VOLUME 1

From Words to Action

The Stakeholder Engagement Manual

VOLUME 1: THE GUIDE TO PRACTITIONERS'
PERSPECTIVES ON STAKEHOLDER ENGAGEMENT

stakeholder research associates

UNEP
United Nations Environment Programme

AccountAbility

From Words to Action

The Stakeholder Engagement Manual

Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement

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Forewords

STAKEHOLDER RESEARCH ASSOCIATES
We believe that stakeholder engagement is fundamental to successful business in the 21st century. Value creation for everyone involved in enterprise is fundamental to creating common purpose and addressing the complex issues facing the planet.

Our mission is to help businesses create value for the company and for society through active engagement with stakeholders. So this research has been a fascinating and informative exploration of practitioner and stakeholder perspectives for us.

We were struck by the openness with which corporations and their stakeholders shared their experiences so that others could learn from them and by the frequency with which the opportunities and challenges created through stakeholder engagement were aligned across corporate, non-governmental organisation (NGO), labour and trade interests. We were also encouraged by what we observed to be a shared recognition of the value created through the strategic embedding of engagement activities within and outside of organisations.

But we are also cautious. In our research for this volume, as is often the case with sustainability and corporate social responsibility (CSR) issues, we generally were speaking with the converted. While we heartily applaud the efforts of these leaders, there are too few of them. As we note in Section 2, notwithstanding the positive developments in this era of engagement, indicators of environmental degradation and social injustice continue to cause concern to many and, at the present time, the vast majority of corporations and small- or medium-sized companies around the world are not actively engaged in these broader debates. We are in an ambiguous period where signs of increased corporate citizenship by some must be juxtaposed against indifference by many and continuing negative social and environmental trends on many indicators. We hope the two volumes in this manual will be a small contribution to the reversal of those trends.

Our thanks to Cornis van der Lugt at UNEP's Division of Technology, Industry and Economics for inviting us to develop this volume and for his expert and sensitive guidance throughout. We are indebted to the talented people who contributed to our research and report preparation: SRA colleague Lara Korba, Clare Cocault, Laura Williamson, Shakir Machhiwala and Cindy Forde; and to our colleagues at AccountAbility. We also thank our sponsor Alcan Inc. for supporting the publication and distribution of this important report.

Finally, our thanks to the practitioners who provided their insight into stakeholder engagement practices today. We trust that their experience will provide guidance and growth for what they predict will be increased value creation from an uptake in sophisticated stakeholder engagement in the years ahead.

Katharine Partridge
Charles Jackson
David Wheeler
Asaf Zohar
Stakeholder Research Associates

UNEP
The concept "stakeholder engagement" has become a common term in the landscape of CSR jargon. This provides all the more reason to examine it critically and see how it can really make a difference. Are the stakeholder relations or "SR" of today simply the public relations or "PR" of yesterday? What does "multi-stakeholder" actually mean, and how is it different from the way we used to do things? Any company executive can ask her or himself: Who holds a stake in my company? Beyond my shareholders and my employees, how far should I go? Will "multi-stakeholder dialogue" simply bring nuisance into my business, or will it bring value to my business?

It is questions like these that we hope to address through this, the first leg of a two-part manual on stakeholder engagement. The idea to do research on stakeholder engagement came from our preparations for the 2002 World Summit on Sustainable Development (WSSD). At a time when the debate on corporate responsibility and partnerships was growing in prominence, it was evident that companies and industry associations alike were struggling to come to grips with this thing called "multi-stakeholder dialogue or partnership". NGOs, labour unions and others were also approaching these concepts with mixed feelings, wondering what is really new.

Following discussion of stakeholder engagement at UNEP's Annual Consultative Meeting with Industry Associations post-WSSD in 2002, we decided to further

develop research on this. Interviewing some companies on their experiences with stakeholder dialogue made a start. At least the idea of having companies, NGOs and other stakeholders around the same table was no longer as radical as twenty years earlier when we had our first Consultative Meeting with Industry Associations in 1984. At that meeting, the mere fact of having government people and "industrialists", meaning business people, around the same table in an international event to discuss environmental pollution raised eyebrows.

The research done by Stakeholder Research Associates in producing Volume 1 on company experiences is valuable in showing the challenges that different organisations are facing. It sets the scene for Volume 2, in which AccountAbility leads in describing practically how organisations can turn "nuisance" into value, step-by-step.

I thank Stakeholder Research Associates, AccountAbility, all participants and interviewees who contributed to the production of this first volume. I am sure it will be a great use to all practitioners.

Monique Barbut
Director
UNEP Division of Technology, Industry and Economics

ACCOUNTABILITY
Getting on track towards sustainable development by harmonising economic productivity, human development and environmental responsibility requires organisations to change. Sometimes the changes required seem so large that it is not clear where to start. Stakeholder engagement, which involves organisations integrating and understanding their stakeholders in guiding better decision-making and accountability, is one of the key ways of setting these changes in motion.

Encouraging effective stakeholder engagement is core to AccountAbility's mission of promoting organisational accountability for sustainable development. For the past decade we have worked with pioneering organisations and a growing band of professionals in developing standards and best practice in integrating stakeholder viewpoints into decision-making. Therefore, we are very happy to witness the growing practice of stakeholder engagement as highlighted by the perspectives and trends set out in this guide.

Stakeholder engagement is increasingly being recognised as more than just a defensive response to criticism or imminent conflicts. In some companies it has transcended into an integrated part of systematic risk management. Furthermore, effective stakeholder engagement is increasingly contributing to organisational resilience and flexibility, to learning and innovation, to the identification of new opportunities, and ultimately to the improvement of sustainable performance. Good engagement,

however, can be more than a contribution to the organisation's performance, but also has the potential to inform the adequate integration of social, environmental and economic issues into core strategies and business models.

However, much remains to be done. In addition to providing advice for successful engagement, the practitioners' perspectives also illustrate the challenges that different players in stakeholder engagement are facing and that should be considered by organisations following in their footsteps.

Volume 2 of this manual, *The Practitioner's Handbook on Stakeholder Engagement*, synthesises the key learning from these diverse perspectives, a review of best practice more broadly and the latest advances in standards development into a handbook that will provide guidance to practitioners in the field. Together, we hope the two documents will be useful for helping practitioners fully realise the benefits of stakeholder engagement in their organisation, to compete in an increasingly complex and ever-changing business environment, while at the same time bringing about systemic change towards sustainable development.

Finally, I would like to thank UNEP for taking the initiative which has led to this very worthwhile project, and our colleagues from Stakeholder Research Associates, who have done such an excellent job in leading the development of this publication.

Maria Sillanpää
Managing Director, AccountAbility

Opening Note

This *Guide to Practitioners' Perspectives on Stakeholder Engagement* and its sister volume *The Practitioner's Handbook on Stakeholder Engagement* (AccountAbility *et al*, 2005) are the result of UNEP's interest in producing a best practice guide to stakeholder dialogue, with the broader aim of promoting the use of stakeholder engagement worldwide as a way of advancing sustainable development goals.

Background to Volume 1: *Practitioners' Perspectives*

As with all research projects of potentially widespread applicability, this initiative grew from a simple proposition. Participants in UNEP's Annual Consultative Meeting with Industry Associations, of October 2002, requested guidance on how to engage in meaningful dialogue with stakeholders. UNEP began its exploration by surveying nearly two dozen leading corporations in order to understand the main engagement approaches they used and the major constraints they faced. This research revealed that the issues at stake differ across stakeholder groups and highlighted the need to understand stakeholder engagement from multiple perspectives, including those of non-governmental organisations, labour unions and trade associations. More than three dozen additional interviews were undertaken with senior representatives in an international selection of those organisations. This volume reflects the perspectives of practitioners from:

Businesses – international corporations operating in 12 sectors (mining, metals, oil and gas, electricity, construction, pharmaceuticals, water, telecommunications, consumer products, finance, automobile, food) and having home operations located on five continents.

Non-governmental organisations – representing environmental, consumer, health, equity and governance concerns.

Labour organisations – representing national and international bodies in 15 countries on six continents.

Trade and industry associations – covering 10 sectors (mining and metals, iron and steel, oil and gas, water, chemicals, air transport, rail transport, food and beverages, cement and accounting).

The practitioners have been candid in sharing their experience of engaging with stakeholders: what their motivations were, what tools and outside expertise they drew on, what worked and what did not and what general advice they would distil from their own specific experiences for others. Although many of the different contributors' perspectives overlap and agree, they are presented separately to enable readers from any of the representative groups – or others – to understand the concerns, practical issues and value propositions of stakeholder engagement from the point of view of some of those with whom they are seeking to engage.

A complete list of organisations and their representatives consulted is provided on page 83. We recognise that the organisations we talked with are mainly those that actively take part in stakeholder engagement processes and view their experiences as positive and value-creating. We acknowledge that we are not necessarily able to quote a full spectrum of views on stakeholder engagement. Indeed, we were refused interviews by some NGOs that were not interested in

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[1] The AA1000 Series provides guidance on using stakeholder engagement to identify and address issues of material significance to a company and its stakeholders. The significance of stakeholder engagement in the AA1000 is reflected by the adoption of the principle of inclusivity as its foundation, as well as in the three principles of materiality, completeness and responsiveness. The GRI Guidelines include the principles of inclusiveness (involvement of stakeholders), completeness (coverage of issues) and relevance (materiality).

contributing to a manual on this subject. We would also have liked to improve our breadth of regional perspectives and recognise that this manual does not reflect the experiences of companies and stakeholders in all parts of the world. Finally, we recognise that the limited scope of this project also excluded at least two major groups of stakeholders – governments and financial institutions. This does not imply that they are of any lesser importance than the ones included within the scope of this research. Corporate engagement of these stakeholder groups is increasing, and we hope to expand our coverage of these perspectives in future editions of this volume.

Background to Volume 2: *Practitioner's Handbook*

As research on this volume progressed, UNEP realised that practitioners – whether already fully engaged or just beginning to explore the value of engagement – were looking for very practical guidance. This is the purpose of *The Practitioner's Handbook on Stakeholder Engagement*, Volume 2 in our manual. Building on the fundamentals provided in this volume, *Practioners' Perspectives*, the *Handbook* provides some of the tools and techniques to help organisations maximise the value from engagement.

Among those tools and techniques, Volume 2 will highlight some of the growing number of frameworks (e.g., guidelines, standards, codes) that have been developed over the past ten years to provide guidance for stakeholder engagement or that require stakeholder engagement. These include

frameworks developed by companies, associations and public institutions. At the transnational level, examples are the AA1000 Series (on inclusivity in accountability processes such as stakeholder engagement and sustainability assurance) and the Global Reporting Initiative (GRI) Guidelines on Sustainability Reporting.[1] At the international level, overarching examples are Agenda 21 (UNCED 1992) and the Johannesburg Plan of Implementation (WSSD 2002). The latter two documents, agreed to between governments, encourage participatory processes and involvement of all major stakeholder groups from the local to global level.

The aim of this two-part *Stakeholder Engagement Manual* is not to replace existing frameworks or re-invent the wheel. Rather, the aim is to complement them by providing practitioners' perspectives and practical guidance that build on the key frameworks that companies are already using. Decisions about the use of different tools are made in the context of their relation to a wider group of international corporate responsibility standards. This is, and will continue to be, shaped by the changing expectations and behaviour of stakeholders, by changes in the market, by the performance of companies or by changes within the world of standard setting. In the growing social responsibility architecture, various frameworks, guidelines and standards address several areas of relevance to stakeholder engagement. Some of them, such as the UN Global Compact with its related conventions and declarations or the OECD Guidelines for Multinational Enterprises,

provide normative guidance on accountable and responsible corporate behaviour. Others, such as the GRI Sustainability Reporting Guidelines or the AA1000 framework and assurance standard, provide principle-based guidance on the approach and key elements of an organisation's management of its corporate responsibilities. Finally, there is also more detailed or technical guidance available on how to systematically manage corporate responsibilities, for example, the ISO14000 series or, at the national level, the SIGMA Guidelines from the UK and the SD21000 from France.

From interviews with practitioners reflected in this volume, it is clear that companies must assess their stakeholder engagement in terms of its added value for all participants. An open and flexible approach that accommodates shifts in economic, environmental and social circumstances, as well as shifts in issues and stakeholder perspectives, is paramount. Collectively developed frameworks, guidelines and standards can support openness and flexibility. More on the practical application of these follows in Volume 2 of the *Stakeholder Engagement Manual*.

We hope that together, these volumes will contribute to the changing mindsets on stakeholder engagement, away from mistrust and towards mutual benefit.

Comments from all interested parties are welcome at:
kpartridge@StakeholderResearch.com, thomas@accountability.org.uk, and cornis.lugt@unep.fr.

Glossary

Accountability: An organisation can be considered as accountable when it accounts to its stakeholders regarding material issues (transparency), responds to stakeholders regarding these issues (responsiveness) on an ongoing basis, and complies with standards to which it is voluntarily committed, and with rules and regulations that it must comply with for statutory reasons (compliance)[2]

Communication: Any manner of information-sharing with stakeholders, generally through one-way, non-iterative processes

Consultation: The process of gathering information or advice from stakeholders and taking those views into consideration to amend plans, make decisions or set directions

Dialogue: An exchange of views and opinion to explore different perspectives, needs and alternatives, with a view to fostering mutual understanding, trust and cooperation on a strategy or initiative

Corporate Social Responsibility (CSR): A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders. Other terms used to refer to the same concept include CESR (corporate environmental and social responsibility), corporate citizenship and corporate responsibility

Engagement: An organisation's efforts to understand and involve stakeholders and their concerns in its activities and decision-making processes

Partnerships: In the context of corporate social responsibility interactions, partnership has been defined as "people and organisations from some combination of public, business and civil constituencies who engage in common societal aims through combining their resources and competencies"[3] sharing both risks and benefits

Stakeholder: Any group or individual who can affect, or is affected by, an organisation or its activities. Also, any individual or group that can help define value propositions for the organisation

Sustainable Development: First popularised in the 1980s by the Brundtland Commission report, *Our Common Future*, which proposes that for development to be sustainable it should "meet the needs of the present without compromising the ability of future generations to meet their own needs"[4]

Triple Bottom Line: The idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital

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[2] Source for this definition: Institute of Social and Ethical AccountAbility.

[3] Jane Nelson and Simon Zadek, *Partnership Alchemy: New Social Partnerships in Europe* (Copenhagen: The Copenhagen Centre, 2001).

[4] World Commission on Environment and Development, *Our Common Future* (Oxford, New York: Oxford University Press, 1987).

INTERNATIONAL ENTITIES, EVENTS AND AGREEMENTS

Agenda 21: The plan for achieving sustainable development in the 21st century, agreed at the UN Conference on Environment and Development (UNCED, Earth Summit) in 1992

Business Action for Sustainable Development: An initiative formed by the International Chamber of Commerce and the World Business Council for Sustainable Development specifically to prepare for the WSSD in Johannesburg, 2002

G8 Environment Group Meeting, Trieste 2001: The meeting of the Environment Ministers of the eight major industrialised countries and the European Commissioner responsible for the Environment in March 2001 to discuss challenging environmental issues, focussing on climate change, sustainable development and environment and health

Global Business Coalition on HIV/AIDS (GBC): An alliance of more than 200 international companies dedicated to combating the AIDS epidemic through the business sector's unique skills and expertise

Global Reporting Initiative (GRI): A long-term multi-stakeholder undertaking started by Ceres and UNEP with the mission to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organisations reporting on the economic, environmental and social dimensions of their activities, products and services

Intergovernmental Panel on Climate Change (IPCC): Established by the World Meteorological Organisation (WMO) and UNEP to assess scientific, technical and socio-economic information relevant for the understanding of climate change, its potential impacts and options for adaptation and mitigation

Kyoto Protocol: An amendment to the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty on global warming. Countries that ratify the protocol commit to reduce their emissions of carbon dioxide and five other greenhouse gases or engage in emissions trading if they maintain or increase emissions of these gases

Marine Stewardship initiative (now Marine Stewardship Council): Began in 1997 as an initiative between WWF and Unilever to work for sustainable marine fisheries, promoting responsible, environmentally appropriate, socially beneficial and economically viable fishing practices

Millennium Ecosystem Assessment (MEA): An international work programme designed to meet the needs of decision-makers and the public for scientific information concerning the consequences of ecosystem change for human well-being and options for responding to those changes. Its landmark report was released March 30, 2005

Mining, Minerals and Sustainable Development Project (MMSD): An independent two-year project of research and consultation seeking to understand how the mining and minerals sector can contribute to the global transition to sustainable development. MMSD was a project of the International Institute for Environment and Development (IIED) commissioned by the World Business Council for Sustainable Development (WBCSD). Its final report, *Breaking New Ground*, was published in 2002

UN Commission on Sustainable Development (CSD): Created in December 1992 to ensure effective follow-up to the United Nations Conference on Environment and Development (UNCED) and to monitor and report on implementation of the UNCED agreements

UN Framework Convention on Climate Change: Agreed to at the United Nations Con-

ference on Environment and Development (UNCED) in 1992, it sets an overall framework for intergovernmental efforts to tackle the challenge posed by climate change

UN Conference on Environment and Development (UNCED): Known as the Earth Summit and held in Rio de Janeiro in 1992, more than 100 heads of state met to address urgent problems of environmental protection and socio-economic development. The assembled leaders signed the Framework Convention on Climate Change and the Convention on Biological Diversity; endorsed the Rio Declaration and the Forest Principles; and adopted Agenda 21, the plan for achieving sustainable development in the 21st century

UN Global Compact: Launched formally by United Nation Secretary-General Kofi Annan in 2000, an international initiative that brings companies together with UN agencies, labour and civil society to support ten principles in the areas of human rights, labour, the environment and anti-corruption

UN World Summit on Sustainable Development (WSSD): Held in Johannesburg in 2002, 10 years after the Earth Summit, bringing together tens of thousands of participants, including heads of state and government, national delegates and leaders from non-governmental organisations (NGOs), businesses and other major groups to focus the world's attention and direct action toward meeting difficult challenges, including improving people's lives and conserving our natural resources

World Business Council for Sustainable Development (WBCSD): A coalition of 175 international companies united by a shared commitment to sustainable development via the three pillars of economic growth, ecological balance and social progress

Executive Summary

As we progress into the 21st century, challenges to business become ever more complex and unpredictable. Business leaders face new risks and new opportunities. How should businesses respond to pressing global issues – climate change, human rights and HIV/AIDS to name but three – that were not on the business agenda 10 to 20 years ago?

Progressive businesses are increasingly aware of the interconnections and complexity of environmental, social and economic issues and recognise they cannot act alone to find solutions. Stakeholder engagement is rapidly emerging as a vital tool to develop an understanding of what sustainability means for companies and how it can add value and viability to their operations.

HOW THIS VOLUME CAN HELP YOU

This volume of practitioners' perspectives on the value and challenges of stakeholder engagement attempts to address several needs:
- To help companies at the beginning of the learning curve manage the complexity of this new approach to doing business
- To share best practices with companies that wish to develop further their collaborative approaches
- To address concerns of advocacy groups, such as environmental and human rights organisations, as well as representative groups, such as labour organisations, about the value and legitimacy of processes that demand their attention and scarce resources
- To explore how the tools used in stakeholder engagement processes currently underway and planned for the future can be ethically grounded and drive value – for everyone involved

KEY FINDINGS

The business practitioners we spoke with and their stakeholders told us that stakeholder engagement practices are becoming increasingly sophisticated. We also observed a growing recognition of the intrinsic value of engagement and, in some cases, the practice of stakeholder engagement as an element of an organisation's routine business processes.

