charities and other nonprofit groups.[22] Some companies enjoy engaging in cause-related marketing, which is essentially a partnership between a company and a nonprofit that calls for the business to market its products with a promise that a portion of the sales will be donated to the nonprofit. This strategy certainly benefits the nonprofit; however, the company obviously hopes that it will see a positive uptick in sales and be able to add to its customer base. CSR initiatives vis-à-vis the community includes recruiting and training disabled veterans and providing flexible schedules and benefits to Olympic athletes to support their training activities.

[20] Id. at 134.
[21] Id.
[22] M. Kelly, J. McGowen and C. Williams, BUSN (Independence, KY: South-Western Publishing Company, 2014), 62.

While the concept of community as a stakeholder typically focuses on the communities where the company is directly involved it should not be forgotten that decisions that a company makes with regard to other stakeholders can also impact communities. The clearest illustration of this is the impact that outsourcing to foreign countries by larger retailers has had on the communities in which their former domestic suppliers were operating. As those suppliers, many of which were among the largest employers in their local communities, lost the business previously provided from the retailers drastic measures were needed to keep their doors open. Many of them were forced to lay off workers, frequently people who had worked for the suppliers for many years and who had parents and grandparents who had done the same. The economic and psychological impact on the communities where the suppliers were operating was often devastating and has led to a strong activist backlash against the retailers.

As noted elsewhere in this chapter, suppliers are important stakeholders and companies have taken a great interest in the actions of their suppliers and the impact of the business activities of those suppliers on the local communities in which they operate. A number of US companies have been embarrassed by disclosures regarding the poor treatment of local workers by their foreign suppliers and the adverse impact that the manufacturing processes of those supplier have had on the local ecosystems. In response, US companies have implemented due diligence and inspection procedures for their foreign suppliers to ensure that those suppliers are acting as good citizens in their communities.

§7 --Environment

Responsibility to the environment is sometimes included among a company's community responsibilities; however, it is useful to treat environmental matters separately since the scope of potential issues is so varied and can touch upon a number of different aspects of business operations. For example, certain lines of business require significant consumption of the natural resources such as fresh water, minerals, oil and timber. Manufacturing processes can also have important and dangerous consequences for the environment and the safety of people living in proximity to the manufacturing activities (e.g., air, land and water pollution). In addition, operation of products sold by companies can create environmental hazards, such as the emissions from automobiles and the toxic waste from discarded electronic components.[23]

Statutes and regulations have been adopted to set minimum standards for consumption, manufacturing and product performance, but a number of companies have gone beyond merely complying with the letter of the law and adopted innovative strategies for managing the environmental footprint of their operations and making a positive contribution to sustainable development. These initiatives require that companies securely integrate environmentalism into all of their decision making activities and that complex environmental management systems be created and implemented. Getting started is not a small investment; however, companies have reported long-term savings from enhanced efficiencies in the manufacturing processes and increased sales from new

[23] Id. at 63.

customers drawn to their eco-friendly products and services. Examples of interesting paths to "going green" include reducing paper use through "going paperless" programs, recycling, container redesign and monitoring of emissions by supply chain partners.[24] Cynics do question how long it will take for "green" product development and marketing to become a permanent fixture in company strategies and point to studies that have shown that many of the products are not that much better for the environment and in fact are much more expensive than perfectly suitable alternatives. In addition, it will take time for consumers to change their existing buying habits and embrace green choices.[25]

A number of suggestions have been made regarding measurement of a company's commitment to environmental responsibility. Daft and Marcic described a "shades of green" model developed by Freeman et al. that focuses on potential four levels, or "shades", of environmental engagement by companies which can be organized in the form of a pyramid[26]:

- *Legal Approach:* The bottom level of the pyramid is the minimum level of commitment and includes companies that do what is necessary for them to fulfill their legal obligations but otherwise show little concern for environmental issues. In fact, many of these companies only make improvements in their compliance efforts after being found to be in violation of environmental laws and regulations and being forced to pay fines and take remedial measures under settlement agreements with the government.
- *Market Approach:* The second level of the pyramid is the market approach, which reflects a growing awareness of environmental concerns that manifests itself through efforts to satisfy the demands of customers by introducing environmentally-friendly products even though the company has yet to develop a strong managerial commitment to environmental initiatives.
- *Stakeholder Approach:* The third level of the pyramid includes companies that have not only integrated environmental factors into their product offerings but have also begun to engage with and address the environmental concerns of various stakeholders including customers, the communities in which they operate, strategic business partners and special interest groups.
- *Activist Approach:* The highest level of the pyramid, the top "shade of green", is reserved for companies that have taken an "activist approach" to environmental issues by proactively engaging in identifying and implementing strategies for conservation of natural resources. Managers at these companies routinely recognize and balance environmental and social concerns with traditional economic issues (i.e., profitability and return on investment for shareholders) when making strategic decisions and the

[24] Id. at 65

[25] Id. Kelly et al. reported that while the hybrid automobile developed and sold by Toyota, the "Prius", did well when gas prices were high even though the model was several thousand dollars more expensive than standard cars its popularity waned when overall economic conditions deteriorated and the Prius became more like a luxury item for consumers.

[26] R. Daft and D. Marcic, Understanding Management (5th Edition) (Mason, OH: South-Western Publishing Co., 2006), 135-137 (citing R.E. Freeman, J. Pierce and R. Dodd, Shades of Green: Ethics and the Environment (New York: Oxford University Press, 1995)).

policies and procedures at these companies reflect and support sustainability goals and measure the company's progress toward attainment of those goals.

