Corporate Stakeholder Engagement, Metrics, and Reporting:
Aligning corporations and stakeholders to advance global citizenship

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Stakeholder Engagement: A Three-Phase Methodology

(Part II)

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Stakeholder engagement -- a new terrain for business -- is a process of relationship management that seeks to enhance understanding and alignment between companies and their stakeholders.

In our last article for this journal, we explained the importance of stakeholder issues for today's organizations. In this article, we outline a three-phase stakeholder engagement process.

These phases (and the steps or tasks that comprise each phase) build a sequence of activities that can create the foundation for an effective stakeholder engagement process, guide the business strategic planning agenda, and increase a company's ability to be robustly competitive in a changing business environment.

Background: The Importance of Stakeholders

As noted in our previous article, today's companies serve not only shareholders, but an ever widening array of stakeholders -- including employees, customers, community groups, governmental regulators, and environmental advocacy organizations. Their concerns span sustainability's "triple bottom line" of financial, social, and environmental objectives.

Understanding how to operate in this increasingly challenging stakeholder environment will be crucial to companies' business success in coming years.

The Future 500

The three-phase methodology outlined here was developed with, and is utilized by, key members of The Future 500, a not-for-profit network of corporations and professionals that develop and apply tools of stakeholder engagement.

Future 500 companies are members of a network that includes organizations and professionals in the Americas, Asia, and Europe. Member companies often work in collaborative roundtables to share methods, hone skills, and even forge joint business ventures.

Overview of the Stakeholder Engagement Process

The three phases of the stakeholder engagement process are the following:

- Phase One -- Internal Preparation. Find the right leader; build/train your team; measure your company's baseline performance and the public's perceptions of your performance.

- Phase Two -- Stakeholder Mapping and Strategic Planning. Inventory your stakeholders; map stakeholder roles to business objectives; analyze the results; draw the results together into a strategic plan.

- Phase Three -- Stakeholder Engagement. Execute against your stakeholder engagement plan to reach business objectives; measure and monitor results; communicate results appropriately.

For a company's stakeholder engagement process to truly succeed, each phase must be accomplished and a full commitment to comprehensive action must exist at the highest levels of the organization.

Stakeholder engagement is a process. It is a systems approach to doing business and, because of that, it is transformative rather than merely tactical. The steps that comprise the three phases, and the many overlapping tasks, create (as in any system) a whole that is greater than the sum of the parts.

Phase One: Internal Preparation

The first phase of the stakeholder engagement process involves internal preparation, including building a stakeholder team, and gaining knowledge about your current performance and the public's perceptions of your performance.

Build Your Internal Stakeholder Team

Internal Company Leader

A company's stakeholder efforts require a carefully selected internal leader, generally at the director level or higher. This leader should be someone who:

- is respected among a broad range of managers,
- has credibility with the company's management team,
- is not afraid to speak honestly about consequences, and
- is able to deliver bad news or bold recommendations if needed.

In our experience, this leader will be an excellent communicator from one of the following departments: public relations, corporate communications, human resources, corporate affairs, or investor relations.

The best leader for stakeholder initiatives must be a nuanced thinker (not someone who sees the world in black and white) and should be seasoned in conflict resolution and negotiation. He or she should be an agent for change, a change enabler -- not someone who is change-averse or who likes to keep tight control of a situation or simply support the status quo.

It is extremely important that this person understand the business intimately. He or she must have a broad understanding of key issues and controversies, pending litigation, and regulatory constraints, as well as a thorough knowledge of the marketing side -- branding, messaging, vision, and mission.

The chosen leader also must be well connected with key personnel within the firm -- someone who "knows who to know" and how to get things done. Ideally, this leader will report directly to the CEO.

Stakeholder Team

Equally important is the make-up of the stakeholder team. For best results, a team should contain representatives from the major departments within the corporation:

- marketing,
- communications,
- operations,
- environmental and government affairs,
- human resources, and
- investor relations.

A clear chain of referral to the directors of each represented department should be established in the event of a crisis.

Avoid Raising Expectations to Unrealistic Levels

One strategic error that companies sometimes make is to believe the myth that engaging with stakeholders will make all its problems go away. The reality is that sometimes stakeholder engagement can make matters worse initially, especially if preparation for this new kind of engagement has not been thorough.

