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BUSINESS
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ECONOMY

The Future of Stakeholder Engagement

Transformative Engagement for
Inclusive Business



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The Business of a Better World

About This Report

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Drawing on BSR's 25 years of experience working with companies and their stakeholders from corporate headquarters to remote operations and sourcing locations, this report presents our view of how companies can transform their stakeholder engagement approaches by moving from consultation of stakeholder groups toward more collaborative, inclusive, and strategic engagement.

This report builds on discussions that took place among the eight BSR member companies that participated in BSR's Future of Stakeholder Engagement Collaborative Initiative from June 2015 to June 2016. We have supplemented BSR's insights with case examples as well as references to relevant academic and business sources.

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Contents

About This Report	1
Acknowledgments	1
Disclaimer	1
Suggested Citation	1
<hr/>	
Executive Summary	3
<hr/>	
Part One: Five Drivers of Change in Stakeholder Engagement	5
Trend 1: Communication, Connectivity, and Hyper-Transparency	5
Trend 2: Individual Empowerment and the Rise of the Middle Class	6
Trend 3: The Demographic Shift and the Automation of Work	7
Trend 4: The Primacy of Climate Change and Water Resources	8
Trend 5: Supply Chain Oversight Ramps Up	9
Conclusion: Disruption is the New Normal	10
<hr/>	
Part Two: Rethinking Stakeholder Engagement	12
A Stakeholder-Centric Approach to Business	15
A Note on Technology	15
<hr/>	
Part Three: New Approaches to Meet Emerging Challenges	16
The Purpose of Stakeholder Engagement	16
The Type of Stakeholder	23
The Depth of Engagement	27
<hr/>	
Conclusion	31

Executive Summary

Stakeholder engagement is in need of an overhaul. The practice emerged to help companies build greater trust with societal groups that might affect the delivery and success of their business strategy in a material way. There is now broad consensus that all companies should engage their stakeholders. However, in most organizations, implementation remains a limited reputational risk exercise that is perceived as providing few benefits. It is time for a different approach: How can companies transform their stakeholder engagement practices to meet the challenges of the future and support the development of more inclusive societies?

In an era of hyper-transparency and political and social disruption, companies are reevaluating their purpose in society. There are growing calls from government and civil society for corporations to become partners in supporting a more inclusive economy and sustainable environment—and these expectations will only increase. More than ever before, companies face competitive pressure to integrate new ideas and voices into their work and demonstrate that their operations add value to the communities in which they operate. It is no longer sufficient to hold an annual convening to seek the perspective of stakeholder representatives. This simply won't ensure that companies keep up with the pace of change.

This report argues that stakeholder engagement must evolve from a process too often undertaken merely for the sake of doing it, into a strategic priority that integrates diverse stakeholder feedback and input deeply into all aspects of a company's operations. This transformation requires more than a robust process or the use of a new engagement technology. It involves a much broader perspective on the purpose of stakeholder engagement and the incorporation of more diverse stakeholder voices, and it involves an understanding of the strong links between stakeholder input and corporate strategy.

In the future, BSR sees a significant opportunity for companies to incorporate stakeholder thinking to become more collaborative, inclusive, and strategic. Companies that recognize the full spectrum of contributions stakeholder groups can make, including expertise, credibility, and social networks, as well as the opportunities to innovate and collaborate with stakeholders to manage shared societal challenges. They see a more networked world as a way to better understand and manage systemic change, and seek to engage beyond their direct network to include individuals and groups that influence the company's operating environment. They recognize that a thriving company requires thriving communities, which leads them to engage more deeply to address the issues that impede social development. Finally, they understand that engagement cannot be a limited, time-bound exercise run by a single team, but rather requires the ongoing collaboration and involvement of employees across the organization.

This report summarizes many innovative examples of companies partnering with stakeholders to enhance commercial success, reduce risk, and create shared value. Companies that take this leap may discover

that stakeholder engagement provides significant value beyond risk avoidance: It can help companies build their future and create a more inclusive, sustainable economy in the process.

In **Part One** of this report, we examine the forces that are challenging companies to evolve, and the current state of play. In **Part Two**, we examine stakeholder engagement theory. In **Part Three**, we move on to a detailed analysis of how innovative companies are transforming their stakeholder engagement approach across three dimensions: the purpose of stakeholder engagement, the type of stakeholder, and the depth of engagement.



Three Dimensions of Innovation in Stakeholder Engagement

1 The Purpose of Stakeholder Engagement

Companies can move beyond consulting their stakeholders on corporate reputation, and pursue opportunities to drive impact by engaging on challenges of mutual concern.



Consultation

Consult stakeholders to surface new and emerging risks of relevance to the business.



Innovation and collaboration

Include stakeholders in co-creation and partnership on challenges of mutual interest.

2 The Type of Stakeholder

Companies can broaden their frame of reference to include not only their direct stakeholders, but also more diverse and divergent voices, such as supply chain workers and people who are disproportionately affected by the adverse consequences of business operations.



Engage with familiar stakeholders

Engage stakeholders of greatest strategic importance to the company.



Systems thinking approach

Engage stakeholders that impact the company's system/sector, and include marginalized people or those with less power.

3 The Level of Engagement

Companies can move beyond high-level engagements by integrating stakeholder engagement more deeply into corporate strategy, across all functions and geographies.



High-level engagement

Focus engagement on issues relevant to overall corporate reputation or project-level risk.



Deep engagement

Focus on multilevel engagement—including with internal stakeholders—on material issues that affect corporate strategy.

Part One: Five Drivers of Change in Stakeholder Engagement

The global pressures that are transforming the landscape of corporate responsibility and business ethics are also having a profound effect on how companies engage their stakeholders.

Through the launch of the Sustainable Development Goals (SDGs), as well as the first universal climate agreement adopted at COP21 in Paris in 2015, governments are providing a coherent framework for business to play its full part in addressing societal challenges such as climate change, income inequality, migration, and poverty. Companies are critical partners in meeting global policy goals. At the same time, companies are facing a transformation in the external environment as a result of several factors, including the rise of hyper-transparency and the collapse of public trust in both government and business in frontier and developed markets.

BSR has identified five global trends indicating that companies should think beyond traditional approaches to stakeholder engagement. These are unprecedented social, economic, environmental, and political developments, over which individual companies have limited influence. These developments offer both risks and opportunities for companies willing to reframe their relationships with stakeholders.



TREND 1: COMMUNICATION, CONNECTIVITY, AND HYPER-TRANSPARENCY

One of the most rapid, widespread, and consequential technological revolutions in human history is the ongoing adoption of sophisticated information and communications technology (ICT) tools, including mobile devices and internet access. In 2005, Twitter and the iPhone did not exist, and Facebook was used by only a small number of college students. Today, more than 1.5 billion people use Facebook, approximately two thirds of the world's population has a mobile phone, and one third has access to the internet. By 2020, 80 billion devices will be connected to the internet. This has shifted the terms of and avenues for social engagement and has led to the development of powerful social networks, where unfiltered updates on global events can be shared among millions of users in real time, undercutting the influence of traditional news media.

In this environment, disputes about company operations can be adopted and amplified by international civil society organizations, or even individual citizens, raising the visibility and impact of those issues. Sometimes, it can drive enough momentum to transform corporate behavior. For example, in the United States, after social media and media exposed the inhumane conditions of caged chickens, consumers, shareholders, and lawmakers convinced the country's largest food and egg producers to commit to sourcing 100 percent cage-free eggs.¹

In effect, poor operational performance at any level of a firm can resonate and be tied to wider narratives of environmental justice and human rights, increasingly dissolving the distinction between global and

¹ CageFreeFuture: <http://cagefreefuture.com/docs/Cage%20Free%20Corporate%20Policies.pdf>

local. For example, global environmental groups are increasingly aligning with indigenous rights movements in Latin America and giving global exposure to previously low-profile disputes. In agriculture, extractives, and infrastructure, companies historically have differentiated between project-level community engagement and corporate reputation management, but this distinction is increasingly difficult to draw.

At the same time, there has been an increase in demand for corporate disclosure as a key element of sustainable governance, with action catalyzed by regulations such as Dodd-Frank and the Modern Slavery Act and multistakeholder frameworks such as the Extractives Industries Transparency Initiative. Furthermore, legislators and civil society are asking companies to seek out stakeholder opinion and consent as a formal step in corporate reporting and assessments. Companies must identify their stakeholders and explain how they have responded to their expectations and interests in order to comply with the GRI G4 Sustainability Guidelines, and stakeholder input is required to comply with the UN Guiding Principles framework on human rights impact assessments. Companies need to respond to demands for more disclosure and transparency, at a time when reputational risk is increasingly fluid and difficult to manage.