§8 --Government

The government is responsible for issuing the charters and licenses that permit businesses to operate lawfully and for establishing the laws and regulations that those businesses are expected to follow.[27] Businesses must interact with governmental units at a number of different levels in their own countries. In the US, for example, companies may be subject to laws and regulations promulgated by federal, state and local governments. When companies do business outside of their home country they will become subject to regulation by foreign governmental units, a situation that is always challenging given that lawmakers and administrators work differently in foreign countries. Companies have an obligation to comply with applicable laws and regulations and remit taxes required in order for the government to fulfill its obligations to the public. In turn, governments want businesses to do well in order for the economy to run smoothly and look to businesses to provide jobs and other services to citizens. In some cases, governmental approval is required in order for a company to sell its products and services. Engagement between governments and businesses occurs when decisions are being made about the content of laws and regulations and allocation of government funds to projects or geographic areas. As companies grow they generally begin allocating resources to "lobbying" legislators and other government officials, either directly or through participation in trade organizations, and sometimes will make donations to political campaigns. Relationships with government officials are closely watched by other stakeholders to ensure that companies are not engaging in illegal or unethical activities.

§9 --Special interest groups

The special interest groups ("SIGs") among the stakeholders for a particular organization varies depending on the activities of the organization and may include trade associations, political action committees, professional associations and consumerists.[28] The influence of activist SIGs has increased substantially with the emergence of the Internet and other technological tools for communications. Among other things, SIGs can push companies to improve their relationships with other stakeholders, such as employees and the community, and change the focus of their business activities to give greater weight to sustainability and social responsibility. Not surprisingly, a good deal of the SIG activity relates to environmental awareness and seeks to push companies to do more to protect the natural environment, either directly by changing the ways in which they produce and package their products or indirectly by contributing resources to organizations engaged in environmental protection activities.

§10 Stakeholder engagement

[27] Id. at 134.
[28] Id.

Recognition of the importance of stakeholders in corporate governance calls on directors and managers of corporations to develop new skills in order to integrate the values and expectations of external and internal stakeholders into the overall strategic management process. Digman et al. pointed that strategic management is "inseparable from the strategic management of relationships" and Masuku advised: "A strategy should be in place for each stakeholder group their key issues and willingness to expend resources helping or hurting the organization on those issues must be understood. For each major stakeholder, managers responsible for that stakeholder relationship must identify the strategic issues that affect the stakeholder and must understand how to formulate, implement and monitor strategies for dealing with that group."[29]

Hohnen and Potts described stakeholder engagement as the formal and informal ways of staying connected to the parties who have an actual or potential interest in or effect on a company's business (i.e., the company's "stakeholders") and noted that "engagement" implies understanding their views and taking them into consideration, being accountable to them when accountability is called for, and using the information gleaned from them to drive innovation.[30] Stakeholder engagement is related to the fundamental principle of CSR that calls for companies to acknowledge that their businesses do not and cannot exist in isolation and rely heavily on their relationships with customers, employees, suppliers, communities, investors and others. Stakeholder engagement is more than just listening, although that is obviously very important, but extends to forging working alliances with stakeholders to pursue and achieve mutually agreed results.

Stakeholder engagement is about building relationships with the parties that are most important to sustainability of a company's business. Companies that fail to pay attention to the concerns and opinions of their stakeholders can suddenly find themselves confronted with an array of problems that go to the very heart of their businesses. When companies are unresponsive to their customers, they begin to lose business and revenues tumble. Companies that do not pay attention to the needs of their employees are unable to recruit and retain the talent necessary to remain competitive. Failing to explain strategies and financial performance to investors jeopardizes the availability of capital. Companies that do not stay in touch with the communities in which they are operating will encounter opposition to expansion and other changes that have a local impact. Other important reasons for focusing on engagement include the following:

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[29] C. Masuku, Corporate Social Responsibility Literature Review and Theoretical Framework, available at https://www.academia.edu/2172462/CORPORATE_SOCIAL_RESPONSIBILITY_LITERATURE_REVIEW_AND_THEORETICAL_FRAMEWORK (citing L. Digman, Strategic management: concepts, decisions, cases (Homewood IL: BPI/Irwin, 1990).

[30] The discussion of stakeholder engagement in this section is adapted from P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 76-84. See also Stakeholder Engagement: A Good Practice Manual for Doing Business in Emerging Markets (Washington DC: International Finance Corporation, 2007) and From Words to Action: The Stakeholder Engagement Manual (Cobourg, Ontario, Canada: Stakeholder Research Associates in collaboration with AccountaAbility, and the United Nations Environment Programme, 2005).

- **Building Social Capital:** Stakeholder engagement builds "social capital", which is determined by a company's relationship with society and how the company is perceived and regarded by and among its stakeholders. Creating and maintaining social capital takes time and effort; however, Hohnen and Potts noted that benefits can include improved access to information, enhanced influence, increased adherence to group norms, and being given the benefit of the doubt should an unexpected problem arise. Social capital is difficult to measure directly but the strength and quality of stakeholder relationships is a good proxy. Related to building social capital is building trust that can be called upon when it is necessary to resolve problems with stakeholders and enhancement of the company's brand and reputation in the eyes of customers, investors and other economic stakeholders.
- **Reducing Risk:** Strong stakeholder relationships based on continuous communication allows companies to manage and reduce the risk of operating their businesses since they are more likely to get an "early warning" of potential problems. For example, engaging with customers means involving them in product design and development activities and getting feedback from customers on actual and potential concerns about the company's products and services. Similarly, other stakeholders can pass on news about developments relating to safety, human rights, governance and the environment as part of their regular dialogue with the company.
- **Driving Innovation:** In the same way that stakeholders can serve as "early radar" for potential problems, they can also be an invaluable source of information, opportunities and ideas that companies can use to drive innovation in their businesses. Hohnen and Potts noted that one of the keys for success in an increasingly knowledge-driven world is developing strong and transparent relationships with stakeholders and cultivating a culture of learning from those relationships. Stakeholders can play a valuable role in providing input on a company's innovation processes and helping the company improve the way it approaches new product development and new market entry. Stakeholders should also be involved in developing and implementing the company's CSR commitments.
- **Integrating Management and Improved Productivity:** A sometimes ignored benefit of a CSR initiative and the accompanying stakeholder engagement is improved integration and alignment of strategic and managerial practices among the various departments and business units involved in the implementation of the company's CSR commitments (i.e., finance, human resources, product development, marketing and communications, supply chain management etc.). Improved integration of managerial practices will eventually lead to improvements in efficiency and overall productivity and engaged employees will contribute ideas for saving time and money and will have a higher morale due to their ability to participate in workplace decision making.
- **Improving Strategic Opportunities and Access to Capital:** Engaging with stakeholders not only drives innovation, as described above, but also helps companies identify new strategic opportunities and market segments, as well as opportunities to partners with stakeholders to pool resources to achieve common goals that would otherwise be impossible or impractical for one party to pursue on its own. In addition, stakeholder engagement, coupled with greater transparency through the use