If stakeholder engagement increases expectations to unrealistic levels, demands may simply escalate. Or if the wrong set of stakeholders has been engaged, strategic traps and unexpected consequences may derail an otherwise sincere effort.

An example of this phenomenon would be Chairman Bill Ford’s sustainability commitments to environmental leaders. As CEO of Ford Motor Company, his initial bold vision came back to haunt him when he was later forced to backtrack in the face of market realities. In the aftermath, environmentalists mounted a national campaign against Ford based on unmet expectations.

Ford has one of the best environmental records among leading American auto manufacturers. But the stage was set for disappointment. Expectations were raised that were not met. And despite Ford's high level of corporate responsibility, the company took a beating on environmental issues in the media.

A visionary at the head of a company who understands environmental and social issues is essential for a comprehensive and aggressive stakeholder engagement process, but the leader's visions can handicap a stakeholder engagement effort if they get out in front of the process.

Get the Proper Training

A company should not undertake a comprehensive stakeholder engagement process without proper training in several key areas:

- stakeholder research,
- effective communications,
- negotiation and conflict resolution,
- risk/crisis management,
- media relations, and
- stakeholder dialogue techniques.

It is worth repeating here that creating an environment for effective stakeholder relations is a system: Every aspect of the system needs to be in place at once.

Expect the Inevitable Missteps

Stakeholder engagement training is extremely important because things will go wrong. No company finds that its entry into stakeholder engagement proceeds without a hitch. Stakeholder engagement is not a hard science. It is a new way of doing business, and missteps will be made.

Perhaps it is useful to think of stakeholder engagement as a new product in development: The process will need to be tweaked, and the design enhanced, as the product/process matures.

No company would consider launching a next-generation product without training its product development team in the latest manufacturing techniques, using materials specifications that have been checked and re-checked, and putting the product itself through beta testing. The same kind of attention to detail is needed to create an effective stakeholder engagement process.

Measure Your Performance and Stakeholder Perceptions of Your Performance

It is important to establish a baseline indicating how your company is currently perceived by its stakeholders. First, however, it is critical to make the distinction between "performance" and "perception."

Performance Versus Perception

Performance is a verifiable fact. It refers to the actions your company has taken with regard to specific policy standards and procedures. For example, a standard might require a policy statement regarding supply chain partners and their selection. Your company either has this particular policy, or it doesn't. If it does, you simply reference the document, or post it on your website if appropriate. Performance regarding implementation of a particular policy is a matter of internal verification and external communication.

Perception is an external matter. Measuring public perception is a discovery process that seeks to find out how stakeholders with various perspectives, outside of your immediate company, view your performance.

Performance and perception of performance are both aspects of a company's stakeholder baseline. They often do not align, however. For example, your company may have a procedure on fair labor practices and may actually comply with this procedure. But for purposes of measuring public perception, the key question is: Who knows that you have this procedure in place?

We have seen many cases where companies' performance and the perception of their performance are polar opposites. One Future 500 member enjoys sterling performance as measured against the major corporate social responsibility (CSR) and socially responsible investing (SRI) standards now in use. However, it has had a long-standing cultural value that a company should be "caught doing good" rather than boasting about it. In addition, during one particular time period, the company was the subject of several negative news stories concerning isolated labor issues. As a result, the external perception of this company's current performance as a corporate good citizen has been well below its actual performance.

On the other hand, if the perception of a company's performance is quite high among members of the public or in the media, while measurements of its actual performance are low, then the company likely has risk management problems that may be exposed when a robust stakeholder dialogue begins.

These kinds of perception-performance gaps are an indication that work must be done internally before a full-fledged stakeholder engagement process can begin in earnest. These examples also illustrate why it is important to measure both performance and perception.

Negative Perceptions Can Do Damage -- Even If They Are Inaccurate

Another myth of stakeholder engagement is, “If bad news isn’t true, it can’t hurt us.” This is quite false, of course. Bad news, if not countered aggressively and quickly with counter-posing examples, can be detrimental to a company brand for a long time. Bad news is hard to clear up, and takes much longer to fade from the consumer’s memory than does good news.

