COMMON THREADS

Designing Impactful Engagement

SustainAbility Transparency Network
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As this report demonstrates, today’s businesses are increasingly recognizing that stakeholder engagement is critical to understanding their context, navigating disruption and formulating successful business strategies.

Though engagement is relatively common practice, approaches are not yet common enough. There are no widely agreed best practices shaping corporate strategies around engagement, and many practitioners struggle to determine the right stakeholder engagement approach for their company.

Common Threads seeks to provide guidance that will enable companies to better engage their external stakeholders, address their material issues and strengthen their business strategies.

**Current State**
Companies’ current practices on stakeholder engagement are diverse, but several themes emerged:

- **All stakeholders matter** - Though engagement with all types of stakeholders is important, rising awareness of social and environmental challenges is leading companies to move beyond engaging only traditional expert stakeholders (e.g. UN or leading NGOs) and to reach out to other key groups (e.g. consumers, investors, innovators).

- **Materiality as a core lens** - Companies are using materiality assessments as a key way to engage their stakeholders.

- **Greater focus on mutual benefit** - Many companies’ strategies are maturing from one-way communication towards more collaborative approaches.

- **Varying degree of control** - Companies differ in the degree of centralization of their stakeholder engagement.

- **Transparency on the rise** - Stakeholder engagement activities are disclosed in corporate communications, including annual financial reports.

**Business Case for Engagement**
Our research suggests that the benefits of external engagement fall across three categories:

1. **Protect license to operate** - Maintaining or building reputation and credibility was the main motivation for companies. In fact, some businesses are starting to think about engagement as part of their “license to succeed.”

2. **Anticipate risk** - Understanding stakeholder concerns helps companies identify emerging risks that might be missed by internal analyses.

3. **Improve problem-solving and decision-making** - There is growing evidence that hearing a diverse range of perspectives and expertise helps you make better decisions and arrive at unforeseen solutions.

Companies maximize their chance of sustained commercial success through engagement because it: increases knowledge, which improves planning; reduces the risk associated with taking individual and collective action; and maximizes the chances of successfully addressing systemic challenges through collaboration.

**What Stakeholders Want**
External stakeholders vary in their view of best practice engagement from companies, but these common principles are frequently cited:

- **Transparency** - Disclosure of company performance on material issues is a critical foundation for many stakeholder relationships.

- **Trust** - Effective engagement relies on trust and mutual respect.

- **Consistency** - This refers to both consistency in specific stakeholder relationships over time but also in consistency across the company in engagements with its different stakeholders.

- **Ambition** - Systems-level challenges require companies to be serious about finding solutions to engage those stakeholders that can help to shift the system - even if they are challenging to work with.

- **Accountability** - Demonstrating the outcomes and impacts of engagement is a core expectation of stakeholders.
Best Practices for Strategic Engagement

Vision of Leadership
SustainAbility defines leading practice for corporate stakeholder engagement as:

- A cohesive approach
- Corporate-level reporting on activities
- Involvement in sector-level initiatives
- Starting or joining deeper dialogues on core material topics
- Engagement of the Board of Directors
- Operation of an external stakeholder council

Setting an organizational approach for proactive external engagement
We outline our suggested process for establishing a company-wide approach in the graphic opposite.

Core principles of effective engagement
In addition to corporate-level activities outlined above, our research also illuminated core principles that lead to successful engagement:

- Keep it human
- Bring the right people to the table
- Be accountable
- Create a safe place for sharing
- Adapt to stakeholders
- Be respectful of time
- Set clear expectations and allow stakeholders to do the same
- Make it continuous

Measuring & Demonstrating Impact
While measurement is an evolving practice and more art than science, our research identified the ways companies focus and apply measurement today.

Grounding it in context
There is no one size fits all approach to measurement. What defines success depends on the engagement.

Getting from outcome to impact
Most companies are focused on outcomes, but many are getting better at measuring impacts also.

Qualitative vs quantitative
A combined qualitative and quantitative approach is critical for capturing the various outcomes and impacts of the engagement.

Playing the long game
Impacts play out over the long-term, so companies must be prepared to track their engagements and their outcomes over time.

Driving internal change
Extracting and applying high quality information from engagement is in itself a measure of success.

Reporting back to stakeholders
Best practice calls for a clear summary of the company’s engagements and specific company actions in response to stakeholder feedback.
Targeting Consumers and Customers

The downstream part of a company’s value chain, whether individual consumers or business customers, can be a critical point for impact on a range of material issues. We identified several approaches that enable companies to drive impact through their consumers and customers. Given the differences in engagement of individual consumers for a B2C compared to engagement of business customers for a B2B, we explore these separately.

Consumers
Tap into consumer motivations and understand barriers
Grounding engagement in behavioral science is essential if engagement is to be successful.

Build trust through authenticity and consistency
In a world of hyper-transparency and connectivity, companies must take a more proactive and genuine approach to engaging with consumers.

Address the system
Part of “making it easy,” as Unilever puts it in its Five Levers for Change model, is working to address systemic challenges that prevent consumers from making more sustainable decisions.

Customers
Be highly transparent
Given business customers are often looking for more detailed information than consumers, a first step to engagement is to disclose the company’s performance on issues that matter to customers.

Share own lessons learned
Every company is on its own journey on sustainability but there is much that can be learned from each other.

Co-create products & services
Best practice involves some form of co-creation to address customer sustainability challenges.

What the Future Holds

Though the future is uncertain, nearly everyone engaged in this research suggested that we will see more engagement in the coming years: more proactive, more strategic, more integrated, and more diverse in both type and form of engagement.

Leaders are demonstrating how engagement can be implemented to generate value for the business and stakeholders. More companies must adopt engagement as a business strategy – not a stand-alone process but a philosophy of how business should operate in society.

SustainAbility is committed to supporting companies to develop and implement strategies to advance engagement and drive impact on their material issues. We call on companies and their stakeholders to find common ground and build relationships that will enable society and the environment to thrive. We all need to make this vision of more proactive, strategic, integrated and diverse engagement a reality, to thicken the threads between us and co-design the future we all want.
1 Introduction

As this report demonstrates, today’s businesses are increasingly recognizing that stakeholder engagement is critical to understanding their context, navigating disruption and formulating successful business strategies.

BlackRock CEO Larry Fink in his 2018 letter to CEOs stated: “To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society. Companies must benefit all stakeholders, including shareholders, employees, customers, and the communities in which they operate.”

Though some level of engagement is relatively common practice, approaches are not yet common enough. There are no widely agreed best practices in shaping corporate strategies around engagement. Many practitioners still struggle to determine the right stakeholder engagement strategy for their company. They also face challenges in the implementation and ensuring effective feedback loops. Capturing stakeholder insights to inform business thinking and performance is time-consuming and difficult, and sometimes hard to measure.

The vision of leadership in engagement is evolving with shifting context. Today’s media saturation offers great transparency but also allows false or misleading information to circulate widely and rapidly, presenting serious challenges to companies trying to cut through the noise and establish meaningful engagement. Stakeholders are also expecting companies to engage on issues that matter to them, even if the matter is not one that the company considers material.