of sustainability reporting processes, has been shown to be attractive to potential investors, particularly the growing group of "impact investors" focused specifically on businesses with sustainability as their core principle.

Benefits of Stakeholder Engagement

GIIRS Ratings and Analytics, which uses the B Impact Assessment to deliver a comprehensive accounting of an investment fund's impact on workers, customers, communities and the environment, identified the following benefits of engaging with stakeholders:

- *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.
- *Partnership*s: 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.

Source: GIIRS Emerging Market Assessment Resource Guide: Stakeholder Engagement, available at www.giirs.org.

Companies should also proactively scan their internal and external stakeholder environments to develop and ingrain their values and use inputs from stakeholders to identify market opportunities. Sampselle recommended that companies "engage all levels of employees in identifying values, and then use engagement of stakeholders to orient and align corporate strategy in accordance with environmental pressures related to their core competencies".[31] For example, IBM tapped into its stakeholder environment in order to find ideas for new forward-thinking technologies and used extensive engagement and dialogue with its employees to develop a new set of core values that became the foundation for the company's overall strategy and market positioning.[32] Unilever

[31] D. Sampselle, Sustainable Organization Design Principles, OTMT 608.13. http://www.brevolutionconsulting.com/assets/Sustainable-Organization-Design-Principles.pdf [accessed December 6, 2016], 6-8.

[32] Sampselle argued that the transformation of IBM from a "Defender" hardware producer to a "Prospector" services provider focused on being among the first to identify and address diverse social and environmental problems was based on abandoning the company's traditional mechanistic task design and bureaucratic organization design in favor of extensive scanning, spirited engagement with a wide range of stakeholders (i.e., customers, suppliers and the public at large), elements of virtual and network

organized its stakeholders from all over the world in a collective fact-finding and action-plan-formulation effort to reconsider its role in society and identify sustainability themes that were material to its core competencies. For Unilever, the scanning efforts allowed it to target developing and emerging markets as areas for future growth, enter into appropriate partnerships with NGOs such as UNICEF and organize small local networks of suppliers and distributors that not only made its products more affordable but also fueled social and economic progress in local communities (e.g., Unilever developed distribution channels that turned underprivileged women into village-level entrepreneurs).

Companies may have a wide range of actual and potential stakeholders; however, there are differences among the stakeholders as to the degree of influence they have on the decisions made by the company. The degree of influence dictates the type and level of engagement that is appropriate: for some stakeholders merely keeping them informed of developments will be sufficient while other stakeholders can and should be consulted during the CSR implementation process and participate actively in decisions about CSR commitments that affect them and their relationship with the company. Companies sometimes use a technique called “stakeholder mapping” to identify relevant stakeholders and their relative influence on the activities of the company. This exercise allows the company to prioritize its engagement efforts and allocate scarce resources to those stakeholders who will likely have the greatest impact on the CSR initiative. Hohnen and Potts suggested that the following criteria could be used to set priorities for the stakeholder engagement process[33]:

- The significance of the effect of the company in the view of the stakeholder (e.g., layoffs at the only plant in town will be very significant to workers, their families and other residents);
- The importance of the stakeholder group to operations (e.g., customers and key suppliers);
- The risk of gathering incomplete information by excluding a group (e.g., when a foreign subsidiary’s only contacts are with government officials, it will be difficult to learn the concerns of local workers or residents);
- The opportunity to access new ideas (e.g., engaging a group that is likely to challenge current practices may provide fresh insight into a difficult problem; however, the company has to be prepared to actually change its approach);
- The requirements of regulators or permit-issuing bodies (e.g., to get an operating license in certain countries, a company may be required to engage indigenous peoples);
- Some operations (e.g., emissions to land or water) may have extra-territorial impacts or implications that give legal or other grounds for special-issue groups to intervene; and

organization architectures, and an emphasis on flexibility and willingness to learn from the environment and invent around it. Id. at 6.

[33] P. Hohnen (Author) and J. Potts (Editor), Corporate Social Responsibility: An Implementation Guide for Business (Winnipeg CAN: International Institute for Sustainable Development, 2007), 79-80.

- The opportunity to share costs in addressing a specific challenge (e.g., by partnering with another company or non-governmental organization working on the issue).