This new environment raises complex questions about privacy, surveillance, transparency, and freedom of expression. These questions are most immediate for technology companies—particularly those that must foster relationships with regimes that have a poor human rights record—but the questions are a material concern for all industries. Already, the explosion of connectivity has affected private and public sectors, most notably via a new whistleblowing model focused on massive data leaks. Companies can no longer assume that their data will remain confidential, as even the best cyber security practices could be undermined by information leaks. In 2010, WikiLeaks published a diplomatic cable describing the web of assets that Tunisia's ruling family often secured by extortion and expropriation. Citizen outrage was a factor in the overthrow of this regime and informed the trajectory of the Arab Spring. Since then, Edward Snowden has exposed the technology practices used by U.S. intelligence agencies, and a consortium of journalists has revealed the offshore business interests of thousands of people and companies via the Panama Papers. This marks a fundamental shift in the transparency landscape.

These trends also have implications for how companies engage with stakeholders. Business leaders can no longer control the timing, content, or interpretation of the information that is disclosed about their companies. Transparency, timeliness, and accountability are increasingly emerging as fundamental characteristics of effective stakeholder engagement. Properly developed, these approaches can help companies enhance their social license to operate and help communities become more resilient. The communication and data revolution also presents an opportunity for companies to partner directly with a broader range of stakeholders in planning and decision-making. And new social innovation and sentiment analysis tools can be used to increase engagement.



TREND 2: INDIVIDUAL EMPOWERMENT AND THE RISE OF THE MIDDLE CLASS

Newspaper headlines focus on rising income inequality and its consequences for social instability. However, this media attention itself is driven by another underlying trend: the growing number of people who can be categorized as middle class, and their rising expectations of business and government. By one estimate, the middle class will increase from 1.8 billion in 2009 to 5 billion in 2030—with growth concentrated in the Global South.² For the first time in recorded

² OECD: http://www.oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html.

history, a majority of the world's population will *not* be impoverished. There has also been a dramatic increase in literacy rates, with the global adult literacy rate currently at 85 percent.³

Improved living standards and education levels, combined with new ICT tools, will build on unprecedented levels of individual empowerment. Already, we can see that an urban, entitled, and angry middle class is affecting social risk dynamics and leading protests across a range of countries, including Brazil, Egypt, India, Malaysia, Thailand, Turkey, and the United Kingdom. Though each country has unique internal dynamics, protestors tend to be united by a sense of disillusionment with self-interested and inefficient regimes. They are technologically savvy and economically ambitious. Their countries have all benefited from economic growth and investment, but their regimes have failed to provide sustainable, broad-based growth and social services that meet the expectations of their people. In the wake of the 2008 global financial crisis, slower growth and pressure on public finances has increasingly exposed this state-level dysfunction.

Opposition is now coalescing around common themes of transparency, corruption, and human rights. Corruption has often been portrayed as a problem limited to developing countries, but it is now clear that this is a misconception. Offshore havens and financial centers such as New York and London clearly play a critical role in the movement of illicit funds across the globe. While human rights protections are more institutionalized in the West, middle class advancement has stalled, housing costs have risen dramatically, and political disillusionment is high.

Over the long term, we can expect citizen demands for the fulfillment of individual human rights to grow. This will lead to an increase in expectations for both government and business; more powerful advocacy for social, economic, and environmental justice; and the creation of a more vibrant civil society. It is also likely that as expectations around business responsibilities shift, the sector will need to place a greater focus on the sustainability of the local environment, societal challenges, and the equitable sharing among stakeholders of the value created by development.



TREND 3: THE DEMOGRAPHIC SHIFT AND THE AUTOMATION OF WORK

Demographic shifts and the growth of automation will have profound consequences, and their interaction is difficult to predict. However, one outcome seems certain: Business will face growing demand for the creation and articulation of shared value.

As lifespans increase and fertility declines, the world is getting older. The global population nearly tripled between 1950 and 2010, but population growth is now expected to slow significantly and tilt strongly toward the oldest age groups. The proportion of people 80 or older is projected to rise from 14 percent in 2015 to more than 20 percent in 2050.⁴

A parallel trend is countering this decline in the workforce population: an increase in job automation across all industries that is expected to sharply reduce the need for workers. Companies are embracing technology to improve efficiency and performance, reduce waste, conserve natural resources, reach new markets, and support innovation. These forces can drive economic opportunity and improve well-being,

³ UNESCO: <http://www.uis.unesco.org/literacy/Documents/fs32-2015-literacy.pdf>.

⁴ UN: http://www.un.org/en/development/desa/population/publications/pdf/ageing/WPA2015_Report.pdf.

but they also present risks—especially the elimination of jobs. Experts cite several indicators that a labor market transformation is already underway, with technology as a key contributor: Labor now has a declining share of GDP in many advanced economies, unemployment is structural, and economic inequality is rising. Many jobs will be eliminated, and the effects of this transformation will vary across countries and demographic groups.

The interaction between these two trends makes it difficult to predict the consequences for society. However, it is likely that in an era of reduced employment opportunities—and thus reduced contributions by business to society through job creation—business will face intense pressure to move beyond an exclusive focus on shareholder value and provide wider societal benefits. This will be enhanced by emerging policy and societal expectations concerning “good jobs” and “decent work.” These developments will place a premium on the ability of businesses to demonstrate the value of their support to local communities via investments, local contracting, and tax payments.

Businesses and government will need to continuously reexamine their respective roles in providing social services and community resilience. For instance, future communities may require that businesses provide more extensive services and facilities to support aging populations. However, the experience of extractives companies has shown that attempts to support inclusive economies can backfire. Companies providing social services and public infrastructure have faced concerns that they are creating dependencies and undermining development initiatives. Therefore, navigating these questions will be complex and likely will require new forms of public-private collaboration and investment.

To prepare for emerging demands, businesses should begin to assess their evolving roles, market demands, and stakeholder expectations as early as possible.



TREND 4: THE PRIMACY OF CLIMATE CHANGE AND WATER RESOURCES

Countries and communities around the world are experiencing the effects of climate change, and this is set to increase. Within the foreseeable future, climate change will increase the potential for natural disasters, flooding, and drought, and it will alter patterns of migration and conflict. Many businesses are already planning for the likely effect of climate change on their surrounding communities, supply chains, and access to resources.

As this is happening, we are seeing greater alignment between narratives on climate change and human rights, and advocacy efforts are evolving in kind. For example, typhoon victims in the Philippines have worked with the Commission on Human Rights of the Philippines to seek an investigation into the climate impacts of 47 fossil fuel and cement companies worldwide. They ultimately seek accountability for climate impacts that endanger peoples' lives and livelihoods.⁵ This may set a precedent for regulatory scrutiny of companies that have contributed to climate emissions and resulting human rights impacts worldwide. From a legal liability standpoint, such cases are difficult to prosecute, but they have enormous potential to affect the companies' social and political license to operate. Understanding how political, regulatory, and social risk will shift as a result of the Paris Agreement and the increased global focus on climate change should be an essential element of strategy and risk management for all companies.

⁵ Greenpeace: <http://www.greenpeace.org/seasia/ph/press/releases/Philippines-prepares-to-summon-47-companies-to-account-for-climate-change>.

The effect of climate change on specific regions will vary and is difficult to predict, but overall risk is increasing, sometimes dramatically. For example, access to water is a critical issue affecting business and communities. Although there is no water shortage from a global perspective, water scarcity affects many urban and rural areas. The UN predicts that by 2025, 1.8 billion people will be living in regions or countries where there is absolute water scarcity.⁶ Many of these regions are already conflict zones, and water scarcity will intensify these conflicts and generate others.

Water access is already affecting investment decisions. For example, Coca-Cola announced that the company would not proceed with an investment in India due to concerns from local communities that the proposed plant would affect residential and agricultural water supplies. The company also has invested in planting trees and restoring watersheds in a number of areas where it operates. Nike is now providing waterless dyeing of fabric and apparel, and Anheuser-Busch InBev is working on efficiency and restoration via a range of investments.⁷

Companies can engage with communities in a substantive way, creating a form of partnership by providing communities with a voice in business decision-making. Similar types of engagement should become the norm as companies work with communities on issues related to climate change.

