

Section 4

Flashpoint Issue 1 Stakeholder Engagement



Flashpoint Issue 1 Stakeholder Engagement

The issue

Companies have experienced a steep – and shifting – learning curve in their approach to stakeholder engagement. Many recognise that obtaining a ‘social licence to operate’ is essential to successful business operations from the outset. Without a direct, continuing relationship, communities in underdeveloped countries view companies as foreign, wealthy entities that are ready targets for the extraction of financial benefits, or venting grievances, sometimes through violence.

Most companies channel their interactions with host communities through social investment or community relations programmes despite the reality that all other areas of business activity (compensation policies, hiring policies, construction) are equally, if not more important in establishing the terms in which communities view a company’s impact on their lives. The distribution of employment opportunities and other benefits from a project, and decisions about other major impacts, particularly on the environment, require community support in order to avoid conflict. Stakeholder engagement is a vital tool through which informed strategies can be developed. To understand potential or existing conflicts, and design effective risk mitigation across the range of a company’s activities, effective, respectful, regular and transparent engagement processes are essential.

Companies most frequently use two processes in working with stakeholders: consultation and negotiation. Negotiation is a process of meetings deliberately convened to reach agreement on a particular issue. A consultation process is a more open-ended set of conversations or meetings, with the objective of exchanging ideas and opinions (without necessarily coming to a formal agreement). Consultations precede formal, issue-focused negotiations and the same individuals usually participate. The degree of credibility, transparency and trust established during the consultation directly impacts the effectiveness of negotiations with stakeholders. Both processes need to be considered in light of their potential to fuel or mitigate tensions, misunderstandings and conflict.

The business case

Companies have long sought good relations with national and local governments. Increasingly they have discovered that harmonious relations with a range of other stakeholders, such as communities affected by the project, local, national and international advocacy NGOs, and development actors, also pay dividends. Such relationships can help provide companies with accurate information and context analysis, as well as professional and experienced partners for social investment and development projects. In the absence of such relationships, mistrust can grow, increasing the likelihood that conflict will arise between companies and communities. This, in turn, can impose both direct operational costs and indirect reputational costs, as advocacy networks turn hostile to a project or investment as a result of community grievances. Work stoppages, local violence, widespread political unrest and the potential for legal or reputational damage can result from poor stakeholder-engagement practice. As companies begin to recognise this, competitive bidding gains can be won from tackling stakeholder engagement pro-actively and building good relationships across the spectrum of social actors from an early stage.

Standard assumptions and responses

Some companies have managed to establish excellent relationships with the stakeholders with whom they work, but others – the majority – have been less successful. This is because of underlying incorrect assumptions:

1. This paper is an adapted version of work published by the Collaborative for Development Action, Corporate Engagement Project. It focuses on project-level stakeholders. Collaborative for Development Action, 130 Prospect Street, Suite 202, Cambridge, MA 02139, USA. Tel: 1 617 661 6310, Fax: 1 617 661 3805. www.cdainc.com/cep

Negotiation or consultation results in having to pay more cash or other monetary rewards.

This assumption leads to negotiation avoidance, which can result in escalated frustration among communities, acts of violence, lawsuits, work stoppages or increased demands, all of which are more costly and time-consuming than the consultation and negotiation procedures.

Companies postpone consultations because they want first to come up with answers to the questions they expect will be raised. The experience of others suggests that consultation processes often generate creative ideas for dealing with issues for which management has not yet found solutions.

Negotiation or consultation delays implementation. On the contrary, a well-designed and ongoing consultation process increases public ownership, reducing the risk of delays from complaints, obstruction or sabotage.

Engagement, specifically in negotiation, should be limited to a small number of groups or representatives. This assumption prioritises negotiations with the most powerful in the community, those who are potentially most obstructive of company operations, or others whose influence can be used to convince community members to support a positive outcome. In reality, working with a small group of people can mean that other groups feel left out and do not respect the outcome of the negotiation. It can also exacerbate existing power imbalances unduly.

Engagement is a means of achieving a specific position or outcome, rather than an open process aimed at meeting stakeholders' needs, as well as a company's own. But communities say that they value discussions around non-monetary intangibles such as 'trust' or 'empowerment', rather than a focus on financial compensation or tangible settlements.

Control of the interaction with stakeholders is more important than the process. The idea that engagement should be approached with a fixed agenda and a strategy for achieving set goals limits the space available to make engagement a two-way process that is mutually satisfactory.

By focusing on 'winning' and 'outcomes', companies can overlook the importance of the process of interaction, and fail to identify and subsequently address the root causes that created the need for engagement in the first place. Where root causes are not addressed, communities will continue to bring them to the company's attention.