Our research suggests three key findings:
- Stakeholder engagement is a valuable tool for risk/opportunities management that can lead to the avoidance or minimisation of costs and the creation and optimisation of value
- Businesses and their stakeholders recognise that today's complex issues cannot be solved by any single actor. They require a coordinated effort with multiple stakeholders contributing to innovative and sustainable solutions

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[5] For further discussion of these concepts, see David Wheeler, "The successful navigation of uncertainty: Sustainability and the organization," in *Leading in Turbulent Times*, eds. R. Burke and C. Cooper (Oxford: Blackwell, 2004), 182-207 and David Wheeler, Barry Colbert and R. Edward Freeman, "Focusing on value: Reconciling corporate social responsibility, sustainability and a stakeholder approach in a network world," *Journal of General Management* 28(3) (2003): 1-28.

• Effective stakeholder engagement provides the opportunity to manage those challenges, to find innovative solutions and to create value for everyone involved

In Section 2, we present the business case for stakeholder engagement from a corporate perspective. We develop a model and conclude that businesses achieve increasing value from stakeholder engagement as they move from a risk management approach to the recognition of stakeholder relationships as key to strategy. In Section 5, we present the perspectives of industry sector associations, including one practitioner's cyclical model of value creation. This model, we found, can apply not only to business and their trade associations, but also non-governmental organisations (NGOs) and labour unions.

Based on our research, we observed that organisations – whether businesses, NGOs, labour unions or trade associations – that sincerely embrace stakeholder engagement within their operating model and strategy can begin to build a sustainable organisation culture, whereby organisations maximise the creation of value simultaneously in economic, social and ecological terms.[5]

This is not an easy path. Embedding stakeholder engagement within an organisation, including tracking of targets and actions, is as complex as the issues it is designed to address. But without embedding in an organisation's culture, i.e., as part of the values, behaviours and norms of the business, engagement can be merely an "add-on", viewed by managers and stakeholders as a check-box, low-value and, ultimately, unsustainable and even a negative-value activity. The fact that several stakeholders – including some NGOs, labour unions and trade associations – were not interested in being interviewed for this manual suggests that we have some way to go before consensus emerges on the potential value of effective engagement between businesses and their stakeholders. However, we hope that even the sceptics may respond to this document with their comments and thereby enrich our understanding of a growing phenomenon, even if they as individuals and organisations do not wish to become directly involved.

Our interviewees told us that they expect the use of stakeholder engagement processes will continue to grow in their organisations, recognising at the same time that multi-stakeholder engagement will not be appropriate in all circumstances. For this growth to happen, there will need to be an increase in the capacity of organisations across the board and a better understanding of the processes and procedures that will promote the value-creating potential of stakeholder engagement for everyone involved.

1: Engaging the Future

What is in this section?
- An introduction to stakeholder engagement
- Examples of approaches to engagement, the problems identified and opportunities addressed

"We need to make sustainable development happen by generating economic growth with greater resource efficiency, while minimising environmental impacts and with maximum social well-being for more people. We also welcome the growing realisation that business is an indispensable part of the solution to the problems of the world. We have improved our relationships with governments, NGOs and others. Together we will turn the idea of sustainable development through practical partnerships into a growing reality on the ground."

Business Action for Sustainable Development,
World Summit on Sustainable Development,
Johannesburg 2002

As we progress into the 21st century, the risks and opportunities that business leaders face are becoming ever more complex and unpredictable. How should businesses respond to such pressing societal issues as climate change, public concern about the environment, human rights, HIV/AIDS or the growth in corporate power and influence? How should they manage their operations in a changing environment characterised by globalised commerce and communication, increasingly powerful non-governmental organisations (NGOs) and the diminishing role of government? How can they ensure that their business practices do not undermine the natural resources or communities on which their long-term viability depends?

Very few of these issues were high on the business agenda 10 to 20 years ago. In today's boardrooms, they have the potential to become survival issues. Understanding and responding appropriately to the imperative for sustainable development is a very real challenge. Achieving success requires re-evaluation of business strategy and the introduction of new ways of thinking about, measuring and generating value.

With the heightened debate on corporate environmental and social responsibility signalling a new perspective on the interaction between business and society and the distinction between what happens inside and outside of the company becoming blurred, progressive businesses are moving beyond reacting to single issues such as environmental pollution or labour standards. Increasingly, they are aware of the interconnections and complexity of environmental, social and economic issues and recognise they cannot act alone to generate solutions. Stakeholder engagement is rapidly emerging as a vital tool to develop an understanding of what sustainability means for companies and how it can contribute to value creation and the viability of their operations.

Stakeholder engagement is not a new phenomenon. Companies have long been engaged in communication and dialogue with their key stakeholders: investors, employees, customers, communities and governments using traditional methods, such as shareholder meetings, satisfaction surveys, project-specific community consultations and regulatory filings. However, since the mid-1980s, corporate stakeholder engagement has developed into a broader set of approaches to navigate complexity and to help companies understand and

[6] R. Edward Freeman, *Strategic Management: A stakeholder approach* (Boston: Pitman, 1984).

succeed in the world in which they operate. An early example was the 1980s debate around the presence of multinational companies in apartheid South Africa, which forced companies to reflect on how they worked with employees and local communities within an undemocratic system. Celebrated cases of toxic waste releases (Love Canal, Bhopal), consumer safety (automobiles and drugs) and human rights abuse (Nigeria, China) have further challenged businesses to reflect on their broader societal responsibilities and build positive relationships with communities and other stakeholders in addition to their traditional relations with governments and regulators.

HOW THIS VOLUME CAN HELP YOU

This volume draws together the perspectives on stakeholder engagement of practitioners from businesses and industry bodies, NGOs and trade unions to:

• Help companies at the beginning of the learning curve manage the complexity of this new mode of doing business

• Share best practices with companies that wish to develop further their collaborative approaches

• Address concerns of advocacy groups, such as environmental and human rights organisations, as well as representative groups, such as labour organisations, about the value and legitimacy of processes that demand their scarce resources

• Provide perspectives on how the tools used in stakeholder engagement processes currently underway and planned for the future can be ethically grounded and drive value – for everyone involved

This volume's sister publication, *The Practitioner's Handbook on Stakeholder Engagement* (AccountAbility *et al*, 2005), will build on the perspectives provided in this manual to help companies and their stakeholders implement outcome-orientated engagement strategies. It will provide practical guidance on how to plan and carry out engagement processes on material issues in a way that can improve organisational learning and performance in alignment with core corporate strategies.

WHO ARE STAKEHOLDERS?

Stakeholders can be thought of as any group or individual who can affect, or who can be affected by, a corporation or its activities.[6] We can also think of stakeholders as groups or individuals who define value propositions for the company and who therefore must be attended to as part of a sound commercial approach to building loyalty with customers, employees and investors.

Stakeholders are sometimes divided into primary stakeholders, or those who have a direct stake in the organisation and its success, and secondary stakeholders, or those who may

be very influential, especially in questions of reputation, but whose stake is more representational than direct.[7] Secondary stakeholders can also be surrogate representatives for interests that cannot represent themselves, i.e., the natural environment or future generations.[8] **Figure 1.1** provides details of typical members of primary and secondary stakeholder groups. This should not be assumed to be a comprehensive or exclusive list.

Because of the number and spectrum of stakeholders, organisations often start by defining a narrow group of key stakeholders with whom they seek to engage. However, relationships with stakeholder groups are typically neither static nor uniform. The map of stakeholders may look different from issue to issue, and new stakeholders can emerge on the scene unexpectedly. An individual or organisation may have several different stakeholder relationships with a company as well as interrelationships with other stakeholders. Furthermore, in a world of networks based on Internet connectivity, alliances between stakeholders in business may grow, change or collapse with equal rapidity.[9] This is why many leading businesses focus more on developing the requisite organisational mindsets and capabilities needed to build trust-based relationships with their stakeholders than on static mapping of relationships and priorities from the company's perspective. Volume 2 of this manual will address issues of stakeholder identification and provide a more comprehensive introduction to dynamic stakeholder mapping tools.

Figure 1.1: Typical Primary and Secondary Stakeholders

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[7] David Wheeler and Maria Sillanpää, *The Stakeholder Corporation* (London: Pitman, 1997).
[8] John Elkington, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business* (Oxford: Capstone, 1997).
[9] David Wheeler *et al*, "Focusing on value."

WHAT IS ENGAGEMENT?

Engagement is an umbrella term that covers the full range of an organisation's efforts to understand and involve stakeholders in its activities and decisions. Engagement can help organisations meet tactical and strategic needs ranging from gathering information and spotting trends that may impact their activities, to improving transparency and building the trust of the individuals or groups whose support is critical to an organisation's long-term success, to sparking the innovation and organisational change needed to meet new challenges and opportunities. Figure 1.2 provides some examples of the challenges addressed (which can include some previously unresolved dilemmas) and opportunities identified through stakeholder engagement within the spheres of environmental, social and economic performance.

Figure 1.2: Examples of Challenges Addressed and Opportunities Identified

ENVIRONMENTAL	SOCIAL	ECONOMIC
• Air and water discharges, extractions and other impacts	• Employee health and safety, satisfaction, training and development, displacement	• Sharing intellectual property without impacting profitability
• Material and energy use	• Equal opportunity and diversity issues	• Supply chain issues
• Climate change		• Corporate contributions to local, regional and national economic development
• Reclamation issues	• Equity and developing world issues, including health, availability of drugs	
• Regulatory issues		• New public-private partnerships
• New technologies (e.g., genetically modified organisms, nanotechnologies)	• Community contributions	
	• Relationships with indigenous peoples	

WHAT ARE THE MAIN APPROACHES TO ENGAGEMENT?

Stakeholder engagement encompasses relationships built around one-way communication, basic consultation, in-depth dialogue and working partnerships. Each successive approach represents a greater commitment on both sides in terms of time and money, and risk and cooperation. Choosing an approach to engagement is not a technical question about focus groups versus public meetings but about understanding the drivers, risks and opportunities associated with an issue and the needs and aspirations of the company and its stakeholders in relation to that issue. The approaches to engagement are more fully explained in Section 2, page 20, with typical examples briefly summarised in Figure 1.3.

Figure 1.3: Examples of Approaches to Engagement Relationships

COMMUNICATION	CONSULTATION	DIALOGUE	PARTNERSHIPS
● Information sharing	● Questionnaire surveys	● Multi-stakeholder forums	● Joint ventures
● Employee training	● Focus groups	● Advisory panels	● Local sustainable development projects
● Project bulletins and letters to targeted audiences	● Workplace assessments	● Leadership summits	● Multi-stakeholder initiatives
● Company brochures and reports	● Ad hoc stakeholder advisory meetings (e.g., community consultations)	● Virtual engagement on intranets and the Internet	● Alliances
● Internal and external newsletters	● Standing stakeholder advisory forums		
● Web sites	● Online feedback and discussion forums		
● Technical briefings			
● Speeches, conference presentations, displays, handouts and videos			
● Open houses and town hall meetings			
● Tours			
● Press releases, press conferences, media advertising			

2. Corporations

WHY AND HOW DO WE ENGAGE?

What is in this section?
- An examination of corporate engagement trends
- The business case for stakeholder engagement
- Examples of current best practise
- Practitioners' insights into company successes and failures
- Some success factors for effective engagement
- Regional observations and voices on engagement

"[We engage] to find solutions to shared challenges, everything from creating awareness about a topic to improving company performance on the environment and human rights, to finding solutions to societal challenges."

Bo Wesley, Manager,
Trendspotting and Dialogue,
Novo Nordisk

In Section 1, we noted that the growing imperative for sustainable development has resulted in corporations facing increasingly complex challenges to their business models. This has come against the background of a growing debate on corporate responsibility and a new perspective on the interaction between business and society. We also drew attention to the opportunities that have emerged to address these challenges and, through stakeholder engagement processes, to create greater value for the company and its various constituencies.

The business people we spoke with highlighted three interrelated stakeholder engagement trends that have surfaced since the mid-1980s:

Trend 1: Industry spread – from companies with recognisable brands and reputations to formerly invisible companies

Trend 2: Increase in stakeholder diversity and complexity and the range of issues they raise or champion

Trend 3: Increasingly sophisticated approaches to engagement by corporations seeking "win-win" outcomes with stakeholders

WHOM DID WE SPEAK WITH?
Our interviewees represented international corporations in 12 sectors (mining, metals, oil and gas, electricity, construction, pharmaceuticals, water, telecommunications, consumer products, finance, automobile, food) and having home operations on five continents. (For a full list, see page 83.) We were successful in reaching many representatives in industrialised nations; we would have liked to have interviewed more from developing countries.

CORPORATE ENGAGEMENT - WHAT ARE THE TRENDS IN MOTIVE AND METHOD?

Trend 1: Industry spread - from companies with recognisable brands and reputations to formerly invisible companies

At its modern inception, stakeholder engagement was most frequently associated with high-environmental impact operations (such as resource extraction or primary manufacturing companies) or high-technology companies (such as pharmaceuticals, life sciences and biotechnology companies) that were developing new and controversial products. More recently, the increasing breadth and complexity of global issues combined with governments' recognition of the importance of engaging the private sector in tackling major global challenges (such as poverty, HIV/AIDS, obesity, global warming and environmental destruction) has resulted in an uptake in stakeholder engagement increasingly by mainstream companies. These include financial institutions, as well as consumer products, water and waste companies.

This uptake has happened in what the companies we spoke to identified as three eras,[10] each successive, overlapping and characterised by expanding issues, boundaries and industry-sector participation. While these eras capture a feeling of the broad trends in the uptake of stakeholder engagement, it is important to note that different companies and issues have moved at different rates depending on the particular drivers and pressures at play. The drivers and characteristics of the three eras are summarised in **Figure 2.1**. Briefly:

The Awareness Era

The first era, during the 1980s, was primarily focussed on environmental and local issues. It consisted of a few leading companies in a handful of industries (e.g., resource extraction, chemicals, micro-electronics) reacting in countries where an active consumer or environmental movement reflected growing public concern for the environment and an increasing mistrust of companies. These companies had a number of features in common: a large local presence and easily identifiable "point-source" environmental or consumer impacts (e.g., air or water pollution, toxic chemical emissions, technological accidents, etc.). During this era, the majority of companies addressed issues only when they were made aware of problems by external actors and responded largely by denying or avoiding the problem as best as possible.

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[10] A worthwhile comparison can be made with the three waves described in a mapping exercise by John Elkington in *Cannibals with Forks*.

[11] For more information on the Millennium Ecosystem Assessment's *Eco-Systems and Human Well-being Synthesis Report* (Washington: Island Press, 2005), see www.millenniumassessment.org

[12] For more information, see UNEP DTIE at www.unep.fr/en/branches/partnerships.htm

Figure 2.1: Drivers and Characteristics of Three Eras of Stakeholder Engagement

MID 1980s	EARLY 1990s	EARLY 2000s
The Awareness Era	The Attentive Era	The Engagement Era
• Environmental	• Environmental, social	• Increasingly complex environmental, social, economic
• Local	• Global	• Global
• High-impact, high-visibility industries	• Less visible industries	• Multi-stakeholder partnerships

DRIVERS

• Deteriorating public opinion, mistrust of business
• NGO, activist pressure to reduce environmental impacts
• Negative media
• Increasing community tensions
• Consumer boycotts
• Difficulties, delays in permitting
• Threats to licence to operate

DRIVERS

• Increasing awareness of threats to resources, interconnectedness of environment, social, economic issues
• Calls for corporate responsibility on environmental, social issues
• Rise of NGO influence powered by electronic communications

DRIVERS

• Growing issue linkages, complexity
• Growing anti-globalisation movement
• Increasing influence of global multi-stakeholder organisations
• Recognition of value creation from engagement for a company and its stakeholders

The Attentive Era

During the second era, which began roughly around the 1992 UN Conference on Environment and Development (The Earth Summit), local environmental issues gave way to more geographically expansive concerns in both environmental and social arenas. This was the result of globalisation by business coupled with an increasingly knowledgeable and "connected" public and communities of non-governmental organisations (NGOs). It is arguable that the discovery of global threats such as ozone depletion and climate change led to a more planetary perspective in the public mind. Such perspectives and concerns have been further legitimated by the work of international bodies, such as the Intergovernmental Panel on Climate Change and the recent publication of the UN Millennium Ecosystem Assessment.[10] An increasingly sophisticated understanding of the long-term and global impacts of industrial development in general, as well as of such specific issues as biotechnology and climate change, brought about a more general acknowledgement of the complexity of the issues and the magnitude of the challenge. As a result, the problems became much harder to ignore. The combination of these factors

propelled stakeholder engagement from its largely localised origins to the global stage. This was the era during which Greenpeace and others challenged Shell's actions in the Brent Spar incident and in Nigeria with respect to the environmental and social justice issues for the Ogoni. Also, companies such as Nike and GAP – which were previously perceived to have minimal impacts – were called to account by their stakeholders for labour conditions in their supply chains. Many companies started to be more attentive to these issues, acknowledging that they had responsibility for the impacts of their operations. The result for some was a more proactive approach to managing issues through, for example, reporting of progress in their environmental and social reports.

The Engagement Era
The third era surfaced in the run-up to the 2002 World Summit on Sustainable Development (WSSD). Many individual corporations had become increasingly sophisticated in addressing environmental and social issues within their own operations. At the same time, a number of leading businesses, along with governments and NGOs, began to recognise that none of them could tackle global sustainability challenges on their own. Thus many large corporations increasingly became engaged in multi-stakeholder dialogues and partnerships convened by industry associations, governments and international agencies (e.g., the UN Global Compact or UNEP industry sector initiatives)[12] or newly established, multi-stakeholder-governed institutions, such as the Global Reporting Initiative. As this era continues, large companies and their stakeholders are becoming much more sophisticated and strategic in their choices of which organisations, groups and networks to engage with. There has also been an increasing focus on the transparency and accountability not only of companies, but also of civil society organisations, as well as the new generation of multi-stakeholder institutions themselves that have emerged to address these new challenges.

Notwithstanding these positive developments, indicators of environmental degradation and social injustice continue to cause concern to many – NGOs and anti-globalisation campaigners in particular. In addition, the vast majority of corporations and small or medium-sized companies around the world are not actively engaged in these broader debates. So this era of engagement is an ambiguous period where signs of increased corporate citizenship by some must be juxtaposed against indifference by many and continuing negative social and environmental trends on many indicators. We still have much progress to make.

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[13] World Resources Institute, UNEP and World Business Council for Sustainable Development, *Tomorrow's Markets: Global Trends and Their Implications for Business* (2002).
[14] Some would argue that corporate engagement with the socially responsible investment community (SRI) and rating agencies is still largely separate from the well-established channels of companies with the mainstream investors.

Trend 2: Increase in stakeholder diversity and complexity and the range of issues they raise or champion

The past two decades have seen an explosion in the number and range of stakeholders that are demanding the attention of corporations. This has required corporations to manage a greater diversity of views and approaches to engagement.

To illustrate, in 1950, there were 22 democratic states out of 154 countries compared to 119 out of 192 in 2000. In 1948, only 41 NGOs had consultative status in the UN; now there are more than 2,000.[13]

In Section 1, we defined primary and secondary stakeholders. Primary stakeholders have expanded beyond the traditional to include shareholder activists, responsible investment funds and rating agencies, as well as suppliers or business partners that may be located in regions far removed from a corporation's home base. Secondary stakeholders have grown to include not only government regulators and environmental groups, but also civil society organisations promoting social and health agendas, as well as international multi-stakeholder organisations and networks (e.g., the UN Global Compact, Global Reporting Initiative) that hope to influence the rules and standards of the marketplace.

Our conversations with companies suggest that primary and secondary stakeholder groups can further be framed according to their relationship with a company. We summarise some of these in **Figure 2.2**. In each case, corporations are recognising the value for both themselves and their stakeholders in building trust-based, mutually beneficial relationships.

