

## Stakeholder Engagement in Realization of CSR

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### Abstract

Stakeholders are those who are influenced by or can influence a business' decisions and actions. They have a rightful interest in the company's business. Stakeholder engagement is the process in which the needs and expectations of various stakeholder groups are integrated as per priority into company's strategies and operations. This is now critical for effective implementation of the company's Corporate Social Responsibility (CSR) agenda. The need to adopt stakeholder engagement is growing up these days when multiple issues and challenges are mounting up for businesses and CSR is being taken up earnestly. It creates a win-win situation for both the company and its stakeholders.

The process of stakeholder engagement is continuously evolving. It has been and is being practised in many ways. However, there are certain general principles required to be adhered to for getting desired outcome from the process. This conceptual paper hints upon those principles and narrates a basic fit-into-all methodology of stakeholder engagement as a key part of CSR. The paper also analyses the benefits and challenges of stakeholder engagement.

**Keywords:** Stakeholders; Stakeholder engagement; CSR; Stakeholder mapping; SDGs

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## **Introduction**

The landscape of Corporate Social Responsibility (CSR) across the globe has been seen expanding rapidly during the last couple of decades. With this, huge amount of investment has been made on CSR projects of various thematic areas. While many such projects have yielded positive results, some have failed to get satisfactory outcome. Studies have identified several factors for failure of these projects. And, one of the key factors is the lack of consideration for ‘Stakeholder Engagement’ as an essential process for CSR practices. Stakeholder engagement has been generally viewed so far as needless and secondary. That is why it has been reflected in practice as a mere tick-box exercise with low level of engagement or very limited to few stakeholders.

However, the approach of stakeholder involvement must be seen as one of the CSR fundamentals that help in creating a win-win situation for both the company and its stakeholders. As indicated in the Stakeholder theory of R. Edward Freeman (1984), devoting time and resources in attending to stakeholders’ interests is a rational managerial endeavor. It is necessary for the company’s efforts towards realizing the triple bottom line i.e. people, planet and profit that corresponds with the social, environmental and economic dimensions of the concept of sustainable development. Needless to say, Stakeholders are aware of and well connected with their socio-economic situation and environment. Understanding needs and expectations of stakeholders is a prime requirement while designing CSR strategies. Engagement with the stakeholders is essential for effective implementation of CSR projects and desired value creation for the beneficiaries as well as the company.

## **What is Stakeholder Engagement?**

Stakeholder engagement is the continuous and systematic process of involving and interacting with stakeholders of the practitioner organization or company and management of relationships with them. It is a tool employed by companies to get a good understanding of stakeholders’ perspectives on important issues and in decision-making exercise. In this process, matters of mutual interest for the company and the stakeholders are taken up in a strategic manner. Here,

information is exchanged, issues are identified, and solutions are deliberated. Over the period stakeholder engagement has evolved from reactive to proactive response.

So, who are the stakeholders? For the business and CSR situation, stakeholders are those who are influenced by or can influence a business' decisions and actions. They may be affected or affect positively or negatively. They have power to affect success and failure of business bodies at any time and situation. The range of stakeholders includes employees, shareholders, consumers, customers, suppliers, communities, unions, governments, regulators, NGOs, media houses, etc. Stakeholders possess power, legality and exigency depending upon their types. In one way, stakeholders can be bracketed into Internal Stakeholders and External Stakeholders. In another way they can be categorized as Primary Stakeholders and Secondary Stakeholders depending upon the characteristics of the particular company. Primary stakeholders have direct impact on the company. Secondary stakeholders though do not have direct impact, can influence primary stakeholders.

### **Benefits of Stakeholder Engagement**

Stakeholder engagement benefits both the sides by creating 'shared value'. It helps the business house to measure opportunities and threats. Through this process issues of relevance are identified and solutions to conflicts are derived by continuous dialogue. By this mechanism the company can ensure and display accountability and transparency. The company gets competitive advantage from this engagement. This process helps in developing reputation capital and obtaining social license. The company gets better access to resources and markets. Tapping into stakeholder wisdom is a benefit the company gets by this process. All these ultimately lead to improved financial performance of the business in a sustainable way. On the other side, stakeholder engagement process makes the stakeholder groups more informed. They can analyze their concerns in a systematic way. Their expectations are aligned with the business goals and strategies. The process augurs well for sustainable development of the society as a whole.

### **Principles of Stakeholder Engagement**

For effectively engaging with stakeholders the companies should follow certain principles. Here are these principles which may not be limited.

- a) While identifying the stakeholders the principle of inclusiveness and diversity should be maintained with a 360 degree approach. Sometimes the seemingly unimportant stakeholder is missed out, but later it turns to be important. Hence, fair participation need to be ensured.
- b) The engagement process must focus on issues that are of importance and can put in value to the company. It should be ensured that the process helps in decision-making on the company's objectives.
- c) Stakeholder engagement should be a proactive initiative, not a reactive one. The earlier the process is started the better.
- d) The process of stakeholder engagement must be considered as continuous and dynamic as it changes always.
- e) Effort should be put to connect stakeholders' interest and expectations with the goals and objectives of the company.
- f) The format or set-up of the engagement should be appropriate and comfortable for all looking at the type of the stakeholder groups.
- g) The way and substance of communication with stakeholders are vital. It should have clarity and purpose. The language has to be simple and understandable to all.
- h) Sufficient scope must be there for dialogue with participation from both the sides. Stakeholders should be encouraged to share their opinion and feedback.
- i) The company should be open, honest, sensitive and responsive to the issues and concerns of different stakeholders.
- j) The outcomes of the process should be kept in order as prioritized and agreed upon by both sides.
- k) The process and outcome of engagement must be documented properly and can be shared.