As these issues become more pronounced, it will serve business well to establish mechanisms for engaging communities and other stakeholders. Investment in natural resources and ecosystems is one clear avenue for companies to demonstrate value and reduce risk.



TREND 5: SUPPLY CHAIN OVERSIGHT RAMPS UP

The globalization of business over the past three decades has been characterized by the establishment of complex global supply chains. Although this has improved efficiencies and reduced the cost of consumer products, it has also resulted in severe problems with working conditions and environmental degradation in many supplier operations. The initial response from Western multinational companies to these problems varied, and meaningful action has been slow to emerge. However, as stakeholder and consumer concerns have grown—and the UN Guiding Principles on Business and Human Rights have provided a meaningful framework—supply chain oversight has emerged as a critical corporate priority. Most large multinational companies have created programs for assessing and influencing the social performance and regulatory compliance of their suppliers in an attempt to build supplier capacity to manage social, environmental, and governance risks.

The effectiveness of these programs—many of which rely on audit models and have been in place for years—is increasingly being questioned, as serious labor rights violations continue to be revealed. So far, public concern and business action has focused on specific issues such as conflict minerals, apparel manufacturing in Asia, and forced labor in the Middle East. This reflects a response to specific instances of death, injury, and rights violations of workers in these supply chains. As similar incidents occur in the future, pressure will continue to mount for collective industry action and targeted regulations. However, it's difficult to predict which industries and geographies will be affected, and many of the challenges are systemic and difficult for individual companies to address.

⁶ UN: http://www.unwater.org/fileadmin/user_upload/unwater_new/docs/Publications/water_scarcity.pdf.

⁷ GreenBiz: <https://www.greenbiz.com/article/coca-cola-nike-innovate-water-use-fluid-thinking>.

The current approach of self-regulation in supply chains is likely to be insufficient in the face of increasing transparency. While government enforcement has been lackluster, there are signs governments may seek a greater role in the regulation of corporate supply chains. Examples of this include the UK's Modern Slavery Act and the California Transparency in Supply Chains Act, which require companies to disclose their efforts to ensure that human trafficking is not taking place in their supply chains.

Given the complexity that supply chain oversight presents for businesses, we might expect to see the emergence of an “adequate procedures” framework analogous to the emerging global consensus on anticorruption compliance. A structured approach to identifying, managing, and mitigating supply chain risk will not entirely protect companies from reputational risk. Some leading companies are already taking a more proactive approach to transparency by disclosing identified problems and driving systemic, collaborative approaches to help tackle them.

CONCLUSION: DISRUPTION IS THE NEW NORMAL

Businesses today are facing unprecedented challenges. Fragile, just-in-time supply chains may come under increasing disruption from climate change, pandemics, terrorism, dynamic migration patterns, and a resurgence of political risk. The neoliberal consensus on the benefits of globalization and the free movement of capital is stumbling—as are emerging market economies. But the shift to a domestic focus on economic and social challenges won't address emerging global challenges. Older multilateral institutions such as the UN and the World Bank are also under competitive pressure from new initiatives such as the Asian Infrastructure Investment Bank (AIIB), as well as alternative approaches to development proposed by private foundations and other rising non-state actors. Public trust in governments and business is diminishing. Activists are adopting more sophisticated strategies to attack their targets, which now include broader supply chains and investors. Competition is also becoming more dynamic, and businesses need to balance anticipating disruption with focusing on core services, customer loyalty, and stakeholder trust.

A more integrated approach to stakeholder engagement is needed. This approach should incorporate consideration of political risk, societal transformation, and dramatic shifts in perception, and focus on building social license at all levels. A deep understanding of stakeholders and a proactive response to their emerging needs is now required.

Stakeholder engagement is one of the primary tools companies have to ensure that their activities are inclusive and benefit society. While engaging external actors on risk and reputation will remain important going forward, companies can use meaningful stakeholder engagement to achieve much, much more.

Five Trends Transforming Stakeholder Engagement



Trend	Implications for Stakeholder Engagement
1. Communication, Connectivity, and Hyper-Transparency	<ul style="list-style-type: none"> » Transparency, timeliness, and accountability are key operating principles for companies and their employees. » Global and local stakeholder relationships need to be managed in tandem and in real time. » Companies of the future will behave as if everything they say and do might become public, and they will expect the same of their employees.
2. Individual Empowerment and the Rise of the Middle Class	<ul style="list-style-type: none"> » Demands for the fulfillment of individual human rights will continue to grow, forcing companies to consider impact as well as risk. » Civil society is increasingly coalescing around concepts of transparency, human rights, and environmental justice. » The expectation will grow that business has a role in driving inclusive economies and reducing inequality.
3. The Demographic Shift and the Automation of Work	<ul style="list-style-type: none"> » Companies will face pressure as jobs and wages come under threat from automation, while the need for social services grows. » Companies will need to reconsider how they drive the equitable sharing of value as job creation opportunities decline. » Community resilience and support by business will be scrutinized and its value will be measured.
4. The Primacy of Climate Change and Water Resources	<ul style="list-style-type: none"> » Human rights and climate justice will increasingly coalesce, and corporate environmental performance and practices will need to meet this challenge quickly. » The management of water resources will be a pressing trend, and companies will need to partner with local communities. » Investment in natural resources and ecosystems will become a priority, requiring corporate commitments and deep local engagement.
5. Supply Chain Oversight Ramps Up	<ul style="list-style-type: none"> » Self-regulation of supply chains will come under pressure as regulatory reach expands and examples of poor governance are increasingly highlighted. » Companies will need to balance oversight and capacity-building, which presents complex operational and compliance challenges. » Proactive and transparent approaches will dominate, including the development of collaborative solutions to tackle systemic challenges.

Part Two: Rethinking Stakeholder Engagement

BSR member companies are seeking to understand how to anticipate and respond to the disruption they face by gaining deeper and more dynamic insights into their external environment and the people and groups affected by their operations. There is a vast amount of academic and practitioner literature on stakeholder engagement, but it is notable that corporate responses have been varied in their depth and effectiveness. Some companies have taken a proactive approach to stakeholder engagement, while others still treat it as an afterthought—if they consider it at all.

Given the dynamism of the external environment, it is time to reconsider stakeholder engagement tools and approaches. It is time to end the ongoing debate about the validity of stakeholder engagement as a valuable exercise. Companies that wish to lead in sustainability and compete over the long term must make stakeholder engagement a priority.

The existing literature and thinking on stakeholder engagement provides some indication of why companies have struggled to enforce the central concepts in the field. Edward Freeman's 2010 summary of the state of the art on stakeholder theory ends with a call for more research on theory and practice.⁸ A much earlier work by Thomas Donaldson and Lee Preston covers the fundamental confusion over the terminology and purpose of stakeholder engagement, which still exists today.⁹

The authors summarize the four main streams of thinking on stakeholder engagement as follows, and rightly argue that they are often combined without acknowledgment or clarity.

1. Stakeholder engagement theory is descriptive.

Stakeholder theory views the corporation as a constellation of cooperative and competitive interests. If stakeholders include customers, suppliers, regulators, business partners, and the media, this may seem obvious. But this definition is challenged by more conventional thinking about a corporation as an entity designed to maximize shareholder value and focus on fairly short-time horizons driven by financial reporting requirements.

2. Stakeholder engagement theory is instrumental.

⁸ Freeman, Edward et al. 2010. *Stakeholder Theory: The State of the Art*. Cambridge: Cambridge University Press.

⁹ Donaldson, Thomas, and Preston, Lee. 1995. "The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications." *The Academy of Management Review*.

The authors argue that better stakeholder engagement will increase company valuations, either in terms of profitability, long-term stability, or via an improved reputation and an enhanced social license to operate. This approach considers the business case for stakeholder engagement. Much of the discussion around stakeholder engagement seems intent on demonstrating a direct relationship between enhanced stakeholder engagement and improved financial performance. While there is not yet a universal business case for stakeholder engagement, there is much evidence on the financial value of stakeholder trust, as summarized in the box below. BSR considers it self-evident that if a company does not understand and capture the views and needs of its stakeholders, that business will ultimately fail. The complexity arises in how to understand the value of engagement with different stakeholders, how to structure the approach and thinking, and how to learn from the results.

3. Stakeholder engagement is normative.

A further stream of thinking is that stakeholder engagement reflects an underlying normative principle about the purpose and future of the firm, which should go beyond the immediate profit motive and aim to support the creation of a more inclusive economy. This approach aligns with the UN Guiding Principles, which also argue that businesses must consider human rights impacts. These arguments dominate the sustainability thinking on stakeholder engagement and call for a more systemic and cooperative approach by business. However, such arguments may confuse or weaken the calls for a business case.