Figure 2.2: Stakeholder Groups by Relationship

BUSINESS STAKEHOLDERS	GOVERNMENT	CIVIL SOCIETY
Deepening and adding value to traditional or long-standing relationships	Moving beyond a compliance framework into a variety of participatory models, including new forms of public-private partnerships and multi-stakeholder policy dialogue aimed at securing a policy framework that is supportive of responsible competitiveness	Moving beyond confrontation to dialogue and cooperative and partnership models
● Managers, employees and labour unions		● Local community stakeholders
● Shareholders, investors, lending institutions and reinsurers[14]		● NGOs
● Customers, clients and consumers		● Research institutions, academics, media
● Suppliers and contractors		● Global community stakeholders
● Industry and trade associations		
● Competitors		

As highlighted above, the sheer number and diversity of stakeholders has led companies to engage selectively. Historically, managers have focussed on stakeholders that appear to be powerful, legitimate in the traditional sense and/or urgent.[15]

However, companies now need to be prepared for constant changes within existing relationships and for the arrival of new stakeholders and issues. They need to understand not only the simple division of stakeholders into primary and secondary, but also such factors as:

- The dynamics of the interrelationships between stakeholders
- The power and influence of different stakeholders
- The abilities and competencies of the engaging parties
- The mindsets and cultures (values, beliefs and behaviours) of the engaging parties

Reactive approaches to stakeholder engagement may not be adequate for building the trust-based, reciprocal relationships that are characteristic of companies moving up the learning curve to take advantage of opportunities and that build higher levels of good-will or "social capital".[16]

Trend 3: Increasingly sophisticated approaches to engagement by corporations seeking "win-win" outcomes with stakeholders

As companies gain experience and confidence in engaging stakeholders, their approach tends to shift from one-way channels of communication designed to spread information to interactive tools for consultation and dialogue. These may then mature into multi-stakeholder partnerships and alliances.

This mirrors the shift common to stakeholder relationships within many organisations – from a corporate-driven "Trust Us" paradigm to a stakeholder-driven "Show Us" and, eventually, to an inclusive model variously coined "Involve Us" or "Hear Us".[17] This shift is summarised in **Figure 2.3**.

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[15] B.R. Agle, R.K. Mitchell and J.A. Sonnenfeld, "Who matters to CEOs? An investigation of stakeholder attributes and salience, corporate performance, and CEO values," *Academy of Management Journal* 42(5) (1999): 507-525.

[16] P.A. Adler and S-W. Kwon, "Social capital: prospects for a new concept," Academy of Management Review 27(1) (2002):17-40.

[17] The "Trust Me–Tell Me–Show Me–Involve Me" terminology comes from a mapping of the interplay between transparency and trust done by the Shell International Sustainable Development Group. See SustainAbility and UNEP, *Trust Us: The Global Reporters 2002 Survey of Corporate Sustainability Reporting* (London, Paris: Sustain-Ability, UNEP DTIE, 2002).

Figure 2.3: Increasing Sophistication in Corporations' Approaches to Engagement

METHOD OF ENGAGEMENT	INCREASED INCLUSIVITY OF RELATIONSHIP
Communications via one-way channels designed to spread information	Trust Us
Consultation and dialogue via interactive channels	Show Us
Partnerships that create value and are focussed on finding solutions	Involve Us, Hear Us

Communication

Communication with stakeholders is something almost every organisation does – conveying information about itself, its products, plans and viewpoints to those who want to know and to those whom it seeks to influence. Internal communications explain corporate policy and principles to employees. External communications can educate stakeholders to become informed participants in dialogues or partnerships. For stakeholder engagement to be effective, it needs to be built on honest, transparent, accurate and timely information, as today's stakeholders are quick to identify superficial communications efforts or significant gaps in performance information. **Figure 1.3** on page 14 provides examples of common communication tools.

Consultation

Consultation is the process of gathering information or advice from stakeholders (e.g., by way of surveys or focus groups) and taking those views into consideration to amend plans, make decisions or set directions. **Box 2.1** summarises some ways in which consultation can create value through improved performance.

Box 2.1: Improving Performance Through Consultation

Consultation enables companies to improve their decision-making and performance by soliciting external perspectives on:

● **Current and emerging issues,** such as climate change, biotechnology, human rights or changing expectations of corporate responsibility that may impact the company or on which the company may have an influence

● **Perceptions of the company,** which can act as a catalyst for change in corporate practices and policies

● **A company's impact,** performance, products, services and communications

Consultation may be informal (e.g., one-on-one conversations with individuals by telephone or in the bars and corridors of government or international meetings) or formal.

Ultimately consultation leaves the final decisions with the company, although stakeholder input may influence direction to varying degrees. It is important to provide feedback to stakeholders on how their input affected a course of action in order to demonstrate that their views were considered seriously. For example, prompt and transparent publication of the results from a stakeholder survey can provide a clear signal of the integrity of the process and a first step to dialogue on the issues raised. A key issue here for stakeholders is whether consultation is about the decision itself or the way a decision already taken by the company is implemented. It is important that expectations raised during consultation processes are met, and so companies should not over-promise and under-deliver.

Dialogue

Like consultation, dialogue involves an exchange of views and opinion. Unlike consultation, however, dialogue seeks to explore different perspectives, needs and alternatives with a view to fostering mutual understanding, trust and cooperation on an issue, strategy or initiative.

Dialogue is distinguished from consultation in two ways. First, consultation is driven by the company. While the parameters of dialogue and the decisions that come out of it still are generally set by the initiating organisation, stakeholders may more closely influence the agenda and outcomes. Second, and as a result, consultation tends to be a one-way flow of views and advice from stakeholder to company. Dialogue, on the other hand, provides an opportunity for companies to contextualise the barriers or compromises they face in trying to meet multiple stakeholder expectations and for stakeholders to provide input on ways to meet those expectations.

Like consultation, dialogue may be focussed on different elements of a company's performance, current or emerging issues and opportunities. Also, like consultation, dialogue employs the same tools: ad hoc stakeholder engagement, standing stakeholder advisory bodies and online (virtual) dialogue. **Figure 2.4** provides some examples of tools for stakeholder consultation and dialogue.

Effective dialogue requires an unbiased attitude, a willingness to suspend judgment, a commitment to listen to diverse perspectives (and to act or react as required) and an understanding that compromises may be necessary in order to achieve "win-win" outcomes. In order to build the trust required for fruitful dialogue, the organisation and stakeholder must be willing to invest substantial time. The participants must also bring the right mindsets, culture and capabilities to the interaction.

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[18] For a commentary on the survey, please see Charles Jackson and T. Bundgård, "Achieving quality in social reporting: The role of surveys in stakeholder consultation," *Business Ethics: A European Review*, 11(3) (2002): 253-259.

Figure 2.4: Some Tools for Stakeholder Engagement

TOOL	CONSULTATION	DIALOGUE
Surveys	● Track attitudes and perceptions of customers or employees ● *Example: BT surveyed 19-million residential customers to learn how it could improve service* ● *Example: Novo Nordisk surveyed employees in five countries and published its findings in the company's 1999 Environment and Social Report*[18]	n/a
Ad hoc stakeholder engagement	● Consultation to gather stakeholders' perspectives on a company's corporate responsibility initiatives or on focussed topics ● *Example: Several companies seek input on their environmental or sustainability reports*	● Dialogue through informal and ongoing relations with NGOs, community groups, scientific experts or via multi-stakeholder meetings hosted by the company on specific issues on an "as-needed" basis ● Participation in forums or leadership summits hosted by stakeholders, government roundtables, NGO meetings
Standing stakeholder advisory forums	● Community advisory panels, multi-stakeholder advisory councils, scientific advisory committees, customer liaison panels and others that meet several times a year to provide a sounding board for corporate decision-making ● *Example: Companies, such as Dow Chemical, Intel, Placer Dome and Lafarge, have set up community advisory panels at all manufacturing or mining sites. Others, such at BT or Nike, have established multi-stakeholder assurance panels*	● Advisory panels frequently evolve into more open and flexible forums for dialogue between a company and its stakeholders ● *Example: The global stakeholders on Dow Chemical's Corporate Environmental Advisory Council have been meeting since 1991 to advise Dow on strategic environmental and corporate responsibility issues, helping to develop the company's Sustainable Development Principles for guiding strategic decision-making and shaping a variety of environmental, health and safety strategies. In 2001. Electricité de France set up a sustainable development panel (formerly Agenda 21 panel) at group level to help integrate its sustainable development strategy*
Web-based tools	● Online forums solicit feedback on how a company is doing ● *Example: Shell pioneered posting its corporate responsibility report on its web site, encouraging its stakeholders to "Tell Shell" by soliciting their feedback online*	● Intranets bring together corporate directors, managers and employees for "real-time" dialogues on a company's performance, but virtual engagement beyond communication and consultation with external stakeholders is still in its embryonic stages ● *Example: BT is leading the way in the information and telecommunications technology sector, by experimenting with e-mail and live online debates "to provide a discussion forum for debating issues of interest and relevance to BT"*

Partnerships

Partnerships, in the context of corporate social responsibility interactions, have been defined as "people and organisations from some combination of public, business and civil constituencies who engage in common societal aims through combining their resources and competencies,"[19] sharing both risks and benefits.

Whereas dialogue aims to improve understanding and explore options, partnerships look for synergies between competencies and resources to translate goals into action, e.g., reduce toxic emissions, address the impact on the workforce of HIV/AIDS, etc. Partnerships between organisations and stakeholders may be bilateral, i.e., between a company and a specific NGO; or multilateral, i.e., involving a company, local government and community groups, or, at the international level, encompassing companies, business associations, environmental and social NGOs, trade organisations, intergovernmental organisations and others.[20] **Figure 2.5** provides some examples of partnerships.

Partnerships involve organisations with differing interests, motivations and infrastructures. They are not necessarily built on broadly shared values, culture or interests among the participants, rather they must be designed and negotiated to meet the individual needs of each partner in a way that secures the involvement needed to achieve the overall objectives of the partnership.[21] Partnerships pose a unique and particular challenge for an organisation's governance and accountability, raising questions of how to effectively design stakeholder engagement processes and structures both within the partnership and between each active partner and its own network of members, affiliates and stakeholders.

[19] Nelson and Zadek, *Partnership Alchemy*.

[20] On partnerships with the United Nations and related activities of its agencies, see Jane Nelson, *Building Partnerships: Co-operation between the United Nations System and the Private Sector* (New York, London: UN DPI and International Business Leaders Forum, 2002). As well, the Partnering Initiative and the Global Alliance for Improved Nutrition (GAIN) in association with the United Nations Development Programme (UNDP) and the International Atomic Energy Agency (IAEA) has developed resources to help organisations implement successful partnerships. See www.thepartneringinitiative.org/mainpages/rb/pt/index.php

[21] Business Partners for Development, *Endearing Myths, Enduring Truths: Enabling Partnerships between business, civil society and the public sector* (Business Partners for Development, 2002).

Figure 2.5: Some Examples of Partnerships

TYPE OF PARTNERSHIP	PARAMETERS	EXAMPLE
Bilateral	Between one company and one key stakeholder	● Dow Chemical, for example, formed a productive partnership with the Natural Resources Defense Council, an American NGO, in reducing Dow's toxic pollutants in Michigan ● Lafarge worked with CARE, an international development NGO, to develop its health policy in Africa and is currently working with another NGO, Habitat for Humanity, to provide below-market-cost housing in 25 countries. It also currently works in partnership with WWF
Multilateral	Between one company and several stakeholders	● Locally based corporate-stakeholder partnerships in which the company engages a number of local stakeholders to identify and help meet priority community needs
International organisation-associated stakeholder forums	Between one stakeholder and several companies	● UNEP's ongoing initiatives with companies in the finance and insurance, tourism, information and telecommunications technology, automotive manufacturing and construction sectors. These initiatives involve non-business stakeholders in project activities and meetings, thus leaning towards the multi-stakeholder model ● World Health Organisation's partnership with pharmaceutical companies to provide affordable medication for the prevention and treatment of AIDS, malaria and other diseases in developing countries ● The World Business Council for Sustainable Development has set up several sector projects involving research and stakeholder consultations to see how an industry can align its practices and policies with the requirements of sustainability
Global multi-stakeholder	Partnerships in which no one company or stakeholder has a predominant role and for which a new, multi-stakeholder institution may be created	● UN Global Compact and Global Reporting Initiative, fostering corporate responsibility and accountability ● Marine Stewardship initiative, and Mining, Minerals and Sustainable Development Project (MMSD), preserving natural resources at the international level ● Fair Labour Association, involving local NGOs in the independent monitoring of human rights and labour practices in factories producing for apparel and footwear companies

HOW DOES ENGAGEMENT CREATE VALUE FOR CORPORATIONS?
The trends highlighted above suggest the evolution of a "business case"' for stakeholder engagement, one that has progressed from a reactive stance (problem-avoidance) to proactive (information-seeking) and on to progressive (solutions-orientated).

When we asked corporations why their organisations engage stakeholders, we found that their responses reflected this progression:
• Dermont Kirk of BP told us, "Licence to operate…. We have a vested interest in the well-being of the community because it reflects our own well-being."
• Dave Stangis of Intel noted, "To identify emerging issues, to move from a reactive to a proactive approach and to use the knowledge in practice."
• Bo Wesley of Novo Nordisk put it this way: "To find solutions to shared challenges – everything from creating awareness about a topic to improving company performance on the environment and human rights to finding solutions to societal challenges."

Reflecting on the business case, earlier we described three overlapping eras of stakeholder engagement relating to timeframes and related drivers (**Figure 2.1**). As the drivers for stakeholder engagement are cumulative, so too is support for the business case. **Figure 2.6** illustrates the business case for stakeholder engagement, from risk management to strategic positioning.

The Awareness Era heralded the risk management case. Reactive in nature, companies sought value through improved community and public relations, avoiding conflicts and minimising the risk and costs of boycotts, litigation and failure to obtain regulatory and societal licence to operate.

The Attentive Era ushered in the business case for early warning and learning. Proactive in nature, it created value by harnessing external expertise on global social concerns, calling for increased corporate responsibility and burgeoning voluntary initiatives to expand internal decision-making capacity.

Figure 2.6: The Business Case for Stakeholder Engagement
– From Risk Management to Strategic Positioning

STRATEGIC CASE
- Seek solutions, reconcile dilemmas
- Establish credibility and role as partner in solutions
- Innovate and develop new business

EARLY WARNING LEARNING CASE
- Identify emerging issues that will influence business/market conditions, get understanding of societal perspectives of corporate responsibility and issues, get outside expertise and advice thereby promoting organisational learning

RISK MANAGEMENT CASE
- Better community relations, positive public image, improved reputation
- Conflict mitigation, cost containment (e.g., litigation, boycotts), reduced regulatory time frames, maintenance of societal licence (to operate/expand/innovate)

The Engagement Era is characterised by many leading businesses pursuing a strategic business case for stakeholder engagement. Directed towards positive change, the strategic case creates value by finding solutions to sustainable development challenges. The aim is to develop an understanding of these increasingly complex issues and to resolve them in ways that meet stakeholder expectations and benefit the company. Learning from stakeholders, rather than merely engaging with them, involves a deeper commitment to see critical stakeholders as a strategic asset that shapes and informs the decisions and direction of the company. Companies, such as BT, Tata Steel and the Co-operative Bank, position stakeholder engagement as critical to their future success rather than as a peripheral activity. For example, in 2002, Novo Nordisk made stakeholder relations a corporate management responsibility. We provide some details of Novo Nordisk's strategic decision in **Box 2.2**. HSBC Bank developed a philanthropic partnership with the WWF and, in the process, became so impressed with the organisation's breadth and depth of environmental knowledge, it seconded a senior WWF staff member as an environmental advisor to support risk management activities in its lending practice.

Box 2.2: Stakeholder Engagement as a Core Business Strategy at Novo Nordisk

In spring 2002, Stakeholder Relations was made a corporate management responsibility, headed by Lise Kingo reporting to Lars Rebien Sørensen, president and chief executive officer of Novo Nordisk. By incorporating stakeholder relations into the Executive Management of the company, Novo Nordisk demonstrates its strong commitment to sustainable development as part of its strategic business agenda.... Its task is to keep the company alert to new trends in sustainable development that may affect the company's future business performance, and to help management understand and manage the new, complex business agenda. Hence, interaction with key opinion leaders and other critical stakeholders is among the unit's main activities as are developing practices and reporting and communicating on Triple Bottom Line issues.

Source: Novo Nordisk Sustainability Report 2002

WHAT ARE SOME SUCCESS FACTORS FOR EFFECTIVE ENGAGEMENT?
In **Box 2.3**, we provide one perspective of how a company can establish a solid base of understanding for successful stakeholder engagement. **Box 2.4** provides some examples of companies building continuity and capacity across international operations. Following are five additional insights from corporate practitioners on the front lines.

Box 2.3: Proactive Engagement Succeeds Where Regulations Fail

Sergio Leao, an executive with Odebrecht, a Brazilian-based construction and engineering firm, relates how his company was developing a tourist resort in an environmentally sensitive area of its home country. Stakeholders raised serious concerns about the project. These concerns were handled under the permit process through public hearings and consultations. However, after obtaining the environmental permit, the Odebrecht team learned that this process did not lead to a full appraisal of the issues from the perspective of stakeholders. As a result, Odebrecht decided to implement a stronger consultation plan before and after starting construction. This led to community-orientated programmes that were essential to the success of the project. Sergio Leao notes that this lesson clearly demonstrates that a company has to look beyond the regulatory requirements of public consultation and take the initiative to establish a solid understanding of stakeholder issues and perspectives.

■ **Agree on the rules of engagement**
Richard Aylard of RWE Thames Water notes that, "The rules of engagement must be spelt out and agreed upon by all." Sergio Leao of Odebrecht suggests a corollary factor: understand each party's role. This, he says, is of particular importance to stakeholders who are new to engagement processes and need to understand the roles of business, as distinct from government, NGOs or other members of society.

■ **Be focussed yet flexible**
Claire Morgan of BT notes that engagement will be most successful when it is focused to explore specific themes. But dialogue is not something conducted on terms dictated by one party, and a company cannot expect to control the agenda. Be prepared to discuss what stakeholders want to discuss. At the very least, have clear expectations. Are you engaged to get to know each other better or are you seeking commitments? Clarity, suggests BP's Dermont Kirk, is essential to avoid frustration and risk to a company's reputation.

Box 2.4: Best Practice in Community Engagement Across International Operations

Many organisations that want to implement stakeholder engagement strategies find that an important first step is to develop internal capacity to scope stakeholder needs and managerial competency to dialogue with stakeholders. Below are three company examples at the corporate and operational levels.

At the Corporate Level
Odebrecht undertakes an annual year-end presentation of the "social" projects the company has undertaken, drawing lessons from successes and weaknesses and building a foundation of knowledge and experience that it can transfer to new projects and new regions.

At the Operational Level
Placer Dome provided custom-designed training in stakeholder engagement to 60 staff in order to ensure that local managers, who are directly involved with local stakeholders, had the tools to effectively meet the objectives set out in the company's sustainability policy. Anglo American operates in a variety of sectors (e.g., mining, minerals, forestry) on five continents. In order to build local stakeholder engagement, the compa-

ny developed a Community Engagement Plan (CEP) that sets out requirements for operations managers in a number of areas. These include: stakeholder identification; issue identification, objectives, resources and accountability; supporting philanthropic programmes; and complaints cataloguing.
Anglo American began rolling out the CEP to 140 of its operations in 2002. Managers are to implement the plan over three years and to review their progress annually. In a parallel capacity-building initiative, the company has developed a kit of 22 socio-economic tools to assist CEP implementation. These include information on engagement techniques and reporting progress to stakeholders, best practice in forming partnerships, and guidance in assessing baseline human capital.

