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STAKEHOLDER INVOLVEMENT AND RISK MANAGEMENT
the case for building stakeholder relationships

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Introduction

A popular documentary movie, entitled The Corporation depicts the dangers of having entities called corporations within our society. The premise of the movie is that corporations are given all the rights and powers of citizens in society, but ultimately can escape from any liability for their actions. In the movie, corporations are depicted as having psychotic personalities; they are driven by the greed of a few white men and they have essentially no social conscience. The movie comments on corporate social responsibility—dismissing the movement because (1) it is "voluntary, they can change whenever they want" and (2) "this isn't what these guys are good at." The movie makes it clear that corporations listen only to their shareholders, not their stakeholders. This point of view leads to a horrible projection of our future—rapacious corporations own everything (our air, our genes), giving nothing back to the community unless it is primarily for the corporation's benefit. However, there is a hopeful note at the end: citizens can rise up and demand that corporations be disbanded, or can take to the streets and demonstrate en masse until the corporations back down. Interestingly, the movie comfortably makes the assumption that the public sector can pick up any services the corporations abandon, and will ensure much better management of environmental, social and economic benefits.

The movie's storyline establishes a conflict as a basis for comedy and dramatic tension: it places the interests of corporations clearly at odds with the interests of citizens. In this conflict, only government can act as the arbitrator of fairness. By contrast, the authors of this paper have watched government struggle to "keep up" with cumulative impact assessment requirements, while many corporations have felt the requirement to go beyond regulatory requirements to build stakeholder relationships. We agree that the role of corporations in environmental impact is changing, and we also agree the marketplace is having a much greater influence on environmental impact assessment requirements. However, we do not agree with the polarized conflict of values portrayed in the movie. In fact, we see the 21st century as a time of convergence between stakeholders and corporations, at least in the area of environmental impact assessment.

While regulation was the primary driver for stakeholder involvement in the 20th century, many corporations have recognized other good reasons to develop relationships with stakeholders. These reasons include the following:

- learning about local knowledge, values and perceptions as an early part of impact assessment and resolving how to address these matters before they become confrontations or litigations,
- improving capital development proposals and operational approaches,
- minimizing uncontrolled risks associated with development and operations,
- gaining competitive advantage, and
- improving the reputation (i.e. trust and support) of the corporation.

This paper will explore the nature and implications of the new corporate outlook on environmental management from a "risk management" point of view. This point of view accepts that both corporations and stakeholders are (understandably) self-serving, but that society and investors benefit when the environmental risks associated with development and operations are minimized.

Corporate Social Responsibility (CSR)

According to the *As You Sow Foundation*, an activist non-profit association, "Corporate Social Responsibility refers to operating a business in a manner that takes responsibility for the social and environmental impact of the business." This Foundation is a non-government organization that provides tools to stakeholders and shareholders to help them promote CSR. They note, "companies have developed social responsibility strategies as a result of concerns received from stakeholders including customers, employees, investors and activists." They suggest, "CSR may be measured by performance indicators including reduced operating costs, enhanced brand image, increased sales and productivity, employee retention, and reduced regulatory costs and oversight."

CSR has been widely promoted by many business organizations, financial institutions (such as the World Bank), and consulting organizations. There is now a Master's Degree in CSR offered at the University of Barcelona, and a research journal dedicated to the topic. Whether the name changes in the future or not, the practices of CSR are becoming entrenched in the requirements of many corporations. At the heart of CSR, stakeholder involvement is a critical element for success.

Although one often hears investors "only care about the bottom line," recent shocks to the economic system such as 9/11, mad cow disease and SARS have made it clear to most investors they must be concerned with risk management and investment sustainability as well. Few investment advisors are suggesting investors focus their capital on high risk/high return options. Most are advising investors to be patient and invest in companies that can produce less spectacular, but sustainable, results. In particular, companies that deal with natural resources, agriculture and food processing, and chemical production are watched closely in terms of their ability to manage risks and respond to problems. In North America, companies in the chemical and natural resources industries have promoted risk management as an integral part of their development and operations.

Anne Golden, president and CEO of the Conference Board of Canada, commented on the need for shareholders to value the input of stakeholders when she said:

> One of the main reasons that strong CSR practices benefit shareholders is that they reduce the risk of incurring significant costs and loss of reputation associated with social and environmental mishaps....CSR is certainly not about abdicating the rights of shareholders to make a profit on their investments. Rather, it entails recognition that shareholders are not the only group that has a stake in the operations of a corporation[1].

What are the Implications for Impact Assessment?

Impact assessment has changed over the past decade. There is an increased emphasis placed on risk assessment and risk management within the impact assessment process. In many cases, the process places greater emphasis on stakeholder involvement as well. However, the authors of this paper argue that stakeholder involvement practices are often inadequate (and ill-timed) to gain the benefits that CSR promises.

