MEMO

BSR

Stakeholder Engagement

BSR FAQ | APRIL 2023

1. INTRODUCTION

This FAQ sets out the BSR perspective on stakeholder engagement. We believe that meaningful stakeholder engagement is an essential foundation for just and sustainable business and a core element of processes such as decision making, strategy development, materiality assessment, human rights due diligence, and reporting. Without meaningful stakeholder engagement, any approach to just and sustainable business would be constrained by a company's self-interest and inward focus.

2. DEFINING STAKEHOLDER ENGAGEMENT

What is the definition of a stakeholder?

A stakeholder is someone who affects or is affected by a company's operations, activities, products, or services, and can be either inside or outside the company. Common stakeholders include employees, customers, users, consumers, suppliers, business partners, investors, trade unions, civil society organizations, policy makers, regulators, and the communities impacted by operations.

The OECD defines stakeholders as "persons or groups who have interests that are or could be impacted by an enterprise's activities."[1] The Global Reporting Initiative adopts this same definition and clarifies that stakeholders may not always have a direct relationship with the company—for example, workers in the supply chain or future generations can also be considered stakeholders.[2]

What is the distinction between a rightsholder and a stakeholder?

The term rightsholder is used for individuals or groups whose individual human rights or collective rights are or could be directly impacted by business activities, products, or services. This is distinct from other stakeholders (such as civil society organizations) who may have insights, expertise, and awareness relevant for rightsholder interests, but who may not themselves be rightsholders. All rightsholders are stakeholders.

The term "affected stakeholder" is also used to refer to an individual whose human rights has been affected by a company's operations, activities, products, or services.[3]

[1] OECD (2018) OECD Due Diligence Guidance for Responsible Business Conduct

[2] Global Reporting Initiative (2021) GRI 1: Foundation.

[3] For example, in United Nations (2012) UN Guiding Principles for Business and Human Rights Interpretive Guide

As a matter of principle companies should engage with potentially effected stakeholders (i.e., rightsholders) by consulting them directly; in situations where such consultation is not possible, companies should engage reasonable alternatives, such as independent experts, civil society organizations, and human rights defenders.[4]

In practice, this can often mean that companies should engage both large international / national organizations and grassroots / local organizations; the relevant stakeholders to engage with may not always be the "usual suspects" of prominent organizations.

What is meaningful stakeholder engagement?

Meaningful stakeholder engagement is characterized by two-way communication based on the good faith of participants on both sides. Meaningful stakeholder engagement is proactive, responsive, and ongoing, and is often conducted before decisions are made.[5]

Stakeholders that choose to engage with companies generally expect the interaction to generate change, so engagement should be treated as a dialogue, not a one-way information dissemination process. This means that the company engages with the genuine intention to understand how stakeholders are affected by its activities and is prepared to both pursue opportunities identified and address adverse impacts.

What is a multi-stakeholder initiative?

The term "multi-stakeholder" is often used to describe collaborative efforts where no single organization has the authority or resources to address a particular issue. However, the term "multi-stakeholder" is used to convey different meanings.

In BSR's view, a "multi-stakeholder initiative" (sometimes referred to as an MSI) is characterized by a decision-making structure where no single constituency (e.g., companies, civil society organizations, investors, governments) has a majority of the votes. By contrast, a "multi- stakeholder approach" implies the formal involvement of different constituencies, and "multi-stakeholder engagement" implies informal engagement with different constituencies; however, in the latter two cases, a single constituency (typically companies) retains exclusive or majority decision-making power.

Which rightsholders may be at heightened risk of becoming vulnerable or marginalized?

The UN Guiding Principles on Business and Human Rights state that companies should pay particular attention to the rights and needs of, as well as the challenges faced by, individuals from groups or populations that may be at heightened risk of becoming vulnerable or marginalized.[6] Vulnerability can have four dimensions:

- **Formal Discrimination:** Laws or policies that favor one group over another.
- **Societal Discrimination:** Cultural or social practices that marginalize some and favor others.
- **Practical Discrimination:** Marginalization due to life circumstances, such as poverty.
- **Hidden Groups:** People who might need to remain hidden and consequently may not speak up for their rights, such as undocumented migrants and sexual assault victims.

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[4] UN Guiding Principles for Business and Human Rights, Principle 18; Global Reporting Initiative (2021) GRI 3: Material Topics.

[5] For example, see OECD (2018) OECD Due Diligence Guidance for Responsible Business Conduct and Global Reporting Initiative (2021) GRI 2: General Disclosures.

[6] UN Guiding Principles for Business and Human Rights, General Principles

Vulnerability is not limited to discrimination and can manifest in heightened risk for several harms, such as bodily integrity, psychological safety, and economic exclusion. Vulnerability is context-specific, and someone may possess a privileged identity in one context that is marginalized in another; vulnerability is also intersectional, and possessing multiple vulnerable identities may compound impacts on a rightsholder.