Ford is still suffering from its mishap with over-stated environmental aspirations. And Nike, despite years of instituting new policies and procedures in its overseas plants, may never hear the end of the attacks on its labor practices. Exxon's Valdez spill continues to tarnish that company’s reputation after more than 15 years.

So, given the importance of both performance and the perceptions of that performance, how does a company go about measuring these things?

Corporate Performance Standards

Performance can be measured in a variety of ways. Because this is an evolving field, there currently is a proliferation of standards for corporate performance that have been put forth by organizations promoting CSR and SRI. The major organizations and standards include:

New York Stock Exchange (NYSE) section 303A, corporate governance standards

- Goldman Sachs best practices recommendations
- Malcolm Baldrige National Quality Award
- Global Reporting Initiative (GRI)
- Social Accountability 8000 (SA 8000)
- Boston College Center for Corporate Citizenship
- International Chamber of Commerce (ICC)
- Business Council for Sustainable Development and Corporate Governance Principles
- Dow Jones Sustainability Index
- FTSE4Good Index Series
- Global Sullivan Principles
- Domini Social Investments
- Calvert Group
- UN Global Compact

- Coalition of Environmentally Responsible Economies (CERES)
- Caux Round Table
- Smart Growth Network
- Other indices and organizations such as the AA1000 Framework, Business in the Community (BITC), the Interfaith Center on Corporate Responsibility (ICCR), the Organisation for Economic Co-operation and Development (OECD), and Innovest

With this array of standards (including some that change yearly), a company can quite quickly experience what we call "survey fatigue." Each survey, comprehensively completed, can cost a company ,000 to ,000. This can quickly sap a CSR official's entire annual budget.

CAP Gap Audit™ Tool

To remedy the problem of CSR/SRI survey fatigue, The Future 500 has developed a tool known as the Corporate Accountability Practice (CAP) Gap Audit™. The CAP Gap Audit™ is a "meta-tool" that uses an Excel-based software platform to consolidate the criteria of the 17 leading standards into one easy-to-use 195-point survey that ranks corporate governance, accountability, quality, social responsibility, and environmental sustainability. (We plan to discuss the CSR/SRI environment and the Future 500 approach to these standards in more detail in a future issue of this journal.)

Choosing a Performance Measurement Method

To measure performance, a company can either choose a particular standard to follow, or create a hybrid standard for its own internal use, or employ an audit tool such as CAP Gap™ that rates a company against a range of standards. Measuring with one of these methods can give a company a baseline performance indicator on its CSR/SRI health.

Measuring Perceptions of Performance: Selecting Opinion Leaders

In the Future 500 methodology, measuring perceptions of performance begins by selecting key opinion leaders in each of the five stakeholder categories (see Exhibit 1 for a graphic depicting these categories):

- Corporate Governance: Shareholders (traditional, institutional, and socially responsible)
- Workplace: Executives, employees, contractors, and supply chain partners
- Community: Local government representatives, neighbors, and local entrepreneurs
- Marketplace: Competitors, other suppliers, and consumers

- Environment: Advocacy leaders for natural resources and systems

Measuring Perceptions of Performance: Surveying Opinion Leaders

Once the opinion leaders have been selected, they are surveyed on a series of questions. The survey is devised to generate numeric responses to queries touching upon overall company reputation, trust, and performance in key areas.

The numeric scores are compiled and mapped into a four-quadrant matrix that indicates the opinion leaders' ability to impact the business (from low to high) and their perceptions of the company (from positive to negative). See Exhibit 2 for a depiction of the matrix.

Completion of Phase One

The metrics for both performance and perception of performance create a baseline that future stakeholder engagement activities will be measured against.

Once the internal foundational work is completed -- the stakeholder team leader chosen, the team members selected and trained, and baseline measurements of performance and perceptions of performance completed -- the stakeholder analysis and planning phase can begin.

Phase Two: Stakeholder Mapping and Strategic Planning

The company now is ready to work toward a strategic plan for stakeholder engagement.

This is where companies often get into trouble. The reason is not so much poor planning. Rather, it frequently is a lack of any planning at all. Too often, company stakeholder engagement processes are ad hoc. Companies learn their lessons in real time. And this is a problem.

