

Common Threads

Designing Impactful Engagement



Executive Summary

 **SustainAbility**
Transparency Network

Executive Summary

As this report demonstrates, today's businesses are increasingly recognizing that stakeholder engagement is critical to understanding their context, navigating disruption and formulating successful business strategies.

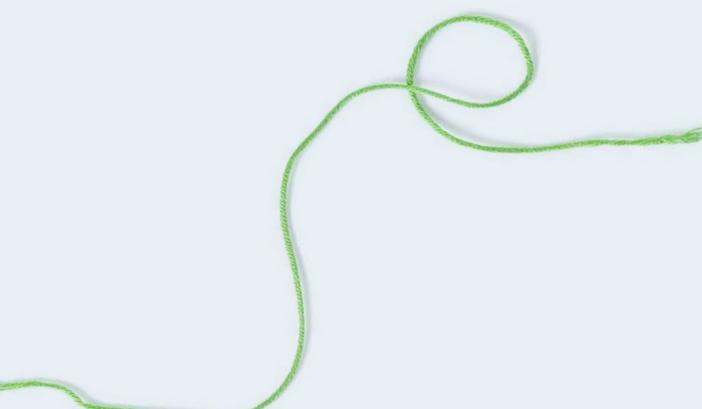
Though engagement is relatively common practice, approaches are not yet common enough. There are no widely agreed best practices shaping corporate strategies around engagement, and many practitioners struggle to determine the right stakeholder engagement approach for their company.

Common Threads seeks to provide guidance that will enable companies to better engage their external stakeholders, address their material issues and strengthen their business strategies.

Current State

Companies' current practices on stakeholder engagement are diverse, but several themes emerged:

- **All stakeholders matter** - Though engagement with all types of stakeholders is important, rising awareness of social and environmental challenges is leading companies to move beyond engaging only traditional expert stakeholders (e.g. UN or leading NGOs) and to reach out to other key groups (e.g. consumers, investors, innovators).
- **Materiality as a core lens** - Companies are using materiality assessments as a key way to engage their stakeholders.
- **Greater focus on mutual benefit** - Many companies' strategies are maturing from one-way communication towards more collaborative approaches.
- **Varying degree of control** - Companies differ in the degree of centralization of their stakeholder engagement.
- **Transparency on the rise** - Stakeholder engagement activities are disclosed in corporate communications, including annual financial reports.



Business Case for Engagement

Our research suggests that the benefits of external engagement fall across three categories:

- 1 Protect license to operate** - Maintaining or building reputation and credibility was the main motivation for companies. In fact, some businesses are starting to think about engagement as part of their “license to succeed.”
- 2 Anticipate risk** - Understanding stakeholder concerns helps companies identify emerging risks that might be missed by internal analyses.
- 3 Improve problem-solving and decision-making** - There is growing evidence that hearing a diverse range of perspectives and expertise helps you make better decisions and arrive at unforeseen solutions.

Companies maximize their chance of sustained commercial success through engagement because it: increases knowledge, which improves planning; reduces the risk associated with taking individual and collective action; and maximizes the chances of successfully addressing systemic challenges through collaboration.

What Stakeholders Want

External stakeholders vary in their view of best practice engagement from companies, but these common principles are frequently cited:

- **Transparency** - Disclosure of company performance on material issues is a critical foundation for many stakeholder relationships.
- **Trust** - Effective engagement relies on trust and mutual respect.
- **Consistency** - This refers to both consistency in specific stakeholder relationships over time but also in consistency across the company in engagements with its different stakeholders.
- **Ambition** - Systems-level challenges require companies to be serious about finding solutions to engage those stakeholders that can help to shift the system - even if they are challenging to work with.
- **Accountability** - Demonstrating the outcomes and impacts of engagement is a core expectation of stakeholders.