■ **Listen and be respectful**

BP's Dermont Kirk notes that, "Engagement is more about listening than anything else." Expect to spend time learning each other's vocabulary. "You may be using the same words," he observes, "but they may have different meanings." Accept that you are not going to agree on everything, adds Sarah Severn of Nike, and look for middle ground. And be aware of the power of perceptions, which may not align with your way of thinking. Sometimes perceptions can be changed, while at other times you have to accept and work with them. In some engagements, especially where trust is absent, an independent facilitator or neutral broker can provide valuable perspective. John Musser of Dow Chemical notes, "We've found it essential not only to have an independent facilitator, but an excellent one. It needs to be someone who can draw out critical questions, piercing suggestions. A company can't do this itself."

- **Operationalise**

As Richard Aylard at RWE Thames Water points out, "Dialogue is no good if only one person in the company knows what is said." Commitment and response must filter into corporate decision-making. For some companies, that means engagement needs to take place both at the corporate level (where decisions are built into the business model and can filter down) and at the operational level (where employees can respond directly to stakeholder input). Ultimately, says Shell's Mark Wade, "You want to embed engagement as a general mindset and competency of managers, not just something done by specialists. It has to become a natural reflex at all levels."

- **Follow-up**

Setting targets, measuring and reporting on progress and offering an explanation for any target that hasn't been reached is important in meeting stakeholder expectations. As one Indonesian stakeholder participating in a local community consultation with BP succinctly put it, "If they don't follow up on consultations, we'll stop believing what they say."

WHERE ARE THE CHALLENGES?

We asked corporate practitioners how they would frame the challenges they faced in creating value from stakeholder engagement. We summarise these through three cautionary comments, which can help keep expectations in line.

- **It takes time and resources**

It takes time to develop the degree of understanding that is necessary to create values-based relationships. The consensus from practitioners is that from the outset, relationships with stakeholders grow, not fade. Additional stakeholders will also want to engage. Some stakeholders will need to be educated about the concept of sustainability itself, as well as on the complex issues requiring specialised and evolving technical and economic knowledge. These demands can result in an increasing drain on a company's resources to meet external expectations, often at a time when internal education in stakeholder engagement is ongoing. "Most companies, and I would personally include BT in this," notes Claire Morgan, "are not set up to be able to respond to all stakeholder concerns and comments. As with everything else in business, there will always be finite resources allocated to stakeholder engagement and priorities set. So there will always be challenges."

[22] For further elaboration of this point, see Wheeler, "The successful navigation of uncertainty."

■ **It raises expectations**

Stakeholders can have unrealistically high expectations of companies. Companies must be clear on what they can and cannot do, establishing a clear understanding of their roles and responsibilities. In developing countries, companies are often expected to take on responsibilities that are the usual responsibility of government (e.g., infrastructure, health and education). But by doing so, government may be relieved of delivering on its responsibilities to its people. Jim Cooney of Placer Dome notes that companies are just one part of the solution: "This is a real worry for us – we want to help local communities, but we are a mining company. We will not be there forever. What happens when we are no longer there if we have taken on what should be government roles?" Moreover, there is some evidence that stakeholder groups are tiring of consultation processes that don't lead to a change in direction. Good intentions can end in frustration and even anger if stakeholders are engaged and their views ignored.

■ **Getting the right stakeholders to the table can be challenging**

Often there are conflicting demands within a community. It can be challenging for companies to identify stakeholders who are representative of common interests. Local connections and empathy are helpful to avoid stepping on toes or becoming a lightening rod. Mark Wade of Shell explains, "We've learnt that the company should take a more multilateral approach, being a party to the broader debate in which the community itself reconciles its own differences on priorities. This helps depolarise issues and leads to a greater understanding of what is and isn't your role." This means that companies need to develop the capabilities as well as the culture and mindset for effective stakeholder engagement.[22]

SOME REGIONAL VOICES AND OBSERVATIONS

Every stakeholder engagement experience is unique: stakeholder expectations and engagement processes vary from company to company, industry to industry and region to region. Stakeholders may rise or fall in importance depending upon the situation in a region or country. For example, if a company is reducing its workforce in a country, its efforts may focus on understanding how best to mitigate negative impacts on these employees. Engagement is also shaped by the maturity of the relationships between a company and its stakeholders. Odebrecht, for example, has been operating in Angola for 18 years and

has developed a mutual understanding with its stakeholders of shared needs, goals and rules of engagement. As Sergio Leao explains, "Once we are working in a region, we try to be there like a local company. We try to develop relations with local groups." In contrast, when a company moves into a new region, as Odebrecht has recently in Venezuela, stakeholder groups may be immature and a company's engagement may begin, by necessity, at first stages – building understanding, relationships and trust. No matter what the circumstances, Leao emphasises that understanding local culture, traditions and history is vital to understanding the context of stakeholder issues and demands.

This was also evident when the Swedish construction company Skanska became a partner in a hydropower construction project in Sri Lanka. Presenting its case study to the Global Compact Learning Forum in 2002, the company highlighted the flexibility it had to display in working with the local community and training 900 local employees in environment, health and safety measures.[23]

Our interviews highlighted some general observations on the characteristics of engagement in different parts of the world.

Stakeholders and Their Issues

• Environmental concerns tend to dominate in the USA and EU and to varying degrees in Latin America, where social demands (health, education) frequently prevail. Countries in sub-Sahara Africa (e.g., Angola) have dominant social development demands. There, for example, Odebrecht participates in AIDS prevention and control, in partnership with the International Finance Corporation (IFC), church organisations and NGOs involved in social, education and health issues.

• Many environmental and social issues negotiated at the local level in developing countries are supported by well-organised NGOs and trade associations centred in developed countries that market the end products.

• For some resource extraction companies, stakeholder groups differ less by region than between urban and rural communities. Weyerhaeuser, for example, has found that typically rural stakeholders focus on job preservation, while their urban counterparts are more interested in environmental protection.

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[23] For more information, see the complete case study under Learning at www.unglobalcompact.org. Also see, UN Global Compact Learning Forum, *Experiences in Management for Sustainability* (New York: United Nations, 2003).

Engagement Processes

• Europe and other parts of the world tend to be ahead of the USA in terms of their willingness to partner with corporations. USA stakeholders tend to be interested in exchanging views on advisory panels and multi-stakeholder projects and then move forward on parallel paths.

• OECD countries are comfortable with formal, standing committees and community liaison panels. Latin American regions seem to prefer an approach lead by a single, community representative.

• In regions where people may not have the ability (due to poor literacy skills) or freedom (because of cultural or political norms) to engage, companies may need to "listen" in different ways.

• Civil society organisations may have different roles in different parts of the world. For example, Danone notes that consumer associations in North America have an advocacy and litigation-based function. In Europe, they focus on public debate and policy development. In Asia and Latin America, where associations may have fewer resources, the engagement process may have to focus on capacity building.

3. Non-Governmental Organisations (NGOs)

What is in this section?
- An examination of NGO engagement trends
- The benefits of engagement for NGOs
- Case studies from around the world
- Some success factors for effective engagement
- How NGOs manage the tensions engagement creates
- Perspectives on engagement from the USA and South Africa

"The basic reason we do stakeholder engagement is because we need each other. Business, governments, labour and NGOs are necessary partners in moving towards a sustainable future. This is a very practical approach to dealing with complex issues."

Pieter van der Gaag,
Northern Alliance for Sustainability (ANPED)

In Section 2, we noted that over time, the approach of large companies to stakeholder engagement often shifts from reactive to strategic, with an attendant increase in value creation. Our conversations with NGOs reflected a similar shift. Jean-Paul Jeanrenaud of the WWF, the global conservation organisation, summarised stakeholder engagement as "an opportunity to bring many diverse perspectives together on issues that are central to our vision and mission and leverage these engagements towards effective and successful actions."

The World Summit on Sustainable Development (WSSD) in Johannesburg in 2002 heralded a new era for companies and NGOs to interact, helping to accentuate, cultivate and legitimise NGO-business partnerships in sustainable development. There is now a widespread recognition that many of the world's complex social, environmental and economic challenges can only be resolved through cross-sector collaboration, such as partnerships, which often pool resources, competencies and knowledge. NGOs are increasingly adopting this as a core defining strategy rather than as an activity that they pursue in addition to their key vision and mission.

Looking more closely, we observe three trends in NGOs' approach to stakeholder engagement with private-sector organisations:

Trend 1: NGOs are beginning to think more strategically about how to engage with companies
Trend 2: NGOs increasingly are managing multiple partnerships to deal with complex issues
Trend 3: NGO-business partnerships now are being used frequently as the strategy of choice for influencing legislative and industry-level systemic change

WHOM DID WE SPEAK WITH?

Our conversations for this section concentrated on international NGOs that have a high degree of recognition worldwide – WWF, Greenpeace, Transparency International and others (a full list appears on page 83). As a result, we are not able to provide a first-hand perspective of smaller, regionally based NGOs. We are respectful of their work and acknowledge that many international NGOs only accomplish their goals working in concert with smaller organisations. In recognition of the absence of their perspectives, we note this observation by Paul Kapelus of the South African-based African Institute of Corporate Citizenship: "Stakeholder engagement at the micro level is connected to macro politics. Interests are connected, perceptions are connected. One never really knows what drives stakeholder interests and perceptions at any one time. You can take a guess and then you have got to move on because they can change from day to day, hour to hour."

Another perspective is offered by Jason Scherr of the USA-based Natural Resources Defense Council (NRDC). He reflected on the comprehensive stakeholder engagement process at the 1992 UN Conference on Environment and Development, which resulted in Agenda 21. His perspective is that, "The only place stakeholder engagement works in a meaningful way is at the community level, the grassroots level. Today, the Internet gives us a false understanding of community. But community exists when people live together. They talk to one another face-to-face, come to a common understanding of a problem and map a common understanding of the future. But most important, when they leave the dialogue, they don't leave the community. They bump into one another. When you start getting up to higher levels, you lose that glue that makes these exercises worthwhile."

We also acknowledge that some NGOs did not want to talk with us, arguing that stakeholder engagement is not something they consider their work. This may reflect the attitude that, as one NGO put it, "Stakeholder engagement is something we get invited to, not something we initiate ourselves." The focus in our interviews was, however, on any form of stakeholder engagement, whether joined or initiated by NGOs themselves or in cooperation with others.

NGO ENGAGEMENT – WHAT ARE THE TRENDS IN MOTIVE AND METHOD?
**Trend 1: NGOs are beginning to think more strategically about how to engage
with companies**

As we observed in Section 2, stakeholder engagement with corporations has multiple meanings and interpretations. Our conversations with NGOs reflect this perspective. For the most part, NGOs have entered stakeholder engagement in response to overtures from business and, depending on the context and the issue, the engagement process can be simple or complex. In many developing countries where the industrial base remains small and much of the business informal, stakeholder engagement often has emerged from adverse outcomes of poor governance practices by local or national governments. At one end of the spectrum, engagement by NGOs can mean an informal arrangement to hold discussions or to be present at an event. At the other end, engagement can be marked by long-term collaboration or partnership with business to complete a defined task or to achieve common goals. In the latter situations, engagement employs the collaborative dialogue and partnership processes outlined in Section 2 as the primary mechanisms for successful outcomes. Other bilateral partnerships are as legitimate and effective, exemplified by government-community partnerships for community forestry in Nepal and elsewhere.

The NGOs we spoke with told us that meaningful stakeholder engagement needs to foster a broad, shared purpose that is grounded in inclusion and trust among participants. This is earned through commitment to shared processes that generate shared achievements. As Pieter van der Gaag, formerly with the Northern Alliance for Sustainability (ANPED), notes, "The basic reason we do stakeholder engagement is because we need each other. Business, governments, labour and NGOs are necessary partners in moving towards a sustainable future. This is a very practical approach to dealing with complex issues."

While concrete outcomes are often a desired goal of engagement, NGOs point out that dialogue alone – with learning by each partner as the only direct outcome – can also provide value. For more on dialogue as a driver to sustainable development, see **Box 3.1**.

For some NGOs, cooperative engagement with the corporate sector coexists with their more traditional modes of engagement through campaigning and opposition. NGOs told us that cooperative engagement and campaigning are not mutually exclusive, and coalitions between NGOs can create a powerful dynamic for driving engagement processes towards successful results. In some circumstances different stakeholders will take on different roles. For example, one NGO might address an issue through a coordinated, collaborative engagement process, while another takes on the issue with a campaign-based, antagonistic approach. In some cases, these dual approaches are taken by the same organisation.

In other circumstances, an initial campaigning approach can result in eventual collaborative engagement. That was the experience of the Natural Resources Defense Council (NRDC) in a recent intervention in Belize. The organisation had worked with local groups that were concerned that plans by USA and Canadian companies to develop a dam would destroy local habitat. "Part of the problem," explains NRDC's Jason Scherr, "is that sometimes companies don't recognise us as stakeholders." To get the companies' attention, NRDC initiated a campaign that resulted in 20,000 email messages being delivered to the proponents of the development. As a result, one of the two proponents began a dialogue with NRDC in an effort to understand the local situation. The company eventually pulled out of the project. Such reactions are, as Jason Scherr points out, company-specific: The second proponent remains less open to dialogue and is continuing with its project plans.

No matter what the process used, we observed that increasingly, NGOs are proactively and strategically managing the forms of engagement they enter into, seeking the best process for the issue at hand. Steve Sawyer, international political director for Greenpeace, points out, "It is more often a question of the degree and manner of engagement that will yield the greatest success, rather than an "either-or" choice between collaborative engagement and traditional advocacy-driven engagement." That said, we observe that many NGOs are increasingly turning to partnerships with business as a way of leveraging legislative and industry-level change. We discuss this in Trend 3, below.

Box 3.1: Dialogue as a Driver to Sustainable Development

While collaboration or partnerships that result in concrete action often offer the most tangible and rewarding incentives to participation in a stakeholder engagement initiative, NGOs told us that dialogue alone often can be valuable for building common understandings. Several described successful dialogue as a learning process that provides the opportunity and space for participants to listen to and learn from each other and, as a result, develop and share their visions and agendas. This can be a powerful way to move forward in fostering new working relationships – by raising awareness, sharing knowledge, stimulating innovation or otherwise disseminating ideas and possibilities for sustainable development. Susan Côté-Freeman of Transparency International put it this way: "Stakeholder engagement doesn't always have to result in actions and deliverables. Sometimes talking can be very important. Many NGOs still amaze me by not recognising that participation in stakeholder engagement is a powerful way of doing what their mandate requires – engaging businesses and promoting a sustainable development agenda."

Others offer another perspective: that there is a danger that an engagement process can lapse into an extended and distracting dialogue that fails to produce any tangible outcomes. Paul Kapelus of the South African-based African Institute of Corporate Citizenship (AICC) notes that, "Companies seem unable to maintain a meaningful conversation with different stakeholders over time. If an interaction is not project-based, that's where the wheels fall off the bus." Jason Scherr of NRDC cautions that who is at the table is often as important as what is being said: "Organisations like ours have to be careful getting involved with dialogue where there is no end – where you're dialoguing with people who don't have power. Corporations would rather have discussions because it gives us less time to bring lawsuits, develop market campaigns or lobbying efforts." The key is to manage the tension between discussions that can lead to identifying constructive and practical common ground and the need to sustain urgency for action and tangible outcomes.

Trend 2: NGOS increasingly are managing multiple partnerships to deal with complex issues

The nature of the links between business and NGOs is evolving quickly. Increasingly, they bring together one or more businesses with one or more NGOs. In many cases, governments and international quasi-governmental agencies are included in the mix. The partnership between CARE International and Lafarge in relation to their work on HIV/AIDS illustrates this trend. In 2003, CARE and Lafarge signed a partnership that set out common targets within a joint Health Africa Committee that involves several other key stakeholder groups. The partnership began with the coordination and monitoring of Lafarge's activities in its own African-based operations. The agreement then extended their joint action to other regions in Africa and to other stakeholder groups. For example, it came to include measures to mobilise the French business community and reinforce Lafarge's involvement in the Global Business Coalition to combat HIV/AIDS.

We reflected on the drivers for this phenomenon in Section 2. Our conversations with NGOs identified similar motivating forces. Three in particular stand out:
• An increasing awareness of the interconnections and complexity of environmental, social and economic issues
• The increasing engagement with the corporate sector by development NGOs, such as Oxfam and Christian Aid, and the attendant focus on new issues, such as globalisation and fair trade
• The recognition by businesses and governments that they cannot achieve sustainability on their own and that they proactively need to seek out NGOs as critical stakeholders with expertise in identifying solutions

Joint pressure from multiple stakeholders in areas of mutual interest – through multiple engagement strategies or a mix of engagement and traditional advocacy – can be a powerful catalyst to industry-wide change. It can also be an effective way to get the attention of governments, potentially accelerating the pace of legislative change.

[24] For a detailed discussion on the funding dilemma, see SustainAbility, UN Global Compact and UNEP, *The 21st Century NGO: In the Market for Change* (London, New York, Paris, 2003) at www.sustainability.com
[25] For a discussion of the interplay between stakeholder groups and their focus organisations and policy objectives, see T.J. Rowley and M. Moldovean, "When will stakeholder groups act? An interest- and identity-based model of stakeholder group mobilization" *Academy of Management Review*, 28(2) (2003): 204-219. Also Stuart L. Hart and S. Sharma, "Engaging Fringe Stakeholders for Competitive Integration" *Academy of Management Executive*, 18 (1) (2004).

NGOs have relationships with several types of stakeholders. These may include:
- The corporations that may or may not have identified them as secondary stakeholders and that they seek to influence
- The communities they seek to serve or operate in and that are primary stakeholders to corporations
- Other NGOs
- Individual members and supporters
- Trade unions and industry associations
- Governments and public authorities
- Media
- Institutional funders [24]

NGOs told us that building long-term relationships with other organisations – whether corporations, communities or colleagues, either individually or together – is essential both to achieving immediate results and to creating the opportunity for synergy and continuity in the future. But as our interviews revealed, the need to address this range of actors across multiple political, social and institutional systems requires that NGOs think beyond their traditional strategies and practices. This has been addressed in *The 21st Century NGO: In the Market for Change* by SustainAbility, UN Global Compact and UNEP, which examines how some NGOs have changed their strategies and become a source of market intelligence. Going beyond traditional strategies is particularly important given that today's complex issues impact at multiple levels and, increasingly, are managed through large-scale, transnational efforts. Thus, the goal for many NGOs, particularly for those operating at the international level, is to develop and maintain long-term relationships with strategically chosen stakeholders who may influence their target organisations or policy objectives directly or indirectly. [25]

Trend 3: NGO-business partnerships now are being used frequently as the strategy of choice for influencing legislative and industry-level systemic change

Multi-stakeholder collaboration can, in the right circumstances, offer an effective approach to addressing complex problems and influencing public policy and markets, in addition to mobilising the efforts of the organisations directly involved in the partnership. Powerful collaborative initiatives with corporate partners can often give critical mass to demands for systemic changes from governments and/or industries. This approach is exemplified in the high-profile alliance forged by Greenpeace and the World Business Council for Sustainable Development during the 2002 World Summit in Johannesburg. We profile this alliance in **Box 3.2**.

Box 3.2: Traditional Adversaries Call for Action on Climate Change

Greenpeace is well known for its campaigns against some companies who are members of the World Business Council for Sustainable Development (WBCSD). In turn, the WBCSD is well known for advocating a free enterprise approach to solving environmental problems, including voluntary measures that often differ radically in approach from those advocated by Greenpeace. But at the Johannesburg Summit in August 2002, the two adversaries were able to overcome their differences and issue a joint statement demanding governments adopt a global framework on climate change.

In it, they noted their frustration at the lack of political will of governments to fulfil their commitments under the Earth Summit agreements, including Agenda 21. They stated that they both shared the view that the mixed and often contradictory signals sent by governments on the environment, especially on greenhouse gas emission reductions, was creating a political climate that hindered business and risked the future of humanity.