These features of vulnerability mean that companies should consider which stakeholders are most vulnerable for the relevant context, such as project, product, or service. Engagement with individuals from groups or populations that may be at heightened risk of becoming vulnerable or marginalized may necessitate specific approaches that remove barriers for participation (e.g., language, location, cost).

3. PURPOSE OF STAKEHOLDER ENGAGEMENT

Why should companies engage stakeholders?
There are several reasons for companies to undertake meaningful stakeholder engagement:

- **Gaining insights:** Engaging with stakeholders can help companies gain valuable insights about stakeholder needs, expectations, and concerns. These insights can help companies refine their operations, products, and services to better meet the needs and expectations of their stakeholders.
- **Trust building:** Engaging with stakeholders can help companies build trust and credibility with their stakeholders. When companies listen to stakeholder feedback and act upon it, stakeholders are more likely to view the company as trustworthy and reliable.
- **Risk and impact management:** Engaging with stakeholders can help companies identify risks and challenges before they escalate into major concerns.
- **Enhancing reputation:** Engaging with stakeholders in a meaningful and authentic way can help companies enhance their reputation and brand image, leading to increased customer loyalty, employee retention, and investor confidence.
- **Meeting legal and regulatory requirements:** Many companies are required by law to engage with certain stakeholders, such as employees, customers, and communities. Failure to do so can result in legal and financial consequences.

What projects are most relevant for stakeholder engagement?
The following projects are not mutually exclusive, and stakeholder engagement can serve multiple purposes at the same time:

- **Environmental and human rights due diligence:** When undertaking environmental or human rights assessments companies should seek to understand the concerns of potential affected stakeholders by consulting them directly in a manner that takes into account language and other potential barriers to effective engagement. Engagement with stakeholders should influence other due diligence steps too, such as determining appropriate action, tracking effectiveness, and defining external communications.[7]
- **Materiality assessments:** Companies should engage stakeholders when identifying actual and potential impacts, assessing the significance of impacts, and prioritizing the most significant impacts for reporting. Stakeholders can have insights into both financial materiality (i.e., what is material to investors from a financial perspective) and impact materiality (i.e., impacts on people and the environment).

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[7] UN Guiding Principles on Business and Human Rights, Principles 18 (Assessment), 19 (Appropriate Action), 20 (Tracking), and 21 (Communications)

- **Creating strategy:** Meaningful stakeholder engagement can inform the creation of strategies for just and sustainable business—both stand-alone strategy and the embedding of social justice, human rights, and sustainability factors into business strategy.
- **Reporting and disclosure:** Companies should communicate their approach to just and sustainable business externally and address concerns raised by or on behalf of affected stakeholders. This communication should be in form and frequency that reflects the companies impacts and accessible to intended audiences; for this reason, stakeholder engagement can usefully inform reporting strategies, channels, and forms.

When should companies undertake stakeholder engagement?
Companies should undertake stakeholder engagement prior to major decisions, such as a new activity or relationship, market entry, product launch, or policy change. However, investment in trusted stakeholder relationships over time can improve the quality of engagement quality at moments when timelines and decision-making processes are compressed (e.g., prior to product launch or response to a new crisis).

Meaningful stakeholder engagement is important throughout the due diligence process: identifying actual or potential adverse impacts; devising responses to risks of adverse impacts; tracking and communicating how impacts are being addressed; and identifying forms of remedy for adverse impacts. During due diligence it may be necessary to distinguish between stakeholders whose interests have been affected (i.e., “affected stakeholders”), and those whose interests have not yet been affected but could potentially be affected (i.e., “potentially affected stakeholders”).

Is stakeholder engagement solely taken for the purpose of risk management?
No. While stakeholder engagement can inform risk management (e.g., meaningful engagement of stakeholders during due diligence), stakeholder engagement can also be undertaken to identify value creation opportunities, such as designing new products and services, undertaking more inclusive research and development, and testing new strategic priorities.

4. STAKEHOLDER ENGAGEMENT BEST PRACTICE

What are the principles of meaningful stakeholder engagement?
Stakeholder engagement methods will vary by context. However, all engagement should satisfy the following principles:

- **Focused:** Engagement goals should be focused and relevant, and expectations for both the company and the stakeholder should be shared, clear, and realistic.
- **Timely:** Engagement should be conducted in a timely manner to ensure that the perspectives of stakeholders can inform the outcome of business decisions that might affect them (e.g., at relevant points in a product or project lifecycle).
- **Representative:** The engagement should be structured in a way that enables the perspectives of diverse stakeholders to be considered.
- **Inclusive:** Companies should ensure that engagement reaches individuals from groups or populations that may be at heightened risk of becoming vulnerable or marginalized, such as human rights defenders, political dissidents, women, young people, minorities, and indigenous people.
- **Respectful:** In the context of stakeholder engagement, respecting means listening as well as sharing, and using an engagement approach that is culturally sensitive and accessible to all participants. This means considering context, location, format, and language.