Key conflict issues

Flawed engagement processes directly increase the likelihood of conflict in the following ways:

Negative reinforcement. When companies respond only to acts of obstruction, work shutdowns, vandalism or violence, stakeholders experience 'negative reinforcement' which encourages them to engage in negative activities they might otherwise not have chosen. If a company responds only to negative or obstructive triggers, those triggers are certain to occur. Communities consulted over this issue say they wish to engage with the company on a regular and constructive basis, but that this non-obstructive approach tends to yield less results.²

2. CDA research, op. cit.

Responding to those who display negative authority. Responding or consulting only with armed groups, or those who articulate threats of violence, kidnap staff or destroy company property, empowers and legitimises such actions. It also overlooks the potential of positive actors who represent broader interests and can bring together community members, such as women's groups, religious circles, community organisations and educational institutions. Beyond the company's immediate relations, such a response reinforces the conflict drivers in society at large, increasing the risk of long-term instability and its associated costs to the operating environment.

Partner selection reinforces local tensions. Companies naturally find it easier to interact with someone who comes to their office, speaks their language, knows the local laws and customs, and is formally educated. However, individuals who most readily present themselves, and look and sound most like company staff, can be 'elites', who may or may not represent the wider community. By supporting elites as negotiators, the company risks a dynamic in which the elite positions him or herself between the company and the community for personal gain, to the detriment of both. By supporting individuals over groups, companies undermine cohesion in the greater community.

Reactive engagement. Many companies wait to engage with communities until they are compelled to respond to a problem, or until specific issues arise that affect their ability to operate. They are reactive to problems, rather than pro-active in establishing effective relationships with communities. Allowing problems to grow in this way has knock-on effects: as companies become tainted by their negative impacts on communities, the reputational risk of working with them becomes too great for NGOs, for instance, and companies, as a result, forfeit the expertise and knowledge they can bring as intermediaries or partners.

Options and alternatives

There is a body of good practice and innovative approaches that seeks to promote more even and predictable relationships between companies and stakeholders. Identifying and working with different primary, secondary and indirect stakeholders is at the core of conflict-sensitive business practice (CSBP) and plays an important function in understanding and mitigating conflict risk at both national and local levels (see [M-CRIA](#) and [P-CRIA](#)). Following are some basic recommended steps:

1. Pro-active approach. Reversing the pattern of reactive engagement, companies should begin engaging early with communities and other stakeholders, even before exploratory operations commence. Some begin the process as early as one-and-a-half to two years prior to exploration. By recognising a community's right to be concerned about the changes a large-scale project will inevitably bring to their lives and landscape, companies send an implicit message that they consider it a partner, rather than that the community will have to fight for a stake in the relationship.

2. Commitment to the process. Companies are beginning to take commitment to the process more seriously once it has begun. Engagement with stakeholders should not be undertaken merely to meet external requirements (as part of an environmental and social impact analysis, for example). Under pressure to show tangible results some companies focus on achieving specific outcomes in an interaction, rather than giving attention to the process of building a mutually beneficial relationship which should take precedence over the actual contents of the consultation. Many communities express the view that they find companies 'unpredictable'. This is mainly due to their

limited access to information, with the effect that company decisions seem to have been made suddenly even when they have been planned for a long time. To avoid this, one method is to clarify precisely what the next steps will be at the end of any negotiation or dialogue, and who is responsible for the plan. When communities gain the impression that companies follow through consistently on what they have promised, the predictability enhances the sense of trust even when the action itself may be viewed negatively. Full documentation of occasions when the company 'kept its promises', or when 'high expectations led to disappointing results' can be a useful tool in correcting 'selective' memories.

A promise register

Communities will seek to understand the impact and significance, as well as the potential risks and benefits associated with an investment in their local area from the very first encounter with exploration geologists. Exaggerated or unfounded promises of 'jobs for everyone' and other riches by different company staff will fuel speculation, and are likely to lead to disappointment and grievance. Companies should seek to control such interactions by creating formal mechanisms for monitoring them and requiring staff to be accountable. Promises should not be made unless as part of the community relations strategy – and even then should be posted in one place that is transparently available. If early promises of jobs are likely not to be met, this should be communicated and discussed with affected communities.

3. Interaction must be carried out with an understanding of why it is being done and how it is likely to affect the project. Consultations can be informal (through discussions in the local tea shop or with local elders), formal (through workshops, public hearings, negotiations), or a combination of the two. Different strategies must be developed for different stakeholders. For the most directly affected stakeholders, face-to-face meetings are most appropriate, while open houses, public forums and documentation suits the needs of those less directly impacted. Companies and communities have implicit expectations of each other. Making expectations explicit allows each to hold the other accountable and keeps expectations realistic. A formal communication protocol can help when conflict issues arise. This should include a list of who to contact, when, through whom, by whom and so on.