Over our 31-year history, SustainAbility has helped to drive the practice of stakeholder engagement through our advisory work and thought leadership. Our direct consultation with members of the SustainAbility Transparency Network (see Acknowledgements) and discussions with other companies identified a need for research on stakeholder engagement. In Common Threads, we apply our decades of experience to capturing and disseminating insights to practitioners looking to advance their companies’ approaches. We heard particular interest in how to best engage customers (from B2B companies) and consumers (from B2C companies) in driving sustainability impacts, and so have explored engagement with those stakeholder groups in a separate chapter.

Defining Stakeholders and Stakeholder Engagement

Stakeholders:
Stakeholders are individuals or groups who affect and/or could be affected by an organization’s activities, products or services and associated performance.” This includes but is not limited to government, suppliers, investors, customers, employees, local communities, non-governmental organizations (NGOs), labor groups, trade associations and peers.

Stakeholder engagement:
Engagement is the process by which, through dialogue, companies build and maintain relationships with individuals and organizations. It can take many forms, including one-way disclosure, social media interactions, events, stakeholder advisory councils and partnerships.

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Engagement is the process by which, through dialogue, companies build and maintain relationships with individuals and organizations. It can take many forms, including one-way disclosure, social media interactions, events, stakeholder advisory councils and partnerships.
SustainAbility’s Theory of Change

Stakeholder engagement is a fundamental process that supports SustainAbility’s theory of change outlined below.

Objectives

Common Threads provides guidance to help companies better engage external stakeholders, in order to drive impact on material issues and strengthen business strategies. Specifically, it:

- Outlines the business case for engagement
- Provides insights from stakeholders
- Explores the range of approaches to engagement
- Highlights current best practices
- Identifies lessons learned from selected companies
- Delves into emerging innovations and successful strategies for customer and consumer engagement
- Forecasts the evolution of stakeholder engagement

Methodology

1. Desk Research

A literature review of the current research and guidance on stakeholder engagement. Used the data tool Datamaran to analyze trends in corporate reporting on stakeholder engagement. See References for specific sources and Appendix for details on Datamaran methodology.

2. Surveys

Two surveys, one of practitioners inside companies, and another of a range of external stakeholders, to better understand drivers, views on best practice and other key aspects of engagement from a range of perspectives. See Appendix for details on methodology.

3. Interviews

Interviewed over 30 different experts representing companies, NGOs, research organizations, academia and investors. See Acknowledgements for list of interviewee organizations.
Research outputs

This report is part of a suite of outputs from the research project, which include:

Sector Deep Dives
Briefings that explore corporate stakeholder engagement on a topic that is especially material and/or timely for four specific sectors:

1. **Food:** The Plastics Dilemma
2. **Finance:** Climate Risk
3. **Utilities:** A Just Energy Transition
4. **Technology:** Responsible Sourcing

These Sector Deep Dives can be downloaded from the SustainAbility website.

Tools
Engagement tools available exclusively to SustainAbility Transparency Network (STN or Network) members.

- **Making the case for proactive engagement**
  A practical tool to guide internal discussions on investing in stakeholder engagement.

- **Reporting on engagement**
  A summary of current guidance on reporting from leading standards and frameworks, and a checklist of best practice.

Find out more about Network membership to gain access to the tools and more resources at sustainability.com/what-we-do/member-network

We hope this report helps companies to more effectively design impactful engagement. The current state of engagement, though much advanced compared to just a few years ago, is still not sufficient to enable the scale of collaboration, innovation and system change that we need as a society. We all play a role in creating the future – we are all threads that must come together to solve our common challenges.

“We all play a role in creating the future – we are all threads that must come together to solve our common challenges.”
2 Current State

The private sector faces more pressure than ever to engage on social, environmental and economic issues. Businesses have connected with their stakeholders in diverse ways.

Companies are responding to multiple drivers when shaping stakeholder engagement approaches. We outline several pressures on companies that emerged through our research:

1 New power is the new norm

Global connectivity and declining trust in companies and other institutions has led to a distribution of power away from large institutions and into the hands of stakeholders. This has repercussions for companies in that they can no longer control the narrative, but must engage others who have power to not only impact their corporate reputations but drive change on issues that matter to them. Henry Timms and Jeremy Heimans use the term “new power” in their 2018 book *New Power – How it’s changing the 21st Century – and why you need to know*.

The shift in power changes the engagement dynamic. Emily Auckland, Network Director & Co-chair of UK Stakeholders for Sustainable Development, explained that “Partnerships are changing – it’s no longer about traditional public-private partnerships or philanthropic relationships. It’s a much more level playing field. There’s collective power towards shared goals, not as much siloed self-interest.”

2 Expertise is deepening outside companies

To address societal challenges, it is necessary to tap into a growing body of collective expertise. Part of the power that stakeholders hold lies in their rich knowledge and skills. As a society, we are gaining new insights on issues like climate change and human rights, but this information must be shared with the right decision-makers to drive action to remedy them. Leaders at companies recognize this and are tapping into stakeholders accordingly, for example, corporate respondents to a 2014 GreenBiz survey listed “gaining access to subject matter expertise” as the top reason to partner with an NGO.

3 Stakeholder networks amplify the ask

More and more stakeholders now operate and influence via networks, which requires more nuanced engagement strategies on the part of business. Stakeholders are drawing on their relationships to advance common agendas. For example, the Business Benchmark on Farm Animal Welfare (an annual assessment of companies on animal welfare performance running since 2012) is operated by the animal welfare NGOs Compassion in World Farming and World Animal Protection and has a dedicated investor collaboration component. In 2017, 19 global investors, representing over £1.5 trillion, wrote to all of the companies in the Benchmark, commending leaders and encouraging laggards to improve. Thus companies are often engaging with multiple stakeholder types who are aligned on their asks.

4 The private sector is expected to step up

To be a sustainability leader, companies are increasingly expected to not only collaborate but advocate – a point highlighted by *All In*, co-authored by SustainAbility’s Executive Director Mark Lee. The 2018 Edelman Trust Barometer highlights that 64% of respondents from the general population across 28 countries say CEOs should take the lead on change rather than waiting for government to impose it. Christine Scanlan, CEO of the Keystone Policy Center goes further to say, “the shifting political context calls for new forms of partnership especially with regards to financing sustainability.” Stakeholders are calling for companies to play their part in helping to achieve the Sustainable Development Goals, no small task given the goals’ ambition.

5 Reporting requirements are growing

Companies are increasingly expected to communicate on engagement by disclosing who their stakeholders are, how they are engaging them, on what topics and by sharing the company’s responses. Both the Global Reporting Initiative (GRI) and the International Integrated Reporting Framework emphasize the importance of stakeholders in their methodologies. The Dow Jones Sustainability Index (DJSI) has evolved its approach to assessing companies’ stakeholder engagement. In addition to asking all sectors about their materiality assessment (which should include stakeholder engagement), RobecoSAM CSA asks for information on the outcomes versus the overall approach to stakeholder engagement, e.g., customer relationship management, human capital development.
Surveyed companies ranked these external stakeholder groups as most important:

See appendix (Figure 1) for full results

1. Customers
2. Investors
3. National government

Partnerships are changing – it’s no longer about traditional public-private partnerships or philanthropic relationships. It’s a much more level playing field.