- **Candid:** The process of selecting participants should be transparent, and engagement notes, actions, and outcomes should be shared with participants. If full disclosure to the wider public is impossible—given potential risks to participants and to the confidentiality of business decisions—summary outcomes should be disclosed.

What are some of the stakeholder engagement best practices?
The specifics of stakeholder engagement practice will vary by context. Some best practices for stakeholder engagement include:

- **Help stakeholders prepare:** Making sure that participants are aware of goals, format, envisaged contribution, and any useful background information so the discussion will be as productive as possible.
- **Share and address stakeholder expectations**: Inviting stakeholders to share their expectations for the engagement, and be clear whether, when, and how these may be addressed after the engagement.
- **Allow for equal contribution:** Encouraging less-vocal stakeholders to participate in the conversation, creating a space in which this is possible and comfortable, and respecting each party's right to observe quietly if they choose.
- **Focus the discussion:** Dialogues can veer off-topic if not properly focused. Sticking to an agenda, remaining within the issue's scope, and assessing when / how any exciting out-of-scope issues should be addressed.
- **Manage cultural dynamics:** Participants should be wary of potential cultural misunderstandings and be prepared to manage any that arises. There are various approaches (e.g., local partners, translators) that can help.
- **Mitigate tension:** Some topics can prove controversial or provocative, and unexpected dynamics or rivalries may surface among participants. Thorough preparation will help, but anticipating a range of outcomes is essential.
- **Effective communication:** Communication should be tailored to the stakeholders' needs and preferences.
- **Transparency:** Being transparent with stakeholders about a company's goals, performance, and challenges can contribute to trust building.

What are the skills needed to conduct meaningful stakeholder engagement?
Meaningful stakeholder engagement requires a good level of cultural competency, especially when conducting interviews or facilitating dialogue with rightsholders. Cultural competency means bringing empathy, awareness, and sensitivity to cultures other than one's own, and requires actively avoiding inclinations to just see from one's own experience and perspective. This can be especially important when dominant cultures exist or where there is power asymmetry between the company and stakeholders. It is crucial to not make assumptions, but rather to ask questions, learn, and listen to lived experiences.

The subtlest (and perhaps most important) skill for engagement is understanding that each stakeholder will always harbor certain perceptions of both the company and the other stakeholders involved, and that each is just one player in a dynamic system.

What are some of the main risks associated with stakeholder engagement?
There are contexts where stakeholders may face risks to their personal safety and security and those of their families, friends, and associates if their engagement with the company becomes known—for example, in the form backlash, retaliation, or harassment. Companies should be aware of these risks when recording the engagement (e.g., whether to attribute comments when taking notes), communicating about the engagement (e.g., in sustainability reports), or choosing the engagement location (e.g., selecting a safe / private location).

Should the company board be involved in stakeholder engagement?
While stakeholder engagement should normally be led by company management, it is important for Boards to (1) be informed of insights gained through stakeholder engagement and (2) be involved in discussions about the strategic and risk mitigation implications feedback provided by stakeholders. An external stakeholder advisory council is one method that can be used for Boards to gain regular insight into stakeholder perspectives, alongside executive leadership and relevant teams.

What are some of the biggest stakeholder engagement mistakes?
There are several common mistakes that companies make with stakeholder engagement.

First, there can be a mismatch of expectations for the engagement, such as the perception that it may lead to immediate action by the company for mitigation and remediation.

Second, companies can sometimes view engagement as the end goal, rather than the foundation for an ongoing dialogue or mutually beneficial relationship. Companies sometimes fail to report back on decisions made or actions taken following the engagement, don't "close the loop" on engagement, and don't view the engagement as the start of a longer-term relationship.

Third, companies can often view stakeholder engagement as an opportunity to convince the stakeholder of perspective or "tell a good story" about the company's work, rather than as an opportunity for listening, learning, and dialogue.

Finally, stakeholder engagement can be undertaken in ways that are "extractive", "transactional", or "procedural", with little benefit for participating stakeholders. The best stakeholder engagement builds and nurtures long-lasting and trusted relationships.

Are there power imbalances in stakeholder engagement?
Yes. Company relationships with stakeholders are often asymmetrical, and there can be power imbalances between companies and stakeholders that may be smaller, less influential, and less well-resourced. These power imbalances can be informational (e.g., the company has technical expertise or product knowledge that stakeholders don't have), resource based (e.g., the company has resources for research that stakeholders don't have), or time-based (e.g., companies having more time to prepare for the engagement than stakeholders).

Power imbalances can be addressed in various ways, such as timely provision of information needed by stakeholders to participate effectively, the provision of resources (e.g., travel expenses, honoraria), and use of subtitle or translation services.

What is "stakeholder fatigue"?
The risk of "stakeholder fatigue" arises when stakeholders are asked to participate in multiple duplicative and repetitive engagements by many companies operating independently. This can be addressed by companies in similar contexts (e.g., same industry, product, country, value chain) engaging stakeholders via multi-stakeholder initiatives / forums or other collaborative approaches to engagement.

ABOUT BSR

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