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# **Authentic Stakeholder Engagement:** Essential to Strengthening Reputation and Managing Risk

*by Julie Steininger*

> *“Stakeholder engagement starts with listening and then having ongoing, open dialogue with those impacted by the decisions and actions of an organization to understand their expectations.”*

Today, industries and corporations are under constant evaluation and scrutiny—from informal consumer word-of-mouth campaigns to established studies conducted by reputable organizations. Reputation Institute surveyed the general public to inform its 2015 Most Reputable U.S. Companies list. The survey focused on both the emotional and rational aspects of reputation, with trust/feeling/esteem/admiration at the core of its assessment. Drivers of companies’ perceptions include Citizenship (having a positive influence on society and environmental impact), and Workplace and Governance (fairness, ethics, compliance). The survey results show how companies with better reputations outperform the S&P 500 over time and in short, illustrate that who you are matters more than what you make.

But companies cannot just coast to success on a favorable reputation ranking. For example, even though Amazon was ranked number one in the Reputation Institute’s 2014 and 2015 surveys, an August 15, 2015, *New York Times* article examined how the company treats its employees (pushed harder to work faster in an adversarial, cutthroat culture), forcing the online retailer to refute its reputation as a brutal place to work.

A company that ranked in Reputation Institute’s Top 10 in 2014, Nike suffered a global boycott campaign in the 1990s that is considered a textbook case in how everyday consumers can impact big companies. Nike became a target because it was the world’s best-selling brand and at the time, would not accept responsibility for any labor issues.

Consumers stopped buying Nike products, which directly impacted the company’s financials. Having suffered negative financial repercussions brought about by reputational issues, today, Nike is an open and transparent organization. Nike’s transparency was tested in the spring 2015 corruption scandal involving FIFA, the international governing body of football (or soccer to Americans and Canadians). While neither the company nor its executives have been charged with any wrongdoing, Nike released a statement, stating in part that “Nike believes in ethical and fair play in both business and sport and strongly opposes any form of manipulation or bribery. We have been cooperating, and will continue to cooperate, with the authorities.” Having rebuilt its reputation over the past 20 years, it will be interesting to see if Nike suffers any major repercussions from its ties to FIFA, or if its brand is strong enough to retain its stakeholders’ trust. Nike did drop to 76th place in the Reputation Institute’s 2015 ranking, even though the FIFA scandal broke after the survey data was collected.

Stakeholders want to and need to trust the companies, industries and organizations that impact them. Before buying a car, a pair of tennis shoes or even a cup of coffee, consumers—a stakeholder group critical to many organizations—are asking, "Does this company operate in a responsible manner? Does this company have a positive impact in the communities where it operates? Is this company financially stable?" And consumers aren't alone. Employees, board members, shareholders, legislators, regulators, community/civic leaders, and other stakeholders are taking a company's reputation into account when making decisions about an organization, ultimately impacting the company's bottom line. A company's reputation is the sum total of its stakeholders' perceptions. And perceptions are formed by a person's own values, morals and ethics, as well as their experiences.

If perception is reality, then organizations first need to understand what is driving their stakeholders' thoughts and actions and next, try to affect them. There are three ways to influence perceptions:

1. Direct interactions with an organization.
2. What the organization says publicly about itself.
3. What others say about the organization.

Stakeholder engagement is at the center of each of these interactions. It starts with listening and then having ongoing, open dialogue with those impacted by the decisions and actions of an organization to understand their expectations.

## The Results of Stakeholder Engagement: An Organizational Asset

A well-executed stakeholder engagement strategy results in positive perceptions of and trust in an organization. These outcomes are assets that can produce value for and have a positive economic impact on the organization.

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Organizations need to have the right mindset and make stakeholder engagement part of their culture. When stakeholder engagement is part of an organization's culture—a key strategy grounded in the organization's values that drives its thinking and actions—those organizations are better positioned to create understanding, build trust and mitigate risk around complex topics and major business decisions.