Emily Auckland, Network Director & Co-chair of UK Stakeholders for Sustainable Development

Companies’ current practices on engagement range but several common themes emerged:

All stakeholders matter

Companies perceive engagement with nearly all types of stakeholders to be important, even imperative. Corporate survey respondents listed employees as their most important stakeholder, external stakeholders were rated below “important” (see box above – chart in appendix). Specific stakeholder types are usually engaged by the appropriate departments and regional teams. This can present challenges in managing and tracking engagement.

As awareness of social and environmental challenges rises, companies are moving beyond engaging only traditional expert stakeholders such as the UN or leading NGOs. Businesses today are communicating with other key groups, such as consumers, investors and innovators. In truth, many companies have engaged these groups to some extent previously, but the nature of the engagement is shifting, often deepening with greater business integration of sustainability.

Materiality as a core lens

Companies are using materiality assessments, where companies identify and prioritize the topics that matter most to the business through a sustainability lens, as a key opportunity to engage stakeholders. Best practice materiality projects require some - if not multiple - forms of engagement (e.g. surveys, interviews, forums) with stakeholders to help identify a company’s top issues. Once a materiality process is complete it can lead to further engagement on the material issues determined.

Greater focus on mutual benefit

We are encouraged to see a maturation of company strategies from one-way information sharing towards more collaborative approaches. Cristiano Oliveira, Sustainability Coordinator at Fibria, said, “Five to 10 years ago it was mostly about transparency with stakeholders, and it was really one-way communication. Now it is more proactive and about finding win-win solutions that are built by all.” Companies are starting to identify areas of mutual interest and seeking out the engagements that can help deliver value for all participants.

Degree of control

Companies vary in their degree of centralization of stakeholder engagement. Some have a more detailed, top-down strategy managed primarily from headquarters, while others have opted for a looser approach that managed more independently by in-country teams. The most suitable approach will depend on culture, operating structure, and many other factors.

Cristiano at Fibria explains its approach: “At Fibria the strategy is decentralized. It is tough to have one single strategy. We try to create a sense of a single voice and a single style, rather than a single strategy.” Others have chosen a more formalized approach like that presented in the Telefonica case study on page 49. Nedbank has a stakeholder policy and a framework, but empowers its business units to carry out a more decentralized approach (see case study on page 60).

Transparency on the rise

Our Datamaran study found an increase of corporate communication on what the tool terms “stakeholder inclusion,” defined as the involvement of people or groups who may affect or be affected by the entity’s activities and decisions. (see Appendix for more details on methodology). Stakeholder inclusion saw a 70% increase in its “emphasis” (measured by number of mentions and prominence in strategic section of the report) from 2010-2017 in all corporate reporting (both annual reports and sustainability reports). Figure 2 (see Appendix) indicates the term’s emphasis in sustainability and annual reports separately. Though the topic has always been relatively prominent in sustainability reporting, it is now used more in annual financial reports, which suggests a recognition of the importance of integrating stakeholder engagement into broader company strategies. Our Datamaran analysis by sector highlighted that the utility sector emphasizes stakeholder inclusion the most, perhaps unsurprisingly given the complexity of its regulatory operating environment. We also found that companies in the finance sector have dramatically increased their emphasis of stakeholder inclusion in their reporting since 2010.

70% increase in emphasis on stakeholder inclusion in all corporate reporting from 2010-2017

See appendix (Figure 2) for full results

Many corporate interviewees stressed they would like to engage stakeholders more. Insufficient resources prevent them from undertaking both the quantity and quality of engagement that they believe would be ideal. Lack of internal buy-in on the value of external engagement is a key barrier. Making the business case is clearly a critical step to building the resources for engagement.
Focus on employees

This report is focused on external stakeholders, however, we feel employee engagement is worth a discussion, as employees are such a critical stakeholder group.

Our research highlights an increasingly blurry line between internal and external stakeholders. “Internal stakeholder engagement is starting to look more similar to external stakeholder engagement, as employees have greater interest in sustainability and expectations of their employers,” pointed out Faris Natour, cofounder of the human rights consultancy Article One.

With shifts in technology and power employees are expressing their views more loudly and publicly, demanding engagement from the companies they work for.

To meet this demand, companies are taking increasingly sophisticated approaches to employee education. Unilever has embedded training on its Sustainable Living Plan in its onboarding and incentivizes employees at all levels, for example through factory targets and bonuses for management-level employees. Shell publishes a shorter version of their sustainability report to make it more accessible for employees.

Employee volunteerism is a critical form of engagement and can help engage external stakeholders at the same time. For example, though the primary focus of IBM’s Corporate Service Corps is to engage the company’s global professionals, the program builds relationships with local NGOs and government in developing countries through the technical support IBM employees provide. The program boosts employee motivation, benefits local communities through NGO and government capacity building, and can help to identify R&D opportunities for the company. In addition, IBM is helping its corporate customers, such as Johnson & Johnson, to develop similar programs.

Leading businesses are recognizing the value of engaging employees on the company’s purpose and its material issues. We encourage companies to empower their employees to support the organization’s strategy, share their expectations of the company and, where appropriate, engage external stakeholders.

Digital tools

The prevalence and sophistication of technology today begs the question: How are companies using digital tools for stakeholder engagement, and what benefits do the tools provide? Our research finds that corporate practitioners and external stakeholders believe that technology can complement traditional face-to-face engagement but is not likely to replace it.

I think technology is overrated in this space. It may only help us organize things.

Many of those we engaged expressed skepticism on digital tools. Many were not using specific digital tools for stakeholder engagement and shared a preference for face-to-face engagement. Others acknowledged that technology could be used to streamline some processes and save resources.

One corporate interviewee stated: “I think technology is overrated in this space. It may only help us organize things.” Markus Strangmuller, Corporate Development, Sustainability Management at Siemens agreed: “Technology can support stakeholder engagement, but if you want to pursue joint goals you need to sit together...this does not always need to be in person, but will engagement work just on Twitter? I don’t think so. I am convinced that stakeholder engagement requires a very human touch.”
Digital tools can and do still play a role in engagement – and will likely play a greater role in future as tools are refined and improved. Here we outline several examples of technologies that can support stakeholder interaction.

1. **Communicate company policies and performance**
   - **Company website** – This is a critical source of information for many stakeholders, from investors to issue experts to consumers. Listing an email address for a company sustainability contact is considered standard practice.

2. **Collect information on stakeholders**
   - **Online surveys** – These can be used to poll stakeholders to gain insight into concerns and to gather perceptions of the company.
   - **Sigwatch** – Some companies surveyed use Sigwatch to track NGO campaigns. The tool helps them understand emerging issues and those that matter to particular stakeholder groups. It also enables them to position the company to engage proactively if the issue associated with a particular campaign has been defined as material to the company.
   - **Sedex** – A collaborative online platform that enables members to collect and share information and map risk in their supply chain. Marks & Spencer uses it to engage suppliers to make environmental and social improvements.8
   - **LaborLink by ELEVATE** – This mobile technology platform enables factory workers to anonymously raise issues on working conditions using their own phones.9

3. **Analyze stakeholders**
   - **StakeWare** – The company offers a range of digital stakeholder risk management products, such as StakeWareIQ.
   - **Kumu** – The powerful data visualization tool can help with mapping stakeholders.

4. **Reach stakeholders directly**
   - **Social media** – Platforms like Twitter, Facebook and others enable listening to stakeholder concerns and broadcasting of company positions and responses.