Once stakeholders have been identified and prioritized the company needs to establish a plan for the engagement process. The style of engagement and the stakeholders' expectations about the engagement process will depend on the reasons that the company is engaging with the stakeholder. Among the questions and issues that need to be considered when planning the engagement process are the following[34]:

- What does the company want or need to get from the engagement?
- What do stakeholders want or need from the engagement?
- Who are the members of the stakeholder group and has consideration been given to making sure that representatives of all corresponding subgroups are included in the engagement process?
- Are there any existing engagement processes (e.g., processes under a current management approach such as ISO 9001) that can be used to develop a more systemic engagement approach?
- Are the representatives involved in the engagement appropriate for the specific goals and objectives? For example, when the engagement involves a regulatory process the representatives from the company should have legal authority to act on behalf of the company. When the engagement involves organizational learning employee representatives should be involved to ensure reliable and relevant results.
- Has consideration been given to overcoming obstacles that some stakeholders may have to participating in the engagement process? For example, community members and indigenous peoples may need compensation or childcare in order to participate in meetings or other engagement events and it is important to ensure that language is not a barrier to effective communication (i.e., interpreters should be available).
- Have precautions been taken to ensure that participants feel safe in the engagement process and comfortable to speak freely without fear of recriminations or reprisals? Cultural and religious factors should be taken into account in selecting the site for the engagement events and selection of facilitators.
- What is the most appropriate engagement approach? Companies generally select from among focus groups, individual or small group interviews, surveys, formal referrals, key-person meetings and advisory councils, with the choice depending on the factors mentioned above (i.e., objectives of the engagement, the subject matters of the discussions and cost and time constraints).
- Should a professional facilitator or outside consultant be used to develop and execute the engagement plan? Private firms are available to provide facilitation services and candidates can be found through an online search and consultations with colleagues in business associations.

[34] Id. at 80-81.

Planning for the stakeholder engagement process is addressed in the well-regarded AccountAbility standards, the most recent version of which is *AA1000 Stakeholder Engagement Standard 2015*. Recommended steps include the following:

- Profile and map stakeholders to systematically seek to understand each stakeholder's knowledge of the issues associated with the purpose and scope of the engagement; expectations of the engagement; existing relationship with the organization (close or distant, formal or informal, positive or negative); dependence on the organization; willingness to engage; level of influence; type (civil society, government, consumer, etc.); cultural context; geographic scale of operation; capacity to engage (e.g., language barriers, IT literacy, disability); legitimacy and representation; and relationships with other stakeholders.
- Determine the engagement level(s) and method(s) that are best suited to the purpose and scope of engagement and to the relevant stakeholders. This involves pre-engagement activities such as analyzing stakeholder views, tracking information and creating awareness and selecting the appropriate method of communication based on the level of engagement and nature of relationship.
- Establish the boundaries of disclosure of the engagement and clearly communicate those boundaries to the stakeholders. A range of options should be considered including full disclosure, including attribution of who said what; full disclosures, without attribution of who said what; limited disclosure agreed by the participants; and limited disclosure controlled by the owners of the engagement.
- Draft engagement plan including the following components: the mandate; the purpose and scope; the boundaries of disclosure; the engagement levels and methods; owners of the engagement, their roles and responsibilities; required resources; pre-engagement activities; identification of stakeholders; and profiling and mapping stakeholders.
- Establish indicators, with stakeholder input, for the quality of stakeholder engaged based on the requirements of AA1000SES (2015) as well as indicators that measure the engagement impact.

Table 1
Checklist for Designing and Implementing a Stakeholder Engagement Plan

Step 1: Identify Stakeholders and Key Issues

- Profile stakeholders to understand their interests, knowledge, and capacity to engage.
- Using a table, chart, grid, zoning map or any other method appropriate for the company and context, categorize or map stakeholders based on the characteristics and issues that are most important to the company or project. 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. Prioritization is particularly important for small businesses that are short on the resources necessary to conduct a comprehensive engagement program.
- Identify who are the legitimate and accountable representatives of each stakeholder.

Step 2: Establish Objectives and Process

- Decide on the scope of the process, timeline, and level of engagement.
- Set strategic goals, agree upon expectations, determine what methods are best suited to achieve these objectives and determine 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.
- Determine the resources available for engagement and any training needed in order for all stakeholders to engage effectively (e.g., sharing knowledge of the issues and process, supporting development of specific skills, or increasing resources, time or access to information).
- Identify existing channels of communication that may be used to communicate with stakeholders (e.g., engaging with employees can provide opportunities for communicating with the broader communities in which employees reside).
- Seek out third party organizations with additional resources that can serve as an intermediary stakeholder and enhance capacity.
- Establish a method for documenting progress and outcomes. Documentation should capture the purpose and aims of the engagement; the methods used; who participated and who did not; the time frame; a verbatim record; a summary of stakeholder concerns, expectations and perceptions; a summary of the key discussions and interventions; and outputs (e.g., queries, proposals, recommendations; and agreed decisions and actions).

Step 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.

Step 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. Reporting on stakeholder engagement may include stakeholder groups engaged, approach to stakeholder engagement and methods used, frequency of engagement, primary issues and concerns raised through engagement and organizational response to the engagement outcomes.

Source: GIIRS Emerging Market Assessment Resource Guide: Stakeholder Engagement (adapted from: AccountAbility, *AA1000 Stakeholder Engagement Standard 2011 – Final Exposure Draft*), available at www.giirs.org. The current version of the AccountAbility engagement standards is *AA1000 Stakeholder Engagement Standard 2015*.

Once engagement plans have been made it is time to move forward with establishing and continuing dialogue with each of the relevant stakeholder groups. A variety of methods can be used in order to engage with stakeholders, with the specific choices being determined by a variety of factors such as available resources and the level of influence that a particular stakeholder is given in the company's overall decision making process.