4. Stakeholder engagement is managerial.

In this frame, stakeholder engagement can be considered a driver of practical tools that gives focused attention to both internal and external interests. It is systemic: considering the environment in which a company operates and the relationships it needs to succeed. Considering broader perspectives can slow decision-making and it can seem like an unnecessary complexity. But it is essential to understanding change in the external environment and translating this change into strategic decisions. Measurement of stakeholder engagement impacts and benefits at the company level is essential, but that measurement will need to incorporate broader concepts of shared value and indirect impacts—an effort that is still in its infancy in most companies.

HIGHLIGHT

MAKING THE BUSINESS CASE: THE VALUE OF STAKEHOLDER TRUST

Engagement done well is like a savings fund: The value adds up over time and acts as a cushion in times of reputational or fiscal distress. Companies that are more aware of stakeholder interests are more likely to avoid crises because they are better able to anticipate risks and opportunities. A number of compelling studies on the impacts of good community and stakeholder relations across industries and countries conclude that companies that intentionally build stakeholder trust are more financially resilient over time across multiple indicators of value.

By now, there is enough evidence to resolve any outstanding doubts about whether stakeholder engagement is an inherently valuable exercise.

For example:

- » **Financial resilience:** The value of many years of good stakeholder relations often proves itself during times of crisis. A study of U.S. firms found that companies that had good stakeholder relations prior to entering a cycle of bad financial performance tended to recover more readily and were able to sustain superior financial performance over the long term than firms with poor stakeholder relations.¹⁰
- » **Valuation:** Stakeholder perception has significant impacts on corporate valuation. A recent McKinsey analysis determined that 30 percent of corporate earnings are affected by the company's reputation with external stakeholders.¹¹
- » **Return on equity:** Better stakeholder relationships help firms develop assets such as customer or supplier loyalty, reduced employee turnover, or an improved reputation, which are sources of competitive advantage and corporate value.¹² A global study found that firms that make corporate citizenship decisions at the board level are more likely to consider the interests of multiple stakeholders, resulting in better engagement with customers, employees, and external stakeholders. This also resulted in a higher return on equity overall for those firms than peers with a less-integrated approach.¹³ Another detailed study of stakeholder engagement across 26 publicly owned gold mines clearly demonstrated that a sustained focus on increasing stakeholder support enhanced the financial valuation of the firm.¹⁴
- » **Reduction in costs:** Poor stakeholder engagement can lead to a variety of direct and indirect costs to the company. For example, a study of extractives companies identified 33 potential costs associated with preventing, responding to, or managing the outcomes of conflicts with local communities. The most frequent costs were linked to lost productivity from project delays or shutdowns, running in the tens of millions of dollars per week.¹⁵
- » **Sales:** Consumers vote with their dollars. A global survey found that 80 percent of customers reported choosing to buy products/services of trusted companies, while 63 percent said they refuse to buy products/services from distrusted companies.¹⁶

¹⁰ Choi, Jaepil, and Wang, Heli. 2009. "Stakeholder Relations and the Persistence of Corporate Financial Performance." *Strategic Management Journal*. <http://onlinelibrary.wiley.com/doi/10.1002/smi.759/abstract>.

¹¹ Browne, John; Stadlen, Tommy; and Nuttall, Robin. 2015. *Connect: How Companies Succeed by Engaging Radically with Society*. New York: Public Affairs.

¹² Hillman, Amy J., and Keim, Gerald. 2001. "Shareholder Value, Stakeholder Management, and Social Issues: What's the Bottom Line?" *Strategic Management Journal*. <http://www.jstor.org/stable/3094310>.

¹³ Auso, Silvia; Rodriguez, Miguel A.; Garcia-Castro, Roberto; and Arino, Miguel A. 2014. "Maximizing Stakeholders' Interests: An Empirical Analysis of the Stakeholder Approach to Corporate Governance." *Business & Society*. <http://iesse.edu/research/pdfs/DI-0670-E.pdf>.

¹⁴ Hensz, Witold J.; Dorobantu, Sinziana; and Nartey, Lite J. 2013. "Spinning Gold: The Financial Returns to Stakeholder Engagement." *Strategic Management Journal*. <http://knowledge.wharton.upenn.edu/article/when-engaging-with-your-stakeholders-is-worth-its-weight-in-gold/>.

¹⁵ Davis, Rachel, and Franks, Daniel M. 2014. "Costs of Company-Community Conflict in the Extractive Sector." *Corporate Social Responsibility Initiative Report No. 66*. http://www.hks.harvard.edu/m-rcbg/CSRI/research/Costs%20of%20Conflict_Davis%20%20Franks.pdf.

¹⁶ Edelman: <http://www.edelman.com/insights/intellectual-property/2015-edelman-trust-barometer/>.

A STAKEHOLDER-CENTRIC APPROACH TO BUSINESS

There has been much debate about the benefits and drivers of stakeholder engagement, with a point of tension between calls for evidence of a business case and calls to engage stakeholders in order to drive wider impact and more inclusive economies. However, taking a longer-term perspective that is less focused on driving shareholder value shows that there does not need to be a contradiction between commercial and ethical drivers. In fact, commercial success today increasingly involves moving beyond the fallacy that business is ethically neutral, and considering the longer-term interactions among business, society, and the environment.

From what we have seen, many companies have not even yet made full use of stakeholder engagement as an approach to managing risk, identifying opportunities and building a social license to operate. Only after stakeholder analysis and engagement have been incorporated into strategic planning can companies consider the more innovative, stakeholder-centric approach to business. [BSR's five-step approach to engagement](#) offers companies a way to identify why engagement is necessary, which groups are the most relevant to engage, how to engage them, and how to integrate external feedback into corporate strategy and decision-making.¹⁷ Companies have used this process successfully for many years and reaped great benefits as a result.

A NOTE ON TECHNOLOGY

The use of new technologies—such as mobile phone applications, online discussion forums, big data analysis, and crowdsourcing platforms—is often conflated with advanced stakeholder engagement. These technologies are powerful and evolving rapidly, but they are still simply tools that make up a broader stakeholder engagement strategy. Used well, they can support more collaborative, inclusive, and strategic engagement methods. But if the company is not in a position to respond to stakeholder input, make decisions on the basis of the insights gathered, and communicate those decisions, such tools will not be helpful.

Successful use of any technology or process for engagement depends on whether respondents feel their input is valued. Just as with any other engagement methodology, companies should start with assessing what information they wish to gather, what target audience they wish to reach, and how they will ensure that the feedback is integrated into decision-making and communicated back to participants. This analysis may lead to a technological solution—such as aggregating large quantities of responses through a mobile survey—but it may also result in more traditional engagement methodologies, such as in-person dialogues, where companies can engage more deeply. See the case study on The Walt Disney Company and Good World Solutions (page 24) for an example of how to integrate mobile technology into the stakeholder engagement toolkit.

¹⁷ Morris, Jonathan, and Baddache, Farid. 2012. "Five-Step Guide to Stakeholder Engagement." Research Report, BSR. http://www.bsr.org/reports/BSR_Five-Step_Guide_to_Stakeholder_Engagement.pdf.

Part Three: New Approaches to Meet Emerging Challenges

It is within our grasp to boost the value generated by stakeholder engagement. When looking at the future of stakeholder engagement, BSR sees real opportunities for companies to achieve mutual benefits by becoming more collaborative, more inclusive, and building deeper relationships with their network of stakeholders.

The remainder of this report considers what's next. We examine transformations that companies can make across three dimensions: the **purpose** of stakeholder engagement, the **type** of stakeholder, and the **depth** of engagement.

THE PURPOSE OF STAKEHOLDER ENGAGEMENT

Companies can move beyond consulting their stakeholders on corporate reputation, and pursue opportunities to drive impact by engaging on challenges of mutual concern.

Current models of corporate action are struggling to respond to the urgency and scale of change in the external environment. For systemic issues such as climate change, inequality, corruption, and discrimination, the purpose of stakeholder engagement must broaden from risk management and reputation-building to include partnership. Companies would also benefit from a more structured incorporation of stakeholder perspectives into the management of strategic challenges such as political risk, the competitive environment, and the cumulative impact of foreign direct investors in a new region.

Companies seeking to manage their most material sustainability risks often must do so in partnership with a range of groups that can add new capabilities to the effort, including governments, NGOs, local communities, international development organizations, suppliers, customers, and competitors. In doing so, they can evolve their stakeholder engagement approaches from defensive risk management to opportunity identification, becoming nimbler and more responsive in the process.