5. **Generate online conversations**
   - **Currnt** – Formerly Convetit, Currnt runs KnowledgeStream™ technology, which connects companies and experts in facilitated dialogues.
Given the nature of the societal, environmental and economic challenges we face, and the level of systems change necessary to address them, companies that do not engage are less likely to be thriving (or even in existence) in the future.

As Chris Benjamin, Director of Corporate Sustainability at Pacific Gas and Electric, put it: “The issues we face today, such as climate change, are complex and impact on every aspect of society. No one has all the answers. It is in companies’ best interest to work in coalitions and collaboration with other stakeholders.”

Companies maximize their chance of sustained commercial success through engagement because engagement increases knowledge, which improves planning, reduces the risk associated with taking individual and collective action, and maximizes the chances of successfully addressing systemic challenges through collaboration. For example, Dow’s partnership with The Nature Conservancy has inspired – and to a great degree will enable – the company to find $1B in business value from projects that are “good for ecosystems and good for business” by 2025. “True stakeholder engagement reveals insights that inform business strategy, processes and ambitions; it can help set the direction of growth as well as the journey to get there. It’s not going to be comfortable but it’s crucial in order to grow your business if you are keen to add value to society, environment and your bottom line,” explained Pat Dwyer, Founder and Director at The Purpose Business.

There are myriad reasons to engage, some varying by circumstance. BSR, for example, outlines five key drivers in their 2016 report The Future of Engagement. The AccountAbility 2015 AA1000 Stakeholder Engagement standard lays out similar reasoning.

The issues we face today, such as climate change, are complex and impact on every aspect of society. No one has all the answers. It is in companies’ best interest to work in coalitions and collaboration with other stakeholders.
Our survey and interview findings on the business case suggest that the perceived benefits of external engagement fall in to these three main categories:

1. **Protect license to operate**
   “Maintain and/or build reputation and credibility” was the top driver in our corporate survey (see opposite). Interviewees also frequently highlighted this as a primary motivator. Juan Gonzalez-Valero, Head of Public Policy and Sustainability at Syngenta, said: “Stakeholder engagement is an absolute fundamental for business and is necessary to retain license to operate. Without it, you don’t understand your external environment, and will go nowhere.” Even within this category, there has been a shift in mindset: minimizing harm is now table stakes and companies are starting to think about engagement as part of their “license to succeed.”

2. **Anticipate risk**
   Understanding stakeholder concerns helps to identify emerging risks. In its Stakeholder Engagement Group Guidelines, Michelin states that “dialogue with its stakeholders enables the Group to detect underlying risks which would otherwise have gone unnoticed, and to pick up barely perceivable information about them.”

3. **Improve problem-solving and decision-making**
   There is growing evidence to support the fact that hearing a diverse range of perspectives helps you make better decisions and arrive at unforeseen solutions. This is often due to the expertise that stakeholders hold. Denise Weger, Corporate Responsibility Manager, Strategic Initiatives at Novartis, elaborated “The added value is really doing the work to understand their perspective and bring in the knowledge you wouldn’t otherwise have.”

Our survey revealed additional and often related drivers. For example, customer relationships ranked highly, further underlining the importance of this stakeholder group. We explore engagement focused on customers more deeply in Chapter 7: Targeting Consumers and Customers.

Despite all of these benefits, it can still be challenging to isolate, let alone quantify, the long-term financial value of stakeholder engagement. Both our surveys and interviews with corporate practitioners revealed that a lack of internal buy-in prevents many companies from undertaking more proactive and strategic engagement approaches. “There is a real challenge to justify resources for the business,” said Brigitte Dittrich-Krämer, Sustainability Manager at BASF. “It is often easier to justify resources for reactive engagements (when there is a problem), but harder for proactive engagement.”

This tension is inherent in the nature of the work. If you’ve done your job well, you’ve helped to build up trust in the company and may have prevented negative campaigns, decrease in sales or other undesirable consequences. But you’ll never know for sure. As Alex Nevill, Vice President Stakeholder Relations at Shell, put it, “Stakeholder engagement is one of those areas that no one notices when it goes well. When the wheels fall off, though, they do – big time. Going well is just how it should be – it’s just less transparent, less easy to put a value on.”

Failure to proactively engage stakeholders can result in significant negative consequences. As one interviewee explained: “It’s not just the business value created, but the risk of losing business value if you stop doing it. It’s value protection as well as value creation.” Or as the billionaire Warren Buffett famously pointed out: “It takes 20 years to build a reputation and five minutes to lose it. If you think about that, you’ll do things differently.”

In order to protect business value, companies must understand what stakeholders expect and try to meet those expectations. Chapter 4: What Stakeholders Want outlines some insights from the research on why stakeholders choose to engage with companies and what they see as best practice engagement.
Engaging with academia to support business strategy

The German manufacturer Siemens has seen the benefit from its strategy of working with universities. It has created a dedicated team within its corporate technology department responsible for all university relations. The company has three levels of partnership with universities, with varying levels of depth and time commitment.

“We have a clear strategic approach to our engagement with universities,” Markus Strangmueller, Corporate Development, Sustainability Management at Siemens, said. “We looked at which universities we wanted to work with and identified which could provide the best fit for the specific business value we wanted, for example, technical engineering expertise or business management.”

These projects have generated significant value for the company. The Data Science Lab (DSL), founded in 2016 at Ludwig-Maximilians University in Munich, enables Siemens to “Have an ear on the pulse of the data sciences, draw young data scientists’ attention to industrial research, and offer a place where students and experts from the areas of research and industry can meet.” Often universities’ research looks much further ahead than Siemens’ own R&D, which can be helpful for identifying and capitalizing on emerging innovations.

“The recruitment of highly qualified young employees is an important aim of our research partnerships,” says University Relations Head Natascha Eckert.

Siemens evaluates each research project’s success using qualitative criteria to determine how effective a relationship with a partner has been and the impact it has made. The company maintains a database that enables these assessments and helps to direct its investments into those engagements that best support the business.

The recruitment of highly qualified young employees is an important aim of our research partnerships.

[Member tool]

Making the case for proactive engagement

SustainAbility Transparency Network members have access to a practical tool we developed as a complementary output to this report.

Find out more about membership to gain access to the tool and more resources at sustainability.com/what-we-do/member-network.
Common Threads
4 What Stakeholders Want

The case for engagement partially stems from increasing stakeholder demands. It is vital to business to understand stakeholder motivations, strategies and visions of success. We explore ways stakeholder demands inform corporate approaches to engagement in this chapter.

What are the highest drivers of engagement with companies?

See appendix (Figure 4) for full results

1. Drive impact on sustainable development issues
2. Influence company decision-making
3. Access and/or share expertise

What Stakeholders Want

The case for engagement partially stems from increasing stakeholder demands. It is vital to business to understand stakeholder motivations, strategies and visions of success. We explore ways stakeholder demands inform corporate approaches to engagement in this chapter.

Why they engage

Non-corporate respondents to our survey, primarily NGOs and investors, listed driving impact on sustainable development and influencing company decisions / performance as key drivers (see below). These findings suggest that these stakeholders are more motivated by systemic impact than individual interest. Another key driver was the opportunity to gather information on corporate practices to benchmark or share externally. This highlights the nature of the stakeholder relationships, and the ways in which companies are being scrutinized.