For stakeholder engagement to be successful, it must be integrated throughout the organization, from the top down. Executives are responsible for setting a company's vision, goals and strategy, as well as upholding its values. Therefore, direct leadership involvement is needed to establish an organization's stakeholder engagement guidelines and to provide support for related initiatives. Managers often have regular stakeholder interaction, while other employees are likely to be "on the front line" with those individuals and groups important to the organization, so it is necessary for them to have the direction and backing of leadership. Internal alignment around engagement leads to consistent interactions and messages between company representatives and stakeholders, helping to demonstrate the company values to stakeholders and foster mutually beneficial relationships.

With many years and much effort committed to stakeholders, communities and social issues, ConocoPhillips, the world's largest independent explorer, developer, and producer of crude oil and natural gas, has integrated stakeholder engagement into its corporate culture, based on the values of safety, people, integrity, responsibility, innovation and teamwork. ConocoPhillips' Stakeholder Engagement Action Plan includes stakeholder and community engagement, social issues and human rights. The company looks at the plan as a way to promote "continuous improvement, consistency and alignment." Focus areas—such as Understanding Footprint by mapping stakeholders and tracking and reporting engagement and impacts, as well as Managing Risks and Opportunities by collaborating internally and externally—drive company performance goals.

On the flip side, treating stakeholder engagement as a "check the box" activity for select interactions could be detrimental to an organization, its goals and its reputation. There are no long-term benefits of "relationship-washing"—promoting an association with stakeholders for public recognition, but failing to genuinely listen, converse, consider options and potentially take actions that benefit multiple parties.

Making engagement part of an organization's culture helps facilitate situations when a discussion leads to finding middle ground with those who are impacted by, or who can impact, a corporation or organization. Stakeholder engagement needs to be present on some level within every organizational function and with every business decision.

## The Evolution of Stakeholder Engagement

Stakeholder engagement has evolved since its likely beginnings in the 1930s when the public began to ask to whom companies were responsible to beyond their shareholders. Today, stakeholder engagement often is associated with Corporate Social Responsibility (CSR) and achieving the "triple bottom line"—social, environmental and financial performance—by interacting with stakeholders to learn what social and environmental issues matter most to them. Currently, engagement is practiced by companies and organizations around the globe to create dialogue with stakeholders and to understand their specific needs and expectations.

Stakeholder engagement is grounded in listening to key stakeholders and involving them in an ongoing, open dialogue to identify gaps in understanding and perceptions. Successful stakeholder engagement involves truly listening and responding to stakeholders' motivations and needs rather than just one-way communication. Moving toward a successful engagement is a progressive process. At the initial "push" level, organizations are disseminating information without listening. Organizations begin to test stakeholder reactions or knowledge at the "survey" level, which can be described as "hearing, but not listening." The ultimate level is "engagement," where organizations listen and respond to stakeholders' needs and motivations.