"Given the seriousness of the risks of climate change and the need to reduce greenhouse gas emissions," they said, "we are shelving our differences on other issues on this occasion and call upon governments to be responsible and to build the international framework to tackle climate change on the basis of the UN Framework Convention on Climate Change and its Kyoto Protocol. We both agree that this is the essential first step."

Source: Joint statement released by Bjorn Stigson, President WBCSD, and Rémi Parmentier, Political Director Greenpeace International, 28 August, 2002, Johannesburg, South Africa, http://archive.greenpeace.org

HOW DOES ENGAGEMENT CREATE VALUE FOR NGOs?

The trends identified above suggest that NGOs, like their corporate partners, are recognising the value of broadening their techniques from advocacy to include collaboration and partnership. The value can be characterised in two ways.

First, we observed that an increasing number of NGOs have accepted the fundamental premise that helping companies become more successful through sustainable development strategies and practices enables them to elicit meaningful commitments from corporations that further their own mandates. Michele Perrault of the Sierra Club describes stakeholder engagement as a process leading to business transformation: "For us, it is an opportunity to bring many diverse perspectives together on issues that are central to our vision and mission and leverage these engagements towards effective and successful actions." This can be characterised as mission-based value creation.

Second, NGOs are recognising that by reaching beyond their traditional boundaries and changing methods, they can increase their organisational capacity to tackle more issues. This can be characterised as capacity-based value creation.

Next, we look at these two sides of value creation in greater detail.

Mission-based Value Creation

Matt Arnold, formerly of the World Resources Institute (WRI), told us that "many NGOs today recognise that the pursuit of profits by business is legitimate." So, he asks, "Why not work alongside those that are looking to make a difference?" Jean Paul Jean-renaud of WWF describes stakeholder engagement as a form of "constructive NGO advocacy." Stakeholder engagement, he explains, "tries to precipitate a fundamental reframing of NGO-business relations. We aim to create a new type of business culture through collaborative actions." For example, in March 2000, the WWF signed a world-wide partnership agreement with Lafarge to undertake a continuous improvement drive in the area of environmental protection (e.g., in quarry rehabilitation and in CO_2 emission reductions). The partnership reflects Lafarge's conviction that its policy in support of environmental preservation will give the company a competitive advantage in the long-term. Jean Paul Jeanrenaud also sees long-term value: "One of the advantages of working with a corporation like Lafarge is that they are a huge global company. If we can have an impact on the way they do things, we are closer to changing the way the entire industry behaves."

NGOs can bring knowledge and expertise in areas where business lacks experience. For example, Damien Desjonqueres of CARE International highlights the role that NGOs can play in providing assurance of aspects of social or environmental performance: "Our experience is that companies' monitoring of implementation is not done well. They lack the expertise and are hesitant to pay the cost of proper social and environmental moni-toring. This is an area where we are very strong."

Capacity-based Value Creation

NGOs described their engagement with business as an opportunity to observe and change their own practices and mindsets. As Joanna Wade of Christian Aid explains, "Stakeholder engagement processes help us understand better what it is we do well in the eyes of others. It also helps us identify what we need to do to be better advocates for our stakeholders and partners overseas."

Others note that collaborating with business has helped them be more strategic in thinking and in action. Damien Desjonqueres of CARE International puts it this way: "The process itself forces you to think systematically once you are exposed to diverse concerns and issues. We have benefited from this in helping us change our thinking in other areas as well."

Jason Scherr points out that NRDC gets value from developing contacts and relationships through dialogue. He explains, "That's very useful to me when I move forward in other areas where decision-making is more authoritative or when a problem arises in the future and you have someone to call. That's the value."

Collaboration with stakeholders outside the business community can also help build NGO capabilities. ActionAid has nurtured its relationship with European Union agencies in its disaster relief activities. ActionAid brings community-level expertise in disaster relief and preparedness. The European Commission Humanitarian Office (ECHO) provides funds for reliable and effective strategy and implementation partners. This partnership approach in response to stakeholder engagement opportunities has increased capacity for ActionAid and created value for multiple parties. In **Box 3.3**, we profile one example of this partnership at work.

Box 3.3: Partnerships Leverage Value

In April 2004, a tornado destroyed 35 villages in northwest Bangladesh, killing 100 people and seriously injuring 800. At least 3,500 families lost everything, including livestock and crops. In response, ActionAid moved quickly, using funding from its own rapid response fund. It then augmented this with funding from the European Commission Humanitarian Office (ECHO). ActionAid makes the most of its funding resources to provide short- and long-term assistance. It immediately sent doctors and disability rehabilitation experts to the region. Based on their extensive expertise in disaster relief, the team devised a programme of post-hospital care to reduce the risk of disability for people injured by the storm. ActionAid presented recommendations to government and other agencies on behalf of storm victims. Over time, these two organisations have developed a partnership that allows each side to leverage its strengths: ActionAid brings local community-level expertise in disaster relief and preparedness, while ECHO seeks to direct funds to reliable and effective strategy and implementation partners.

Source: ActionAid release "ActionAid bids for European money to help Bangladesh tornado victims", April 23, 2004, www.actionaid.org

WHAT ARE SOME SUCCESS FACTORS FOR EFFECTIVE ENGAGEMENT?
The NGOs we spoke with told us that the widening scope, complexity and ambition of sustainable development initiatives will require an increasing commitment on their part to dialogue and collaborate with a diverse range of stakeholders. In reflecting on the potential for success in future engagements, NGOs identified many of the same main factors as corporations, including collective ownership of processes that give a voice to all stakeholders, with clear goals and ground rules being absolute basics. NGOs also identified four additional factors for success specific to their organisations.

[26] SustainAbility, UN Global Compact and UNEP, *The 21st Century NGO.*
[27] Greenpeace and World Business Council for Sustainable Development, Press Release, 28 August, 2002, Johannesburg.

■ **Make a commitment to action**

Damien Desjonqueres of CARE International notes that, "A commitment to action is our most important indicator that we are in the right relationship. Action and results are the way we know we are in the right place, dealing with the right people."

In *The 21st Century NGO*, NGOs reported that "this means that the company must be serious about changing its behaviour and should be able to drive change in its own sector and across the business community more generally," and that "individual participants must be sufficiently senior to have their organisation's mandate to take difficult decisions without constantly having to refer back."[26]

■ **Maintain the right to disagree**

Many NGOs remain suspicious of stakeholder engagement and say that the ability to disagree openly is an essential component to the integrity of the process and to allow them to be accountable and transparent in the eyes of their stakeholders. Susan Côté-Freeman of Transparency International notes that, "We are very conscious of our image in these cases. If we feel it isn't right, we will not hesitate to say so or even close the door with a corporate partner." Reflecting on his organisation's advocacy with the WBCSD on climate change, Remi Parmentier of Greenpeace noted that, "We will continue to have disagreements with many of the companies who are members of the WBCSD. We will continue to have campaigns against them and put activists on their chimneys and pipes. They will continue to call the police when we get too close. But as an advocacy group, we can find common ground."[27]

■ **Act with transparency and accountability**

Internal dissension can threaten engagement processes unless it is managed through what some have termed "obsessive transparency". Transparency can be essential to avoiding opposition from uninvolved internal stakeholders who may mistrust NGO-corporate collaboration, especially when it involves former adversaries. Information, communication and education tools can counter perceptions among internal stakeholders that an engagement process is diverting the NGO from its mission or is draining scarce resources. Pieter van der Gaag, formerly of ANPED, explains: "This can cause a lot of misunderstanding and unnecessary internal debate and even conflict between some of our internal stakeholders. There needs to be a commitment to transparency, an open door to participation and a parallel process of internal consensus on what we say and what we do within an engagement process."

While transparency and openness can be time-consuming, Joanna Wade of Christian Aid suggests that, "It's the best way to get internal stakeholders and partners to understand the way in which an engagement process is actually taking place with external bodies. The things we need to say very clearly – Why are we doing this? Why is it important? – doing this well can be very challenging."

Transparency and accountability are essential to ensuring that the engagement process does not compromise the NGO's perceived identity as a champion for meaningful change. Jean Paul Jeanrenaud of WWF explains: "Collaborating with corporations can potentially lead others to see us differently. What they need to understand is that this is the way we have chosen to make the biggest difference."

■ **Don't expect to change the world overnight**
Extended timelines are needed to build trust and meaningful collaborations along multiple fronts. Steve Sawyer of Greenpeace notes that, "Often, this can be a frustrating process where modest short-term gains are realised. It can also be a killer for small NGOs that lack the capacity to tie up key people in lengthy processes, taking them away from other work." The call for patience and pragmatism was underlined by Miguel Araujo of the IUCN-The World Conservation Union when he spoke at the 2002 UNEP Annual Consultative Meeting with Industry Associations on criteria for successful partnerships. He said they need to be: pragmatic, results-orientated, transparent, accountable, participatory, mutually beneficial, innovative and catalytic.[28]

WHERE ARE THE CHALLENGES?
While NGOs told us that transparency and accountability are important to successful engagement processes, these attributes also highlight the significant challenges they identified. These challenges can be framed as tensions that NGOs must manage in order to maintain successful engagement initiatives. In this reframing, they can be characterised as:

■ **Tensions from within**
Several NGOs noted that the voices of opposition often are the loudest among internal stakeholders. Risks to an NGO's reputation can arise from collaboration with corporations, particularly if a partnership goes wrong. Usually tactical differences between large NGOs are resolved behind closed doors, but both WWF, in the case of environmental labeling, and NRDC, in the case of oil developments in Ecuador, have suffered public opprobrium from more radical groups in particular engagements with corporate interests.

[28] For the meeting report, see Industry Associations at www.uneptie.org

■ **Tensions between traditional campaigning positions and new forms of engagement processes**

Several interviewees maintain that stakeholder engagement is not the absence of advocacy through campaigning. Rather, it is a more complex and, ultimately, more penetrating form.

■ **Tensions in maintaining external legitimacy**

Traditional advocacy provides relative clarity regarding an organisation's vision, mission and goals. Engaging with corporations creates a more complex portrait of organisational identity and image.

■ **Tensions in selecting external partners**

NGOs must guard against engagements with corporations that are simply seeking reputational rewards without making serious efforts to achieve common goals. Monitoring and evaluating the quality of the collaboration is as important as monitoring the actual results of collaborative initiatives.

■ **Tensions in collaborating with other NGOs through complex stakeholder engagement processes**

The nature of multi-stakeholder partnerships is evolving quickly. Increasingly they bring together one or more businesses with one or more NGOs, possibly also including government agencies. In Box 3.4, we profile two examples of best practice in partnerships.

Box 3.4: Best Practice Partnerships

The Nordic Partnership is an NGO-business network founded in 2001 by the World Wide Fund for Nature, a Danish media centre and key corporate players operating in the Nordic region. It includes major businesses, NGOs, media, academics, consultants and public-sector bodies. It builds on the active commitment, trust, shared goals and complementary capabilities of network members. The overarching goal that drives the partnership's actions and activities is to make sustainable initiatives more attractive and rewarding to business. In 2002-2004, it began developing business models to promote sustainable production and consumption, sustainable supply chain management, investment stewardship and partnership accountability.

Source: www.nordicpartnership.org

Comité 21 was created in 1994 following a proposal by the French Environment Ministry, bringing together various organisations involved in preparations for, and follow-up to, the 1992 Earth Summit. Today, this national alliance has more than 300 members, including companies, NGOs and other societal organisations, local and other public authorities, as well as individual personalities engaged in leading roles for sustainable development. Activities by Comité 21 include projects to examine strategies for sustainable development and programmes on best practice in management. Its activities focus on, among other things, education for sustainable development, responsible purchasing and market development in areas such as food, energy, waste and transport, and European or Euro-Mediterranean cooperation. Its secretariat oversees the development of publications and organises monthly open dialogue meetings at which presentations are made by leading decision-makers and experts.

Source: www.comite21.org; www.agenda21france.org

SOME REGIONAL VOICES AND OBSERVATIONS

The NGOs we spoke with told us that issues, rather than regional limits, will increasingly drive stakeholder actions as sustainable development strategies and initiatives are conceived and implemented on a larger scale. That long-term view notwithstanding, we heard two different geographic perspectives on stakeholder engagement. The first came from Jason Scherr of the USA-based Natural Resources Defense Council (NRDC), the second from Paul Kapelus of the South-African based African Institute of Corporate Citizenship (AICC).

In presenting two perspectives – from the United States and from South Africa – we acknowledge the ongoing challenge of reporting on the differing views of regions around the globe and invite NGOs with other experiences to contact us for future editions of this Volume.

A USA Perspective

Jason Scherr acknowledged that there are many different dimensions to change – through education, dialogue, advocacy and coercion. The experience in the USA, he suggests, is that, for the most part, change has come "when people are forced through law, through the marketplace or by civil society to alter their behaviour." He says that the law, in particular, plays a key role in the USA: "The experience of NRDC is that it is very difficult to get people's attention in the first place. Corporations are not in business to protect the environment. They're there to make money for shareholders. It was not until society said, as a corporate citizen you have to also be concerned about the environment and the impact of your activities on the larger community that they started to pay attention."

Scherr asks: "While it's fine to have five to 10 progressive companies in dialogue with stakeholders, how do their progressive views become the norm for the whole industry? The only way you can do that is through law, where you assure a level playing field." He notes that some of NRDC's most useful dialogue has been in the context of a lawsuit or a congressional hearing or regulatory negotiation, i.e., in situations that force action.

That said, Scherr acknowledges that developing a culturally sensitive stakeholder engagement model can be useful: "For well-developed democracies, there are a lot of

mechanisms for dialogue and discussion within the legally binding structures. In developing countries, you don't have those. So creating a dynamic where company officials and governments find value in engaging with their stakeholders as a course of business is fantastic." On the other hand, he adds, "It is important that notions of transparency, objectivity and participation, which we take for granted in well-established parts of the world, be articulated and developed but with a sensitivity that they have to be grounded in a structure where dialogue results in commitments that result in real action."

An African Perspective

Paul Kapelus believes that social interaction in the OECD world is different to African social interaction. In the OECD world, the bureaucracy around stakeholder consultation often stifles openness, innovation and creativity within the engagement process. In African society, he contrasts, "There is more willingness to talk openly, to tell stories, share experiences. It's part of the culture."

But he also acknowledges that within Africa, there are cultural differences that affect stakeholder engagement. "Understanding communities and how you deconstruct communities from a cultural perspective – whether its leadership or gender or generational differences – how you break up a community to have meaningful engagement for the company, all these things will change." In Zambia, for example, it may be appropriate to engage with individuals or small groups of people when thinking about the development of a new mine. In Ghana, it may be more appropriate to engage with larger groups.

Kapelus says that companies do not do enough research before stakeholder engagement begins. He notes that, "These processes generally result from companies that want to do stakeholder engagement because they are being reactive, responding to an issue or crisis. They want to engage stakeholders so they can deal with the issue and move on. But more work needs to be done here. What is the strategy? The process? The best way of doing it? We find that a lot of foreign consultants come to Africa and don't understand communities. They propose stakeholder engagement methodologies and processes that are not applicable and often cause more problems than they provide solutions. For example, companies often try to treat communities as homogeneous but can come up against huge politics and conflicts within communities that cannot be resolved. Companies find it hard to engage because of stakeholder infighting."

4. International Trade Unions

What is in this section?

- An examination of International Trade Union engagement trends
- A discussion of two ways engagement can create value for trade unions and their constituents
- Case studies from around the world
- Some success factors for effective engagement
- Some challenges to maximising value creation
- Examples of regional approaches to engagement

"Our agenda is to improve conditions by changing policies and priorities. To do that, we need partners for an integrated approach. Participation is the best way to have our voices heard."

Omara Amuko,
National Union of Plantation and
Agricultural Workers (IUF), Uganda

In this Section, we examine the uptake of multi-stakeholder engagement processes by trade unions. Nilton Freitas, a former trade union organiser now with Brazil's Ministério do Trabalho e Emprego, says that, "Globalisation was at the root of our engagement as a stakeholder group. We worked hard to demonstrate the link between the daily and local agenda and the global agenda – to show the opportunities of globalisation and to prove we are stronger when we partner with other stakeholders." The trade union representatives we spoke with confirmed Freitas' view, referring to opportunities arising in social and environmental arenas that extend beyond traditional workers' rights.

It is not possible to distinguish between trade unions as representatives in the workplace and as stakeholders engaged in partnerships internationally. Central to the notion of trade unions as stakeholders is the idea of collective bargaining. This is the primary mechanism by which trade unions engage with companies and companies engage with trade unions. Collective bargaining is a process where management and trade unions negotiate terms and conditions of employment and come to binding agreements on the partners. When trade unions and companies engage in other types of consultation, engagement and partnership, it usually is orientated towards improving or obtaining collective bargaining. These other types of consultation are still developing, and our conversations with labour representatives suggest that trade unions have been cautious in their uptake of multi-stakeholder engagement processes. However, the early evidence suggests that some are using stakeholder engagement strategically to strengthen their support for workers and their representative organisations.

As they address new issues using new multi-stakeholder processes, trade unions face several challenges, including capacity building and resource allocation, to name but two.

We observe three trends that characterise the uptake of stakeholder engagement by national and international trade union bodies, while noting a tendency to different approaches by trade unions in high-income and low-income countries:

Trend 1: A shift from reaction to opportunity recognition
Trend 2: Linkages between union-initiated engagement opportunities and
externally initiated processes
Trend 3: The impact of information technology and the expanding influence of
local workers

WHOM DID WE SPEAK WITH?

We interviewed representatives who were mostly from trade union bodies that partici-pate in stakeholder engagement processes at the international level. (A full list appears on page 83.) By nature of the level of discussions, the perspectives they bring to issues tend to be broader in scope and response than those of unions convened wholly to address local, national or sectoral issues. The level and form of stakeholder engagement by trade unions can be shaped by several variables, including the issues being discussed, the initiator of the process and the history of participating organisations in stakeholder engagement: an appropriate strategy for trade unions at the international level may be inappropriate for workplace negotiations.

But we also recognise that the agendas of internationally engaged union bodies are influenced by their local and national affiliates, more so as the Internet facilitates direct input from broader constituencies.

We also note that at the international level, labour groups tend to engage with business representative bodies, such as the Business and Industry Advisory Committee (BIAC) to the OECD and the International Organisation of Employers (IOE), or with interna-tional bodies, such as the International Labour Organisation (ILO) OECD and the UN Commission on Sustainable Development (CSD). Our representatives were either mandated by their organisations to participate in stakeholder engagement processes or brought their experience in this area from a previous posting.

INTERNATIONAL TRADE UNION ENGAGEMENT – WHAT ARE THE
TRENDS IN MOTIVE AND METHOD?

Our conversations with international trade union representatives suggest that unions in high-income countries have tended to move more quickly in their uptake of stakeholder engagement processes than their peers in lower-income countries. This is not surprising, given that trade unions in high-income countries have long-standing industrial relations practices in place to advocate for such basic issues as worker health and safety. That tends not to be the case in lower-income countries, where trade unions often need to focus on basic worker rights. As Lucien Royer of the International Confederation of

Free Trade Unions (ICFTU) and the OECD Trade Union Advisory Committee (TUAC) notes, the challenge for trade unions in high-income countries is to ensure that long-standing practices do not become a barrier to the advancement of worker rights in the broader social and environmental arena. He suggests that trade unions in lower-income countries, unconstrained by historical approaches, may be in a position to create structures to address worker issues in this wider terrain.

Within this larger context, we discuss the three trends identified above.