Of course, stakeholders vary hugely on the specific issues on which they most want engagement from companies; for instance, what investors want is usually different than what local communities seek. Christopher Perceval, Head of Business Development EMEA at Trucost, stated: “Climate is one of the most significant ESG topics which investors want companies to engage on right now. Water is expected to move up the agenda. Other Social and Governance issues will continue to move up.” (See separate Finance Sector Deep Dive for more detail on engagement on climate risk) Conversely, local communities may care more about companies applying rigorous safety standards and creating jobs.

More “human” forms of engagement resonate most with stakeholders. Our survey respondents ranked personal meetings, multi-stakeholder initiatives and advisory groups as the most effective methods, giving clear preference over others that were more virtual (e.g. email, social media) and activist (e.g. campaigning).

Stakeholders are developing sophisticated tactics to engage companies to drive desired actions. They are often choosing multiple tactics to engage companies – sometimes launching a campaign while also reaching out for more direct engagement. Alex Maitland, Policy Officer in the Private Sector at Oxfam GB explained: “Oxfam shouldn’t have to campaign, but we have to. Insider advocacy can be more effective and less costly. But the market is set up to drive short-term profit, campaigning helps create a short-term business case. The future of stakeholder engagement is moving beyond a shareholder-first approach and genuinely giving workers and communities the power to influence decision making. This would reduce the need for Oxfam to campaign.”
Similarly, we are seeing a trend of investors looking for more and deeper engagement. Blackrock has recently doubled its investment stewardship team, which directly engages over 1500 companies a year on sustainability, as well as thousands more indirectly.14

What they see as best practice

External stakeholders vary in their views of best practice from companies. There are common themes that emerge from our research:

- **Transparency** - Stakeholders agree that transparency is one of the most fundamental principles for company best practice. It was most commonly listed by survey respondents (see graphic) and interviewees.

- **Trust** - Effective engagement relies on strong, trusting relationships. Trust between individuals within stakeholder organizations and companies requires honest and transparent communication and behavior.

- **Consistency** - This refers to both consistency in maintaining specific stakeholder relationships over time but also in terms of company-wide behavior. It is perceived as inconsistent if the company is engaging on an issue with one stakeholder (e.g. consumer) and then contradicting that position in engagement with another (e.g. government).

- **Ambition** - Systems-level challenges require companies to be serious about finding solutions to engage those stakeholders that can help to shift the system – even if they are challenging to work with. We also heard that it’s important for companies to not just lose momentum when they feel they have done “enough” good.

- **Accountability** - Demonstrating the outcomes and impacts of engagement is a core expectation of stakeholders. We explore how stakeholders judge the impact of their engagement in Chapter 6: Measuring and Demonstrating Impact.

We were encouraged to find that corporate survey respondents ranked transparency, two-way dialogue, mutual respect and trust as top attributes for effective engagement, suggesting strong alignment with stakeholders. Such alignment between stakeholders and companies on the best approach to engagement is critical to ensuring both have every opportunity to gain value from interaction. In the next chapter, we outline guidance to companies on ensuring they design their strategy in a way that meets both company and stakeholder needs.

What 3-5 words best describe best practice in stakeholder engagement?

- Accountability
- Transparency
- Non-defensive
- Two-way dialogue
- Leadership commitment
- Empathy
- Acting on feedback
- Cooperation
- Transparency
Stakeholder fatigue

Our research found that external experts are increasingly being called upon to share knowledge and skills with companies.

This is leading to some “stakeholder fatigue,” in which stakeholders have given what they perceive to be enough time and insight, or as much as they can provide, and limit further engagement (whether with the same organization or overall). This phenomenon was raised repeatedly in our interviews as a growing challenge.

One NGO interviewee said: “We are frustrated with stakeholder panels. Are they just a tick-the-box task for media stories? They don’t actually change anything.” Another NGO interviewee explained that their organization “prioritizes companies which have uplifted the most employees and made the biggest changes, particularly in low pay sectors.”

One way companies can avoid contributing to stakeholder fatigue is by being clear about how the engagement will support the stakeholder’s objectives. What will the company do differently as a result of the interaction? How does this impact the stakeholder? As David Grayson, Professor Emeritus at Cranfield School of Management, put it: “People often will give their expertise for free if companies ask in the right way. Companies must show they are doing something positive with it. If there’s no explanation for why the things stakeholders commented on have been ignored, there’s no incentive to participate again.”

If there’s no explanation for why the things stakeholders commented on have been ignored, there’s no incentive to participate again.

David Grayson, Professor Emeritus at Cranfield School of Management
5 Best Practices for Strategic Engagement

With greater demands on companies to engage yet finite resources, it is essential for companies to take a strategic approach to engagement.

This chapter outlines how SustainAbility believes businesses can maximize the impact and the business value of external engagement.

Vision of leadership

SustainAbility defines leading practice for corporate stakeholder engagement as including many, ideally all, of the following:

A cohesive approach

Leading companies benefit from company-wide strategies to guide engagement across their operations. A clear and thoughtful organizational approach can clarify objectives and enable the company to be more deliberate. As we outline in Chapter 2: Current State, companies must choose how centralized the approach should be. Whatever the choice, the key is consistency, which is why a company-wide philosophy is critical. See graphic on page 43 for guidance on how to go about establishing a corporate approach.

Corporate-level reporting on activities

Best practice involves clearly communicating the company’s approach to engagement, who its stakeholders are, what their key concerns are and the company’s response to engagement. Stakeholders expect transparency on the outcomes and impacts of the engagement, and why the company did or did not act on their concerns. See Chapter 6: Measuring & Demonstrating Impact for more on this topic.

Involvement in sector-level initiatives

Participation in industry collaborations that draw on external expertise, for example, the Sustainable Apparel Coalition (SAC) for apparel companies, is perceived as both necessary and as the best means to attempt systemic change. In addition to new collaborations like the SAC, traditional trade associations – while sometimes impeding progress on sustainability – can also present important collective engagement opportunities with government and other stakeholders.

Starting or joining dialogues on specific material topics

Certain issues warrant more focused discussions between companies and their stakeholders, for example, the multi-stakeholder Roundtable for Sustainable Palm Oil seeks to address the complex social and environmental impacts of palm oil. Leading companies are coming to the table in these engagements to understand what their stakeholders expect of them on those topics and work together on solutions.
Engagement of the Board of Directors

Involvement of the Board in external engagement is an indicator of company commitment. At minimum, a summary of external stakeholder concerns should be brought to the Board regularly along with an explanation of company responses. A step further would be to ask for Board input to engagement (for example, on particularly challenging topics that are unresolved). A level above that is to enable external stakeholders to directly meet with the Board (see BASF case study).

Operation of an external stakeholder council

Some leading companies have established an external group of experts from a range of stakeholder types to provide regular feedback on, for example, company and sustainability strategy, goals and communications.

The list above covers stakeholders broadly. We recognize there are particular stakeholder-specific activities that leaders are carrying out, such as ESG webinars for investors and community-level panels, but that we will not be exploring in detail here.

Setting an organizational approach for proactive external engagement

We outline our suggested process for establishing a company-wide approach to engagement below.