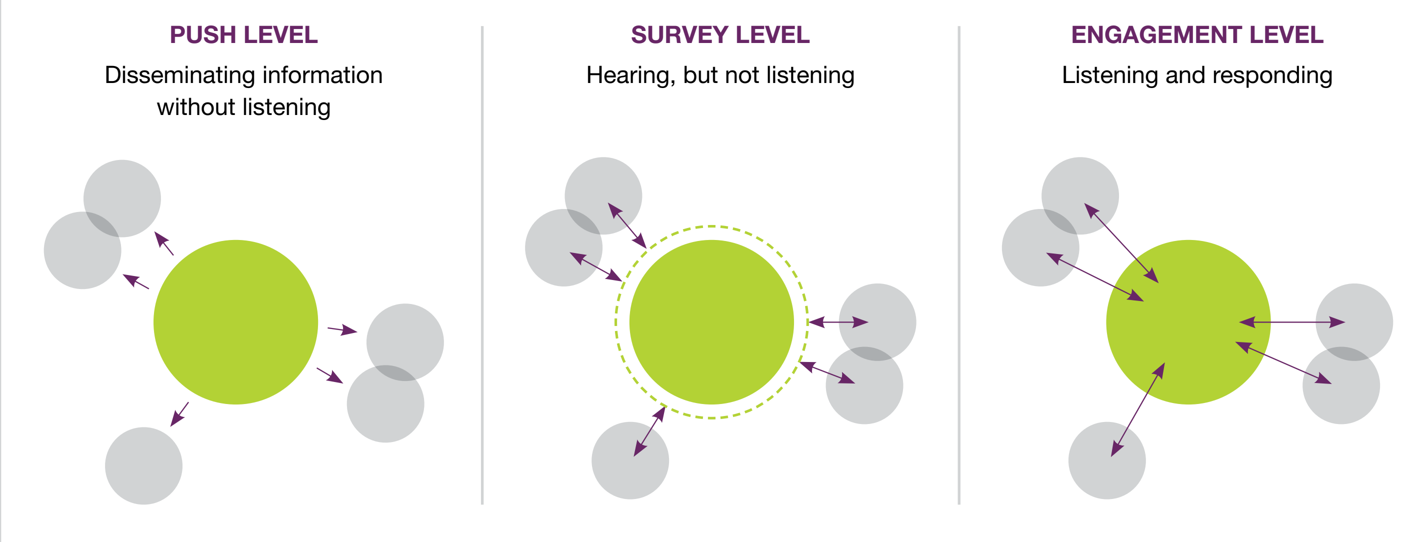
## Three Key Steps to Building Positive Reputation through Stakeholder Engagement

There are three key steps in helping to build a positive reputation through stakeholder engagement.

**1. Know who your stakeholders are.** While it sounds elementary, taking time to think through and inventory the groups and individuals impacted by your organization or who could have an impact on your business is time well spent. The list should not only include supporters, but also those who hold a neutral position toward you and even those who are opponents. Stakeholders can be influencers, providing additional validation to an organization's mission, strategy and actions. They also can be detractors, with very different views. Regardless, any stakeholder could impact an organization's reputation. Supportive stakeholders can help move an organization's platform forward. At the same time, providing information to and soliciting feedback from neutral or non-supportive stakeholders begins to lay the foundation for building trust and in turn, mitigating risk.

Because stakeholder engagement should be rooted in the organization's culture, it is critical to include internal stakeholders—your employees—on the list. They can provide support for the organization's vision, mission, values and strategies through their direct interaction with stakeholders. Additional stakeholders include former employees, customers, suppliers, shareholders,

### Moving Toward a Successful Engagement is a Progressive Process



investors, NGOs, regulators, policy-makers and the general public.

A master list of stakeholders initially might appear unwieldy, so it is helpful to prioritize them. Creating a visual image based on the interests and attitudes of stakeholders, known as a stakeholder map, can be a useful exercise to determine where you should be investing most of your engagement time and effort. A stakeholder map typically is a matrix that illustrates each group's power, support, influence or need. In short, a map can compare your stakeholders to each other and determine where to best invest your resources.

For example, a *Fortune* 500 company was planning an industry conference. In an effort to identify potential sponsors and speakers—both supportive and those offering alternative views on the conference topic—the event organizers created a stakeholder map. The visual was based on two indicators of influence—reputation and existing relationship. The prospects' missions, visions and values also were evaluated. By taking the time to plot the potential sponsors and speakers on a matrix, it quickly became obvious which stakeholder partners would contribute to a successful discussion and conference outcome.

Lastly, identifying stakeholders should be a continuous process. New stakeholders could surface with every new issue, opportunity and business decision.