In Canada, environmental assessment is undertaken within strictly regulated requirements. These requirements ensure that stakeholder involvement will be an important element of risk management in the proposal, development and operational stages of an industrial project. However, regulations are not (and should not be) specific about stakeholder involvement requirements.

The costs incurred by Polaris Resources Inc. in its application to drill a sour gas well in southern Alberta illustrate the importance of stakeholder involvement to those who invest in such a project. Polaris convinced investors that the potential gas discovery merited the

[1] As quoted in the Financial Post, February 16, 2004, page FP15.

expenditure of millions of dollars (and no one has disputed this assessment). The proposal went before an Energy and Utilities Board hearing and was denied for many reasons—one being the failure of the company to adequately involve stakeholders and build relationships with the people who live in the area. This failure triggered the need for a hearing, and the commentary of environmentalists, ranchers, local landowners and expert commentators raised a range of concerns about human safety and environment. The Board concluded that development in the area should not be precluded, but that the applicant was not "capable of managing the development on numerous fronts." The company spent more than a million dollars to prepare its application and go through the hearing process.

In contrast, Suncor Energy Inc. has achieved two major approvals for developments from the same Energy and Utilities Board. They chose to invest specifically in stakeholder involvement processes and saved millions as a result of resolving the concerns of potential interveners before they requested a hearing. The Financial Post noted that Christine Burton, Manager of Regional Consultation, was commended by the CEO for her team's efforts to "build productive relationships with all of the local stakeholders affected by Suncor's mammoth Fort McMurray oil sands project. The success of her team has been so great, and the impact on the bottom line so obvious, that last year the company's president Rick George told all employees, " anyone affected by the company's operations has the right to be informed about our activities and participate in a transparent stakeholder engagement process and be involved in issues and opportunities that affect them."[2]

In the same article, the Financial Post quoted Ron Neilsen, Director of Sustainability and Strategic Partnerships, Alcan Inc. about their success in gaining regulatory approval for major projects in Quebec:

> When you are spending $2 billion, you want to get it up and operating without delays caused by objections from government, residents, environmentalists or anyone else with an interest. Working with stakeholders is an important part of that process. You want to avoid unseen impediments to the creation of business value.

How Can Companies Improve?

It is a simple matter to suggest stakeholder involvement will simultaneously improve impact assessment and corporate performance. But many critics (both within and outside of the corporate environment) have pointed out that implementation of the theory is the greatest challenge to achieving meaningful results. Subharta Bobby Banerjee, Professor of Strategic

[2] As documented in the Financial Post, Page FP7, February 9, 2004.

Management, University of South Australia, points out that, "different stakeholders have differing stakes and balancing the needs of competing stakeholders is not an easy task. Moreover, stakeholder theory is derived from Western notions of (economic) rationality and fails to address the needs of several marginalized groups like indigenous stakeholders."[3]

In other words, stakeholder involvement is about the same relationship and trust-building that has always been required in the community-building process. This kind of "human touch" is not often associated with large corporations. Dr. Banerjee makes it clear we should not believe such corporations have any inherent reason to be caring and particularly notes, "individual managers' roles in accommodating stakeholder interests is predefined at higher levels and practices at this level are governed and organized by organizational and institutional discourses."[4]

We are aware of such a manager in a large corporation (Conoco-Phillips is ranked as the world's 6th largest integrated company and employs 48,000 people) who champions successful stakeholder relations in the face of all the corporate barriers imagined by Dr. Banerjee and others. Brian Plesuk is Manager of Community and Aboriginal Relations with the company and became part of Conoco-Phillips within the last two years when his comparatively tiny former company—Gulf Canada Inc.—was purchased in the wake of one of the largest mergers in corporate history. Brian has therefore been confronted by overwhelming size, corporate focus on profits and a merger of three corporate cultures at the same time.

Brian has made it his mission to get everyone in the company to learn new behaviours that emphasize stakeholder relationship-building. His reflections should be instructive to anyone in a corporate setting who is struggling with the difficult implementation of stakeholder involvement. The following interview reflects his advice, based on three decades of work in this area, and his recent efforts to bring consistent stakeholder relations to a very large corporation.

Q. **Why are stakeholder relations important?**

A. Historically, stakeholder relations were done for regulatory approvals. It was a checkbox thing. The new reality is that external stakeholders increasingly influence companies. Consultation improves the quality of Conoco-Phillips' decisions.

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[3] Banerjee, S. B., 2002. "Contesting Corporate Citizenship, Sustainability and Stakeholder Theory: Holy Trinity or Praxis of Evil?" Presented at the Academy of Management Conference, Denver, August, 2002.
[4] Ibid.

Q. **How have you learned to address Aboriginal concerns?**

A. Brian learned a lot from Alaska Conoco-Phillips. They had many years of experience in Aboriginal relations and Brian's team made the effort to gain the benefit of their advice. Internal consultation pays off.