There are a number of compelling examples of companies using stakeholder engagement to go beyond risk and reputation management and drive meaningful change, as outlined below.

“At the group level, we have derived the most strategic value from stakeholder relationships that are structured by multistakeholder initiatives. Through our relationships with these initiatives, we can, for example, engage difficult-to-reach stakeholder groups and communities at the asset level.” — Nick Allen, Societal Issues Manager, BP

Collaboration for Systemic Change

Companies are experimenting with a greater number and variety of partnerships with stakeholders to help shape the future of their industry. Over the past decade, there has been an uptick in the number and scale of multisector initiatives and alliances. For instance, at the demand of BSR’s member companies, BSR convenes more than 20 multi-industry, multisector collaborative initiatives across a range of social, environmental, and governance focus areas. Collaborative initiatives offer participating companies a way to act on material issues in collaboration with others, to build long-lasting relationships with trusted partners, and to keep on top of new developments. These platforms provide the best approach to negotiating appropriate, durable responses to systemic societal challenges.

Sometimes there may be an opportunity to transform strategic stakeholder partnerships into mutually beneficial business models—such as the social enterprise and circular economy business models—that are designed to manage sustainability issues at scale.

Examples of Strategic and Cooperative Multistakeholder Collaboration

Opportunity	Case Examples
Access partner expertise, management capabilities, networks, funding, and credibility, among other assets.	» BSR member companies and their factory suppliers invest in a more sustainable, inclusive supply chain by partnering with HERproject , which specializes in empowering factory workers through training programs on health, economic empowerment, and workplace rights.
Codevelop and collaboratively support systemic solutions to common challenges.	» More than 100 electronics companies have committed to enforcing a common industry code of conduct that seeks to improve working and environmental conditions across the electronics supply chain through their membership with the Electronics Industry Citizenship Coalition (EICC).
Achieve impact at scale.	» We Mean Business , a coalition of organizations working to create a low-carbon revolution, has secured commitments from more than 600 global companies and investors to take specific actions to combat climate change.

Looking Through a Human Rights Lens

Many companies are now thinking about stakeholder engagement through the lens of human rights, and we expect this trend to gain momentum. The Guiding Principles are an internationally accepted standard, and an increasingly diverse set of stakeholders expect companies to adhere to these principles. This expectation may grow if the principles evolve into a legally binding mechanism. So far, laws such as the UK Modern Slavery Act focus on disclosure, but these requirements may become stronger and more directive over time.

The Guiding Principles provide a clear framework to assess the company's role in causing, contributing to, or being linked to human rights violations. It also provides a remediation framework. Stakeholders are increasingly framing their dialogue with companies in these terms, and this is driving companies to think about human rights more proactively and holistically, rather than as an extension of risk management and compliance. This leads to greater integration between human rights and social and environmental performance.

Incorporating human rights considerations into stakeholder engagement is challenging because it requires a shift in the standard corporate approach, which considers issues in terms of business risk and opportunity. The human rights perspective starts with the interests of rights-holders—those who are affected by a project or company—and it prioritizes the most disadvantaged rights-holders. BSR advises companies that are conducting human rights due diligence to seek input from rights-holders, with a preferential option for the vulnerable—making a special effort to consult with groups and individuals who might be particularly affected, such as human rights defenders, political dissidents, women, young people, minorities, and indigenous communities. This helps the company assess all of the potential impacts of its operations, not only those that affect the majority of stakeholders.¹⁸

There are many reasons why companies might choose to extend their stakeholder network, and it is precisely the range of drivers that give the approach its power. As outlined above, a focus on impacts and rights-holders is increasingly understood to be part of any credible corporate approach to human rights. However, network analysis is also a powerful new tool for understanding and measuring emerging strategic, political, economic, and reputational risk. Rather than thinking about the immediate impacts of a project or operation, it enables a forward-looking consideration of how different forces and interests might intersect and evolve over time. For example, BSR recently worked with an energy company entering a frontier market where the immediate project area, as well as the wider region and country, was experiencing rapid change. By considering the interests of stakeholders and the interaction among them, the company was able to plan for various scenarios and structure its engagement and social investments accordingly. This helped the company proactively anticipate and avoid adverse impacts, reduce potential involvement in inter-community conflict, clarify the company's role, and plan for dramatic shifts in the socioeconomic environment. An integrated consideration of risk and impact, including cumulative impact, can provide a dynamic response to complex environments.

Some of the most successful approaches to stakeholder engagement that we have seen integrate both risk and impact considerations, which helps encourage teams beyond the sustainability and legal functions to consider human rights. Companies will continue to move away from isolated philanthropy to

¹⁸ Natour, Faris, and Allison-Hope, Dunstan. 2014. "Legitimate and Meaningful." Research Report, BSR. http://www.bsr.org/reports/BSR_Rights_Holder_Engagement.pdf.

strategic, community-driven development focused on capacity-building and enhancing core human rights such as the right to an adequate standard of living, health, education, and water.

In the future, more companies should apply a human rights lens to all assessments, community-investment decisions, agreements, and grievance management. By incorporating an understanding of impacts, companies are able to gain a much deeper understanding of their role in the wider societal and environmental system, and adopt a more thoughtful approach to how they operate within this system. In the longer term, the most innovative companies will also integrate human rights considerations into core business development and operational decisions. For example, project design will maximize shared use of infrastructure, local hiring and sourcing, increased use of renewable energy, and processes to reduce water use and share water resources. In particular, the surge in emphasis on human rights and climate justice will require that companies take a far more active role in energy, water, and biodiversity strategies and stewardship efforts, with an emphasis on local conditions across company operations.

One of the most important discussions in the international human rights community today centers around the concept of free, prior, and informed consent (FPIC) for large projects, and the relationship with social license to operate. FPIC particularly, but not exclusively, applies to energy, mining, agriculture, and infrastructure companies and projects. There are a number of questions about what this means for stakeholder veto power, as well as the mechanisms for seeking and understanding the degree of consent among stakeholder groups within communities, the project area, and the wider region. To date, the debates have focused on the rights of indigenous communities, but we think this concept may expand. In the future, communities will increasingly focus on rights-based advocacy via protests, roadblocks, and political advocacy and pressure. Successful companies will take a proactive approach and partner with communities to ensure rights-sensitive consultation and dynamic decision-making.

Companies do not need to choose between risk-led and impact-driven approaches. But they can determine strategy by considering the external environment using both lenses and prioritizing actions accordingly.

Examples of Sustainable, Rights-Led Approaches to Stakeholder Engagement

Opportunity	Case Examples
Actively support the creation of local businesses as contractors for the company.	<ul style="list-style-type: none"> » Freeport El Abra Community Laundromat: Freeport-McMoRan invested to help local women set up a community Laundromat to provide laundry services to El Abra mine workers. » Hidden Valley Joint Venture mine: The landowning company aims to maximize the amount of goods, services, and employment sourced from the local area.
Prioritize community ownership and better manage cyclical business drivers.	<ul style="list-style-type: none"> » In 2009, Danone created the Ecosystem Fund to tackle issues such as skills, employability, and entrepreneurship in the territories where it operates. The fund has a €100 million capital endowment from the company. In 2008, the €20 million Danone Communities Fund was established as an incubator of social businesses, providing financing and technical assistance to projects that help fight poverty and malnutrition. » Danone and Mars Livelihood Fund for Family Farming: In 2015, Danone and Mars announced plans to invest €120 million in a fund to support smallholder farmers, with a focus on crops such as vanilla, cocoa, sugar, and palm oil.

	<ul style="list-style-type: none"> » To support local farmers and economies, Diageo set a target to source 80 percent of raw materials in Africa locally by 2020. Diageo's Meta Abo Brewery in Ethiopia built from scratch a network of 6,000 farmers and smallholder partners, and the company now buys half of its total used raw materials from smallholders. The company aims to source 100 percent of its cereal raw materials from within Ethiopia by 2017.
Extend the company's business model to underserved, vulnerable people.	<ul style="list-style-type: none"> » Total's Access to Energy Incubator: For more than a decade, Total's wholly owned affiliate, Total Access to Solar, has been evaluating options for providing energy to low-income populations, particularly in Africa. It also develops a range of innovative business models in the process.
Use core expertise to craft new business models with third parties.	<ul style="list-style-type: none"> » Western Union partnered with BSR to engage education experts to identify and codevelop new financial offerings for the global education market. » Qualcomm Wireless Reach partnered with BSR in the development of a mobile application that responds to the needs of blind and visually impaired people in China. The See4Me app and accompanying volunteer-based service aims to increase users' ability to access products and services and participate in the economy and their communities.