**2. Understand your stakeholders' needs and expectations.**
Unlike cataloging your stakeholders, understanding their needs and

## Stakeholder Map Example

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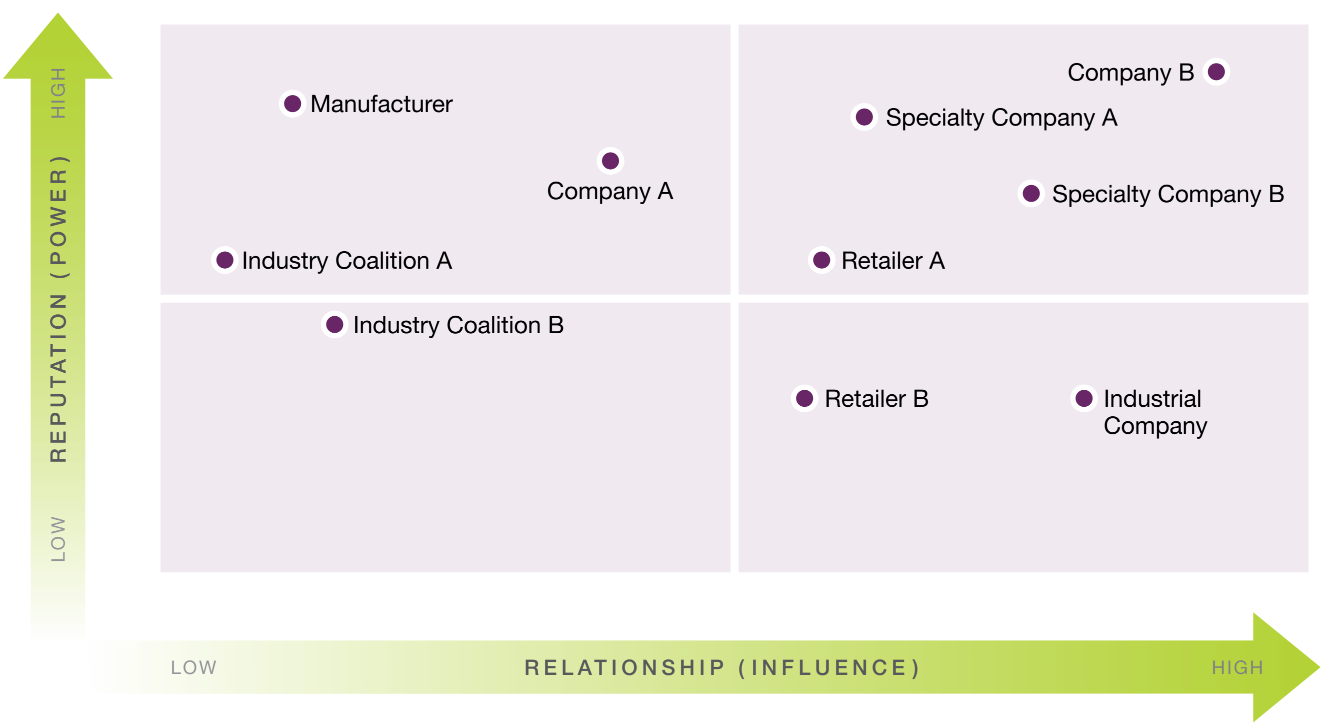
This visual is based on two indicators of influence—reputation and existing relationship. By taking the time to plot the potential sponsors and speakers on this matrix, a *Fortune* 500 company easily determined which stakeholder partners would contribute to a successful discussion and conference outcome.



> *Effective stakeholder engagement means companies and their stakeholders are meeting in the middle, sharing information and concerns to work through issues before they negatively impact the company."*

expectations might seem like a daunting task, but a genuine and organized approach to this analysis can result in invaluable insights. It starts with listening. When launching the process, keep in mind the words of Greek philosopher Epictetus, who said, "We have two ears and one mouth so that we can listen twice as much as we speak." Gathering this feedback—whether through formal channels, like research surveys and focus groups, or informal means, such as community meetings and one-on-one conversations—helps to determine how an organization is performing against stakeholder expectations, and to identify the gaps between who it says it is and what its stakeholders believe. Proactively identifying such vulnerabilities and misalignments—in human resources, operations/distribution, product/service quality, technology, etc.—is a critical first step in mitigating risk.