It is useful to begin the planning process with a map of the company's stakeholder relationships. Until recently, stakeholder mapping was an esoteric process with questionable utility. Most stakeholder maps were complex diagrams that showed a confusing array of stakeholders, with lines connecting them in a chart that resembled a food web in a complex ecosystem. Such maps are interesting academic exercises and can lead to fascinating insights, but they make poor planning tools.

Stakeholder Mapping and Planning in Eight Steps

Through shared experiences, Future 500 companies have now developed a systematic eight-step approach to mapping and planning that is clearly tied to company business objectives and stakeholder engagement methodology. It is a core tool for effective stakeholder engagement planning.

This stakeholder mapping approach diagrams the relationships between a company and its stakeholders, and helps drive program planning and implementation in order to advance the company’s business objectives by also advancing its stakeholders’ interests. The map can be generated using simple software that captures the eight-step process.

Step 1: Set Clear Business Objectives

The most important action at this stage is to outline clearly the company’s status-quo situation and its business objectives so that these can be layered on top of the stakeholder research and analysis.

It is this crucial step that begins the process of building a stakeholder engagement plan that responds to key business goals, something that is all too often left out of "fuzzier" stakeholder engagement procedures. Identifying business objectives adds an element of critical focus to the planning process and allows a company to select the right stakeholders and strategies for its stakeholder engagement program.

Some mapping processes focus on stakeholders, but leave out the business needs that are critical to the success of a stakeholder engagement program. If the business does not survive, the systems it supports --community and environmental health initiatives, local employment opportunities, goods and services provided to customers -- cannot be sustained. The modes and strategies of stakeholder engagement ultimately must support key business objectives.

A business cannot sustain society if it does not sustain itself. A sustainability program that runs counter to the company’s interests, or which does not advance them enough relative to the costs involved, will be dropped the next time the company faces tough economic times. Sustainability programs must themselves be sustainable because they are too important to lose.

Step 2: Inventory Your Stakeholders

The research the company has completed up to this point will indicate the organization's baseline in terms of performance, perceptions of performance, and business objectives and direction (where the company wants to go).

To enable practical planning, the Future 500 mapping process begins by defining the stakeholder universe, the geographic scope of stakeholders, and the type of stakeholders to target: Is the stakeholder universe local, national, or international? What types of stakeholders should be included? Those focused on policy? Direct action? Those with a large national membership or only local affiliates?

Once the stakeholder universe is defined, the company compiles a list of stakeholders that it believes can positively or negatively affect attainment of the company’s goals and objectives. The Future 500 then supplements this list by accessing as many as seven private and public databases containing thousands of stakeholder groups, each profiling a particular mix of stakeholder types and information. Typically, a list of about 200 to 300 stakeholders relevant to a particular company’s business is established.

Each stakeholder is then further categorized into three sectors of influence -- technology, policy, and marketplace.

- Technology stakeholders either support the company's technology (in the role of, for instance, suppliers) or compete with it (as substitute technologies).

- Policy stakeholders influence the regulatory environment that supports or impedes the company's business.

- Market stakeholders influence the marketplace to support the company's business (through, e.g., favorable press) or impede it (through activities such as boycott or shareholder action).

Step 3: Set Strategic Priorities

In this step, stakeholders are further categorized and prioritized according to each company business goal or objective.

Stakeholders are designated as “supporters," "neutral/mixed," or "opponents” in relation to the company’s goals and objectives. They also are ranked from low- to high-priority depending on the stakeholder’s potential influence on the company.

A majority of stakeholders usually will be categorized as “neutral/mixed” toward the company because their relationship to it is not clearly supportive or opposed. Most stakeholders also generally are considered to be low priority because the number of stakeholders with a high potential to influence the company typically will be limited.

Step 4: Build Your Stakeholder Database

In this step, each stakeholder is further defined based on the collection of several categories of information, such as:

- stakeholder description

- history of the company’s relationship with the stakeholder

- contact information

- geographic focus (local, national, or international)

It is also important to define how stakeholder groups relate to one another. By doing so, the research team will begin to uncover the “chain of influence."

Some larger non-governmental organization (NGO) foundations fund other, smaller organizations. Often the larger NGO has a more conservative appearance among the mainstream public, while the smaller groups funded by the NGO will be fleet-footed advocacy organizations with a more radical agenda. Sometimes organizations partner with one another to play the roles of "good cop/bad cop" -- sharing information and even goals, but using different, complementary tactics in the marketplace.