Trend 1: A shift from reaction to opportunity recognition

The early evidence suggests that the approach of some trade unions – especially those in high-income countries – mirrors the evolution of stakeholder engagement by corporations, from reactive (risk avoidance) to proactive (learning) to progressive (strategic). Neva Makgetla of the Congress of South African Trade Unions (COSATU) suggests a continuum of approaches. At one end, transactional "engagement" involves traditional back-and-forth negotiation, with the goal of "winning" the most for members. At the other end is a proactive form of engagement that arises when parties have decided that a co-operative approach may result in win-win, sustainable solutions. Again, we draw the distinction between the traditional negotiations between workers and employers and the multi-stakeholder model, which implies involving other civil society organisations, as well as local and national governments and international agencies. Both are legitimate and both have their place.

While we acknowledge this distinction, we observe that some trade unions are recognising that they can share in the "wins" by participating in complex decision-making processes. Recognising the complexity, Omara Amuko of the National Union of Plantation and Agricultural Workers (IUF) in Uganda notes, "Our agenda is to improve conditions by changing policies and priorities. To do that, we need partners for an integrated approach. Participation is the best way to have our voices heard."

In fact, multi-stakeholder engagement can be viewed as a natural outgrowth of a trade union's mandate to represent the interests of workers – though the scope of the issues addressed has broadened. Cecilia Brighi of the Confederazione Italiana Sindacati Lavoratori (CISL) notes that consultation in the 1980s was not productive because it centred on divergent goals. Now, she says, "We are building for the future. We talk with industry to develop joint strategies and targets for jobs. We talk together about environment and trade. The role for our labour union is to protect our members as workers *and* citizens." For an additional perspective, please see **Box 4.1.**

But as trade unions venture into social and environmental areas that lie outside their traditional boundaries, they also are realising that they do not always have the expertise or resources to tackle increasingly complex and diverse issues. So, in common with businesses and civil society organisations, they are acknowledging and are being driven by the practical necessity of engaging with others to forge solutions to cross-cutting issues. As we will see, trade unions also recognise that engagement can afford them powerful opportunities to help shape policy, often well beyond their traditional sphere of influence.

Box 4.1: Tools for Change

The International Confederation of Free Trade Unions (ICFTU), in cooperation with the United Nations Environment Programme (UNEP) and the International Labour Organisation (ILO) has developed a guidance document to help workers appreciate that improving worker health and safety is not an end in itself, but rather an opportunity to improve their general environment, e.g., by making the link between workplace emissions and air quality in workers' communities. Because trade unions are a natural conduit between the workers they represent and workers' communities, UNEP believes they have an enormous opportunity to advance public education and influence change.

For additional information, please see also "The Role of Labour Unions in the Process Towards Sustainable Consumption and Production" (Ecologic, 2004, for UNEP's Division of Technology, Industry and Economics) at www.uneptie.org/outreach/business/labour.ht

Trend 2: Linkages between union-initiated engagement opportunities and externally initiated processes

In our research, we observed that as with all stakeholder groups, the level and form of stakeholder engagement by trade unions can be shaped by several variables:
- The issue(s) being discussed
- The initiator of the process
- The history of participating organisations in stakeholder engagement
- Who is participating

Often the first two variables are interlinked: governments may initiate on policy issues, trade unions on worker issues, civil groups on broader community issues. The way in which a particular engagement process is carried out can shift as the participants become more comfortable and less suspicious of other participants and the process itself.

Our research also suggests that at the international level, trade union engagement around broader social, environmental and economic questions tends to fall into two categories:

Informal, **ad hoc engagements** that grow out of an event or an issue that affects the well-being of workers and the environment.

Formal, structured engagements initiated by external organisations, such as UN agencies like the International Labour Organisation (ILO). Global Framework Agreements are another, emerging form of formal engagement between unions and companies which, while focussing on labour rights, may also include environmental provisions, human rights provisions and corruption provisions linked to the UN Global Compact.

At the international level, most trade union engagements in multi-stakeholder processes are informal, ad hoc affairs that grow "organically" out of a particular event or issue. Ad hoc engagement often is dependent on the trade union representative who champions or responds to an initiative. While such individually driven processes can flourish because they are not hampered by traditional institutional structures, they can also be derailed if the individual vested with the trade union's stakeholder engagement intelligence moves on to a different role. Sue Pennicuik of the Australian Council of Trade Unions (ACTU) notes that informal processes can be challenging because trade unions can perceive themselves as being used as "window dressing" by the organisers who may want to give the illusion of involvement. Often little concrete action results when this is the case.

Formalised multi-stakeholder engagement processes often are established by organisations outside the trade union. Generally they can be characterised as initiatives intended to promote a broader agenda that supports sustainable development issues. They can be convened at a national or international level. Many processes feature organisations representing the interests of a wide range of stakeholder groups, such as women, children, business and industry, as well as labour. We provide examples of international and national-level engagement in **Box 4.2**.

Box 4.2: International and National Level Engagement

The **UN Commission on Sustainable Development (CSD)** is an example of a multi-stakeholder engagement formalised at the international level. While unions traditionally engage at international institutions, such as the ILO and OECD through bodies, such as the ICFTU and TUAC, the CSD has been new territory for them since its creation after the 1992 Earth Summit. The CSD facilitates multi-stakeholder dialogues with major stakeholder groups (including trade unions and workers, farmers and women; also children and youth, indigenous people, NGOs, local authorities and business and industry). In these processes, the identified groups assemble a delegation of members to dialogue with other assembled groups in an open forum on prescribed topics. Topics discussed are determined by Agenda 21 and the Johannesburg Plan of Implementation. Although civil society's input to these documents was considered unprecedented (for a UN process), the UN acknowledges that it was not on equal footing with that of national governments. While stakeholders at CSD dialogues are able to voice their opinions, their ability to influence change is dependent on the willingness of national governments to take-up identified issues and to reflect them in their national statements.

The **National Economic Development and Labour Council (NEDLC)** in South Africa is an example of multi-stakeholder engagement formalised at the national level. In common with many national processes of this nature, the NEDLC was mandated by legislation to bring together key government agencies and other important stakeholders. Since 1995, the NEDLC has worked to ensure that a consultative process between government, business, labour and, in some cases, NGOs, helps guide policy decisions.

Some labour representatives we spoke with noted that formalised methods have disadvantages. They tend to be process-heavy and, therefore, cumbersome and slow. We heard mixed views about their value. Peter Hurst, formerly with the International Union of Food, Agricultural and Allied Workers Organisation (IUF) expressed scepticism about wider stakeholder forums where the trade union voice can be drowned out. Others acknowledged that a structured process can help mitigate power inequalities among stakeholders, providing somewhat greater assurance (although no guarantee) that all voices and viewpoints are heard and considered.

Perhaps more significantly, they told us that formal processes can provide an incubator to nurture additional multi-stakeholder collaboration. For example, Jesper Lund-Larsen of Denmark's General Workers Union (SiD) notes that the CSD provides a forum for networking among the diverse groups represented. Often different trade unions and civil society groups reconvene in less formal dialogues to address issues that they have in common.

Trend 3: The impact of information technology and the expanding influence of local workers

According to Lucien Royer of the ICFTU, information technology is providing a platform for expanded internal engagement among trade union members. In the recent past, he says, international bodies communicated with national bodies that in turn communicated with their regional affiliates. Now, the Internet allows more direct communication with affiliates, which facilitates awareness of issues. The ICFTU increasingly is using electronic forums to provide input to internal decision-making processes. It now runs more than 30 online electronic forums at any given time with more than 20,000 members participating in some way, up from 150 when the forums were launched just a few years ago. The new communication methods are giving rise to new ways of working within trade unions. The challenge, says Royer, is to ensure that traditional decision-making processes, which relied on more limited and structured input, evolve in step with the new forms of input from internal stakeholders.

HOW DOES ENGAGEMENT CREATE VALUE FOR TRADE UNIONS?

It is difficult to provide a generalised statement on the value of multi-stakeholder engagement for trade unions, primarily because the process for many is still in its formative stages. Moreover, there is still considerable fear among some trade unions that their historic roles representing workers in negotiations over working conditions (e.g., health and safety) could be diluted in favour of the more ambiguous roles that result from multi-stakeholder consultation or dialogue on complex social and environmental issues. However, the early evidence suggests that some international trade union secretariats are using stakeholder engagement as a strategic tool to expand their activities to support workers and their member organisations. Stakeholder engagement can create value for trade unions where it facilitates collective bargaining between employers and trade unions, generating respect from trade unions.

At the international level, multi-stakeholder engagement can be categorised as providing value through capacity-building opportunities (e.g., knowledge acquisition and coalition building) and through strategic opportunities, primarily in the sphere of increasing influence in less traditional realms (e.g., air quality issues or women's rights). This challenge has been taken on by the new SustainLabour Foundation, a trade union-based foundation set up in Madrid, Spain in October 2004.

Capacity-building Opportunities

The international trade union representatives we spoke with told us that multi-stakeholder engagement provides them with capacity-building opportunities through:

• **Knowledge acquisition:** Non-traditional alliances can expand a trade union's knowledge on issues outside traditional union boundaries. New perspectives may contribute to a union's evolution vis-a-vis the ways in which it identifies and addresses issues, both internally and externally. Reinhard Klopfleisch of the European Public Service Union (EPSU) says stakeholder engagement modernises and "environmentalises" the trade union. Lucien Royer notes the "greening of collective agreements" in industrialised countries, where new agreements may include environmental provisions and, in some cases, an obligation on the part of the union to report environmental infractions by employers. As Josephilda Nhlapo-Hlope, formerly of the Congress of South African Trade Unions (COSATU), puts it, "We are expanding beyond worker rights from the shop floor. We are raising the environmental agenda in people's minds. It is still difficult, so we start with what people can relate to then expand to link with broader sustainable development issues."

• **Coalition building:** Working with social partners can facilitate an understanding of problems from multiple dimensions. Our research suggests that this can contribute to the achievement of lasting solutions in a timely and politically expedient manner. Multi-stakeholder engagement may also facilitate the identification of potential partners and alliances through which trade unions can champion not only the traditional concerns of their constituents but emerging concerns, such as access to treatment for HIV/AIDS. Estefania Blount-Martin of the Instituto Sindical de Trabajo, Ambiente y Salud-Comisiones Obreras, an independent, non-profit foundation created by the Spanish Trade Union Confederation, notes that a trade union's culture may be broadened: "We think longer-term about the indirect effects, such as employment today [in the fossil fuel sector] versus sustainable energy tomorrow. This way of thinking allows us to be cohesive when looking at conflicting issues."

Strategic Opportunities

The trade union representatives we spoke with noted that multi-stakeholder engagement can increase strategic opportunities by expanding a trade union's sphere of influence within its traditional boundaries and on issues that extend beyond its usual scope.

• **Influencing solutions within traditional boundaries:** Many trade union federations and congresses represent workers from competing sectors (e.g., renewable energy and fossil fuel). Multi-stakeholder engagement can help defuse conflict by ensuring that all voices are legitimised. The process can help identify commonalities that generate inclusive solutions that reach beyond traditional "job-guarantee" perspectives.

• **Influencing solutions beyond traditional boundaries:** Traditionally, trade unions have had their influence legitimised by their historically established structures and mandates. In a globalised world of rapidly emerging challenges, multi-stakeholder engagement can offer trade unions opportunities to work outside of their traditional consultation and decision-making boundaries. Omara Amuko of the National Union of Plantation and Agricultural Workers (IUF) in Uganda notes that, "Engagement enriches our ability to tackle issues beyond the traditional trade union agenda. When we move from a social agenda to economic and environmental issues, it provides opportunity to benefit our members." In Box 4.3, we profile a successful partnership between labour and environmental organisations in Italy.

In addition, trade unions may find themselves able to strengthen opportunities to link worker rights to the general well-being of local communities. For example, while many trade unions have links with NGOs on a variety of issues, stakeholder engagement processes have encouraged them to participate more actively and effectively. The International Federation of Building and Wood Workers (IFBWW) in India, for example, has lent support to NGOs that advocate women's issues. More recently, it has embedded the issue of women's rights in its mandate by establishing a sub-committee charged with forging solutions on women's issues in cooperation with other civil society organisations.

Box 4.3: Creating Opportunities for Expanding Influence

In preparation for the G8 Environment Group meeting in Trieste, Italy in 2001, the Confederazione Italiana Sindacati Lavoratori (CISL), in conjunction with the Confederazione Generale Italiana del Lavoro (CGIL) and the Unione Italiana del Lavoro (IUL), which together represent more than 12 million workers, initiated a consultation with the major Italian environmental organisations. The objective of the meeting was to develop a joint strategy to present to the Italian environment ministry. The joint strategy would advocate for the issues that the consultation group believed were important to bring to the table at the upcoming summit. Ceclila Brighi of CISL says that the response was rewarding: A half-day session with participating G8 environment ministers and representatives of the consultation group was chaired by the Italian government to discuss issues identified through the joint engagement. Four key areas were highlighted. These included the need for 1) clear and strong action to mitigate climate change, 2) democratic governance rules for globalisation, 3) environmental and social conditions for foreign-direct investment and export credit agencies, and 4) abandonment of nuclear energy production. Key points from the summit were included in the final ministerial declaration, the *G8 Environment Ministers' Communiqué.*

WHAT ARE SOME SUCCESS FACTORS FOR EFFECTIVE ENGAGEMENT?

We asked trade union representatives where they thought multi-stakeholder engagement approaches were headed for their organisations and their members. They told us that stakeholder engagement will continue to help them meet the needs of their members alongside traditional negotiating processes. At the international level, trade unions are straddling reactive (risk avoidance) and proactive (learning) apporaches to engagement and moving toward progressive (strategic) approaches. Below, we summarise their thinking on some factors that might best facilitate continued movement toward increased value creation for trade unions and their members. We follow with a look at some challenges.

■ **Use stakeholder engagement strategically**

Given often limited resources available for these activities, trade unions may gain greatest value by focusing on a select number of high-impact issues. Approaching engagement strategically rather than tactically may increase a trade union's influence on the mode of engagement, which increases the potential for a shift from consultation to dialogue to action through partnerships.

■ **Streamline the operationalisation of stakeholder engagement**

Trade unions must be able to respond quickly to the effects of rapidly changing business climates. For example, mergers often result in employment loss, which reduces trade union membership and can weaken negotiating positions. Similarly, multinational corporations often have policies that are applied company wide and make it difficult for

a national trade union to lobby for change for its members. Trade unions may be most effective in dealing with rapid change if they are able to put stakeholder engagement policies in place so that they can address issues in a timely manner. We profile the approach of Statoil, a Norwegian-based oil and gas company, in **Box 4.4**.

Box 4.4: Global Framework Agreements and Local Action at Statoil

Statoil's approach to labour relations is rooted in a Norwegian tradition, which emphasises dialogue and cooperation, not confrontation, between employers and employees. Statoil aims to develop a culture of trust between management and workers and their organisations built on open channels of communication.

Among the 21 countries in which Statoil currently operates, there are large variations in socio-economic development and degrees of political freedom. The extent to which labour rights are respected also varies, with the result that the company's challenges of upholding labour standards and developing good industrial relations differ from one country to another.

In 1998, Statoil entered into an agreement with the International Federation of Chemical, Energy, Mine and General Workers' Unions, the international trade secretariat for 20 million workers in 110 countries. The purpose of the agreement was to "create an open channel of information between ICEM and Statoil Management about industrial relations issues in order to continuously improve and develop good work practice in Statoil's worldwide operations." This was the first agreement of its kind between a labour federation like ICEM and an individual company. The agreement was renewed in March 2001 and adapted to the principles of the UN Global Compact.

Statoil believes it is important that labour relations are managed in accordance with local conditions. Considerations of legitimacy and efficiency require that employee concerns should be handled by those closest to the issues. The agreement between Statoil and ICEM reinforces local practices and ensures consistency with internationally agreed standards on freedom of association and collective bargaining. It is also a good illustration that industrial relations mechanisms can introduce such other issues as environment and human rights into company and trade union engagement processes.

Adapted from: Statoil case study, www.unglobalcompact.org

- **Understand the connections**

In common with businesses, governments and civil society organisations, international trade unions are recognising that no single actor can manage increasingly complex global issues alone. Edward Kareweh of the General Agricultural Workers Union of Trades Union Congress (GAWU-TUC) in Ghana says that multi-stakeholder engagement has "helped us understand new perspectives of employees and government. It has helped us structure internal policies to respond to issues at a macro level. This gives the trade union leverage to make better decisions to help meet workers' needs."

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[29] Ecologic for UNEP DTIE, *The Role of Labour Unions in the Process Towards Sustainable Consumption and Production* (2004). See www.uneptie.org/outreach/business/labour.htm

As trade unions play a larger role in international multi-stakeholder discourse, they will encounter and need to develop the capacity to manage opportunities and dilemmas that may stretch their traditional mandates. The UNEP-commissioned report, *The Role of Labour Unions in the Process Towards Sustainable Consumption and Production,* concludes, "The majority of initiatives to achieve more sustainable production and consumption patterns aim at a transformation of workplace and production methods. The successful implementation of such changes in the working environment depends to a large extent on the knowledge, support and acceptance of workers and employees. As a result, labour unions are a key actor in the process." The report goes on to explain that the unique infrastructure of labour unions (including organised workers, expertise and communications channels) "represents a great potential to draw further participants and expertise into the process…[as well as] the danger of fragmentation and conflicting interests, which then might considerably hamper progress."[29]

The trade union representatives we spoke with cited several examples of opportunities and dilemmas that are likely to surface as they consider traditional worker issues across social and environmental dimensions. For example, some trade unions may find themselves:

• Promoting sustainable consumption and production, as well as worker health and safety
• Supporting families through, for example, the development of community programmes while promoting worker-focussed issues
• Facilitating a transition to cleaner jobs rather than job security within a polluting sector

We asked our trade union representatives to summarise their key messages for those participating in multi-stakeholder engagement processes. We provide a brief selection of these in **Figure 4.1**.

Figure 4.1: International Trade Union Advice on Effective Engagement

TRADE UNIONS TAKING PART IN ENGAGEMENT NEED TO:

• Make positions clear but not be tied to fixed positions, acknowledging that in some cases compromise can build long-lasting, value-added solutions

• Have patience through a lengthy, iterative process, recognising that it can sometimes fail to find solutions

• Be transparent about processes and objectives and about establishing trust

• Be accountable, internally and externally

WHERE ARE THE CHALLENGES?

As we identified in earlier sections, challenges to successful stakeholder engagement often stand in the way of opportunities. The trade union representatives we spoke with highlighted three key challenges.

- **It takes time and resources**

Peter Hurst, formerly with the International Union of Food, Agricultural and Allied Workers Organisation (IUF) notes, "The key role for trade unions is collective bargaining. Coalition work often can tie up trade union resources to support a small number of workers, so others are not being served. It's a trade off. Stakeholder engagement, therefore, is a luxury – but an important one."

In contrast to government and industry groups, which frequently have representatives whose sole responsibility is to represent their organisation's views in engagement processes, trade union representatives say they often juggle multiple hats and, as such, are unable to participate as fully. This is true at the international level and also at the national and local levels.

Thus, the trade union representatives we spoke with told us they need to prioritise those issues where their involvement is crucial and then ensure that trade union input is complete and substantive. Timeliness is also important. As Estefania Blount-Martin points out, "The sooner you engage the better. If you wait, the agenda becomes fixed. It's hard to insert new views and so your input and effect is limited."

To meet these challenges, some trade unions recognise that they must undertake a significant programme of capacity building, which can involve the commitment of financial and human resources to build capabilities and skills for effective engagement, as well as the establishment of internal approaches for how the trade union will participate in the stakeholder engagement process in order to secure internal political backing for it.