1. Engage internally
2. Focus on material issues
3. Outline objectives
4. Prioritize stakeholders
5. Agree on output
6. Empower employees
7. Ensure accountability and transparency
8. Review and refine
1 Engage internally

Identifying who in the company should be involved in setting the corporate approach is a critical first step. The diversity of stakeholders requires that cross-functional teams contribute. The company approach must integrate the activities of all relevant functions. Involvement of senior decision-makers as well as subject matter experts is key for ensuring the company establishes an informed and thoughtful strategy.

2 Focus on material issues

It is critical that engagement delivers value to the company and serves the organizational purpose. It is not engagement for engagement’s sake, but should help to strengthen the business – now and/or in the long-term. Companies cannot and should not engage on every topic in the same way. Instead, they must focus efforts on what’s material, which must include what stakeholders expect from the company. Focus might also support more proactive engagement on issues the company wants to be known for and/or where it perceives it can drive the most impact (see box for more on this).

3 Outline your objectives

The company must define what it intends to achieve as a result of engagement. Ambition and intent should be grounded in the selected material issues and priority stakeholder types. Understanding what each core stakeholder group is looking for from engagement is vital in this process. Mutually-aligned objectives can pave the way to creating value for all involved.

4 Prioritize stakeholders

There is no single stakeholder prioritization methodology that will suit every company. Most corporate survey respondents and interviewees report organizing their stakeholders in some way, often using mapping or ranking in order to focus their efforts. Generally companies consider some or all of the following dimensions:

- **Stakeholder relevance to material issue(s)** – Focusing on those stakeholders that have the potential to impact the material issue is the most fundamental factor to consider.
- **Degree of stakeholder influence** – Assessing how much impact the stakeholder can have can be a helpful lens, for example, partnering with a particularly influential group can help to reach a wider stakeholder network.
- **Degree of impact on the stakeholder** – How much the company affects the stakeholder is important to consider to ensure the company focuses its efforts on the most critical relationships.
- **Stakeholder influence on the business** – The ability of the stakeholder to affect the business’ reputation, operations, sales or other functions is helpful to weigh in order to maximize potential engagement value to the business.
- **Diversity** – Ensuring the company hears a wide range of perspectives, including critical ones, is crucial to gaining the best insight (see Critics are Critical box). Diversity considerations – relating to the stakeholder expertise, geography or gender and ethnicity, etc. – may also be relevant to explore.
- **Openness to engage** – Identifying whether stakeholders support or oppose company positions can be important to decisions on resource prioritization for the engagements more likely to generate value for the company and stakeholders.

Prioritizing topics

Even when a materiality exercise has been completed and top priority issues identified, it is important to focus on topics that require most engagement and to tailor the engagement objectives and methods to each issue.

“Our research identified a range of approaches for doing this, including the approaches of IKEA and Molson Coors referenced below.

Heleen Vink, Global Stakeholder Engagement Leader at IKEA Group, explained that the company

“Prioritizes topics to engage on based on (a) stakeholder interest and our own willingness to engage externally on the topic, and (b) level of maturity within the company. Using that model, we categorize the topics as 1) Listen and learn, 2) Contribute and share, and 3) Advocate and lead.”

“At Molson Coors, we organize our stakeholder engagement by initiatives and then identify the key groups we need to engage to influence our practices, for example, farmers for supply chain sustainability, retailers for alcohol responsibility, and water utilities for water stewardship,” shared Kim Marotta, Global Senior Director Corporate Responsibility at Molson Coors.
Critics are critical

Best practice requires engaging with stakeholders who may not agree with everything the company is doing.

However, there is real value in hearing critical voices. Denise Weger, Corporate Responsibility Manager, Strategic Initiatives, Novartis said: “It’s a missed opportunity if the elephant in the room isn’t acknowledged – you can’t unblock it if you don’t name and discuss something!” And as another interviewee succinctly put it, “You need grit in the oyster!”

Some guidance on engagement with critics:

→ Consider external support - Many leading companies have found value in bringing in independent third-party support to help companies and stakeholders be comfortable in critical territory and to assist in building and maintaining trust.

→ Check preconceptions - Human nature tends to demonize those with positions counter to ours. Understand they have an agenda and assume they are acting to advance it, but don’t take it personally.

→ Be willing to listen - See the engagement as an opportunity to learn that may reveal new solutions.

→ Be open to compromise - Recognize engagement may involve negotiation; consider in advance where the company may be able to compromise.

→ Know when to engage - If the stakeholder does not seem willing to listen, or if the company is not open to influence on the topic, do not invest resources. “It’s important to have an ‘eyes open’ approach and recognize when stakeholders are not looking to cooperate,” advised Christine Scanlan, President of the Keystone Policy Center.

→ Accept that you can’t please all stakeholders - “However hard you try, you won’t always get 5 star ratings from all stakeholders,” said David Grayson, Professor Emeritus at Cranfield School of Management. “Grudging acquiescence may be all you can do or is necessary, in some circumstances.”

It’s important to have an ‘eyes open’ approach and recognize when stakeholders are not looking to cooperate. Diversity is crucial but don’t be naive.

Christine Scanlan, President of the Keystone Policy Center

Agree on output

A company may choose to create a policy, a strategy, a framework or another type of output. Build consensus on the right form of output for the company, taking into consideration culture, company structure, etc. It may not make sense to create a detailed top-down strategy if operating units are highly autonomous. See Chapter 2: Current State to see some examples of different approaches.

Empower and train employees

Successful application of a company-wide approach relies on employees understanding and being capable of delivering the proposed engagement. The company must ensure the people responsible for engagement have the skills and knowledge they need to build relationships with their stakeholders.

Build in accountability and transparency

It is vital that the company develops systems for collecting stakeholder feedback and using the outcomes and insights to strengthen their business decisions. These systems may be run by relevant functions e.g. Investor Relations for investors, Public Affairs for NGOs, etc., but centralized compilation is often valuable. Make sure there are clear governance processes and that it is applied consistently throughout the business.

In addition to demonstrating how the company is responding to stakeholder engagement, companies are expected to be transparent about their overall approach to engagement. Not only are they increasingly discussing it in existing communication (see Chapter 2: Current State), but some companies publish more detailed stand-alone documents on engagement approaches, such as Sempra’s stakeholder engagement policy or Michelin’s Stakeholder Relations Group Guideline.

Review and refine

A company approach to stakeholder engagement is not static. It requires regular review in order to respond to shifts in corporate structure or strategy, developments in external operating structure and other factors.
Core principles of effective engagement

In addition to corporate-level activities outlined above, our research also illuminated core principles that lead to successful engagement:

- **Keep it human** – We heard it repeated again and again in our research: human interaction is key. Digital tools are helpful but are not equal in value to building deep relationships between real people (see Digital Tools box on page 23 for more detail).

- **Be accountable** – Given the need to build human relationships, this is fundamental. Christine Scanlan, President and CEO at the Keystone Policy Center, explained: “It doesn’t mean you have to follow all that results from the process, but you do have to be willing and able to answer why you didn’t, so people feel that it’s credible, a good use of time and does actually inform decision making...not doing so will set you back even further than where you started.”

- **Adapt to stakeholders** – Juan Gonzalez-Valero, Head of Public Policy and Sustainability at Syngenta said: “You need to accept that you need to immerse into local culture and needs, and not come with western standards.”