Q. **Why does your company bother?**

A. Conoco-Phillips' interest is in sustainability. Corporations who think long-term benefit from a sustainable relationship with stakeholders. They are interested in the relationship because it benefits them—return on investment is good. This is a relatively small investment and there is a business case.

Stakeholder relationships help the company manage their risk—they need to know what is going to affect their success. Compare it to seismic work. The company pays millions for seismic analysis to reduce the risks associated with drilling. Why not commit resources to the "surface seismic process"—i.e. reaching accord with the stakeholders who control the surface of the land?

Conoco-Phillips' approach to stakeholder relations has given them a competitive advantage—both because of their reputation, and because of their regular practices. For instance, the company was competing for an exploration licence in St. Pierre-Miquelon. The licence was granted to Conoco-Phillips because they consulted with residents as soon as they arrived and hand-delivered their application to the regulators, who liked the personal approach.

Q. **How do you build internal commitment?**

A. The first challenge is to institutionalize a way of doing business. Brian and his team use every available opportunity to pull the corporation toward a consistent and dedicated stakeholder relations process. Goodwill alone, however, would not be enough. Brian feels it is essential to create rules so everyone knows what is expected, particularly in a blended corporation. He and his team use an internal consultative process that mirrors the kind of process they expect everyone to use in gaining the trust and support of external stakeholders. "You need an [internal] alignment with a common goal, and an accountability process. Once the rules are set, then the systems, models, project operations and processes must be aligned," said Brian. He makes it sound like a paper process, but actually the change at Conoco-Phillips has relied on a lot of footwork, creativity, confident assertion and a lot of conversation and correspondence.

"You have to sell this through lots of little things," said Brian, "not through brochures and videos." Brian sought, and gained, the personal endorsement of his president to help sell the importance of stakeholder relations. At a major company meeting, the president played two voice messages that he had personally received from a rancher in southern Alberta. Ranchers were going through a tough time, and Conoco-Phillips was sending many of them much-needed money for lease payments. After getting some advice from a few ranchers, the company decided to send an annual payment to the ranchers instead of sending 12 monthly cheques. The president signed the letters that went with the cheques. Ranchers phoned to express their thanks to the company for recognizing their dilemma and changing their practice. They indicated their willingness to have Conoco-Phillips drill on their land.

Brian also played a major role in delivering an internal global workshop on stakeholder relations for company personnel. The workshop was delivered electronically and was an opportunity to "roll out" the company's new global guidelines on stakeholder relations. It gave everyone access to information about what the company was trying to achieve, and what best practices were needed "in everything we do, every day." Brian pointed out that ensuring safety costs millions—it is a religious, militant requirement in the company. Stakeholder relations are the same thing.

Q. **Can you measure results to the satisfaction of your Board?**

A. Although authors such as Dr. Banerjee have pointed out the difficulty of measuring results, Brian felt that Conoco-Phillips has not had trouble making a business case for stakeholder relations. "Our focus on stakeholder relations (both internal and external) during the Surmont Oil Sands project meant we were the first company to get approval for such an application without a public hearing—saving an estimated $1.5 million. We also didn't lose our staff and didn't lose our relationships with others we depend upon. We're going to be there for a long time and we want to have good neighbour relationships," said Brian.

Brian thinks external accountability is a key to long term success. Stakeholder relationships are long-term, and there must be reporting of accountability measures that assures stakeholders that promises are being kept. Internally, external measures of stakeholder involvement and satisfaction will become performance measures.

The Stakeholder Involvement Process

While stakeholder involvement is a necessary part of impact assessment, it is often not implemented effectively. Project leaders see stakeholder involvement as an “extra” requirement, outside of their “real” work. Additionally, they may not have developed their own personal skills. This weakness is seriously compounded if the people “in the field” making direct contact with stakeholders are not skilled, and consistent, in their message, their caring and their contact.

Unfortunately, when stakeholder involvement is implemented without sufficient resources, leadership and skills, the result is often the opposite of the original goal. Haphazard stakeholder contact processes often lead to an increase in dissatisfaction and active opposition by stakeholders.

Good stakeholder process is not a mystical art, but it does require planning, technical skills, documentation and negotiation. This paper does not purport to provide a definitive guide to stakeholder involvement, but the attached appendix does provide a brief guide to the essential requirements for success.

Integrating successful stakeholder involvement, and building stakeholder relationships is a key part of impact assessment that deserves appropriate attention. Stakeholder involvement also contributes directly, and visibly, to a corporation’s commitment to Corporate Social Responsibility.

See attachment 1: A brief guide to the requirements for stakeholder involvement.

Attachment 1
A Brief Guide to the Requirements for Stakeholder Involvement

The Process

Stakeholder involvement is an ongoing process (better depicted as a cycle than as a straight line). However, it can be integrated into impact assessment and project management. There are several specific stages that can be coordinated with impact assessment activities.