Finally, stakeholders should be categorized according to organizational type. While most stakeholder groups likely fall into one of the following categories, others may be hybrids that cut across more than one category:

- Research/Academic
- Litigation
- Policy
- Direct Action
- Shareholder Action
- Corporate
- Media
- Membership-based
- Foundation/Funder
- Professional Network/Alliance
- Government

Step 5: Prepare Stakeholder Maps

At this point, the company will be ready to create stakeholder maps. The initial map that is constructed generally proves effective for brainstorming long lists of stakeholders, and that is how we use it with Future 500 companies.

The primary form of stakeholder map we use charts the path from the status quo to the company's business objective. Along the path, it diagrams the firm's priority stakeholders, categorized by the sectors they influence: technology, policy, or the market.

By clicking on any stakeholder listed on the map, additional maps can be created, illustrating the dynamics among various stakeholders. One example where this can prove useful is with respect to the "chain of influence" discussed in step four. Some stakeholders may be major funders or customers. Others may be political allies. Still others may be technology partners or competitors.

Step 6: Select Modes of Engagement

Once stakeholder mapping has been completed and a clear picture of who exists and how they relate to one another has been made, the company can begin strategizing on what kind of engagement is best suited to each of the various stakeholders identified.

Exhibit 3 illustrates possible modes of stakeholder engagement, with sample actions appropriate to each mode. The modes of engagement are listed in order of increasing complexity.

The simplest engagement mode (tracking) requires only the monitoring of various stakeholders, and hence is not particularly time- or cost-intensive. By contrast, the most complex engagement mode (networking) often requires companies to invest significant financial and human resources. One example of a networking organization is the World Business Council on Sustainable Development. Companies contribute significant amounts of money to the Council, and volunteer their senior executives to various Council working groups.

For each stakeholder inventoried, a proper engagement mode is assigned. For example, a company might wish merely to track a group that is opposed to them, rather than collaborate with such a group. Or the company might wish to leverage the expertise of a group or governmental agency, in which case they might partner with them.

The number of stakeholders assigned to each engagement mode should be inversely proportional to the engagement complexity of the mode. For example, a company might track hundreds of stakeholders, but partner with only a few.

Step 7: Prioritize Project Options

With a proper engagement mode assigned to each stakeholder, Future 500 facilitates a brainstorming process to create a list of existing or desired company projects that will encompass each mode. For example, for the "inform" mode, a company might employ several projects, such as an email newsletter, direct mail, or targeted media outreach.

Stakeholders then are assigned to the various projects as appropriate. In some cases, stakeholder groups may require multiple engagement modes. For example, the company may partner with a group, while also informing the group of company news via email, direct mail, and media press releases.

Once stakeholders are assigned to projects, the projects are prioritized in importance based on their ability to help the company attain its business objectives. Prioritization allows the company to focus its limited resources on stakeholder engagement projects that offer the greatest potential return on investment.

Step 8: Draw Projects Together into a Cohesive Plan

The prioritized projects next are grouped into logical programs, such as media outreach or strategic philanthropy. These programs represent the pieces that make up a particular company's stakeholder engagement plan. We call this structure the three Ps (3Ps): Plan, Programs, Projects.

At this point, a leader is assigned to each project, project timelines are created, and lists of tasks are outlined.

Relevant information should be stored in electronic form, using appropriate software. This will give the company a central data repository that can be accessed via an intranet and updated constantly by project leaders.

Benefits of the Eight-Step Stakeholder Mapping and Planning Approach

By using this eight-step methodology, and capturing the results via software, what had been a haphazard process is streamlined and organized, allowing the company to engage with its stakeholders in a more focused, substantive way. This significantly increases the chances that incremental change will actually take place, rather than languish.

To summarize, mapping your company's stakeholder system is a process of identifying stakeholder groups, understanding the relationships among groups, and determining what role they play in the larger system within which a business operates. This mapping helps outline how to most appropriately engage with selected stakeholders to best meet the company's business goals.

Although stakeholder entities can change frequently, many have been in existence for decades. Based on years of accumulated research, The Future 500 has created s-Mapping software that can assist companies in stakeholder research and analysis.