GIIRS suggested that engagement could be broken down into the following "engagement types" ordered by increasingly higher levels of influence in company governance and/or operational decision making[35]:

- **Communication/Disclosure:** Probably the easiest form of engagement is primarily one-way communications from the company to its stakeholders about practices or new developments that may impact them. Common methods for this type of engagement include bulletins, letters, newsletters, reports, presentations, speeches, videos, reports, interviews, training, performance mechanisms, town hall meetings, open houses, tours, ratings and performance metrics. Sharing information can influence stakeholders, build trust, and demonstrate transparency and a willingness to engage; however, this method generally does not provide opportunities for stakeholders to provide input to the company and/or participate in the company's decision making processes.
- **Consultation:** Consultative engagement involves proactive pursuit of stakeholder perspectives and opinions by the company and a legitimate commitment by the company to consider stakeholder perspectives in its decision making processes. Consultation demonstrates that the company values stakeholder advice and feedback; however, the effectiveness of the approach will ultimately depend on whether stakeholders see their opinions having a real impact on how the company operates. Methods for supporting consultation include surveys, focus groups, assessments, Public hearings, workshops, online feedback or discussion forums or hotlines.
- **Participation:** Companies that engage with stakeholders through participation do so by using a variety of two-way or multi-party conversational methods (e.g., advisory boards, task forces, leadership summits, interviews, research and analysis, workshops, focus groups, etc.) in which stakeholders play a more important role in decision-making. Decisions made using these methods are often carried out by the company or the parties individually.
- **Partnering/Negotiating:** Smaller businesses, lacking the resources to launch a full-blown sustainability initiative on their own, can benefit from collaborating with two or more other parties in areas of mutual interest. Partnering between companies and their stakeholders can create synergies, reduce risks by combining resources and areas of expertise, anchor stakeholder relationships around a common purpose and increase learning between the two groups. Partnering methods include joint committees, joint ventures, product partnerships, multi-stakeholder projects and strategic alliance. Negotiation through methods such as collective bargaining between companies and their employees 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.
- **Empowering:** Stakeholder influence is highest when they are given responsibility or legal recourse to influence company governance or operational decision-making through methods such as stakeholder representation on the board of directors, whistleblowing policies, ombudspersons and warranties.

[35] GIIRS Emerging Market Assessment Resource Guide: Stakeholder Engagement, 6, available at www.giirs.org. See also AA1000 Stakeholder Engagement Standard 2015 § 4.1.2.

GIIRS counseled that organizations need to take into account regional differences with respect to issues and characteristics of engagement when establishing and maintaining relationships with stakeholders operating in different parts of the world.[36] For example, social issues (i.e., education, health, job creation, etc.) tend to be more important than environmental issues to stakeholders in emerging markets; the environmental impact of extractive industries is more of a concern for urban stakeholders in developing countries, while rural stakeholders in those countries are primarily focused on employment opportunities; and 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. As for characteristics of engagement, 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; and there tends to be a preference in Latin America for an individual representative of the community to engage rather than a group or panel. Engaging with indigenous groups raises special considerations such as the need to understand the hierarchy of authorities, culture and context and the regulatory implications of engagement.

The CSR committee of the board of directors should be the focal point of the board's efforts to oversee the company's activities with respect to stakeholder engagement. Corporate sustainability requires that companies engage with all of their stakeholders, not just investors, on a wide range of issues in order to better understand the needs and expectations of stakeholders with respect to the company's operational activities and specific initiatives with respect to environmental and social responsibility. Members of the CSR committee should be selected based, at least in part, on their experience in stakeholder engagement and their reputation and network within key stakeholder groups. As part of discharging its responsibilities for overseeing preparation and distribution of the company's annual reports on CSR and sustainability the CSR committee should ensure that the mechanisms used for engagement and communication with each of the stakeholder types are carefully described and that a candid assessment of stakeholder relations is included in the report.[37]

Stakeholder engagement involves identifying each of the relevant stakeholder types, or groups, and then deciding upon the most effective engagement and communication mechanisms, a decision that should be made in collaboration with representatives of the stakeholder group to ensure that their expectations are fulfilled. The table below summarizes how Kellogg Company broke down its stakeholders and engaged with each of them as described in its 2012 corporate sustainability report.[38]

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[36] Id. at 7-8.

[37] For detailed discussion of the duties and responsibilities of the corporate responsibility committee of the board of directors, see "Corporate Social Responsibility Committee: A Guide for Sustainable Entrepreneurs" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

[38] See Kellogg 2012 Corporate Responsibility Report, http://www.kelloggcompany.com/content/dam/kelloggcompanyus/corporate_responsibility/pdf/2012/2012_Kelloggs_CRR.pdf (accessed April 20. 2018).

Stakeholder Type	Engagement and Communication Mechanisms
Employees	Company intranet Opinion surveys "Town hall" meetings Employee resource groups Diversity councils Safety committees Union representation GoGreen teams Anonymous hotline and web-based reporting tool for ethics or compliance concerns
Consumers	Advertising, marketing and promotions Labeling Corporate website and regional websites Nutrition website Press releases Daily interactions with company's consumer affairs employees (phone number, email and postal address listed on website)
Dieticians and Health Care Professionals	Professional conferences Nutrition website Published summaries of key research Kellogg's Nutrition and Health Institute
Customers	Working group of fellow suppliers to a major customer Joint philanthropic initiatives Coalitions and partnerships
Suppliers	Supplier code of conduct Food safety summits Audits Supplier diversity program Partnerships with and assistance to grain growers and millers
Industry	Trade association memberships Industry forums, partnerships and coalitions formed to address specific topics Membership in consortium of industry leaders seeking to promote sustainability throughout the product life cycle
Investors	Annual report Annual shareholders meeting Quarterly earnings calls "Investor days" Daily interactions via our Investor Relations function Investor section of corporate website
Nongovernmental organizations	Membership in multi-stakeholder committees and dialogues Participation in conferences Informal discussions on specific topics of interest Philanthropic donations Submission of environmental risk assessments and data to public clearinghouses

Communities	Employee volunteer activities Partnerships with nonprofits and customers
Governments	Engagement with local, state and federal governments Provision of expertise to regulators Advocacy through the company's governmental relations function Compliance with all relevant laws and regulations Contribution to a broad array of policies important to doing business as a responsible company
All	Corporate Responsibility Report

Engagement with stockholders, employees, customers and suppliers has been commonplace for many years; however, companies now realize that they must also engage with the local communities that are often most impacted by the company's operational activities. Communicating with local communities allows companies to identify and manage expectations and avoid conflicts that may delay projects and reduce their value. Community engagement facilitates "buy in" by those closest to what the company is doing, particularly if the company includes a social investment in the community as part of the project. Companies have begun to adopt formal policies relating to stakeholder engagement and community development, particular in those instances where the company's operations can reasonably be expected to have a significant environmental impact on the surrounding communities (e.g., oil and gas production and other extractive industries). These policies grow out of the realization that while the business activities are regulated, and the company is expected to adhere to the requirements imposed by law, dialogue with and support from local communities is just as essential to the overall success of the enterprise as being legally compliant. Engagement with the community as a key stakeholder also provides opportunities for the company to participate in the improvement of conditions within the community and overall economic development and wellbeing in the area.