- **It requires considering the mindsets of members**

Trade unions need to understand their members' concerns and interests and relate them to the options available for action. As we noted earlier, context is everything. For some issues, traditional negotiations between union and employer will be appropriate. For others, multi-stakeholder engagement at an international level will be effective. Arthur Barrit of the Associated Labour Union-Trade Union Congress of the Philippines (ALU-

TUCP) says, "There may be a resistance to social change. Workers are not always interested in new ways of doing things." Jesper Lund-Larsen suggests that trade unions may need to undertake dialogue with members to understand their perceptions of multi-stakeholder processes. They may need to consider framing these processes, as appropriate, as a natural extension of their trade union's work and not the co-opting of workers' rights.

Edward Kareweh of the General Agricultural Workers Union of Trades Union Congress (GAWU-TUC) in Ghana has observed change over time. In early consultations, he says, workers were suspicious of some types of consultation because they feared losing gains they had made. More recently, they have recognised that sharing ideas can strengthen their position.

▪ It requires reviewing one's priorities

Some trade unions also told us they need to be aware of internal tensions and paradoxes so that effective and realistic dialogue can occur with social partners. They recognised that because their constituents may represent a variety of sectors, divergent viewpoints can surface in response to issues. According to Jesper Lund-Larsen, sectors traditionally tend to look out for themselves. But as global priorities shift, trade unions will need to look for opportunities in, for example, the creation of jobs with an environmental focus (for example, moving from electricity sectors based on fossil fuels to ones based on renewables). "Most members agree in principle," he says, "but they have to look outside their sector. They have to think about job transition." One approach to such a dilemma is for trade unions to engage their members in determining which member group might most effectively lead on certain issues in partnership with like-minded civil society organisations.

▪ It requires considering the mindsets of potential engagement partners

For most trade unions, building the trust necessary for successful stakeholder engagement is a lengthy process. The international trade union representatives we spoke with recognised a need to reform perceptions of trade unions as trouble makers or trouble shooters that are held by some corporations and governments. The representatives we spoke with also acknowledged that civil society partners can be frustrated by the structural bureaucracy that can slow decision-making in some trade union organisations. They recognise that in order to maximise the value of engagement opportunities, they need to demonstrate that they are willing and able to move beyond fixed positions when multi-stakeholder consultation can benefit their unions and members.

Box 4.5 presents a selection of opportunities and tensions created as trade unions have expanded their engagement.

Box 4.5: Building Alliances with NGOs

Several of the trade union representatives we spoke with highlighted both opportunities and tensions arising from their participation in multi-stakeholder engagements with NGOs. Here, we summarise their views:

Opportunities

An emerging trust through NGO and trade union collaboration creates the opportunity to restructure the workplace to create sound jobs and a sound environment. *Cecilia Brighi, Confederazione Italiana Sindacati Lavoratori*

Stakeholder engagement is planning and working with others, including NGOs that are sympathetic to trade unions and issues of housing, child labour and broader community and social needs. Working with NGOs can give credibility and strength to trade unions, off-setting their image as trouble maker. *Christine Nathan, Occupational Health, Safety and Environment Institute, Bangkok*

To build capacity, especially on environmental issues, we are talking with environment NGOs. We are looking for direct contact – not umbrella groups – for deeper engagement on a one-to-one basis. Powerful NGOs have a role in setting up the process in cooperation with government, but not as part of a government-controlled process. This can ensure that there is no abuse of the process. *Josephilda Nhlapo-Hlope, Development Bank of Southern Africa*

Tensions

It's easier for government to call an NGO because the decision-making process is simpler. For trade unions, the democratic process is quite complicated. We have to convince members that a particular action is valuable, helping people to understand the issue and the implications. The easier, shorter route for government is to call NGOs. *Cecilia Brighi, Confederazione Italiana Sindacati Lavoratori*

At the World Food Summit, we saw NGOs picking and choosing partners. That makes it difficult because trade unions are more formalized and, therefore, are slower to act spontaneously. *Peter Hurst, formerly with the International Union of Food, Agricultural and Allied Workers Organisation (IUF)*

Trade unions have a formal structure. They are accountable to their paying members and if the members don't want a particular action, the trade union is unable to act. NGOs, with their mandates driven by policy, have more freedom. Further, some people are scared of trade unions. They see them as trouble makers that are against capitalism. Some businesses that assist NGOs do not want those NGOs assisting trade unions. *Christine Nathan, Occupational Health, Safety and Environment Institute, Bangkok*

The tensions are different in industrialised countries and developing countries. In industrialised countries, trade unions are concerned with new technologies that displace workers. NGOs don't care about that. At that level, it's a false tension. This tension is more an economic one to do with security and job transition. In developing countries, the dominant issue is the legitimacy of NGOs: Who are they and where do they get their money? Trade unions there are more hesitant to interact with NGOs that get support from corrupt or non-democratic sources. *Lucien Royer, International Confederation of Free Trade Unions*

SOME REGIONAL VOICES AND OBSERVATIONS

As we noted earlier in this Section, trade unions in industrialised and developing countries use different approaches to stakeholder engagement. Labour organisations in industrialised countries have structures in place to address basic worker health and safety issues. In general, they are able to use stakeholder engagement to approach issues holistically and extend their influence across social and environmental dimensions. In developing countries, stakeholder engagement tends to focus more on basic worker rights and providing many of the social services traditionally provided by government.

That said, we note a natural extension of workers' rights issues into other arenas. To illustrate, we provide three regional examples, from Croatia, East Africa and India.

Croatia: A Model for Reform

In 1992, the Government of Croatia (GOC) mandated social dialogue with the unions and employers' associations as the model most appropriate for the country as it strives for comprehensive economic and social reform. This commitment partially stemmed from a pre-election agreement signed between the ruling parties and Croatia's largest trade union. The commitment led to the establishment of the 15-member Economic and Social Council (GSV), with five representatives each from the GOC, the Croatian Employers' Association (HUP) and the five national trade union confederations. The GSV typically meets at least once a month on policies, procedures and legislation relating to social protections, workers' and employers' interests and the collective bargaining process.

According to Jasna Petrovic, of the International Confederation of Free Trade Unions - Central and Eastern European Women's Network (ICFTU CEE) Croatia, the GSV became most effective when, in 2000, a newly elected government began to use multistakeholder dialogue to help the country's economic, social and democratic transformation. Recently, for example, social dialogue is being encouraged at the local level, and GSVs have been formed and are beginning to function in most parts of the country.

Despite this progress, the country's social dialogue process has undergone a tumultuous period since 1992. Petrovic notes that serious breakdowns over sensitive issues have been caused in part by a lack of integrity in the process and miscommunications. For example, due to the absence of a clear agreement between the parties on the process and

substance of social dialogue, some issues that some parties considered relevant failed to be submitted to the GSV for consideration. As a result, Petrovic says that there were moments when the breakdown of the entire process seemed imminent. In the case of the Labour Law, for example, procedural mishandling brought the country to the brink of its first ever general strike.

Despite these strains, the social dialogue concept has survived as a means of resolving key issues and preventing unnecessary conflict during economic transition, and Petrovic says that the parties are optimistic that it will gain credence as a model for value-added reform. Negotiations of the Labour Law, for example, continue in a tripartite forum under the auspices of the Office of Social Dialogue. The final outcome of dialogue on this key issue, however, remains unforeseeable. That, combined with the fact that the draft Labour Law was sent to the Parliament without having been agreed upon by the social partners, indicates that the process needs further refinement.

East Africa: Labour-Industry Partnership for Safety
When occupational health and safety officers in Uganda and Tanzania wanted to enhance farmer and farm worker education programmes on safe pesticide use, they approached the International Unions of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) for assistance. The IUF turned to the Global Safe Use Programme, a programme established by the international pesticide industry. Operating under the guidance of CropLife International, the purpose of the Global Safe Use Programme is to educate and train farmers, farm workers, community groups and teachers on the safe use of pesticides. According to Peter Hurst, formerly with the International Union of Food, Agricultural and Allied Workers Organisation (IUF), the IUF's preliminary research suggested that the Safe Use Programme was more promotional than educational and lacked "buy-in" from local communities. In response, the IUF approached CropLife International and together the two organisations forged an agreement to develop a joint training programme for farm workers and supervisors on plantations in Uganda and Tanzania. IUF health and safety officers from the local trade unions now work with trainers from CropLife International to adapt materials and ensure widespread outreach. Funding for this work is shared 80/20 (CropLife International/IUF) with all monies going to training activities.

India: Labour-NGO Coalition Supporting Communities

Because many trade unions represent workers who live in local communities, it is often a natural extension for them to represent workers beyond the workplace. This is particularly true in developing economies. Often, this is accomplished by linking with NGO groups that are working on broader social issues, such as housing, child labour and community development. The accomplishments of the Indian Federation of Building and Wood Workers (IFBWW) offer a case in point.

In India, trade unions traditionally have had a leadership role in the community. Although the IFBWW is responsible for the forestry workers in India's forestry sector, it is not equipped to deal with the broader social issues facing its constituents. Forest workers are largely self-employed and largely unorganised. As such, they are prone to swings between full employment, partial employment and unemployment. Adding complexity to the issue of job insecurity, many of these people live in the forested areas and need the forest not only for their income but also for their shelter and other life necessities. To help address the complexities, the IFBWW set up, over a ten-year period, a federation of 48 NGOs. This federation, called Ban Bandhu (Ban means forest and Bandhu means friend) consisted of social and voluntary organisations devoted to the cause of forests, forestry, ecology and environment that worked side by side with the IFBWW to address the issues facing forest workers. The IFBWW provided leadership and coordination, facilitated fundraising and raised awareness both nationally and internationally. The NGOs established community links and carried out project implementation. As well, they facilitated the broad participation of forestry workers (including women workers), tribal groups, indigenous people and others to ensure that related environmental concerns were incorporated into local initiatives. Over time, the NGOs have started to function independently, branching out to address other issues, such as community development, socio-economic activities, schools for indigenous young girls, education centres, cooperatives and water management.

The origin of this cooperation stemmed from awareness by trade unionists in the IFBWW that trade union activities must extend into the informal employment sector and into rural areas. According to Christine Nathan of the Occupational Health, Safety and Environment Institute (OHSEI) in Bangkok, "This expansion is necessary not only to benefit some of the poorest and oppressed sections of society but also to develop solidarity between organised wage earners and workers in rural areas."

5. Industry Sector Associations

WHY AND HOW DO WE ENGAGE?

What is in this section?
- Illustrations of engagement trends
- An examination of the value of engagement to industry sector associations
- Some success factors for effective engagement
- Selected regional perspectives and observations

"The new understanding of stakeholder engagement recognises that different parts of society are interconnected. We've tried to look at it from the point of view that is naturally coming out of this discussion, especially around the big UN agendas like climate change and sustainable development."

Mads Bergendorff,
International Union of Railways

In Section 2, we provided business perspectives on stakeholder engagement from a variety of sectors. In this section, we turn to the perspectives of a selection of associations that represent them at an international level. This dimension has been included because, while labour unions and NGOs often are engaged directly in multi-stakeholder processes, individual businesses also rely on representation by sectoral and/or cross-sectoral groupings. In assuming such representative roles, many industry associations have traditionally limited their focus to lobbying governments on regulatory affairs and trade issues rather than bringing new vision and practices into their sector. This traditional role has been changing since the late 1980s. This was evident from a survey report produced by UNEP in 2002. Entitled *Catalysing Change: How Industry Associations Can Promote Sustainable Development*, the report highlighted new proactivism by various sectoral and cross-sectoral associations in the previous ten years.[30] This agenda includes awareness-raising activities, the development of training materials, guides and codes of conduct and, more recently, multi-stakeholder engagement. Industry sector associations told us that this is in large part because engagement more often takes place at the national, regional (or subnational) and company level. That said, our conversations with industry sector associations suggested the same trends that we observed earlier:

Trend 1: Industry spread from recognisable firms to formerly invisible companies
Trend 2: Increase in stakeholder diversity and complexity and the range of issues they raise or champion
Trend 3: Increasingly sophisticated approaches to engagement

We also observed an additional trend unique to the industry sector association perspective:
Trend 4: Limited but increasing lead by international industry sector associations on issues that cross many dimensions

[30] For the full report, see www.uneptie.org/outreach/business/best_practice.htm

WHOM DID WE SPEAK WITH?

The trade associations we interviewed covered 10 sectors (mining and metals, iron and steel, oil and gas, water, chemicals, air transport, rail transport, food and beverages, cement and accounting. A full list is available on page 83). We recognise that the representatives we spoke with were primarily based in the European Union, but a number of them had global mandates.

INDUSTRY SECTOR ASSOCIATION ENGAGEMENT – WHAT ARE THE TRENDS IN MOTIVE AND METHOD?

We begin this section by providing illustrations of Trends 1 through 3, identified above, and follow with a discussion on the ways in which international industry sector associations are taking the lead on some issues.

Trend 1: Industry spread from recognisable to formerly invisible companies

As we observed in Section 2, industries that are highly visible because of their obvious and direct environmental or social impacts were the first to embrace stakeholder engagement. Industries that are more usually out of the public eye have recently taken up stakeholder engagement in response to increasingly complex issues that are having an impact on their business performance. The same is true of the industry sector associations that represent them. For example, the International Council of Chemical Associations, representing the highly visible chemical sector, has been using stakeholder engagement processes for two decades. In contrast, Jean-Marie Chandelle of the European Cement Association notes that, "For the cement industry, the idea to take part in a stakeholder consultation process is still fairly new. Traditionally, our industry was not very open to communication, and the need to go through a process with the view to gain public acceptance was not a top priority." Chandelle says that it has been quite a rapid transformation over the last 10 years. More particularly in the last four years, he says the organisation has become acutely aware of the need to go into consultation processes with stakeholders.

Some industry sector associations describe a gradual shift from internal to external engagement. Mads Bergendorff of the International Union of Railways explains that internal engagement has long been a part of his industry's way of doing business. This is because cooperation has been essential to ensuring that self-governing national rail systems provide customers with a service that is compatible across borders. Now, he says, "The

new understanding of stakeholder engagement recognises that different parts of society are interconnected. We've tried to look at it from the point of view that is naturally coming out of this discussion, especially around the big UN agendas like climate change and sustainable development." At the same time, transformation within industry means that growing external engagement is accompanied by new challenges in internal engagement. This can be seen in new trends in convergence or divergence in industry sectors as, for example, telecommunications companies become communications companies, oil and gas companies become energy companies, or rail transport companies become privatised into infrastructure managers and rail operators.

The Drivers to Stakeholder Engagement

The industry sector associations we spoke with identified many of the same drivers we presented in Section 2. In particular, they noted:

- Threats to licence to operate
- The increasing complexity of issues across environmental, economic and social dimensions and the championing of these issues by intergovernmental agencies, such as UNEP
- Globalisation and its impact on access to finance

To illustrate these drivers, we provide the perspective of the European Cement Association in Box 5.1.

Box 5.1: The European Cement Association – Drivers to Stakeholder Engagement

Jean-Marie Chandelle of the European Cement Association suggests four key drivers to his association's uptake of stakeholder engagement:

Access to capital markets: Even though cement companies sell their products primarily in regional markets, producing cement is a capital-intensive industry. "With the globalization of capital markets, suddenly companies that typically operate in a radius of about 300 kilometres need to have a world presence if they want to remain competitive in terms of access to global capital markets."

Regulatory environment: The increase in regulatory initiatives in the past five years – in the European Union in particular – means the industry must be proactive in advocating its position on various issues.

Public acceptance: Cement making is energy intensive. To meet its energy demands, the industry has developed alternative fuels through co-incineration of various types of waste in cement kilns. This has raised its public profile and increased the need to engage new stakeholders. "If we just publish the results of our studies, it will not help us. Before we publish, we'd like to create some ownership. We also want to listen to people and see how they react. It may be that they have concerns that we have not identified."

Carbon emissions: Cement making creates a lot of CO_2. Sixty percent of emissions are a result of the limestone de-carbonisation process, which is a fundamental part of the cement making. Still, the high levels of CO_2 emissions have put the industry in the spotlight during debates on greenhouse gas reductions and emissions trading.

Trend 2: Increase in stakeholder diversity and complexity and the range of issues they raise or champion

Many of the industry sector associations we spoke with described regulators and NGOs as early stakeholders. Some identified the financial sector as a significant "new" stakeholder.

We also observed that as industry sector associations gain experience in engagement, they begin to refine their selection of the stakeholders with whom they engage. For example, Paul Mitchell of the International Council of Mining and Metals (ICMM) articulates his organisation's stakeholders according to the business reason the Council engages them. We have summarised these in Figure 5.1.

Figure 5.1: International Council of Mining and Metals Business-Driven Stakeholders

BUSINESS REASON TO ENGAGE	STAKEHOLDERS
Access to land	• Environmental NGOs • Communities • Governments • Intergovernmental organisations (e.g., the UN)
Access to capital	• Commercial lenders (i.e., banks and investors)
Access to markets	• Policy-setting bodies (e.g., the European Union, OECD)
Protection of members' reputations	• Influencers and opinion formers (e.g., academics, journalists)

Trend 3: Increasingly sophisticated approaches to engagement

Just as Mads Bergendorff described internal engagement as his industry's "way of doing business", so too are some industry sector associations embedding external engagement processes in their business model.

For example, Chris Morris of the International Petroleum Industry Environmental Conservation Association (IPIECA) explains that his association invites a broad range of environmental, economic, social and government stakeholders to its regular work-shops on corporate social responsibility, biodiversity and climate change. He elaborates: "Their input provides us with a broader perspective on issues, different geographical

coverage, a wider sphere of influence and differing opinions from around the world." Morris says stakeholder dialogue influences IPIECA's activities and strategic planning. For example, the most recent stakeholder dialogue provided useful guidance for the establishment of the association's newly created Social Responsibility Working Group, with participants suggesting topics for the new working group to include in its work programme.

As associations gain experience with stakeholder engagement, the processes they use are becoming more sophisticated. Birgit Engelhardt of the International Council of Chemical Associations describes her organisation's forms of engagement. They include:

• **Externally initiated processes and partnerships,** e.g., UNEP's annual consultative meeting with industry sector associations and the Strategic Approach to International Chemicals Management (SAICM). We profile the SAICM process in **Box 5.2**.

• **Internally initiated informal consultations** that are a normal element of the Council's political work.

• **Internally initiated structured processes and partnerships,** such as the National Advisory Panels that are part of the industry's Responsible Care programme.

Box 5.2: The SAICM Process

UNEP and the World Summit on Sustainable Development (WSSD) have initiated a multi-stakeholder process to develop a Strategic Approach to International Chemicals Management (SAICM). Discussions commenced in 2003 and will culminate in an international conference in early 2006. SAICM will provide a policy framework for international activities aimed at achieving the WSSD goal that, by 2020, chemicals are produced and used in ways that minimise significant adverse effects on human health and the environment. A key feature of the SAICM process is its engagement of all sectors of society with an interest in chemical safety, including environment, health, agriculture, labour and industry. SAICM will comprise a high-level declaration, an overarching policy strategy and an action plan with concrete measures, time-bound targets and performance indicators. It will provide an opportunity for a new partnership approach between all stakeholders to manage chemicals safely at the international level in an efficient and cost-effective manner.

Source: Strategic Approach to International Chemicals Management (SAICM) Information Note, SAICM Secretariat, UNEP Chemicals; www.chem.unep.ch/saicm/

Trend 4: Increasing leadership by international industry sector associations

Many of the international associations we spoke with commented that stakeholder engagement in their industry sectors takes place primarily at the national, regional and company levels. They told us that national and local engagement is more responsive to regional differences. They also said processes are more efficient and decisions more quickly implemented at these levels. In some cases, regional initiatives are transferred to the international level. We look at a Nordic example of this process in **Box 5.3.**

Box 5.3: Regional Awareness Transferred to the Global Arena

When Nordic railways were faced with pressure to provide environmentally sound rail cars in the 1990s, the four regional competitors joined together to develop a manual of guidelines for future acquisitions. That manual is now providing the basis for the first internationally harmonised specifications for the new types of trains and the procurement of new rolling stock. As Mads Bergendorff of the International Union of Railways explains, "We know that we are under competition with other modes of transport so we are interested in matching development in other sectors. As well, our rolling stock has quite a long lifetime, so we also have to look much further ahead. This is a concrete example in our industry of awareness on a regional level transferring to a global level."