CASE STUDY

ORANGE FOR DEVELOPMENT LAUNCHES INCLUSIVE BUSINESS PARTNERSHIPS IN AFRICA

For the French multinational telecommunications corporation Orange S.A., Africa is a critical market: Almost half of its 250 million customers live in 20 African countries. Recognizing both the growth potential for ICT services in Africa, as well as the social and economic development benefits that accompany increased access to mobile internet and communications, Orange launched the Orange for Development program to pilot innovative social business models.

Orange for Development partners with a wide range of stakeholder groups—from international development organizations to African NGOs and business incubators—to co-create new products and services that provide connectivity; to develop applications for key sectors such as education, agriculture, and financial services; and to encourage innovation across Africa. The program focuses on three pillars of innovation:

- » **Products and services:** tailored products and services for local markets—e.g., m-agriculture, Orange money, m-women, e-health, and e-education.
- » **Infrastructure and connectivity:** ensuring that services are able to reach local markets—e.g., through systems that support rural service coverage, low-cost voice and internet services, and infrastructure-sharing partnerships.
- » **Ecosystems and enablers:** developing local networks of organizations that can help deliver ICT to local markets—e.g., business incubators, investment funds, and social enterprises.

All three pillars are achieved through stakeholder partnerships. For example, in Mali, Orange partnered with a variety of NGOs and government institutions—as well as funders such as GSMA, the Bill and Melinda Gates Foundation, and USAID—to develop a new hotline for farmers to access market price information. As a result of this service, 48 percent of the users reported that they have benefited from increased incomes, and 15 percent reported increased yields, among other benefits.

The future of stakeholder engagement will see a closer focus on the interaction between internal and stakeholder interests, and the strategic prioritization of initiatives that can credibly serve both. It will see more structured and transparent metrics for stakeholder engagement (an effort still in its infancy) that will incorporate concepts of value that go beyond the short term and financial metrics. And it will see more sophisticated and innovative approaches to collaboration and co-creation.

Companies can move toward greater collaboration with their most important stakeholders by:

- » Broadening the concept of stakeholder engagement beyond a narrow focus on risk, to include concepts of impact on rights-holders.
- » Thinking more broadly about the assets that stakeholders have to contribute to the company, and what value the company brings to its stakeholders. This might include expertise in a methodology or industry, or better access to a geography, population group, financial resources, credibility, relationships, and networks.
- » Involving stakeholders in the process of designing solutions, products, and services.
- » Ensuring that stakeholders are receiving equal value when designing stakeholder dialogues.
- » Actively cultivating relationships with the external change-makers on the sustainability topics that are most material to the business, even if the change-maker does not yet have a direct link to the business.
- » Considering complex questions of collaboration, consent, and mutual benefit, proactively and as early as possible.

CASE STUDY

THOMSON REUTERS ENGAGES WITH NGOS TO DRIVE ACTION AGAINST SLAVERY

Thomson Reuters provides professionals with intelligence, technology, and human expertise to help them find trusted answers, including risk intelligence and solutions to address customer, third party, and supply chain risks.

Modern slavery and human trafficking are some of the most significant crimes to pose risk to companies through their global supply chains and to financial institutions through money laundering. Modern slavery is difficult to detect and report because there is lack of hard and actionable data, making it critical for a diverse array of public and private sector stakeholders to help generate and make sense of the data. At some point, the proceeds of trafficking and slavery may emerge in the financial system. This presents the opportunity to use global anti-money laundering regimes and data analytics to help detect corrupt labor brokers, slavery perpetrators, and human traffickers.

Thomson Reuters has started developing slavery typologies, which are detailed profiles of what modern slavery activity can look like, even in the absence of a criminal conviction for slavery. However, because so much activity has yet to be brought to light or to court, the company really

needed the type of front-line information that NGOs collect. To gather this, Thomson Reuters engaged in a pilot project with Liberty Asia to combine on-the-ground knowledge and expertise from anti-slavery networks with the intelligence, technology, and research capabilities of Thomson Reuters and Thomson Reuters World-Check risk intelligence. World-Check data gathered from verifiable, reputable public domain sources helps customers identify heightened-risk entities and their broader network of affiliations, including individuals, organizations, or even vessels.

This information, which is typically hard to find, can help investors decide whether a dealing is questionable, and it can help businesses remove links to forced labor in the supply chain. The data may also provide the key to disrupting slavery.

To scale up this work, Thomson Reuters and Liberty Asia have been working together to extend a training program to NGOs to help create a better understanding of the impact and effectiveness of data to tackle modern slavery and to train analysts and investigators on how to gather this data.

Already, existing trainings have helped improve NGOs' skill sets, supporting a more consistent data-gathering methodology that can be shared and that aligns with other initiatives such as the Financial Action Task Force (FATF) inclusion of human trafficking in the list of crimes involved in money laundering.

The impacts and the insights from this pilot are already being seen, with hundreds of new profiles being added to the World-Check database, more than 30 NGOs trained, and World-Check customers who now have access to more information that can support their own corporate due diligence programs on money laundering, slavery, and other offenses. More clarity on slavery typology and a bigger data pool can help disrupt slavery and stop the funding of illicit activities.

Gathering and sharing intelligence on the intersection of global financial systems and supply chains is crucial. The increase in anti-slavery regulations for businesses, anti-money-laundering directives, and awareness-raising initiatives for the financial services industry on spotting proceeds of illicit funds can provide an opportunity for business and the financial services industry to help tackle human trafficking.

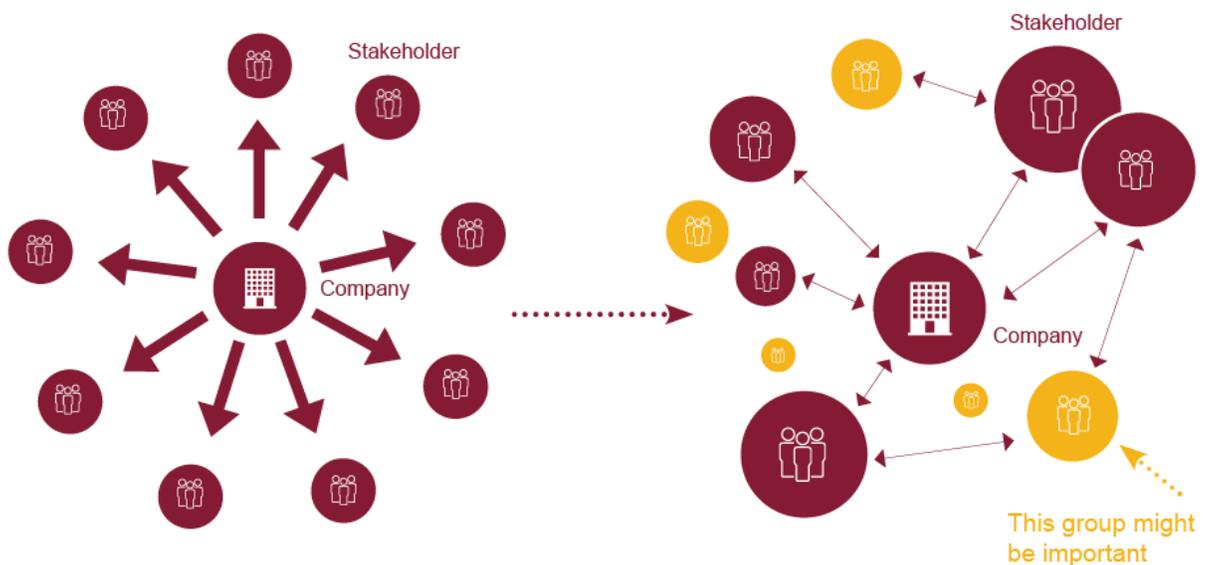
THE TYPE OF STAKEHOLDER

Companies can broaden their frame of reference to include not only their direct stakeholders, but also more diverse and divergent voices, such as supply chain workers and people who are disproportionately affected by the adverse consequences of business operations.