- **Set clear expectations and allow stakeholders to do the same** – Ensuring clarity of desired outcomes for all parties is critical to enabling success. Your vision may be shared, it may not, but at least everyone knows where the others around the table stand.

- **Bring the right people to the table** – “We see best practice as ensuring active participation by key decision makers from all major business units,” said Natasha Scotnicki, Senior Director, Company Network at Ceres.

- **Create a safe place for sharing** – This is especially important when there are diverse perspectives involved. It can be achieved through many means, for example by advance rule-setting or the use of a third-party facilitator.

- **Be respectful of time** – Chris Benjamin, Director of Sustainability at PG&E, advised: “Remember your stakeholders are busy with other important priorities so try to be respectful of that.”

- **Make it continuous** – Developing long-term relationships helps to build trust. One policy advisor pointed out that “companies gather key stakeholders maybe twice a year for feedback, but instead they need to co-create, based on stakeholder appetite.”

Remember your stakeholders are busy with other important priorities so try to be respectful of that.

Chris Benjamin, Director of Sustainability at PG&E

Case Study: Telefonica

Following a centralized approach to engagement

The global telecommunications company Telefonica has chosen to develop a highly structured strategy for engaging stakeholders at a corporate level. The Public Affairs and Regulatory Committee on the Board of Directors provides institutional oversight and guidance on stakeholder engagement.

The company convenes a Responsible Business Central Panel, composed of 16 experts representing the organization’s main stakeholders (suppliers, customers, investors, NGOs, multisector organizations) and from the professional services field. The panel meets quarterly for in-depth discussions, chaired by an independent third party. It also gives critical input into the company’s materiality assessments.

In addition, the company has created a Responsible Business Extended Panel, involving more than 400 organizations that help to assess Telefonica performance and inform the company of their expectations regarding issues in their specific operating markets.17

“The Telefonica Stakeholder Panel helps us to introduce the stakeholders’ opinions to the area in charge of each material topic that is being discussed. The Panel, structured in two levels, gives us the opportunity to carry out a 360° dialogue exercise with our main stakeholders, at global but also a local level. It’s a powerful tool to work together with our stakeholders on our sustainability issues. Our Stakeholders are a strategic asset for the Company,” said A. Susana Gallego, Sustainability Manager, Global Corporate Ethic & Sustainability Direction at Telefonica.

Hierarchy of engagement

Telefonica lays out its stakeholder engagement process in a graphic on its website, disclosing who is involved at each level as well as the types and frequency of engagement.

See the graphic here: bit.do/telefonica-materiality
Addressing the issue of sustainable palm oil

The German chemicals company BASF is a leader in stakeholder engagement. It has an independent external Stakeholder Advisory Council, which meets regularly with the Board of Directors. It also runs a Community Advisory Panels and participates in various multi-stakeholder initiatives.

One area that Brigitte Dittrich-Krämer, Sustainability Manager, is particularly pleased with is the company’s engagement on palm oil. In 2016, it established the BASF Palm Dialog as a pillar of its Palm Commitment, to provide discussion forums for partners and stakeholders along the supply chain, including suppliers, consumer goods manufacturers, retailers, non-governmental organizations and industry associations. The direct contact with numerous players gives the company a handle on their needs and concerns, as well as recent developments in the markets.

“We have built an expert team to engage with stakeholders and implement our Palm Commitment,” said Brigitte. “The goal was to address the concerns of all relevant stakeholders.” The discussion led to a more comprehensive and shared understanding of the issue from across the whole supply chain.

Two years later, the Dialog has grown into a large annual event, bringing together many stakeholders along the value chain. The 2018 event addressed, among other challenges, the need to support smallholders in their shift towards sustainable practices in order to protect their livelihoods.

“This has been an internal success. It has led to changes in strategy and made BASF’s approach more robust. Looking forward, I would like to see this become a blueprint for other projects,” said Brigitte.

We have built an expert team to engage with stakeholders and implement our Palm Commitment. The goal was to address the concerns of all relevant stakeholders.

Brigitte Dittrich-Krämer, Sustainability Manager at BASF
6 Measuring & Demonstrating Impact

The precise value of stakeholder engagement can be hard to measure.

How do you quantify human relationships? How do you measure the value of information from engagement that is applied to forward strategy and decisions? How do you know that engagement is driving outcomes and ultimately impact on the issues at stake? How do you put a price on reputation damage potentially avoided? As a business process, stakeholder engagement is relatively mature, but the measurement of its effectiveness is not.

Companies often admit not having any formal strategy for measurement. They point both to challenges and to the need for improvement in this area. In our research, only 24% of corporate survey respondents said they measure the impact or effectiveness of engagement with their stakeholders.

While measurement is an evolving practice, and often more art than science, our research did identify the following ways companies focus and apply measurement today.
Grounding it in context
There is clearly no one size fits all approach to measurement. What success looks like in one engagement will be entirely different for another. It depends on stakeholder type, issue area, scale and, of course, the objective of the engagement. Christopher Benjamin, Director of Sustainability at PG&E, shared that “Measuring success or impact is mostly qualitative and context-specific, oriented around specific projects.” Anthony Abbotts, Director Group Sustainability at Rockwool, agreed, “It varies by project; it can include a specific deliverable like a report, or building external reputation or brand value, or influencing a regulation, or contributing to a local community.”

Qualitative vs quantitative
Much of stakeholder engagement is qualitative and intangible. One interviewee pointed out “Sometimes the softer impact of building relationships is hard to measure; it’s more of a gut feel.” A combined qualitative and quantitative approach is critical for capturing the various outcomes and impacts of the engagement.

Corporate survey respondents and interviewees that do measure engagement impacts report using a mix of quantitative and qualitative indicators including:

- Withdrawal of shareholder resolutions
- Removal from NGO campaign target lists
- Achievement of policy/legislative outcomes
- Measurement of reputation
- Social media activity
- Relationship building
- Sharing of stakeholder inputs internally
- Changes in corporate practices
- Commercial opportunities identified or realized

Not everything counts

Multiple interviewees cautioned against focusing too much on trying to measure the impact of engagement. Some even say that rigidly defined metrics may drive the wrong attitude.

Sarah Stokes Alexander, Vice President, Programs at the Keystone Policy Center, explained, “Storytelling and qualitative anecdotes are often the better metrics and more appropriate in this space – metrics are really important, but getting caught up in measurement can distract companies from doing the harder work. In the sustainability space, we may be at a point where we may be focusing on the metrics over taking action.” Another interviewee added, “You can over-analyze measurement. Don’t get stuck on this because it will depend on objectives and you can’t track everything.”

We believe that practitioners should aim for a balance of investment of their resources between measuring impacts and doing the actual work of engagement.

Not everything that counts can be counted, and not everything that can be counted counts.

William Bruce Cameron

Driving internal change
Extracting and applying high quality information from engagement is in itself a measure of success. According to our corporate survey respondents, the top ways companies are using what they learn from engagement are to shape their communications, strategies and goals. Our stakeholder survey respondents stated that they judge the impact of engagement with companies based on visible changes in corporate strategy and/or policies or communication on new goals. This alignment between companies and stakeholders underlines the importance of engagement driving action by the company.
Getting from outcome to impact

Common Threads research suggests that most companies are focused on outputs and outcomes but are getting better at measuring impacts. Combined societal and business success is the paramount goal. Juan Gonzalez-Valero, Head of Public Policy and Sustainability at Syngenta stated: “Different indicators we use to measure impacts of stakeholder engagement include maintaining supplier relationships, ensuring quality products, growing market share, and improving reputation of the industry. The ultimate metric is the freedom to operate.”