Stakeholder Mapping Leads to Strategic Planning

Stakeholder mapping leads into a strategic planning phase that proceeds through five major steps:

- setting goals and objectives
- setting a timeline
- selecting engagement modes and assignments
- selecting methods of embedment and adaptation
- gaining support and following through

This period in the process may require an intensive realignment of data. Business objectives may need to be confirmed or revised.

This is also the time for dialogue within the organization among the key players from the departments that will be most affected by or involved in the activities that are beginning to emerge as the planning process progresses. For instance, if one of the major objectives is a marketing or messaging stance unique to the branding of a new product, the marketing department will need to be consulted on what stakeholders have been selected, and the role envisioned for those selected groups.

As this dialogue process takes place within the larger internal corporate community, you should anticipate some push-back from company personnel who have not been involved in the stakeholder research and analysis process. Remember that this type of engagement process is a transformation tool, not only for stakeholders but for the company and its employees as well.

As part of the planning process, the company should identify business functions that are likely to be influenced by the stakeholder process. Identify the “who” and “how” for changing these functions, and then build people and methods into the plan.

Be sure to involve representatives from each business function in the planning and implementation process. As the stakeholder engagement initiative moves forward, provide key members of the stakeholder and support teams with annual assessments and quarterly progress reports.

Once a company’s strategic plan for stakeholder engagement is devised and has been discussed with relevant participants within the organization, the process moves into the final phase -- execution.

Phase Three: Stakeholder Engagement

The typical stakeholder engagement plan will contain a list of 200 to 300 selected stakeholders, of which only a handful are likely to be pivotal. The plan will also identify appropriate stakeholder engagement modes, and include a list of matched activities.

Each stakeholder group should then be assigned a member of the company's stakeholder team as its primary contact. Make the assignment based on skills, specialties, and historical relationship.

Devise Ways to Measure Stakeholder Engagement Success

Before the first contact is made with stakeholders, the company should devise ongoing metrics that measure the effectiveness of contacts. These measurements can be compared to the baseline metrics created in the research phase of the project. In effect, the company should add a column to the table shown in Exhibit 3, indicating appropriate monitoring and measurement vehicles for each stakeholder. See Exhibit 4.

To understand the effect of the company’s stakeholder engagement plan, an audit process should be conducted at regular intervals. If your company has chosen one of the CSR/SRI standards to use as your yardstick, track performance against those standards as a way of perceiving any shifts in how the business responds internally to feedback from stakeholders. The opinion leader survey should also be conducted at regular intervals to determine if there is a "performance/perception gap" forming. These activities should become a regular part of a company's annual reporting process.

In the case of stakeholder partners with whom a business has closer relationships -- such as funding recipients or direct partners in specific projects -- outcomes should be clearly understood and discussed before the project or funding starts. Then results should be measured as the project progresses.

If a stakeholder organization receives funds from the company that are not tied directly to a specific project, the stakeholder team members may want to periodically track the overall "image" of that organization. Are its mission and goals still in line with the company's business objectives? Is the organization still serving a function in the stakeholder system or within a "chain of influence" relevant to the company?

Initial Stakeholder Contact

When stakeholder mapping has been completed, the mode of engagement identified, and metrics for success determined, the team will be ready to begin stakeholder engagement.

If the company has never before contacted a particular stakeholder group, it should plan the first contact carefully. The company should choose a local, not-too-hostile representative and find a third-party introducer if possible.

The initial meeting should be one in which the company representative simply listens in order to understand. Good talking points might key off from the initial research that has been done about the stakeholder group. Ask about subjects such as the group's mission and goals, current projects, and membership.

Corporations generally are used to having their way. But the stakeholder "account representative" should keep in mind that this is not a contract negotiation. It is an opportunity to learn.

Identify areas of potential common ground. Be ready to ask questions and explore these areas. Take notes. Explain when necessary, but never argue. Separate positions from interests. It is in these very crucial first-contact encounters that mediation and listening skills are the most critical for success.

Create an environment that allows for setting a few informal goals, perhaps, but be sure that the expectations are kept reasonable. Then make certain that the company exceeds those expectations.

Start small: Relationship building takes time. Renew the contact every three months, or link the pace of the contact with key corporate dates and business objectives. Be realistic and ready to change. Trust and verify. Set modest follow-up actions.