- l) As stakeholder engagement is a continuous process, decisions agreed and commitments made during the process should be put into action. Then only long-term trust among stakeholders can be built upon and the cyclic process can continue sustainably.

### **Methodology of Stakeholder Engagement**

The process of stakeholder engagement consists of a number of activities and interfaces executed in a cyclic manner throughout the life of the business or CSR Programme. It can be carried out by using the Deming cycle method- Plan, Do, Check and Act (PDCA) for continuous improvement of the process. The general steps involved in the process are as follows:

#### **a) Creating Objectives of Engagement**

This initial step decides the ‘why’ of stakeholder engagement in respect to the vision and mission of the company or programme. General needs and expectations of stakeholders must be understood here. The value of investing in engagement can be measured in this step. The objectives, scope, responsibility and timeline of engagement should be spelt out.

#### **b) Stakeholder Mapping**

This is the most important step which comprises of three sub-steps i.e. Stakeholder Identification, Stakeholder Analysis and Stakeholder Mapping. It gives insight of the details of ‘who’ are to be engaged with. This step delivers a relevant and prioritized list of important stakeholders of the business.

Identification involves listing of the people and groups who have stake or interest now and may have in near future in the business or CSR programme. The list should be diverse. The list is liable to be modified as the situation evolves in ways like addition of new stakeholders and change of stakeholders’ expectations. Here, care must be taken that no important and potential stakeholder is excluded from the list.

After identification of stakeholders, they should be analyzed group-wise to know their significance and the impact they can create upon the company. Analysis helps in understanding their connection with the matters pertaining to the objectives of engagement. Some of the key

aspects to be considered while analyzing are- the willingness of the stakeholders to be engaged; impact, positive or negative, they can cause; contribution they can make; etc. Each group of stakeholder can be evaluated and be given rating according to these aspects. Stakeholders are required to be prioritized with the help of this evaluation outcome.

Stakeholder mapping is the exercise that further analyses the requirement and urgency of engaging with different stakeholders. Here, stakeholders' standing and relationships are observed by using some criteria specifically vital for the business. This exercise also studies the connection among the prevailing issues of stakeholders. Mapping can be done with the common matrix of willingness-impact-contribution or any other mix of criteria as required. As an outcome of this activity, stakeholders are classified in the scale of importance for the business.

#### **c) Developing Engagement Plan**

Once the stakeholders are identified and mapped, plan for engagement with them needs to be devised. For this multiple approaches as suitable are to be taken up. Some of the key and effective approaches of engagement are- Consultation, Collaboration and Innovation. In consultation, feedback and input are sought from stakeholders. Collaboration approach is the two-way dialogue based on mutual understanding and finding solutions. Innovation approach refers to joint initiatives for addressing common issues. For different approaches different formats like meetings, focused group discussions, conferences, partnerships, etc should be used. While making the plan for engagement, general aspects like stakeholder profile, cultural dynamics, familiarity with issues, way of facilitation, frequency of use of formats, ambience of chosen venue, logistic arrangement, and documentation of process and output should be considered. In every approach, communication is a vital factor. Scope should be there in the plan for adjustments and modifications during engagement.

#### **d) Executing Engagement Plan**

Execution of engagement plan consists of- a) informing the stakeholders, b) organizing the engagement events, c) documenting. For informing and inviting the stakeholders for participation, appropriate techniques of communication ought to be used looking at the convenience of different stakeholders. While organizing events of participation, sufficient scope

must be created for stakeholders for sharing their expectations and opinions. Facilitating team needs to manage the events by adhering to the agenda, avoiding controversial topics and diminishing misunderstandings. During engagement the entire process and outputs must be recorded systematically.

#### **e) Managing Post-engagement Activities**

Every cycle of engagement process should be assessed after its completion to verify if the used approach is executed effectively and engagement objectives are achieved. As identified by the assessment, necessary corrective and improved measures must be incorporated in subsequent plans. Further, as stakeholder engagement is a continuous process, keeping stakeholders informed and taking their feedback regularly should be incorporated in long-term strategy.

#### **Conclusion**

The concept and practice of stakeholder engagement has evolved a lot. And, its importance is growing up in this age when there are several challenges to global sustainability. In the time of Sustainable Development Goals (SDGs), role of all stakeholders has become critical. Particularly for business sector, which is expected and urged to contribute significantly towards SDGs, maintaining a solid relationship with its stakeholders is not an option, rather mandatory. Needless to say, there are several challenges in executing stakeholder engagement process. It is not so easy to transform information from stakeholders into business intelligence. While executing the process at the ground level confusion may crop up in prioritizing stakeholders as well as their issues due to assorted factors. Despite the challenges it throws up stakeholder engagement must be embraced by all type and size of business.

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