1. Profile and Contact

Very early in the project, the corporation must learn who the stakeholder communities are, and make contact with them. Early contact is an important step toward building trust and dialogue.

- *Stakeholder Mapping*
  The corporation identifies the stakeholder communities. This exercise involves some boardroom work, but a lot of field work to find out how these people see themselves. Often stakeholders are not well organized in the early stages—you will have to do some categorizing to build a map of the stakeholder communities. At this stage, some of the interests and issues of the stakeholder communities will become apparent.

- *Early Initial Contact*
  We have already implied that stakeholder mapping will require early contact with stakeholder communities. This early contact is one of the most effective steps towards trust and dialogue. The more contact at this stage (i.e. while the project very conceptual), the better.

2. Issue (and Opportunity) Identification

When a conceptual design is available, corporate representatives have to spend time with the stakeholder communities to learn about their perspectives, issues and expectations. In many cases, this process is the first "public" part of the process—stakeholders are invited to meetings. The scale of the meetings is a significant factor in achieving success, as is the style of the meetings.

The two most common improvements that corporations can make at this stage of the process are:

- *Prompt Response*
  Often, corporate representatives gather a list of concerns and then "disappear." When there is a delay between issue identification and initial response to the issues, trust begins to diminish. People do not assume that the corporation's silence about their issues is a good thing.

- *Verification*
  Corporate representatives often have to interpret what they have heard in order to define the "issues." This is acceptable and necessary. However, the interpreted list of

issues should be taken back to the stakeholder communities for verification. There must be an obvious (and recorded) agreement about issues and expectations.

3. Sharing Problems/Sharing Benefits

The resolution of “issues” that emerge during the stakeholder involvement process should be a shared process, rather than a debate. If the corporate representatives and the community share problems and potential solutions, then the likelihood of success is increased. In many cases, what needs to be discussed is not necessarily an “issue,” but rather an opportunity to share benefits associated with the project. Examples of shared benefits include: access improvement (or closure), employment, wildlife inventories, habitat protection, or demarcation of cultural sites.

- *Listening and discussion*
  Of course, sharing problems and benefits begins with interviewing and listening. However, corporate representatives can also contribute to the “open” discussion by being forthcoming about their perspectives and expectations as well.

- *Option identification*
  There are always options about how to proceed. Generally, “take it or leave it” discussions are unsuccessful. Get agreement on the <u>reasonable</u> options before attempting to get agreement on the best option.

4. Credible Decisions

Most stakeholder communities are distrustful of the decision process. In a large country like Canada, people tend to distrust decisions that are made some distance away. There are many examples of stakeholder relations “on the ground” that led to frustration and antagonism because executives made decisions “behind closed doors” and without direct contact with the affected stakeholders. The easiest solutions to these dilemmas are, of course, to shorten the process of decision-making, to make decisions in (or near) the presence of stakeholder representatives, and to keep stakeholders updated as the decision process proceeds.

- *Considering and comparing the options against criteria that represent multiple perspectives*
  Stakeholders should be informed of the options that are being examined and the criteria that are being used to assess the options.

- *Keeping in contact*
  If the decision process will take some time, then it is valuable to provide updates to stakeholders throughout the process. A long period of time with the “lights out” generally leads stakeholders to distrust the process and to generate unfavourable rumours about what is actually happening.

5. Follow Through

All of the above activities will help, but achieving success requires that corporate representatives maintain their contact with stakeholder representatives.

- *Contact stakeholders*
  Generally, during the period of impact assessment, six weeks should be the maximum time between stakeholder contacts (even if the contacts are brief, they are important).

- *Carry out promises*
  It is common for corporate representatives to imply that actions will occur and then never confirm that the actions actually did occur. Following up on any implied promise (as soon as it is reasonable to do so) and contacting the stakeholders to ensure that they know the action was taken and are satisfied is important.

- *Maintain a network*
  Maintaining a network of contacts among stakeholder representatives will always be valuable....for all parties.

The People

In the end, although a corporation is a "person" in law, it is not a person that people will build relationships with. People judge the corporation by the people they actually meet and interact with. Most corporations are either already investing in the skills of their people, or will be soon. Success requires the following:

- Consistency
- Inter-personal communication skills
- Tolerance and understanding
- A willingness to make an extra effort for marginalized communities

Recognizing Stakeholders

Stakeholders are often expected to attend meetings at the pleasure of the corporation, and to spend time reviewing information. They are also expected to freely reveal their ideas and to make the effort to be part of the impact assessment process.

This effort on their behalf should not go unrecognized. Stakeholders incur costs to participate, and the corporation should consider how direct expenses (at least) can be repaid. Stakeholders deserve recognition in some form for their efforts, whatever their opinions.