A variety of ideas and principles may be expressed in a stakeholder engagement policy. First and foremost should be the concept of transparency and a commitment by the company to disclose the material terms of its operational activities in the community and the environment, social and economic objectives that the company is pursuing through those activities. Another essential guiding principle for this type of policy is, of course, a commitment to engaging and consulting with community representatives, and all stakeholders, as part of the process of deciding whether or not to proceed with material activities that might have a material impact on the community and/or one or more other stakeholders. The goal of consultation should be to assess and, where necessary and practicable, implement measures to avoid or mitigate adverse environmental or social impacts. The company should commit to keeping abreast of the concerns and perspectives of stakeholders and keeping them informed of plans in order to ensure continuous engagement and open communications. Other topics that should be addressed in the policy include managing impacts, social investment priorities, supplier performance and local content, procedures for addressing complaints and grievances, and accountability and review. Finally, the policy should spell out the process by which community members and other stakeholders may submit grievances and have them promptly and fairly addressed by company and should provide for designation of personnel who will be held accountable for implementation of the policy and for regular monitoring and review of the policy.[39]

Companies need to understand that they may not like everything that they hear during the engagement process and that once engagement begins they will be expected to make and follow through on their commitments and, if necessary, explain to stakeholders why the company cannot agree to all of their requests and suggestions. One of the goals of the engagement process should be develop a mutually agreed set of commitments that include deliverables, timetables and metrics for gauging performance. By formalizing the commitments the company can avoid later misunderstandings and integrate the commitments into the overall CSR initiative; however, when formulating commitments for one stakeholder group reference should be made to results of engagement of other stakeholders to make sure that there are no conflicts and that there are sufficient resources available to achieve all of the goals.

Caux Round Table Principles for Business

One of the most interesting stakeholder-focused standards for corporate governance has been developed by the Caux Round Table ("CRT") (www.cauxroundtable.org), which describes itself as an international network of principled business leaders working to promote a moral capitalism. The CRT believes that the world business community should play an important role in improving economic and social conditions and, to that end, has developed the CRT Principles for Business to embody the aspiration of principled business leadership. The CRT has been proactively advocating implementation of the CRT Principles at the firm level and has created a specially designed process for incorporating the CRT Principles into the culture of a corporation and is also working on ethical training for corporate boards of directors and a new ethics curriculum for business schools. The CRT Principles are rooted in two basic ethical ideals: the Japanese concept of "kyosei", which means living and working together for the common good enabling cooperation and mutual prosperity to coexist with healthy and fair competition; and the "human dignity", which is described in the Introduction to the CRT Principles as referring to the sacredness or value of each person as an end, not simply as a mean to the fulfillment of others' purposes or even majority prescription.

The Preamble to the CRT Principles acknowledges that the mobility of employment, capital, products and technology is making business increasingly global in its transactions and its effects and argues that law and market forces are necessary but insufficient guides for conduct. Noting that businesses can be powerful agents of positive social change, the CRT Principals admonish businesses that they are expected to act responsibly and demonstrate respect for the dignity and interest of its stakeholders (i.e., customers, employees, owners/investors, suppliers, competitors and communities) in the policies and actions. The following General Principles in the CRT Principles were intended to serve as a foundation for dialogue and action by business leaders in search of business responsibility and a means implementing moral values into business decision making:

- Principle 1. The responsibilities of businesses extend beyond shareholders toward stakeholders
- Principle 2. The economic and social impact of business should be focused on innovation, justice and world community.

[39] For further discussion of stakeholder engagement policies, including examples, see "Internal Governance Instruments—Codes and Policies: A Guide for Sustainable Entrepreneurs" in "Governance: A Library of Resources for Sustainable Entrepreneurs" prepared and distributed by the Sustainable Entrepreneurship Project (www.seproject.org).

- Principle 3. Business behavior should extend beyond the letter of the law toward a spirit of trust
- Principle 4. Respect for rules
- Principle 5. Support for multilateral trade
- Principle 6. Respect for the environment
- Principle 7. Avoidance of illicit operations

Of particular interest are the various Stakeholder Principles in Section 3 of the CRT Principles:

Customers: We believe in treating all customers with dignity, irrespective of whether they purchase our products and services directly from us or otherwise acquire them in the market. We therefore have a responsibility to:

- Provide our customers with the highest quality products and services consistent with their requirements;
- Treat our customers fairly in all aspects of our business transactions, including a high level of service and remedies for their dissatisfaction;
- Make every effort to ensure that the health and safety of our customers, as well as the quality of their environment, will be sustained or enhanced by our products and services;
- Assure respect for human dignity in products offered, marketing, and advertising; and Respect the integrity of the culture of our customers.

Employees: We believe in the dignity of every employee and in taking employee interests seriously. We therefore have a responsibility to:

- Provide jobs and compensation that improve workers' living conditions;
- Provide working conditions that respect each employee's health and dignity;
- Be honest in communications with employees and open in sharing information, limited only by legal and competitive constraints;
- Listen to and, where possible, act on employee suggestions, ideas, requests and complaints;
- Engage in good faith negotiations when conflict arises;
- Avoid discriminatory practices and guarantee equal treatment and opportunity in areas such as gender, age, race, and religion;
- Promote in the business itself the employment of differently abled people in places of work where they can be genuinely useful;
- Protect employees from avoidable injury and illness in the workplace;
- Encourage and assist employees in developing relevant and transferable skills and knowledge; and
- Be sensitive to the serious unemployment problems frequently associated with business decisions, and work with governments, employee groups, other agencies and each other in addressing these dislocations.