Sandy Nessing, who heads up sustainability strategy, corporate stakeholder engagement and annual performance reporting for American Electric Power, told *Forbes* magazine that her company changed its view of how to use its financial, social and environmental story. Originally looked upon as basic communications, leadership now sees reporting this information as a way to manage risk, since business decisions, like the introduction of new technology for example, could impact customers in a positive or negative way. Nessing said executives now practice informed decision-making, considering what stakeholders might think about specific business issues. "Providing a holistic and transparent view of a company's performance helps to build your reputation and credibility with your stakeholders. It also opens doors for opportunity for collaboration, innovation and efficiency—all of which feed profitability."

**3. Make stakeholder engagement an ongoing practice.**
While stakeholder engagement might appear to have a greater role and impact on an organization at certain times rather than others, the best results will come from a strategic effort to engage stakeholders on an ongoing basis. With a continuous plan in place, it becomes a natural process to pull together relevant stakeholders early in the process before making major business decisions in order to identify issues and mitigate risk.

For example, companies might rely on external advisory committees comprised of key stakeholders, meeting regularly to offer advice and guidance to company management regarding how to better deliver customer value.

## Barriers to Successful Stakeholder Engagement

Common barriers that prevent organizations from practicing effective stakeholder engagement include:

- **Assumptions.** Companies should not just assume they know who all of their stakeholders are and what they want. By bringing the right internal team members—both executives and those "front-line" employees who have regular interactions with stakeholders—to the table, an organization is in a better position to not overlook any important groups or individuals that could impact their business.
- **Exclusions.** Only engaging those stakeholders who are supportive is a risk. Reaching out to critics is a scary proposition. But critics sometimes have ideas that can improve an issue, service or product. Refusing to dialogue with them doesn't diffuse the situation. Engaging with non-supportive or neutral stakeholders gives organizations an opportunity to educate and solicit feedback in order to begin earning their trust and mitigating risk. When deciding what to do with the opposition, it is better to think of the long-term goals and benefits rather than the short-term hurdles.
- **Concessions.** Engaging with stakeholders does not mean having to give in to every stakeholder request. One desired outcome of stakeholder engagement is to create a collaborative environment in which organizations and their stakeholders work together on a common issue to develop a possible solution.

Starbucks is a good example of a company balancing stakeholder needs and demands with the financial and operational requirements of a publicly traded company. The coffee retailer has received pressure from stakeholders to switch to non-GMO (genetically modified), organic milk, even though it already offers several different options, including organic soy milk. Chief Operating Officer Troy Alstead has shared publicly that the interests of both Starbucks' customers and its shareholders are important. The company will listen to its customers' concerns and respond reasonably and appropriately. Starbucks is practicing effective stakeholder engagement—listening and responding with options for its customers, but also managing its bottom line and its shareholders' expectations.

## When Stakeholders Are Activist Shareholders

Shareholder activism is on the rise. When shareholders exercise their rights as company owners, impacts range from changes in executive compensation, governance, company strategy, operations, financial structure and management to the board of directors. While outcomes of shareholder activism can be positive, they also can be disruptive to a company. Activist shareholders are stakeholders who should be part of a company's ongoing engagement efforts. The tenets of managing shareholder activism are the same as those of effective stakeholder engagement—knowing who your top shareholders are, identifying the gaps between their understanding and perceptions and who the organization says it is, assessing risk, and developing a preparedness plan.

*The Financial Times* reported in June 2014 that most shareholder proposals "are framed in terms of reputational risk: that a company ought to disclose to shareholders its policies on issues such as human rights, carbon emissions and political donations so investors can judge the risk that corporate actions could end in a scandal."

Effective stakeholder engagement means companies and their stakeholders are meeting in the middle, sharing information and concerns to work through issues before they negatively impact the company.