4. Inclusive approach. In many countries, engagement with certain groups is politically or culturally sensitive. It is important to avoid reinforcing local tensions and to reach out as widely as possible to target affected stakeholders. In cases where the authorities do not allow communities to organise, companies have found ways to engage by:

- Negotiating with the government for the establishment of an elected village communication committee. The purpose of the committee is to discuss company/community affairs, such as social programmes. The condition is that the committee should not be involved in politics.
- Suggestion boxes. These work in some contexts, but not in others. The company must ensure that villagers know who empties the boxes and reads the messages.
- Hiring (preferably female) staff to conduct regular home visits to consult with women, collect statistics and disseminate information.
- Working through independent NGOs or foundations. They usually have more space to engage informally with stakeholders in areas where group gatherings are difficult.
- Follow-through on written and verbal commitments.

5. Reward peace rather than violence. Some companies accept violence and disturbance as part of their operating environment, but it is easier (and cheaper) to work in an atmosphere of trust than one of violence. Strategies that 'reward peace' include investing in communities that are peaceful, rather than focusing on more disruptive ones; celebrating success when milestones are achieved; and inviting stakeholders to share in building a sense of ownership over a project. In the interests of longer-term contributions to peace and stability, companies could think creatively about using their convening power and the engagement process to foster peaceful relations between different stakeholders in the region, rather than contributing to increased competition. Building on the elements in society that connect individuals across their differences, rather than reinforcing them, is more effective for companies in the long term.

6. Transparency. Transparency about the most basic details of company policies, decisions, plans and schedules demonstrates a willingness to share. Companies can supply information about hiring practices, the selection process for community relations projects, progress on company operations and long-term strategies. Transparency dispels misperception and rumour, and helps to identify issues that may be of concern to community members before they grow into grievances. Companies can use the following approaches:

- Booklets, video and audio that explain in simple language and colourful pictures the operational process
- Bulletin boards that explain hiring and tender procedures
- A public information office in a nearby village where anybody can make enquiries about company operations
- Visits to each community in the operating area, and use of video and other media to demonstrate what operations will look like when complete
- A to-scale model of what the site will look like after closure and environmental repair.

It is important that a company presents stakeholders with consistent arguments. Different departments have different mandates, objectives and timelines which can be challenging when trying to interact with communities as a team. Without a unified vision based on stakeholder input and company interest, these internal differences may work against each other, leading to frustrated staff and dissatisfied communities.

7. Get the right person for the right job. Ensuring that the staff responsible for stakeholder engagement have a willingness to listen, good understanding of the local context and a long-term commitment to the job is vital, as communities often complain that interlocutors come and go, or they do not find staff accessible or trustworthy. Companies are increasingly working with trusted third parties, such as NGOs or development agencies, to perform their communications or consultation work. In addition, international companies should realise that stakeholders also exist inside the front gate, as well as beyond it. There are opportunities to improve communication with local staff that can also serve to improve relations between the company and the larger community.

Resources

Voluntary standards

AA1000 Voluntary Process Standard for Stakeholder Engagement. www.accountability.org.uk/

Websites

Collaborative for Development Action, Corporate Engagement Project. www.cdainc.com/cep/

Institute of Development Studies, participation home page. www.ids.ac.uk/ids/particip/

Mining, Minerals and Sustainable Development (MMSD), stakeholder engagement. www.iied.org/mmsd/global_act/stakeh.html

UN Global Compact. www.unglobalcompact.org

Other resources

Accountability, Stakeholder Research Associates Canada and UNEP (2005) **Manual for Effective Building Stakeholder Engagement** (Paris: UNEP).

Business for Social Responsibility, **Stakeholder Engagement Issue Brief**. www.bsr.org/CSRResources/IssueBriefDetail.cfm?DocumentID=48813

Clayton, A. et. al. (1998) **Empowering People – A Guide to Participation** (New York: UNDP). www.undp.org/cso/resource/documents/empowering/intro.html

Eldis, **Participation Resource Guide**. www.eldis.org/participation/index.htm

RESOLVE Inc, et al. (2000) **Participation, Negotiation and Conflict Management in Large Dams Projects**, Thematic Review V.5, prepared as an input to the World Commission on Dams, Cape Town, South Africa. www.dams.org

World Bank, **Participation Source Book**. www.worldbank.org/wbi/sourcebook/sbhome.htm

Zillman, D.N. et. al. (2002) **Human Rights in Natural Resource Development: Public Participation in the Sustainable Development of Mining and Energy Resources** (New York: Oxford University Press).