Sequence of Stakeholder Meetings

In our experience, a typical sequence of stakeholder meetings will go like this:

- First Meeting: Guarded, angry. Let them "get if off their chest"
- Second Meeting: Breakthrough, overly-optimistic
- Third Meeting: Reversion to open anger, push-back
- Fourth Meeting: More Realistic, a real dialogue is beginning

By the fourth meeting -- now perhaps one year into the engagement process -- the real plans and progress can begin.

Problems and Challenges in Stakeholder Engagement

Sometimes a company's efforts at initial contact are met with derision, and a group will make it clear that it does not want to be in contact. Realize that engagement threatens the comfortable, black-and-white worldview of both stakeholders and the company.

Companies often think, "Stakeholders only want a relationship with us so we'll give them money." Conversely, stakeholders often think, "Companies only want to maximize their profits. Our talking to them will only look like green-washing."

It is often the case that a particular stakeholder group may have strategic reasons for avoiding engagement. They may see no reason for dialogue. But keep reaching out. There are always reasonable individuals in even the most radical organizations.

Sometimes a company may find it impossible to continue contact with a particular stakeholder group because of an extreme attack or a violation of trust. If this happens, specify the reason, indicate reluctance, and end the formal engagement -- but maintain an informal one if possible. The political landscape eventually will change, and this dormant relationship could prove to be important down the line.

There will be bumps along the path of stakeholder engagement, and many of them are quite predictable. Confidences will be violated, especially leaks to the media about agreements not quite finalized -- particularly if the agreement is not headed in the direction one party wishes. These should not be seen as aberrations; they should be planned for.

Often a reversion to a previously buried militancy will rear its head, particularly in the first year, when the fledgling trust has not been well tested by either side.

Frequently, there will be opposition from voices not directly involved in the stakeholder dialogue. These skeptics should be brought into the conversation where possible, even if initially they slow the process down. Often, the process cannot go forward without them.

Sometimes in the midst of success, both corporate and advocacy groups will find themselves pressured by their peers to end the discussion -- because this kind of dialogue can change the status quo, and that will be threatening to the system that has been in place. Engage these skeptics in conversation. Share your reasons for the dialogue and the benefits that can ensue.

Three Effective Stakeholder Engagement Tactics

We have found that there are three effective tactics that make legal departments extremely nervous. But we suggest you use them anyway, because we have seen them work:

- Acknowledge Imperfection: No one believes a company that implies it is nearly faultless. Everyone relates to a company that shows it is human. Openness fosters understanding and trust.

- Apologize in Person: This is hard the first time, but becomes easier once you have experienced the effect.

- Attribute an Impact: It is common policy for companies to claim that its critics have had zero positive impact, even when corporate actions have been changed and new policies have been created. But critics will keep raising the stakes until they know they have been heard and have had an effect. So if a company does not want its stakeholders to keep escalating their activities, it should consider being generous in acknowledging certain positive impacts that stakeholder actions have had on the company.

Reporting on Progress

We have already emphasized the need to create benchmark metrics not only for each stakeholder engagement, but for the program as a whole. Internal reports that assess the stakeholder engagement plan's progress should be created and delivered in person to functional team leaders. This offers another opportunity to use stakeholder engagement for awareness-building within the corporation.

Public reporting should also be considered. In addition to the standard annual report, a company that is serious about its success with environmental and advocacy stakeholders should publish a sustainability report either in print format or on the web. This report might include information on projects undertaken with stakeholder partners, measurements against the major CSR/SRI standards, and anecdotal stories from supporting stakeholder groups.

Quarterly communications, either electronic or hard copy, can be sent to participating stakeholder partners. These communications could include shared goals, a calendar of events, and descriptions of major successes.

Stakeholder Engagement Successes

Stakeholder engagement, particularly as developed by The Future 500 with the comprehensive methodology outlined here, can be a powerful tool -- not only for social change, but for bottom-line business results as well. We have seen it happen many times.

Two cases that we can talk about here involve incidents in which a stakeholder engagement approach has been utilized to develop new business direction on the heels of adverse political or consumer action.