## The Tools of Stakeholder Engagement

Once organizations understand and capture the "who, what and when" of stakeholder engagement, the next step is to plan and execute the "how" of stakeholder engagement. Following are five elements that often play a role in implementing effective stakeholder engagement:

| STRATEGY | INTERNAL COMMUNICATIONS | PUBLIC AFFAIRS | CORPORATE SOCIAL RESPONSIBILITY | ISSUES AND CRISIS MANAGEMENT |
|---|---|---|---|---|
| Effective stakeholder engagement requires a plan of action centered on preparedness and knowing what goals you want to achieve through such a program. | External stakeholder engagement is more effective if there's true alignment internally with organizational mission, vision, values and strategies, since those internal audiences are interacting with the external audiences. | Stakeholders frequently include regulators, legislators, elected officials, community leaders and others in the public realm. Securing buy-in from such influencers helps to generate and to increase support among all stakeholders. | The social impact of an organization's products and services is a key component of an overall reputation management program. A CSR platform might include public education campaigns, coalitions, advocacy, philanthropy—initiatives that also should involve stakeholders. | To protect your organization's reputation, it is critical to assess vulnerabilities, to create strategies to mitigate those risks, and to communicate with stakeholders in the event of an actual crisis. |

## The Value of Stakeholder Engagement

In a sense, stakeholder engagement gives organizations “permission” to step to the other side—to listen with the goal of understanding the passion and emotion that is shaping people’s mindset and driving their positions. Recognizing what motivates others sometimes is the first step on the path to finding common ground and perhaps eventually, a solution.

Additionally, stakeholder engagement provides the opportunity for organizations to develop a network of supporters who potentially could be partners on initiatives critical to the organization’s success.

For example, U.S. regulatory agencies established the public comment system (“Your Voice in Federal Decision-Making”) to allow for transparency and public involvement in their decision-making processes. Public comment periods are some of the best places to observe and take inventory of the views and opinions of your stakeholders—whether they are strong advocates for your issue or product, vocal opponents or somewhere in the middle. Stakeholders’ opinions shared via the public comment system could impact the commercialization of products and technologies, and ultimately a company’s business decisions and growth. The regulatory process is a material example of why practicing effective stakeholder engagement is critical to an organization’s success.

Through effective stakeholder engagement, organizations can better understand those who are neutral (and maybe what they need to become supportive) as well as better understand their opposition, assess potential risk and prepare for it. By establishing an ongoing process, organizations provide stakeholders with an avenue to offer constructive feedback—not just make demands.

## What Successful Stakeholder Engagement Looks Like

Successful stakeholder engagement results in an organization not only confirming its current strategy, but also potentially recognizing the legitimate need to adapt any of its strategies and tactics and then acting on that need.

Meeting stakeholders where they are—whether they are supportive of your organization, are in the “moveable middle,” are neutral toward you, or in some cases, clearly are not supportive of you—lays the groundwork for mutual understanding. We can learn something from everyone—even if we are not able to immediately or over time change their position. By adopting a collaborative approach, organizations can create relevant dialogue with stakeholders and ensure all parties have a voice in the conversation.

With a clear strategy and purpose, support throughout an organization and consistent effort, companies and organizations can create an environment of collaboration with their stakeholders, working together on common issues and contributing to potential solutions that positively impact all involved.

> *“A stellar reputation is achieved when an organization consistently lives its purpose, its values are evident in all aspects of its operations, and it seeks to continually adapt based on meeting the needs—and expectations—of its multiple stakeholders.”*
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> MELISSA LACKEY AND BETH RUSERT, STANDING PARTNERSHIP
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**Julie Steininger** is a partner and senior vice president at Standing Partnership. Julie works with clients in complex industries—agriculture, health care, plant and life sciences, and financial services—to build value and trust with the audiences that matter most to them. As a strong advocate for stakeholder engagement, she encourages her clients to understand, by listening and having ongoing, open dialogue, the expectations of those impacted by their decisions and actions. She believes it is critical for companies and organizations to engage in conversation with their stakeholders, which includes everyone in the value chain—often with consumers as the final link.