

Stakeholder Engagement



Introduction

An Integrated Report is a single report that the International Integrated Reporting Council (IIRC) anticipates will become an organisation's primary report. This primary report needs to tell the overall story of the company by providing material and relevant information specifically aimed at the general needs of wide range of key stakeholders, within the context of an ever-evolving business, social and physical environment.

One of the fundamentals of the Integrated Reporting process is stakeholder engagement. It is the key starting point for a company, not only in terms of its corporate reporting cycle, but also connects to its business strategy and demonstrates how a company is responsive to the legitimate needs and concerns of key stakeholders. But let's start with the definition: what are stakeholders and what is stakeholder engagement?

Definition

The AccountAbility 1000 Stakeholder Engagement Standard defines stakeholders as "... those groups who affect and/or could be affected by an organisation's activities, products or services and associated performance. This does not include all those who may have knowledge of or views about the organisation. Organisations will have many stakeholders, each with distinct types and levels of involvement, and often with diverse and sometimes conflicting interests and concerns." Stakeholder Engagement is defined as "... the process used by an organisation to engage relevant stakeholders for a purpose to achieve accepted outcomes."¹

Stakeholder Engagement Process

Companies need to remain relevant to survive in a challenging business environment and to be relevant requires regular interaction with important stakeholder groups. A robust stakeholder engagement model is vital for companies to be able to understand and respond to legitimate stakeholder concerns. But how best do you approach this important aspect: it may seem like a daunting task at first glance?

Important stakeholder groups are inherently known to companies and most companies are interacting with these stakeholder groups in some form or another as a matter of course. Such engagement happens in different formats and at various levels in any organisation, and the process has been embedded in sound business practices for some time. However, this process is often ad-hoc at many companies without a formal structure and process in place. Business leaders and managers will normally be able to list their key stakeholders and concerns, but not furnish the structure and process of engagement as easily.

The value of the stakeholder engagement process can be greatly enhanced while the risk of missing important perspectives – which may negatively affect reputation and cause embarrassment or worse – be reduced by formalising the implementation of a formal stakeholder engagement policy. The key components of a typical policy are:

- **Define the scope of the policy**
The scope and boundary of the stakeholder engagement policy should be clearly defined, articulated and communicated. The background, logic and impact of the policy should be included to set the scene for the policy.
- **Define the ownership and decision-making process**
The executive ownership of the policy and process should be clearly defined, with the owner mandated to ensure accountability. This should be communicated to the organisation and incorporated in the performance measurements of the owner.
- **Define the governance process**
Companies are increasingly focusing on enhancing the credibility of their reported information and so-doing, supporting business processes. The introduction of a sensible assurance regime with regard to stakeholder engagement, using a Combined Assurance model, should form part of the governance process. It is already common practice in certain European countries to obtain external assurance on the stakeholder engagement process.

¹ AA1000 Stakeholder Engagement Standard 2011, Accountability 2008

- **Identifying the key stakeholders and stakeholder groups**

There are numerous models and methods for identifying stakeholders. Our standard recommended approach focuses on two dimensions;

- 1) the stakeholder’s influence on the organisation and
- 2) the stakeholder’s dependence on the organisation. These two dimensions are plotted using a simple rating scale, resulting in the grouping of stakeholders in 4 quadrants as set out below.

		Stakeholder influence on organisation			
		No Influence	Low Influence	Some influence	Formal power/high influence
		Stakeholder’s support for the business has little or no impact its success		Stakeholder’s support for the business can highly impact the business’ success	
Organisation impact on stakeholder	Stakeholder is highly dependant on organisation - no choice	Treat fairly - honour commitments to these stakeholders in line with policy, regulations and industry norms. Otherwise endeavour to keep stakeholders satisfied insofar as balance of costs and benefits allow.		Strategic threat or opportunity - invest in engagement process to understand concerns and develop solutions.	
	No direct impacts - stakeholders have broad range of choice	Low priority - provide access to general channels of information and feedback.		Keep involved and informed, but ensure balance between concerns of high influence stakeholders and those people actually impacted by decisions.	

The key focus area should be top right quadrant (high influence and high dependence). This does not mean that other stakeholders are not important, but engagement with these stakeholder groups will be targeted at different levels and forms.

This needs to be a robust process, using objective criteria, to confirm whether the important stakeholders of the organisation have, indeed, been identified and prioritized.

- **Develop an engagement plan, including frequency, method and channel**

The engagement plan needs to form part of a regular cycle to ensure current developments and any changes are captured within a reasonable time.

- **Facilitate the stakeholder engagement process**

Accountabilities in terms of the engagement plan should be assigned to specific people to ensure the necessary focus and attention is placed on the engagement process. Regular feedback and updates to the executive owner and leadership team should be incorporated in the plan to enable the process and create the necessary visibility.

- **Identify the legitimate concerns and interest of key stakeholders**

With regard to the identified important stakeholders, there needs to be clarity on what the material issues are for those stakeholders. It is not sufficient for the company to talk on behalf of these stakeholders and what they think the legitimate concerns are; the process must be one of careful listening and clarification by the company. Proper two-way communication and methods which actually achieve this are of the utmost importance.

- **Design a process for dealing with conflicts between stakeholder concerns**

Matters of interest and concerns can typically be grouped into the following categories: economic/financial (profitability, cash flow, dividend policy, pricing, growth rate, exchange control); environment (carbon footprint, water, waste management, recycling, compliance) and social (health and safety, skills retention, ethics, transformation, training). The likelihood of conflicts is high and the company should have a proper process to deal with conflicts between stakeholder concerns.

- **Define a mechanism to feed stakeholder concerns into strategic planning to ensure alignment**

The material needs identified by important stakeholders need to be moderated by the company's leadership, and those ones which can and should be addressed in the opinion of the leadership team, including the Board of Directors, should form an input into the strategy process of the company. Stakeholders are interested in the outcome of engagement, and the corresponding link to the business strategy, business model, risks, opportunities and key performance indicators. Companies should present a balanced view to stakeholders, clearly showing how stakeholder engagement has informed how the business is conducted.

- **Provide feedback to stakeholder groups**

The engagement plan should incorporate feedback on the outcome of the engagement process to stakeholders with whom the company has engaged.

- **Generate reports, including input for Integrated Report**

The Integrated Report should disclose information on stakeholder engagement, incorporating relevant aspects of the policy and process. The Integrated Report should be addressed to key stakeholders and the rationale for identifying these stakeholders as users of the Integrated Report should be clearly disclosed.

Queries:

Nina le Riche – nleriche@deloitte.co.za

Claire Hoy – choy@deloitte.co.za

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. The more than 200 000 professionals of Deloitte are committed to becoming the standard of excellence.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2014 Deloitte & Touche. All rights reserved. Member of Deloitte Touche Tohmatsu Limited

Designed and produced by Creative Services at Deloitte, Johannesburg. (807474/dbn)