Some associations, particularly those that are research-focussed, believe they are most effective as a catalyst or advocate for stakeholder engagement within their sector. Andrew Speers of the International Water Association puts it this way: "We try to take a leadership position. Our advocacy, or lobbying if you want to call it that, is directed towards effective outcomes, rather than protecting industry positions."

Other associations, particularly those that are membership-driven, believe it would be difficult for them to speak on behalf of their diverse industry on global issues. Rather, they identify their role as mediator. For example, the Air Transport Action Group (ATAG) includes among its members airports, airlines, manufacturers, airline pilot and air traffic controller unions, travel and tourism organisations, ground transportation providers and others. As Martina Priebe, ATAG's director, explains, "It's very difficult because there are so many stakeholders in our industry and so many different opinions. They have very different agendas and might not agree on solutions to environmental issues."

However, some international associations are identifying issues on which they can lead. For example, ATAG members are working together to develop an EU model of system integration of air and rail transport. The goal of the model is to harmonise the air and rail systems so that passengers can move in a seamless fashion from one mode to the other, using a single ticket. If the model works successfully, ATAG will explore its application in other regions. Priebe notes, "This is something that we have pushed because we believe that air transport can share part of its traffic and move it to rail. What we want to achieve is a system wherein people can mix different destinations and expect the same service at every type of destination. In this way I think we can say that we have contributed to more sustainable travel."

HOW DOES ENGAGEMENT CREATE VALUE FOR INDUSTRY SECTOR ASSOCIATIONS?

Many of the industry sector associations we interviewed reflected the movement we have seen from stakeholder engagement focussed on reactive risk avoidance to proactive strategic positioning. To illustrate, we draw on one example for each of the three levels of our value-creation model. Similar to our observations in Section 2, the value creation for industry sector associations is cumulative, with most associations – including the ones we highlight below – operating at more than one level (e.g., risk management and strategic positioning) in response to particular issues and stakeholders.

The Risk Avoidance Case

Earlier in Box 5.1, we reviewed the four drivers that had prompted the cement sector to increase its engagement with stakeholders. In light of the sector's fuel mix, high levels of CO_2 emissions and need for large capital financing, it strives to create a positive public image and better community relations, while avoiding damage to its reputation.

The Learning Case

Stakeholder engagement in the iron and steel industry is done primarily at the local and regional levels. Engagement at the international level has been focussed on UNEP's annual sector meetings. Scott Chubbs of the International Iron and Steel Institute (IISI) says those meetings have stimulated a new approach: "I can draw a line from the first meeting to our later work on sustainability indicators and sustainability reporting." In 2004, the IISI began preparation of its first global sustainability report. To increase the benefits of engagement, it is drawing on the expertise of a small independent advisory group of academics. Chubbs explains: "We think we're doing some interesting things, and we think we have an approach that works for us. But we can benefit from having some external advice on whether what we are doing is good or bad and what works and what doesn't."
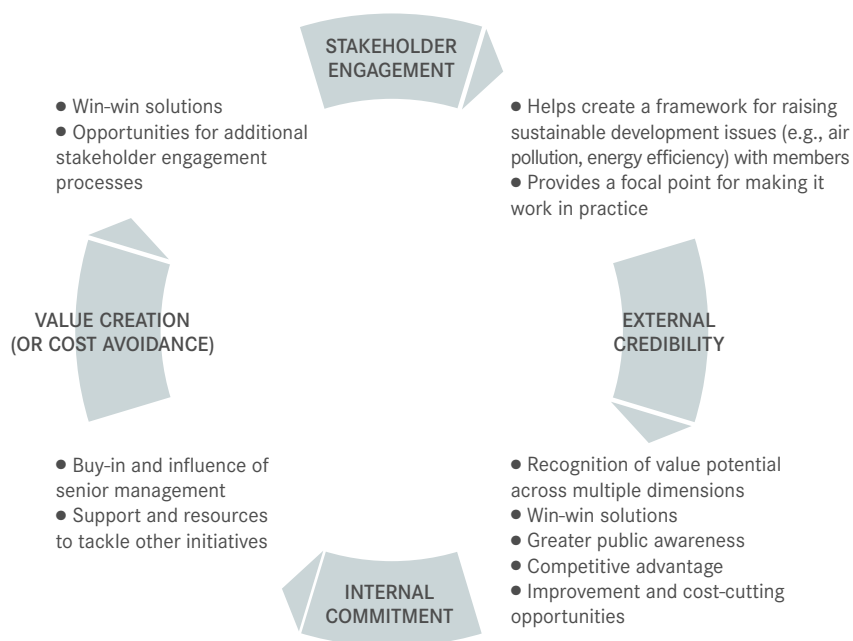
The Strategic Case

The strategic case creates value by finding solutions to sustainable development challenges and meeting stakeholder expectations in the context of increasingly complex issues. James Sylph of the International Federation of Accountants says more and more stakeholders want to take an early, active role in his organisation's work developing international accounting standards. He notes, "When you bring people together, you get a broader, more balanced output. Different stakeholders will bring different perspectives from different professional disciplines that have different objectives. A corporate controller has interests in reporting but with a bias because he prepares the actual reports. The regulator has a different perspective, the securities commission has a different perspective." Sylph suggests that the results from multi-stakeholder processes not only are more balanced, but are more valuable because they are credible to the stakeholders who were involved in reaching them.

A Cyclical Model of Value Creation

Our interview with Mads Bergendorff of the International Union of Railways suggests that stakeholder engagement can create cyclical increases in value that build on the risk management case. We set out this perspective of value creation in **Figure 5.2**.

Figure 5.2: A Cyclical Model of Value Creation

STAKEHOLDER ENGAGEMENT

- Win-win solutions
- Opportunities for additional stakeholder engagement processes

- Helps create a framework for raising sustainable development issues (e.g., air pollution, energy efficiency) with members
- Provides a focal point for making it work in practice

EXTERNAL CREDIBILITY

VALUE CREATION (OR COST AVOIDANCE)

- Buy-in and influence of senior management
- Support and resources to tackle other initiatives

- Recognition of value potential across multiple dimensions
- Win-win solutions
- Greater public awareness
- Competitive advantage
- Improvement and cost-cutting opportunities

INTERNAL COMMITMENT

WHAT ARE SOME SUCCESS FACTORS FOR EFFECTIVE ENGAGEMENT?

In Section 2, we reviewed some success factors for effective stakeholder engagement identified by the corporate representatives we interviewed:

- Agree on the rules of engagement
- Be focussed, but flexible
- Listen and be respectful
- Operationalise decisions
- Follow-up on implementation

The industry sector association representatives we spoke with reiterated these five points. In addition, they highlighted two others:

- **Identify "your greatest fear"**

While it is important to identify issues where you and your stakeholders agree, Jean-Marie Chandelle of the European Cement Association cautions that real progress will only be made when you enter into dialogue on the difficult issues on which you do not agree. In doing so, he says, you can prepare by asking, "What is my worst nightmare?" Andrew Speers of the International Water Association suggests that this approach can lead to innovation and value-added solutions. He notes, "One of the most important mistakes that the industry makes is limiting itself to asking what people think, rather than asking more penetrating questions and inviting involvement in the decision-making process."

- **Keep it fresh**

Many interviewees commented that preconceived ideas of suitable solutions can limit the innovation and flexibility needed to find solutions to complex problems. To illustrate the challenge, we examine a perspective of the water industry in **Box 5.4**.

Box 5.4: Managing Innovation in Water Management

Andrew Speers of the International Water Association suggests that stakeholder engagement can help get innovative solutions implemented.

The Challenge: Communities, regulators and investors want assurance that innovative solutions to water systems will provide dependable and quality service. Service providers, who have expertise in traditional solutions, want assurance that the benefits of innovation will outweigh the costs.

customers. A regulator might want case studies of effective operation. Providers might want cost-benefit studies.

The Risk: In an effective stakeholder dialogue process, proponents must be prepared to have their solution rejected.

The Solution: Stakeholder engagement that allows those potentially affected by an alternative solution to voice their uncertainty. A community might want first-hand accounts from satisfied

The Value: Innovations that are accepted will have the buy-in and commitment of all parties, which in the long run will contribute to their success.

WHERE ARE THE CHALLENGES?

As we have done in the other sections, we asked industry sector association representatives to provide us with cautionary tales. They raised two important issues.

- **Temper expectations**

Paul Mitchell of the International Council of Mining and Metals says that in the early stages of stakeholder engagement, there was great hope that people would sit down and come out with negotiated solutions, and that it would be a relatively straightforward process. His experience suggests that that is unrealistic: "The fact that you get everyone to sit around the table, which is necessary and practised routinely now, doesn't mean you'll be able to solve all the problems. People may go into a dialogue with a particular view and come out with the same view, although with a better understanding of respective positions. But changing course and getting agreement about contentious issues is very difficult."

- **Include employees**

Jean-Marie Chandelle of the European Cement Association cautions, "Never convey to your employees the impression that stakeholders' involvement is going to replace social dialogue within a company." Employees and their trade union representatives are structured partners in the social dialogue and play an important role, he says. Failing to engage them in the early stages can lead to negative reactions that can damage stakeholder engagement initiatives. At the international level, this may also require early involvement of trade union confederations.

SOME REGIONAL VOICES AND OBSERVATIONS

As we observed in Section 2, every stakeholder engagement experience is unique and experiences vary by sector, by stakeholder expectations and by region. Our conversations with industry sector association representatives suggested, perhaps not surprisingly, that stakeholder engagement becomes more challenging as you expand to a multicultural arena. As Paul Mitchell notes, "When you have multicultural participants, being sensitive to everybody's way of doing things magnifies the challenges."

The industry sector association representatives we spoke with suggested that the challenges are magnified because of regional differences in association structure, attitude, issues and a region's capacity for engagement. Stakeholder engagement processes, they said, must be informed by an understanding of these differences. We discuss the implications of each of these differences below.

As we acknowledged at the outset of this section, many of the industry sector associations we interviewed were based in Europe. We invite industry associations with other perspectives to contact us for inclusion in future versions of this guide.

Regional Attitudes

Jean-Marie Chandelle of the European Cement Association suggests that as issues become more complex and solutions more nuanced, associations must understand how attitudes to uncertainty differ. In the EU, he observes, people are more risk-averse and expect a greater degree of regulatory control. In contrast, people in the USA are more likely to accept both risk and responsibility, asking, "How can I manage this?"

Mads Bergendorff of the International Union of Railways notes that members that provide financial support to the organisation (usually in developed countries) generally influence the association's understanding of a region's needs and priorities. Associations must ensure that they balance easily accessible needs with those that are more difficult to understand.

Regional Issues

Martina Priebe of the Air Transport Action Group (ATAG) contrasts capacity issues in the EU with those in developing countries. In the EU, she says, capacity refers to an internal, industry issue related to the inability to build new airports due to land constraints. In developing countries, capacity building to bolster and stabilise local needs is the focus of work by associations like ATAG.

Mads Bergendorff characterises regional approaches as horizontal or vertical. In industrialised countries, he observes, issues are viewed "more horizontally," connecting a variety of sectors, stakeholders and needs (i.e., environmental, economic and social). The association's engagement in developing countries differs as a result of the local level of capacity. In this case, his association focusses mainly on the vertical issues that concern each business areas (e.g., freight operators, passenger operators, infrastructure managers) and related technical issues.

6: Conclusions

WHAT IS THE VALUE OF STAKEHOLDER ENGAGEMENT?

"[Stakeholder engagement provides] an opportunity to bring many diverse perspectives together on issues that are central to our vision and mission and leverage these engagements towards effective and successful actions."

Jean-Paul Jeanrenaud, WWF

"Stakeholder engagement helps us find solutions to shared challenges, everything from creating awareness about a topic to improving company performance on the environment and human rights, to finding solutions to societal challenges."

Bo Wesley, Novo Nordisk

"Globalisation was at the root of our engagement as a stakeholder group. We worked hard to demonstrate the link between the daily and local agenda and the global agenda, to show the opportunities of globalisation and to prove we are stronger when we partner with other stakeholders."

Nilton Freitas, former trade union organiser

"Stakeholder input provides us with a broader perspective on issues, different geographical coverage, a wider sphere of influence and differing opinions from around the world. Stakeholder dialogue influences IPIECA's activities and strategy planning, for example, guidance on the formation of the association's newly created Social Responsibility Working Group."

Chris Morris, International Petroleum Industry Environmental Conservation Association

Companies have always engaged with stakeholders. As the voices above suggest, the practitioners we interviewed highlighted the ways in which extending the reach, scope and ambition of stakeholder engagement in their own organisations has enabled them to create value for themselves and their stakeholders while contributing to sustainable development in ways that no one organisation acting alone could achieve. However, the processes and practices employed are not always straightforward and are by no means guaranteed to always generate win-win outcomes.

The preceding sections have explored the processes and value of stakeholder engagement tools from the perspectives of businesses and three important stakeholder groups: NGOs, labour unions and trade associations. Practitioners told us that stakeholder engagement increasingly is being used as a mechanism to probe the issues, share the skills and resources, reach the compromises and generate the innovation to address complex challenges. There is also a clear trend towards an increased inclusion of public authorities into engagement processes. This is based on the recognition that governments play a key role in modifying the regulatory framework in order to allow for more successful approaches towards addressing issues of sustainable development.

We observed two additional key trends: The use of increasingly broad and sophisticated stakeholder engagement processes and the growing recognition of its value-creation potential. Stakeholder engagement processes have evolved from individual organisation's ad hoc efforts into relationship-building practices embedded within cross-sector and multi-stakeholder partnerships.

As the significance of stakeholder engagement increases, both in terms of the investment of time and resources by the organisations involved and the importance of the outcomes of these global processes, the question of what makes effective stakeholder engagement is more important than ever.

Today's experiments in developing multi-stakeholder dialogues could easily become tomorrow's expensive time-wasters if they are not able to create value for everyone involved. Engagement fatigue on the part of some stakeholders is already setting in. NGOs are questioning their ability to respond to all the requests to engage, while corporate players may struggle to justify the expense of engagement. For example, the Global Alliance for Workers and Communities, which interviewed over 10,000 young workers in Southeast Asian factories about their needs and aspirations on behalf of Nike and the Gap has shut down its operations because they were not successful in persuading other apparel brands that this kind of intensive engagement was necessary. The fact that some stake-holders – including some NGOs, labour unions and industry sector associations – were not interested in being interviewed for this manual also suggests that we have some way to go before consensus emerges on the potential value of effective engagement between businesses and their stakeholders. However, we hope that even the sceptics may respond to this document with their comments and thereby enrich our understanding of a growing phenomenon, even if they, as individuals and organisations, do not wish to become in-volved directly in stakeholder engagement.

Despite these challenges, our interviewees told us that they expect that stakeholder engage-ment practices – e.g., the use of communications, consultation, dialogue and partnerships – will continue to grow in their organisations, recognising at the same time that multi-stakeholder engagement will not be appropriate in all circumstances. For example, we must note the continuing value some NGOs place on adversarial campaigning and labour unions place on traditional bilateral negotiations between employees and employers.

WHAT ADVICE CAN WE BUILD ON?

The practitioners we spoke with told us that as with any aspect of business, stakeholder engagement demands a strategic approach in order to utilise scarce resources effectively. In the future, they say this may mean limiting engagement processes to those with the greatest potential for success, building capacity to manage better the rapid evolution of issues, partners and engagement opportunities, and educating employees or constituents. They also drew frequent attention to the need to address issues of mindset, organisational culture and skill sets in all participants for effective relationship building.

In the preceding sections, practitioners identified some key practical issues and challenges they have encountered in pioneering stakeholder engagement within their own organisations. These are summarised in **Figure 6.1**.

Figure 6.1: Summary of Key Success Factors of Stakeholder Engagement

PREPARATION	PARTICIPATION	MAINTAINING PROGRESS
• Ensure that stakeholder engagement is the appropriate mechanism for the issue at hand	• Be focussed, yet flexible, with clearly articulated expectations	• Operationalise decisions
• Get the right stakeholders to the table and keep them there through ongoing monitoring and evaluation of the engagement process	• Listen and be respectful, investing the necessary time in learning each others' mindsets and vocabulary	• Follow-up using targets and by measuring and reporting progress
• Assign adequate time and resources, taking into account the need to inform and educate some stakeholders, both internal and external, on complex issues	• Accept that it is not necessary to agree on everything and that some perceptions will neither align with yours nor ever be changed	
• Agree on the rules of engagement, including each party's role, to ensure a process where all parties share the risks and benefits	• Operate in a transparent and accountable manner	
	• Be realistic, considering both the risks and opportunities of stakeholder engagement over the long term	

TOWARDS SUSTAINABLE ORGANISATIONS: WHERE IS ENGAGEMENT TAKING CORPORATIONS AND THEIR STAKEHOLDERS?

While highlighting many key issues, this advice raises as many questions as it answers. How do you know if stakeholder engagement is the appropriate mechanism? How do you know whether the right stakeholders are involved? What is an acceptable level of transparency and accountability?

These are questions worth answering in order to realise the value-creation potential of stakeholder engagement processes. In Section 2, we presented the business case for stakeholder engagement from a corporate perspective. In our model, we noted that businesses claim to achieve increasing value from stakeholder engagement as they move from a risk management approach to the strategic use of engagement tools (see **Figure 2.6**). In Section 5, we presented the value-creation model of one industry sector association representative. We refer back to it here because our research suggests that it is not only businesses and their trade associations that are realising this value. In many cases, NGOs and trade unions are benefiting as well.

Based on our research, we observed that organisations – whether businesses, NGOs, labour unions or trade associations – that sincerely embrace stakeholder engagement within their operating model and strategic mindset can begin to build what Wheeler *et al* describe as a "sustainable organisation culture, whereby organisations represent interdependencies…and seek to maximise the creation of value simultaneously in economic, social and ecological terms."

We recognise that it is not an easy path. Embedding stakeholder engagement within an organisation, including tracking of targets and actions, is as complex as the issues it is designed to address. But we also observe that without building capabilities and embedding them in a receptive organisational culture, engagement risks becoming an "add-on", viewed by managers and stakeholders as a check-box, low-value and, ultimately, unsustainable and even negative activity.

The viewpoint emerging from this research and from other work in the area is that effective stakeholder engagement is that which promotes learning and innovation to drive improvement in impact and performance. Such "engaged learning" is built on the notion that stakeholder engagement is both high quality (i.e., the process is fair, transparent, inclusive and responsive) and outcomes-based (i.e., it makes a difference).

Learning from and with stakeholders, rather than merely engaging with stakeholders, involves a deeper commitment than dialogue or reporting. It involves a commitment to embrace critical stakeholders as a strategic asset in shaping and informing the direction of the company. It also means recognising the potential for engagement to be used to influence the behaviour of stakeholders themselves – as regulators, investors, consumers, competitors and suppliers, for example.

Volume 2 of this manual will provide practitioners with guidance to each stage of stakeholder engagement. It will build on the insights of the practitioners surveyed for this volume and on other examples of engagement in practice, as well as the guidance provided by a range of frameworks and standards advocated by different groups.

PROMOTING ON-GOING DIALOGUE

We hope that this initial collection of experiences is useful to users of this manual and that it will form the basis of a growing body of understanding. We also wish that this volume itself forms part of the dialogue and invite readers to respond with their comments and experiences and thereby enrich our understanding of this evolving phenomenon. Please email your comments on Volume 1 to kpartridge@StakeholderResearch.com and visit www.StakeholderResearch.com for ongoing postings of your responses.

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