Mitsubishi and the Rainforest Action Network

The first case occurred several years ago, and involved a dispute with Mitsubishi that resulted from a campaign spearheaded by the Rainforest Action Network (RAN), an activist organization based in San Francisco. A demand was made to Mitsubishi Motors America and Mitsubishi Electric America to discontinue their use of old growth timber for paper, wood products, and building of new facilities. The Future 500 was called in to assist in reaching a solution. After an analysis of possible stakeholders, a dialogue team was created.

Mike Brune, executive director of RAN, describes the project this way, "Through the process of the multi-stakeholder dialogue, we all created a much higher level of awareness of old-growth forests and their impact on business, as well as the benefits of aligning commerce with nature."

The strength of the dialogue resulted from the team of diverse stakeholders that was pulled together. It involved academics, policy experts, environmental advocates, and business executives -- a group of people representing points of view that would not ordinarily be brought to the same discussion.

The resulting solution surprised everyone around the table and proved the robustness of conflict resolution approaches that keep business interests at the center of the stakeholder discussion. A new policy was established at Mitsubishi that was used as a springboard for soliciting the involvement of other companies in the years ahead, such as Lowe's and Home Depot. Seven years later, the solution is still proving to be challenging and viable.

Mike Brune notes, "What we've seen over the last five to ten years is not only an expansion of who companies consider as stakeholders, but an expansion of the environmental and social issues that corporations consider important."

Electronic Waste Disposal

Our second case study involved the issue of proper disposal of electronic waste (computers, display monitors, and televisions) and who will pay for that disposal. The Future 500 was brought into this arena by Region 9 of the US Environmental Protection Agency (EPA) in order to create a whitepaper addressing the scope of the problem and some possible solutions.

The Future 500 presented its results at an EPA-sponsored gathering in Portland, Oregon in 2000. In affiliation with the Zero Waste Alliance of Portland, as well as EPA Regions 9 and 10, and many local sponsors, we went on to facilitate a series of multi-stakeholder working sessions.

One of the most tangible results was legislation recently passed in California: a state bill entitled the California Hazardous Electronic Waste Recycling Act (SB 20). Beginning January 1, 2005, retailers in California began collecting an e-waste recycling fee from consumers and remitting these fees to a governmental fiscal agent in order to cover the costs of disposal processing.

In our view, this legislation promotes a new business model for computer manufacturers by catalyzing business innovation in both end-of-life product disposal and up-front design for environment. It also has the potential to help educate the public on the need for correct disposal and recycling of electronics. Increased public awareness will in turn inform future product purchasing decisions.

Hewlett-Packard (HP) took a lead in the stakeholder discussions that resulted in this legislation, and is also one of the first electronics manufacturers to have its own disposal facility. Stepping forward as a leader in electronics waste policy has given HP a leg up in the computer manufacturer branding wars.

Mark Murray of Californians Against Waste (CAW), one of the key crafters of the California legislation, says, "New and effective public policy can be the result of stakeholders coming together, but that sometimes takes place as the end result of traditional combative leveraging strategies."

A New Way of Doing Business

Though not all participants agree that stakeholder engagement is the complete answer, the benefits of this new way of doing business are already becoming apparent. In a recent article in the San Francisco Chronicle, Marc Gunther observed:

The truth is that corporate America is gradually becoming more compassionate, more green, more diverse, more transparent and more committed to serving the common good -- as well as the bottom line. Home Depot and Lowe's have pledged to eliminate from their shelves wood from endangered forests. . . . UPS operates more than 1,800 vehicles that use "alternative fuels." Sustainability has become a buzzword in the boardroom.

The Future 500 believes that one vehicle for such reform -- and for increased business profits -- will be the continued use and perfection of tools like our stakeholder engagement methodology.

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Bill Shireman, president of the Future 500, a network of international companies and environmental leaders, has been called "a master of environmental entrepreneurism." Shireman wrote California's Bottle Bill and has been working in the field of sustainable business and industrial ecology for over 20 years. His writings have appeared in USA Today, Technology Review, Business Week, the Los Angeles Times, and other publications. He is co-author, with Tachi Kiuchi, of What We Learned in the Rainforest: Business Lessons from Nature, published in 2002 by Berrett-Koehler. Shireman has a degree from the University of California at Berkeley. He can be reached at bshireman@future500.org.