Owners/Investors: We believe in honoring the trust our investors place in us. We therefore have a responsibility to:

- Apply professional and diligent management in order to secure a fair and competitive return on our owners' investment;
- Disclose relevant information to owners/investors subject to legal requirements and competitive constraints;
- Conserve, protect, and increase the owners/investors' assets; and
- Respect owners/investors' requests, suggestions, complaints, and formal resolutions.

Suppliers: Our relationship with suppliers and subcontractors must be based on mutual respect. We therefore have a responsibility to:

- Seek fairness and truthfulness in all our activities, including pricing, licensing, and rights to sell;
- Ensure that our business activities are free from coercion and unnecessary litigation;
- Foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability;
- Share information with suppliers and integrate them into our planning processes;
- Pay suppliers on time and in accordance with agreed terms of trade; and
- Seek, encourage and prefer suppliers and subcontractors whose employment practices respect human dignity.

Competitors: We believe that fair economic competition is one of the basic requirements for increasing the wealth of nations and ultimately for making possible the just distribution of goods and services. We therefore have a responsibility to:

- Foster open markets for trade and investment;
- Promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respect among competitors;
- Refrain from either seeking or participating in questionable payments or favors to secure competitive advantages;
- Respect both tangible and intellectual property rights; and
- Refuse to acquire commercial information by dishonest or unethical means, such as industrial espionage.

Communities: We believe that as global corporate citizens we can contribute to such forces of reform and human rights as are at work in the communities in which we operate. We therefore have a responsibility in those communities to:

- Respect human rights and democratic institutions, and promote them wherever practicable;
- Recognize government's legitimate obligation to the society at large and support public policies and practices that promote human development through harmonious relations between business and other segments of society;
- Collaborate with those forces in the community dedicated to raising standards of health, education, workplace safety and economic well-being;
- Promote and stimulate sustainable development and play a leading role in preserving and enhancing the physical environment and conserving the earth's resources;
- Support peace, security, diversity and social integration;
- Respect the integrity of local cultures; and
- Be a good corporate citizen through charitable donations, educational and cultural contributions, and employee participation in community and civic affairs.

Masuku noted that while many organizations have had some success in building relationships with a single stakeholder group, such as customers, few organizations have built the processes necessary to effectively engage with multiple stakeholders and their issues. One of the problems is the complex political, moral and ethical environment in which corporations must operates and the long list of issues they must confront. Each of the stakeholders has their own special concerns and it is impossible for any corporation regardless of size, to give full and proper attention to each of these concerns. Moreover, certain stakeholders are more important than others to the corporation at any given point in time and thus command more attention from the directors and management. Corporations must develop the capacity to manage stakeholders and create and implement policies and processes for prioritizing stakeholder issues and communicating with each stakeholder group in order to create reasonable expectations. This is particularly important when a strategy or action in relation to one stakeholder group may adversely impact the perceived interests of another group (e.g., shutting down an old facility in one community and building a new eco-efficient facility in another community, which improves the company's environmental impact and creates jobs in the new community but eliminates jobs in the old community).

Stakeholder engagement and management is an important part of a firm's efforts to strategically manage long-term projects that involve potentially adverse social or environmental impacts. In those instances, directors and managers must be prepared to engage with the stakeholders most likely to be affected and build relationships with those groups to ensure that each side is able to achieve what it wants in relation to the project. In the example above regarding the construction of a new facility in a different community, the company should engage with the workers and their families in the old community to develop programs to mitigate the loss of jobs by providing training and outsourcing services. While these types of programs will not completely alleviate the economic pain and personal stress of the people in the old community, they are tangible signs of a firm that carries out strategies in a socially responsible manner.

Some companies take on issues that require a commitment to real social change. Examples of changes from which large segments of society benefit today, many of which were driven by activist organizations, include child labor laws, fair trade products, wage and hour reforms, workplace safety, gender equality, civil rights, health care reforms, anti-poverty and income disparities, access to educational opportunities, support for public parks and libraries and initiatives to protect the environment and preserve natural resources. When social change is the objective, corporations must be prepared to influence governmental policies and advocate solutions that do not prioritize benefits to business over the rights and needs of other stakeholders. Participation in these efforts may be unpopular among certain groups within society and the director and managers, through their communications and stakeholder engagement activities, must be prepared to explain the rationale for participation and make the case as to how the initiative will contribute to the sustainability of the enterprise.

§11 --Standards for measuring stakeholder engagement

Ceres, a non-profit organization advocating for sustainability leadership (www.ceres.org), has developed and disseminated its Ceres Roadmap as a resource to help companies re-engineer themselves to confront and overcome environmental and social challenges and as a guide toward corporate sustainability leadership.[40] In the area of stakeholder engagement, Ceres stated that the overall vision was that companies would regularly engage in robust dialogue with stakeholders across the whole value chain, and would integrate stakeholder feedback into strategic planning and operational decision-making. Specific expectations relating stakeholder engagement were as follows:

[40] Ceres, The Ceres Roadmap for Sustainability (www.ceres.org/ceresroadmap)

- S1 – Materiality Assessment Process: Companies will regularly conduct a formal materiality assessment process to determine the most relevant sustainability issues for the business. Companies will engage both internal and external stakeholders in the materiality assessment process and consider stakeholder concerns in the setting of priorities.
- S2 – Substantive Stakeholder Engagement: Companies will systematically identify a diverse group of stakeholders and regularly engage with them in a manner that is formalized, ongoing, in-depth, timely, and involves all appropriate parts of the business. Companies will disclose how they are incorporating stakeholder input into corporate strategy and business decision-making.
- S3 – Investor Engagement: Companies will disclose, and engage with investors, on material sustainability information regarding strategy, risks, performance and commitments. Companies will communicate information on sustainability risks and opportunities for the business during annual meetings, analyst calls and other investor communications.
- S4 – C-Level Engagement: Senior executives will participate in stakeholder engagement processes to inform strategy, risk management and enterprise-wide decision-making.
- S5 – Strategic Collaboration: Companies will collaborate within and across sectors and civil society to innovate, scale and open source sustainability solutions.

