<u>Dynamic Stakeholder Engagement</u>

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Long has gone the day when shareholders, employees and customers were considered to be the only important demographics for the running of a business. It is now widely understood that companies must look beyond satisfying their customers and shareholders – to instead satisfy all stakeholders of the business. The question then becomes, what is a stakeholder?

A stakeholder is simply any group (or groups) that can affect the activities of a company, and who are in turn affected by its daily operations. A stakeholder could then be the shareholders of the business, its employees, customers, suppliers, regulatory bodies, neighboring communities, or even non-governmental organizations and the media. This list is far from exhaustive – each company from each separate sector would have their own set of groups on whom they depend for their long-term survival, and vice versa.

Academics and Managers alike have increasingly recognized the role stakeholder engagement plays in ensuring business operations go forward without a hitch. Engagement with stakeholders involves allowing all groups that affect a company to engage in dialogue with the company, thereby giving them a platform through which to air any views, issues or concerns they might have with the company's operations. It gives companies a chance to hear these views, of which they may not otherwise have been aware. It also gives companies the opportunity to respond to these, and thereby build-up, or maintain, their relationships with these stakeholders. Of course engagement should be a two-way street, with companies also being given the chance to voice any of their own views or issues they may have with a particular group.

This exchange of ideas and thoughts makes stakeholder engagement the starting point of effective corporate responsibility. Or so it should be. The purpose of corporate responsibility is to manage your stakeholder relationships in order to ensure that your business operations give rise to significant long term benefits for them, whilst at the same time minimizing the negative impacts that are created due to daily business activities. Companies adopting corporate responsibility practices for the wrong reasons, or those simply greenwashing, will not have realized this link, and will be missing out on a vital component of the process – the component that should ideally underpin all actions taken in the name of CSR.

Stakeholders must be prioritised in order to ascertain whose views or concerns are most critical to address first. At STING Consultants, our process with client companies involves convening a cross functional group of senior managers who nominate their various stakeholders, who are then prioritized. Consensus is arrived at through discussion. Similarly, companies such as John Keells Holdings, Dialog and DIMO have developed their own methods of prioritising stakeholders and the issues that are of greatest important to them. Prioritisation ensures efficiency in addressing the issues of your stakeholders. It ensures that you utilize your resources addressing the most critical needs of your most salient stakeholders first, and it also justifies your actions to the others, who will then be confident that you will address their own issues at the right time.

Having done this, a small handful of companies in Sri Lanka, for whom the views of their stakeholders underpin all business decisions, then go to the extent of involving an external facilitator to oversee the entire engagement process. They convene panels consisting of their most salient stakeholders, who are given the chance to voice their views on a number of issues that are to be addressed by the business. Members of the management also attend panel meetings, allowing for immediate responses to be provided to stakeholders wherever possible. These companies then take on the views of their stakeholders to shape their business strategy.

Other local companies undertake stakeholder engagement for sustainability reporting purposes. As stakeholders are the target audience of these reports, it goes without saying that the information they should provide should be that which the stakeholders are most concerned with. Having engaged with stakeholders to understand what these are, these companies then focus on disclosing their performance on the most relevant areas through their reports, and in order to do so they also shape their sustainability strategies accordingly.

The fact is that all decisions taken on corporate responsibility within the company, and on the way it operates its business as a whole, should be underpinned by the views of its stakeholders. This is particularly important for companies investing in community development. It is essential that these companies speak to their neighboring communities in order to determine exactly what they need. There is very little point in the company deciding on its own to invest in an area that they assume to be the requirements of their stakeholders. There may well be more pressing matters elsewhere that they should be addressing instead, which will benefit a lot more people. So corporates deciding on a whim which community activities to invest in amounts to a waste of resources, when they spend millions on addressing an issue that their stakeholders are not all that concerned with. If we agree that one of the reasons for engaging in corporate community investment is to maintain licenses to operate and manage relationships with ones' stakeholders, then it goes without saying that stakeholder engagement should be the starting point.

In our current business context with companies still struggling to overcome the effects of economic downturns, it is essential that they make the most optimal use of their resources. This then requires a structured approach for determining the most efficient use of these resources – which calls for a dynamic process of stakeholder engagement.

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