Toward Systems Thinking

Companies that wish to understand and anticipate changes in the business environment and ensure that they are well-positioned to succeed might take a systems perspective to stakeholder engagement. This means moving beyond the dominant approach of conducting focused, time-bound consultations with a representative group of investors, suppliers, business partners, and vocal NGOs that represent the company's most direct and visible stakeholders. Shifting to systems thinking involves purposefully analyzing the broader environment in which the company operates, and gathering diverse and sometimes conflicting perspectives from a wider range of stakeholders who influence the industry through their actions, opinions, and decisions.

From Spoke-and-Wheel to Systems Thinking



Over the past decade, advanced thinking in this area has been led primarily by the mining industry. Systems thinking is a way to help companies understand and anticipate project-level risk and potential conflict, particularly in terms of the relationships between political actors and communities. However, it is also a way to ensure that communities derive value from social impact, and that community investments (which can be substantial and are often disclosed, monitored, and regulated) reach beyond the loudest and most powerful community members and provide genuine, lasting benefit and meaningful community ownership. This has meant using deeper engagement and analysis to reach marginalized groups, including women and the poorest community members. And it has meant thinking strategically about the opportunities for broad-based economic development, beyond short-term mining jobs. Local content regulations and requirements also have driven innovation in local procurement and supply chains.

These approaches are now being adopted, adapted, and transformed by other sectors, particularly in pharmaceuticals, infrastructure, and in the food, beverage, and agriculture sector. These industries often need to consider how to succeed in high-risk, remote locations, and have immediate, location-specific needs to build a social license to operate. Many times, there is a compelling business case for adopting a more inclusive approach to customers and supply chains, and accessing marginalized and underserved populations. Over time, and as local problems in supply chains and operations become increasingly connected to global reputation and strategic resilience, these approaches will be adopted more broadly.

More systemic and inclusive stakeholder approaches are defined differently by companies and across industries, but these approaches might include reaching out to marginalized populations and others indirectly impacted by the company, such as employees in the company value chain or local small- and medium-sized enterprises. These are the leaders of social movements, the voters, the next generation of customers and employees—and the vulnerable populations that may be unintentionally harmed by company activities.

CASE STUDY

THE WALT DISNEY COMPANY AND GOOD WORLD SOLUTIONS ENGAGE SUPPLY CHAIN WORKERS

The Walt Disney Company's consumer products supply chain is complex: Disney has more than 7,000 licensees and vendors who collectively run nearly 29,000 global manufacturing centers. In addition to a rigorous code of conduct and auditing process for its licensees, Disney seeks to protect labor rights by engaging more directly with workers in manufacturing facilities.

In 2014, Disney partnered with Good World Solutions in China to seek direct input from these critical rights-holders. Good World Solutions is a nonprofit social enterprise whose mobile solution, Laborlink, uses the rapid spread of mobile phones to establish an anonymous two-way communication channel for workers in corporate supply chains to report on real factory conditions, giving companies unfiltered data directly from workers.

By translating worker voices into actionable analytics, Laborlink enables companies and factories to make data-driven decisions that measurably improve worker well-being. For example, of 37,000 factory workers surveyed across all of the factories that use Laborlink in China, 71 percent report regular workplace stress. Survey results have also enabled Laborlink to identify a strong correlation between worker stress and the worker's relationship with his or her supervisor, providing factory managers with the insight needed to better address workers' needs.

Disney works with Good World Solutions through a granting program intended to encourage experimentation and innovation, and to pilot promising solutions focused on understanding root causes of human rights issues in consumer products supply chains. To date, Disney has partnered with Good World Solutions in 10 factories with a standardized survey covering working hours, retention, and job satisfaction. The results have allowed the company to hear more directly from its workers, and it has helped Disney and its suppliers understand the impacts of different variables on production schedules and employee turnover.

“Disney initiated an experimental partnership with Good World Solutions in China to engage with workers in manufacturing facilities more directly. Rather than using proxies like auditing, we are looking to get input directly from rights-holders.” — Laura Rubbo, Director, International Labor Standards, The Walt Disney Company

HIGHLIGHT**PRINCIPLES OF EFFECTIVE ENGAGEMENT**

Companies consulting with rights-holders should follow international guidelines for stakeholder engagement of vulnerable groups. Engaging with less powerful groups implies great responsibility: Companies must have sincere reasons for engaging, and they must design engagements that are empowering and safe. They also must follow up and keep their promises.

In line with established international best practice driven by the IFC and other prominent institutions, a good stakeholder engagement process has the following characteristics:

- » Targets those most likely to be affected, with a focus on impact over influence.
- » Begins early enough to identify key issues and influence related decisions.
- » Ensures that stakeholders are informed as a result of relevant information being disseminated in advance of their participation in consultation activities.
- » Is meaningful to those consulted: presented in a readily understandable and culturally appropriate format.
- » Flows two ways, allowing both sides to have the opportunity to exchange views and information, listen, and have their concerns addressed.
- » Is inclusive: designed with awareness that men, women, and members of different ethnicities and religions sometimes have differing views and needs and may require different tactics to engage.
- » Is localized to reflect appropriate time frames, context, and languages.
- » Is free from manipulation or coercion.
- » Is documented to keep track of who has been consulted, as well as key issues raised.
- » Includes a process for reporting back to those consulted in a timely way on actions taken, with clarification regarding upcoming steps.
- » Is ongoing, as required, during the life of the project.

The future of stakeholder engagement will see relationships managed across corporate, regional, and site levels using dynamic, real-time approaches. It will require companies to think about their operations, plans, and projects using a systems thinking approach that considers influence, impacts, unintended consequences, and the power of networks.

To move toward more inclusive engagement, companies can:

- » Take a systems perspective to understand power dynamics among stakeholder groups and recognize the different forms of power that stakeholders might hold in relation to the company and the operating environment.
- » Develop social media and technology strategies with communities' input, ensuring culturally appropriate virtual engagement that empowers and expands (rather than excludes) stakeholders' voices, and that considers the unintended consequences. Technology should be used to improve performance by expanding the reach of stakeholder engagement, supporting better decisions informed by access to more information, reducing costs by simplifying the collection and management of stakeholders' inputs, and enabling more effective targeting of community-engagement efforts.
- » Explore new rights-based business models in which communities play a greater role. Set targets and provide incentives for shared ownership, accountability, and decision-making with communities.
- » Expand project community agreements to include community decision-making, prioritization, and ownership. Establish processes that ensure the community's voice reflects the interest of all members, not just those with the most power.

CASE STUDY

FREEPORT-MCMORAN: LOCALIZING GLOBAL SOCIAL INVESTMENT STRATEGIES

Freeport-McMoRan Inc.—a U.S.-based company with mining operations in Africa, Indonesia, North America, and South America, and oil and natural gas assets in the United States—has a global approach to social investment and community engagement. Freeport enlisted BSR to work with its corporate and site teams to customize this approach for company operations in Chile, to better ensure that local stakeholders such as indigenous populations are able to participate in decisions that affect their communities.

After interviewing and conducting focus groups with dozens of stakeholders, Freeport and BSR prioritized potential projects based on their importance to external stakeholders and alignment with the company's approach. As a result, Freeport has shifted from a philanthropic to a participatory approach that satisfies both company and community needs and ensures a stakeholder voice in corporate investments. In addition, Freeport established a Chile-based foundation that focuses on long-term investments and follows a process to select projects generated by the communities to support sustainable development. (Read more about [this case study here](#).)

“We needed processes in place to ensure that local stakeholders—particularly local indigenous groups—had a voice, creating a more participatory approach for the company’s philanthropic and business decisions.” —Tracy Bame, Director, Social Responsibility, Freeport-McMoRan

THE DEPTH OF ENGAGEMENT

Companies can move beyond high-level engagements by integrating stakeholder engagement more deeply into corporate strategy, across all functions and geographies.

The benefits of stakeholder-centered thinking are compelling. Above all, it can help companies plan for a more inclusive, disruptive, and transparent future, and it can ensure sustainable growth over the long term. But for many companies, stakeholder engagement remains a peripheral exercise, managed by one team, with few resources allocated to it. It is difficult to build lasting, trust-based relationships through a limited number of light-touch engagements, and most companies struggle to ensure that the key messages they gather from stakeholders are incorporated into strategy. In the end, poorly managed engagement is worse than no engagement at all, as it creates challenges in managing unmet stakeholder expectations.

The most transformational engagement approaches give as much consideration to internal as external stakeholders. Through deep consideration of the relationships and interactions among employees, contractors, and third-party relationships, companies can drive innovative thinking across the business.

Holistic consideration of how managers and employees interact with the outside world will lead to more meaningful, two-way discussions with stakeholders. It may also contribute to greater employee engagement, as teams feel more integrated into the firm’s social purpose.

