

Sustainability Step One: Who Are Stakeholders and Why Should We Engage Them?

By: Margie P. Flynn*

“Many corporations have come to regard engagement with a variety of individuals and entities on social, environmental and economic issues as an important aspect of how they manage their activities.... Today, leading companies have started to develop an appreciation that stakeholder engagement can contribute to learning and innovation in products and processes, and enhance the sustainability of strategic decisions within and outside of the company”.

*The Practitioner’s Handbook on Stakeholder Engagement*ⁱⁱ

Now that you’ve decided to “take the leap” toward becoming a truly sustainable business, what comes next?

In our last quarterly column, we discussed how going “beyond green” by integrating sustainability into your business operations creates value for customers and drives positive “triple bottom line” (environmental, social *and* financial) impact for your company. This quarter’s column takes an in-depth look at *stakeholder engagement*, the first and most important step on your sustainability journey.

Identifying and engaging key stakeholders around corporate initiatives, communications and planning is increasingly important to your company’s long-term success. Growing mainstream awareness of social and environmental issues has elevated the concerns and expectations of your customers, employees, communities and shareholders. They want greater transparency, more responsible business practices, and the inclusion of stakeholder groups in shaping corporate agendas. Even the definition of “stakeholder” has broadened, with dramatic consequences for how your company functions and remains competitive.

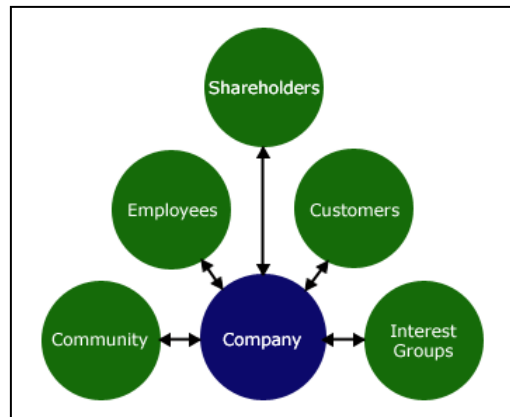


Figure 1: **How Stakeholder Engagement Has Evolved in Recent Decades**

Source: Future 500 (2004)

So, what is “stakeholder engagement”?

At its most basic level, the term “stakeholder” refers to any person or group with an interest or *stake* in an organization’s goals, operations, outcomes and impacts.

Engaging these internal and external audiences can take a number of forms, including focus groups, satisfaction surveys, open dialogues and volunteer or philanthropic activities.

Twenty years ago, the word “stakeholder” translated almost exclusively to “shareholder.” Over time, the definition of “stakeholder” expanded as companies adopted a broader perspective of “corporate responsibility” or “sustainability”.ⁱⁱⁱ Many companies now use this wider lens to explore the impacts of their operations and facilities on a variety of stakeholders, including employees, customers, vendors, interest groups, interest groups and communities (Figure 1). In doing so, these companies also see more clearly how they are affected or influenced by the decisions of these various stakeholder groups.

*And Emily Baunach, Associate Consultant at BrownFlynn

A growing focus on sustainability inspires some businesses to *prioritize* stakeholder feedback in corporate planning, business operations, government affairs, marketing and community investment. Integrating stakeholder engagement into your business processes and planning offers several benefits, including accelerated market entry, mitigation of legal risks and enhanced customer and employee loyalty.^{iv}

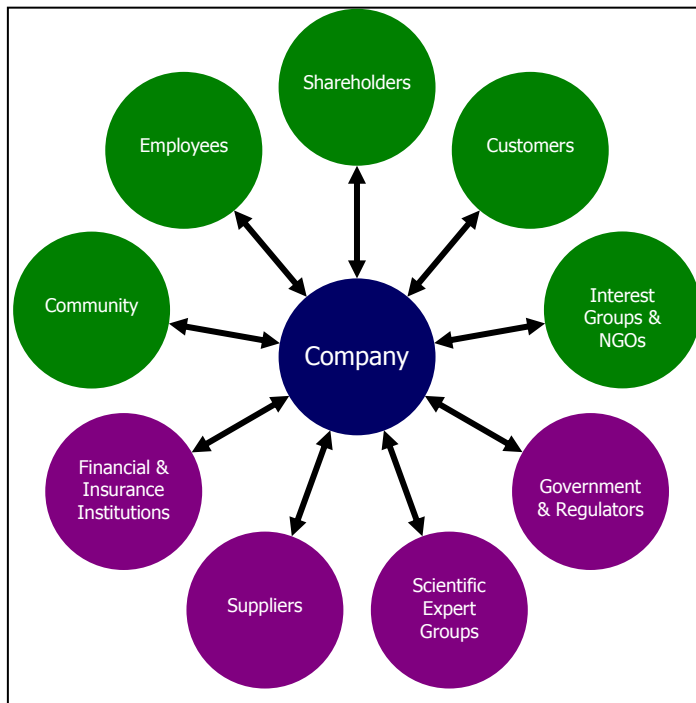


Figure 2: **An Expanding View of Company Stakeholders**
Adapted from: Brown, B. and M. Flynn. 2008. 'The Metatrend Stakeholder Profile: The Changing Profile of Stakeholders in Climate and Water Stressed World.' *Greener Management International*, Issue 54.