GIIRS Principles for Successful Engagement

GIIRS Ratings and Analytics, which uses the B Impact Assessment to deliver a comprehensive accounting of an investment fund's impact on workers, customers, communities and the environment, identified the following fundamental principles for successfully engaging with stakeholders:

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 (i.e., 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.

Source: GIIRS Emerging Market Assessment Resource Guide: Stakeholder Engagement, available at www.giirs.org.

§12 --Comparison of external engagement among MNCs and SMEs

Baumann-Pauly et al. conducted an extensive assessment and comparison of actual implementation CSR practices among MNCs and SMEs along several dimensions.[41] With respect to one of those dimensions, "external engagement and interaction, MNCs were assessed on the basis of the quality of their stakeholder relationships and participation in collaborative CSR initiatives. In turn, SMEs were assessed on the basis of collective action and network involvement.[42] The researchers found that while the MNCs acknowledged the need to listen to many voices to earn their license to operate in reality they lacked systems to document and coordinate processes for stakeholder engagement and that stakeholder involvement had generally been limited to superficial encounters, such as annual stockholders' meetings, and ad hoc interactions triggered by a crisis situation. What was lacking among the MNCs was a proactive approach to dialoging with stakeholders. The MNCs were also not strongly involved in CSR initiatives, although one of the companies had already developed a high profile in working on developing human rights standards for companies operating in repressive regimes and another was in the early stages of engagement in the UN Global Compact Water Mandate. In sharp contrast to the situation among the MNCs, the SMEs were found to be "strongly engaged in external collaborations in the form of collective action wither with other SMEs or with civil society to jointly approach and solve global CSR challenges".[43] Representatives of the SMEs believed that because of their relatively small size it was important for them to work together on CSR issues and become and remain involved and engaged with appropriate networks at the industry level (e.g., helping to set industry standards) and beyond in other multi-stakeholder initiatives.

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[41] D. Baumann-Pauly, C. Wickert, L. Spence and A. Scherer, Organizing Corporate Social Responsibility in Small and Large Firms: Size Matters (University of Zurich: Chair of Foundations of Business Administration and Theories of the Firm Working Paper Series No. 204, December 2011).
[42] Id. at 12-13.
[43] Id. at 13.

About the Author

Dr. Alan S. Gutterman is the Founding Director of the Sustainable Entrepreneurship Project (www.seproject.org). In addition, Alan's prolific output of practical guidance and tools for legal and financial professionals, managers, entrepreneurs and investors has made him one of the best-selling individual authors in the global legal publishing marketplace. His cornerstone work, *Business Transactions Solution*, is on online-only product available and featured on Thomson Reuters' Westlaw, the world's largest legal content platform, which includes almost 200 book-length modules covering the entire lifecycle of a business. Alan has also authored or edited over 40 books on sustainable entrepreneurship, management, business law and transactions, international law business and technology management for a number of publishers including Thomson Reuters, Kluwer, Aspatore, Oxford, Quorum, ABA Press, Aspen, Sweet & Maxwell, Euromoney, CCH and BNA. Alan has over three decades of experience as a partner and senior counsel with internationally recognized law firms counseling small and large business enterprises in the areas of general corporate and securities matters, venture capital, mergers and acquisitions, international law and transactions, strategic business alliances, technology transfers and intellectual property, and has also held senior management positions with several technology-based businesses including service as the chief legal officer of a leading international distributor of IT products headquartered in Silicon Valley and as the chief operating officer of an emerging broadband media company. He has been an adjunct faculty member at several colleges and universities, including Boalt Hall, Golden Gate University, Hastings College of Law, Santa Clara University and the University of San Francisco, teaching classes on a diverse range of topics including corporate finance, venture capital, corporate law, Japanese business law and law and economic development, He received his A.B., M.B.A., and J.D. from the University of California at Berkeley, a D.B.A. from Golden Gate University, and a Ph. D. from the University of Cambridge. For more information about Alan, his publications or the Sustainable Entrepreneurship Project, please contact him directly at alangutterman@gmail.com, and follow him on LinkedIn (https://www.linkedin.com/in/alangutterman/).

About the Project

The Sustainable Entrepreneurship Project (www.seproject.org) engages in and promotes research, education and training activities relating to entrepreneurial ventures launched with the aspiration to create sustainable enterprises that achieve significant growth in scale and value creation through the development of innovative products or services which form the basis for a successful international business. In furtherance of its mission the Project is involved in the preparation and distribution of Libraries of Resources for Sustainable Entrepreneurs covering Entrepreneurship, Leadership, Management, Organizational Design, Organizational Culture, Strategic Planning, Governance, Corporate Social Responsibility, Compliance and Risk Management, Finance, Human Resources, Product Development and Commercialization, Technology Management, Globalization, and Managing Growth and Change. Each of the Libraries include various Project publications such as handbooks, guides, briefings, articles, checklists, forms, forms, videos and audio works and other resources; management tools such as checklists and questionnaires, forms and training materials; books; chapters or articles in books; articles in journals, newspapers and magazines; theses and dissertations; papers; government and other public domain publications; online articles and databases; blogs; websites; and webinars and podcasts.

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