Actions to Deepen Internal Stakeholder Engagement Capabilities

Objective	Possible Actions
Deepen internal coordination.	<ul style="list-style-type: none"> » Enroll key employees in training programs to ensure that all business units are aware of their responsibilities in communicating with and responding to external stakeholders, including setting up a clear internal hierarchy to turn to for help. » Invest in improved internal communications systems so that teams can share information from external discussions via the same database. » Assign relationship managers to cultivate relations with key stakeholders. » Break down barriers among business units to share information and insights from stakeholder discussions.

Tie engagement to strategy development.	<ul style="list-style-type: none"> » Lead workshops to help executives from headquarters and local teams build stronger internal relationships and codevelop global/local solutions to common sustainability challenges. » Integrate a stakeholder engagement work stream into all large, strategic projects. » Incentivize teams to integrate stakeholder input into business priorities and planning to drive greater value.
Develop institutional capacity.	<ul style="list-style-type: none"> » Undertake a structured exercise to learn from stakeholder engagement successes and failures, helping build institutional knowledge and capacity. » Standardize successful stakeholder engagement approaches and build these into project design methodologies. » Broaden and deepen internal awareness of the strategic benefits of stakeholder engagement undertaken with rigor and good faith.

Integrating Feedback into Strategy

Asking what stakeholders think changes expectations. For instance, if a company issues an employee-engagement survey and does nothing to respond to negative results, employees may get angry. The same applies to external stakeholders. After an engagement, it is imperative that companies demonstrate that the feedback has been heard, respected, and—when appropriate—integrated into business activities and policies.

A strong stakeholder engagement process involves preparation and research into stakeholder viewpoints before any external engagement occurs. You might outline the various scenarios that could play out through the discussion, then secure commitment from key decision-makers in your company to be prepared to respond to the most likely outcomes. This should include not only communications, but real actions to improve systems, products, and services in response to stakeholder needs.

A company that thinks holistically about stakeholder engagement will identify the aspects of the company's work that most affect the external environment, and then assign responsibilities to teams across the company to ensure that external feedback is sought and internalized in business activities. Just as extended conversations with a friend reveal new insights and ideas, long-term conversations with stakeholders can help companies improve continuously over time.

CASE STUDY

GSK: STAKEHOLDER THINKING AND RESPONSIBLE BUSINESS

GSK's response to the ethical and transparency challenges facing its business and the wider pharmaceutical and healthcare industry has transformed several related areas. These changes are a direct response to stakeholder views, and are broad, deep, innovative, and strategic.

GSK appreciated that the performance-based incentives given to its sales teams could be better aligned to encourage ethical selling behavior that puts patients' interests first. GSK was the first in its industry to eliminate individual sales targets for sales representatives. Sales teams are now rewarded on the basis of technical knowledge, quality of service to healthcare professionals, and a broad set of

measures based on business performance.

In another move that is unique in the industry, GSK is no longer paying healthcare professionals to speak at industry scientific conferences or to promote its prescription medicines and vaccines to prescribers. Healthcare professionals will still be paid for providing services and participating in research, and GSK will support independent medical education through grant funding to providers. This allows GSK to maintain its relationship with stakeholders in the medical industry without compromising its ethical commitments.

In research and development, GSK has collaborated with the Wellcome Trust and the Bill and Melinda Gates Foundation to open up its innovation process to external stakeholders to accelerate drug discovery and research on the diseases that most affect the developing world. In 2010, the company opened its Tres Cantos, Spain, facility to external scientists, creating the world's first Open Lab, where visiting scientists can conduct their own work with access to GSK's internal expertise. In the last five years, Open Lab has built a portfolio of 51 research projects.

In 2015, GSK introduced an Ethics and Compliance Academy to support its compliance officers, who are working to build a more values-based culture. The goal is to help compliance specialists partner with senior leaders across the business to navigate ethical gray areas more confidently.

None of these initiatives sit within a dedicated stakeholder engagement team, but they all reflect thoughtful responses to stakeholder concerns and a stakeholder-led approach to strategic and cultural transformation.

The future of stakeholder engagement will see stakeholder trust and engagement as a critical component of corporate value, not an optional tool to manage reputational risk and avoid crises. This will lead to fundamentally new thinking about how to structure organizations, drive innovation, and measure value. Approaches that externalize costs and negative consequences will be replaced by an approach more suited to the needs of the future corporation. Companies of the future will evolve to have fundamentally different interactions with the external environment.

To move toward deeper, more strategic engagement, companies can:

- » Consider every interaction that employees and managers have with external stakeholders, identify pressure points and train teams to engage in a thoughtful way.
- » Begin projects by mapping internal stakeholders to ensure that everyone who needs to be involved is informed and prepared.
- » Develop engagement plans that account for the whole organization, analyze business-connected activities that affect external stakeholders, and ensure that the company has feedback mechanisms to capture all grievances and ensure remediation.
- » Intentionally include key executives in stakeholder engagements to help them understand the issues and encourage strategic decision-making based on stakeholder input.
- » Form advisory groups of stakeholders on different strategic issues to help the company engage stakeholders in deep discussions over extended periods of time.

- » Proactively reach out to develop a positive relationship with critical stakeholders *before* a crisis arises. Communicate often, with transparency and integrity, not just when the company needs something.
- » Commit to integrating stakeholder input into business-critical decisions and build mechanisms to do so.

CASE STUDY

RIO TINTO'S STAKEHOLDER ENGAGEMENT ACADEMY

Rio Tinto, a multinational metals and mining corporation, considers its approach to stakeholder engagement an asset that helps the company maintain its licence to operate in a sector that often attracts significant stakeholder attention.

In 2011, Rio Tinto launched its Stakeholder Engagement Academy (SE Academy) to deliver capability-building training courses and resources to a wide range of employees. Participants include senior corporate executives, operational leaders, and stakeholder engagement professionals. The program was initiated by the company's executive committee with the goal of ensuring that its current and future leaders have globally consistent and demonstrable stakeholder engagement capabilities.

The intensive four-day course involves classroom-based theory, group work, role-playing, and simulations using numerous case studies from Rio Tinto's global operations and other international organizations. Courses are complemented by an online knowledge repository and network of practitioners. The topics cover a variety of areas that are important for maintaining a company's licence to operate, including understanding stakeholders; developing sustainable agreements; communities; and the political, social, and economic dynamics of the mining industry.

The SE Academy has trained more than 800 employees through 30 courses delivered in 12 countries.

“Deep engagement of stakeholders involves more than just a one-off convening. It requires an ongoing, two-way dialogue over time, including advanced forms of participation, ongoing advisory, and partnerships.”

—Chris Anderson, Principal, Yirri Global LLC

Conclusion

In this report, we have outlined the transformational forces that are affecting business, all of which call for more a collaborative, inclusive, and strategic approach to the external environment. It is our premise that these inclusive outcomes can be fully realized only through the adoption of inclusive processes. This is why stakeholder engagement matters.

At BSR, we define an inclusive economy as one in which all individuals and communities are able to participate in, benefit from, and contribute to global and local economies. This more sustainable vision of the future is attainable, and the private sector plays a critical role in bringing it about. Through hiring decisions and the provision of good jobs, by working to ensure that all people have access to essential goods and services, and by investing in the local communities where they do business, companies contribute to shared prosperity and a more stable operating environment.

But companies cannot do it all alone: All of these contributions are informed and enhanced by stakeholder input and partnership.

BSR sees the need for companies to embrace new approaches to stakeholder engagement, including an understanding that stakeholder engagement approaches are key to wider business purpose, employee engagement, and sustainable growth. Through more collaborative, inclusive, and strategic engagement with stakeholders, companies can improve their ability to identify and amplify the social value of their work.

We have seen some companies taking the lead in this new way of doing business. Imagine what the world would be like if all companies elevated stakeholders to the level appreciated by Seventh Generation, a household and personal-care products company whose core values are guided by the Great Law of the Iroquois Confederacy: “In our every deliberation, we must consider the impact of our decisions on the next seven generations.”¹⁹

¹⁹ Seventh Generation: <http://www.7genreport.com/introduction/ourcompany.php>.

About BSR

BSR is a global nonprofit organization that works with its network of more than 250 member companies and other partners to build a just and sustainable world. From its offices in Asia, Europe, and North America, BSR develops sustainable business strategies and solutions through consulting, research, and cross-sector collaboration. Visit www.bsr.org for more information about BSR's 25 years of leadership in sustainability.