Successful stakeholder engagement requires recognizing pressing social and environmental issues your industry will face and listening to a broader set of voices (Figure 2). By engaging a more diverse set of stakeholders (e.g., suppliers, advocacy groups, NGOs, financial institutions, and government entities), you can build greater trust, buy-in and credibility among these key constituents. Most importantly, effective stakeholder engagement can result in unveiling solutions that lead to greater profitability and longevity for your company.

How do you engage these stakeholders?

For any company enlisting feedback through stakeholder engagement, the first step is determining who to engage by asking some simple questions, such as:

- *Who advocates for policy at the local and national level?*
- *Who accounts for our social, environmental and financial impacts?*
- *What individuals, communities or other businesses are affected by our operations, including the transportation of materials to and from our operations?*
- *Who supplies our company with the resources we need to deliver product(s) to our clients?*
- *Who controls internal operations, communications and strategic planning?*
- *To what trade organizations do we belong?*
- *What other non-profit, civic or advocacy organizations either support or resist our efforts?*

The answers to these types of questions will reveal a list of your company's stakeholders—some of whom you may never have engaged in prior dialogue. Once you have this list, try to identify the social, environmental and economic issues related to your business that are likely of particular concern or interest for each of your stakeholder groups. For example, your customers might want to know the amount of recycled material used in your paperboard and packaging products as a priority environmental concern, while the durability of your product in comparison to price might be an important financial concern.

The essence of stakeholder engagement is starting a dialogue with priority groups to test your assumptions about stakeholder concerns. Stakeholder dialogue can help you understand if your core business and/or sustainability objectives are on the right track. Engagement can also identify gaps in your planning if your stakeholders are particularly interested in a specific issue you are not openly addressing.

Engaging these new groups can unveil a variety of opportunities for improving your company's financial, social and environmental performance. Addressing adversity and drawing on stakeholders' unique perspectives also can strengthen your operations and provide greater awareness and understanding of your footprint. Surveying your suppliers, for example, to see what issues are most relevant to them may unveil ways to enhance operations, curb environmental waste and increase efficiency and productivity. A critical outcome of stakeholder engagement is aligning the expectations of key groups of influencers.

How do you prioritize stakeholders and determine who to engage first?

A primary group of stakeholders (see Figure 3) includes those who you directly engage on a daily or weekly basis--customers, board members, trusted advisors, etc. who essentially keep you in business. Garnering buy-in from this group of stakeholders is critical to move forward with any initiative.

Your internal stakeholders, or employees, are *always* primary stakeholders. As you move along your path toward sustainability, you will depend on your employees to “walk the sustainability talk” on a daily basis and bring your efforts to life over time. Ensuring all managers and employees understand what sustainability means for your company and external stakeholders is an important first step. Furthermore, employee engagement is critical to reaping the employee attraction, retention and productivity benefits associated with responsible practices, all the more important to your financial viability in times of economic crisis.

As for the secondary stakeholders—this group typically includes those mainly *affected* by operations or those influencing or suggesting change; in some cases, secondary stakeholders might represent the “naysayers” to an organization's strategic direction or processes and remain one of the most important groups to engage. These stakeholders are likely important to your business and ideally would be included in the stakeholder dialogue, but may not be engaged initially for the purposes of time and resource efficiency.