Best Practices for Strategic Engagement

Vision of Leadership

SustainAbility defines leading practice for corporate stakeholder engagement as:

- ✓ A cohesive approach
- ✓ Corporate-level reporting on activities
- ✓ Involvement in sector-level initiatives
- ✓ Starting or joining deeper dialogues on core material topics
- ✓ Engagement of the Board of Directors
- ✓ Operation of an external stakeholder council

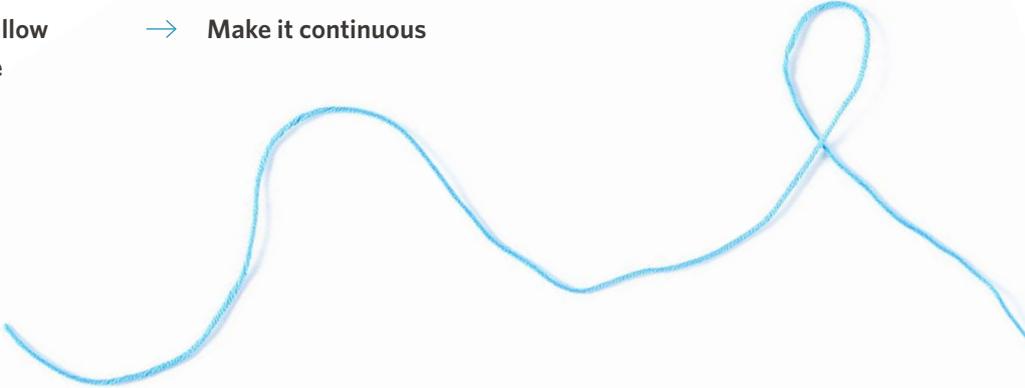
Setting an organizational approach for proactive external engagement

We outline our suggested process for establishing a company-wide approach in the graphic opposite.



Core principles of effective engagement

In addition to corporate-level activities outlined above, our research also illuminated core principles that lead to successful engagement:

- **Keep it human**
 - **Bring the right people to the table**
 - **Be accountable**
 - **Create a safe place for sharing**
 - **Adapt to stakeholders**
 - **Be respectful of time**
 - **Set clear expectations and allow stakeholders to do the same**
 - **Make it continuous**
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Measuring & Demonstrating Impact

While measurement is an evolving practice and more art than science, our research identified the ways companies focus and apply measurement today.

Grounding it in context

There is no one size fits all approach to measurement. What defines success depends on the engagement.

Qualitative vs quantitative

A combined qualitative and quantitative approach is critical for capturing the various outcomes and impacts of the engagement.

Driving internal change

Extracting and applying high quality information from engagement is in itself a measure of success.

Getting from outcome to impact

Most companies are focused on outcomes, but many are getting better at measuring impacts also.

Playing the long game

Impacts play out over the long-term, so companies must be prepared to track their engagements and their outcomes over time.

Reporting back to stakeholders

Best practice calls for a clear summary of the company's engagements and specific company actions in response to stakeholder feedback.



Targeting Consumers and Customers

The downstream part of a company's value chain, whether individual consumers or business customers, can be a critical point for impact on a range of material issues. We identified several approaches that enable companies to drive impact through their consumers and customers. Given the differences in engagement of individual consumers for a B2C compared to engagement of business customers for a B2B, we explore these separately.



Consumers

Tap into consumer motivations and understand barriers

Grounding engagement in behavioral science is essential if engagement is to be successful.

Build trust through authenticity and consistency

In a world of hyper-transparency and connectivity, companies must take a more proactive and genuine approach to engaging with consumers.

Address the system

Part of "making it easy," as Unilever puts it in its Levers of Change model, is working to address systemic challenges that prevent consumers from making more sustainable decisions.



Customers

Be highly transparent

Given business customers are often looking for more detailed information than consumers, a first step to engagement is to disclose the company's performance on issues that matter to customers.

Share own lessons learned

Every company is on its own journey on sustainability but there is much that can be learned from each other.

Co-create products & services

Best practice involves some form of co-creation to address customer sustainability challenges.



What the Future Holds

Though the future is uncertain, nearly everyone engaged in this research suggested that we will see more engagement in the coming years: more proactive, more strategic, more integrated, and more diverse in both type and form of engagement.

Leaders are demonstrating how engagement can be implemented to generate value for the business and stakeholders. More companies must adopt engagement as a business strategy – not a stand-alone process but a philosophy of how business should operate in society.

SustainAbility is committed to supporting companies to develop and implement strategies to advance engagement and drive impact on their material issues. We call on companies and their stakeholders to find common ground and build relationships that will enable society and the environment to thrive. We all need to make this vision of more proactive, strategic, integrated and diverse engagement a reality, to thicken the threads between us and co-design the future we all want.

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