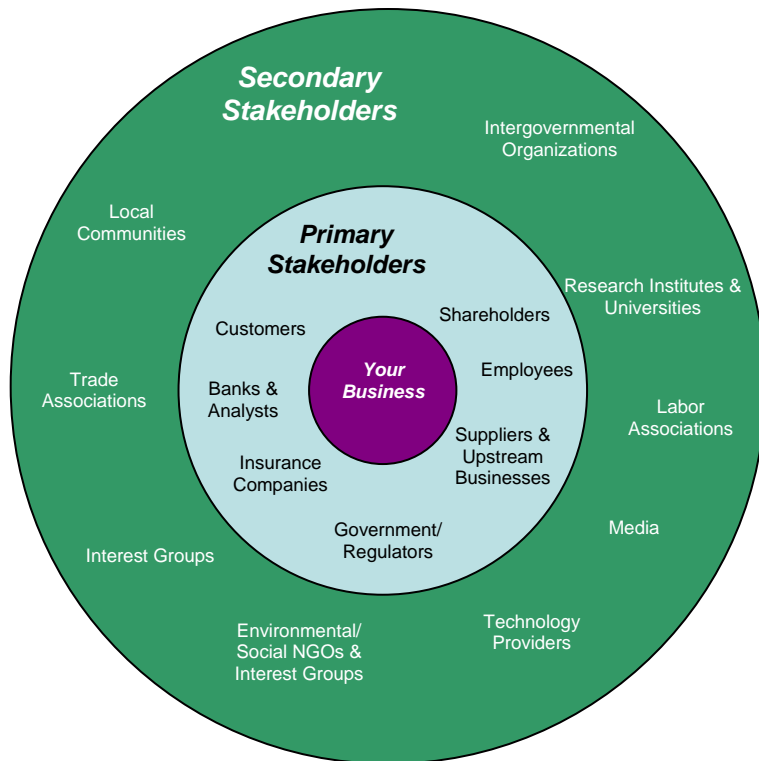


Figure 3: **Primary vs. Secondary Stakeholders**

An example of prioritizing stakeholders for engagement based on your company’s core business objectives. Please note, classification of stakeholders as “primary” or “secondary” often varies by company.

Let’s close with an example of a company for whom identifying and engaging key stakeholders saved the company significant time and financial resources associated with new market entry. In 2006, one of BrownFlynn’s valued clients received a request from a prospective customer about building a new facility close to its Wisconsin operation. In response, our client traveled to the region to meet with a diverse set of stakeholders. As the company evaluated entering the new geographic market, they invited neighbors, local organizations, elected officials and businesses to join in the planning. They incorporated community feedback into the conceptual plans and invited a cross-section of the community to visit one of their Michigan locations to provide a realistic example of how their commitment to and impact on the community shaped operations.

As the process of building a new facility moved forward, our client received unanimous approval when applying for all of the necessary permits, saving the company significant time and money. A community advisory council, including land owners, local conservation groups and academics, invited the company to participate in regular meetings around sustainable development, issues affecting their community and ways to collaborate. With the support of the local community, garnered even further by a celebratory day of employee volunteering, the company opened the facility in 2008, and it will serve as a model for operating and social standards at existing and future sites.

As this example illustrates, stakeholder engagement is critical to the financial, social, and environmental sustainability of your company. In the next quarterly column, you will learn how material topics unveiled through stakeholder engagement can be used as a basis for setting specific, measurable goals in the areas of “people, planet and profit,” using The Global Reporting Initiative (GRI) performance indicators. The GRI not only offers standardized metrics to track progress

toward environmental, social and financial goals over time, but it also can translate into best-practice management techniques within your company.

Margie P. Flynn is principal and co-owner of BrownFlynn, a corporate responsibility and sustainability consulting firm based in Highland Heights, Ohio.

ⁱ Krick, T. *et al* (2005) *The Practitioner's Handbook on Stakeholder Engagement*. Volume 2 of *The Stakeholder Engagement Manual*. (AccountAbility, United Nations Environment Programme and Stakeholder Research Associates Canada Inc).

[http://www.stakeholderresearch.com/assets/downloads/From%20Words%20to%20Action,%20Volume%202,%20The%20Practitioner's%20Handbook%20on%20Stakeholder%20Engagement%20\(2005\).pdf](http://www.stakeholderresearch.com/assets/downloads/From%20Words%20to%20Action,%20Volume%202,%20The%20Practitioner's%20Handbook%20on%20Stakeholder%20Engagement%20(2005).pdf)

ⁱⁱ Krick, T. *et al* (2005) *The Practitioner's Handbook on Stakeholder Engagement*. Volume 2 of *The Stakeholder Engagement Manual*. (AccountAbility, United Nations Environment Programme and Stakeholder Research Associates Canada Inc).

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ⁱⁱⁱ Future 500 (2004) *Stakeholder Engagement*. <http://www.future500.org/custom/16/>

^{iv} International Institute for Sustainable Development *et al* (2004) 'Issue Briefing Note: Stakeholder Engagement, ISO and Corporate Social Responsibility', *The ISO and Corporate Social Responsibility* (Manitoba: International Institute for Sustainable Development) p.12

http://inni.pacinst.org/inni/corporate_social_responsibility/standards_stakeholder_engagement.pdf