The potential to deliver impact can be greater if a company focuses on what’s material and on those stakeholders most able to influence the issue. Following the thread from engagement inputs and outputs to outcomes and then impacts requires a clear theory of change and good documentation. More formalized and deeper engagements tend to have more mature approaches to impact measurement, for instance, formal partnerships often develop agreed-upon objectives and specific KPIs for impacts, and ensure regular checkpoints to assess progress.

Play the long game

Of course, impacts play out over the long-term, so companies must be prepared to track their engagements and their outcomes over time. Sheila Bonini, Senior Vice President, Private Sector Engagement at WWF, said “Measuring success can take years, but by committing to an ongoing and transparent reporting process, measurement can be both meaningful and achievable.”

Many sustainability issues are complex and relate to systemic challenges which cannot be addressed overnight. As Heleen Vink, Global Stakeholder Engagement Leader at IKEA, pointed out: “It’s notoriously hard to measure the impact. Often IKEA Group builds connections, not knowing yet where they will take us, which can lead to unexpected things further down the line.” This underlines the importance of tracking stakeholder feedback and the company’s activities on areas of concern over time, as this enables monitoring of progress.

Reporting back to stakeholders

As mentioned, companies must communicate engagement results to stakeholders to build trust. Stakeholder respondents to our survey stated they assess the impact of engagement based on specific follow-up from the company on outcomes from the interaction.

Best practice also calls for a summary of the company’s engagements and responses. Many companies follow GRI’s guidance to list stakeholder types and the ways they’ve engaged them, often accompanied by a list of the issues that matter to the stakeholders. However, too many fall short of sharing the outcomes of those engagements. Approaches to sharing company actions as a consequence of engagement are maturing. Nestlé, for example, publishes a table of stakeholder recommendations and the company’s responses to them on its website.

Measurement of engagement poses many challenges for companies. The impacts of engagement with certain stakeholder groups are easier to measure than others. Customers are one stakeholder group in which companies have historically invested in performance metrics: brand recognition, sales, loyalty and other metrics are all indicators of the quality of relationships, and companies are constantly looking to influence customer behavior in ways that improve performance. In the next chapter, we discuss the ways in which companies are engaging consumers and business customers, not just to improve business performance, but to drive impact on material issues.
Common Threads

system to track the impact of the mine on water.21

In terms of measurement, the company is making progress. Though it is currently tracking inputs and outputs, such as the number of people from the local community that it has employed, it is looking more deeply at the ultimate impacts. Nelson shared, “We are in the process of developing a well-being index to track the broader impacts we have on the local community, to understand the shared value that the operations generates.”

Case Study: Goldcorp

Formalizing engagement to track outcomes

The Canadian mining company Goldcorp has worked to formalize its engagement at one of its largest mines in Peñasquito, Mexico, which has enabled it to better track outcomes and ultimately impacts.

Nelson Nuñez Vidal, Sustainability & Compliance Manager for the Peñasquito site, shared that, when he joined, the company’s approach to engaging the community was more ad hoc and unstructured. So the first thing he did was to set up a grievance system and a registry of what had been requested and the company’s actions in response. “Formalizing and tracking engagement helped to keep track of key stakeholder issues and more effectively define material issues,” he explained.

The grievance system has enabled the company to take a more targeted approach to its community investment, and to drive impact and build trust in a more consistent and meaningful way. The system identified that water quality was a key concern, so the company invested in a third-party monitoring system to track the impact of the mine on water.22

The grievance system has enabled the company to drive impact and build trust in a more consistent and meaningful way.oppers.

Case Study: Nedbank

Communicating company response to engagement

The South African bank Nedbank sees the value of stakeholder engagement but also the benefit of a rigorous process to track the outcomes of engagement.

Though the company follows what Thabang Chiloane, Executive Head, Group Public Affairs, calls a “federal” structure, in which departments run their own engagement, it has developed a system for employees to log their interactions with stakeholders and provide regular reports on stakeholder concerns and how Nedbank is responding to them.

Thabang said: “In developing a company approach to engagement and our internal reporting system, we saw the importance of bringing people along with us on the journey. It’s not about controlling their stakeholder relationships but about impacting the business, and even helping them do their jobs better.”

The internal tracking system is a fundamental tool for enabling leading communication back to stakeholders. The company publishes a detailed summary of its responses to stakeholder concerns, outlining the main actions taken to address them.22

As a company listed on the Johannesburg Stock Exchange, Nedbank follows the guidelines of the King Report on Corporate Governance, which lists stakeholder inclusivity as a core principle of business.23 The company is demonstrating that it is adhering to the principle through its strong internal and external reporting.

In developing a company approach to engagement and our internal reporting system, we saw the importance of bringing people along with us on the journey.

“ ”

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Member tool

Reporting on engagement

SustainAbility Transparency Network members have access to a practical tool we developed as a complementary output to this report.

Find out more about membership to gain access to the tool and more resources at sustainability.com/what-we-do/member-network.
COMMON THREADS
One group that companies have been striving to engage more deeply is customers.

The downstream part of a company’s value chain, whether individual consumers or business customers, can be a critical point for engagement on a range of material issues.

Our corporate survey respondents identified customers – inclusive of business customers and consumers – as the most important external stakeholders, second only to employees. Companies recognize the role of customers in achieving business success and reaching sustainability goals. Both consumers and business customers are looking for more from companies on sustainability.

In a 2018 study of 30,000 consumers worldwide, Accenture and Havas Media Group’s RE:PURPOSE found that 81% of respondents expect more from their expenditure than the acquisition of products and services, and 42% of respondents believe that companies are failing to meet their expectations. The authors emphasized: “Companies are missing an opportunity to frame sustainability in terms of their positive impact on the health, wealth, and livelihoods of their customers and the communities in which they operate.”

Consumers also report struggling to decipher between brands who are authentic about sustainability goals and greenwashing. The 2018 Edelman Trust Barometer found that 42% say they don’t know which brands to trust as a result of media not fulfilling its responsibilities.

Ultimately, companies must focus engagement on helping consumers live better and attain their personal aspirations. Most consumers are not thinking about sustainability per se, so engagement must be about helping them become healthier, save money or achieve whatever aspiration is most relevant to them. Some consumers do want to support a brand that is outspoken on issues they care about, so expect companies to communicate their positions and even opportunities for consumers to support the cause. It’s up to each company to understand its consumer base and what messages will resonate.

Companies must focus engagement on helping consumers live better and attain their personal aspirations.
Consumer engagement campaigns

SustainAbility outlines below different consumer engagement campaign messages that can drive impact in different ways, along with selected examples that best exemplify each approach.

**Ask of the consumer**

**Buy the product or service for the first time**

*Why use*<br>Use of the product inherently generates positive impact on consumers and society.

**Ask of the consumer**

**Don’t buy at all**

*Why use*<br>Though this is a provocative request, if done well, it can draw consumer attention to the issue and the brand.

**Ask of the consumer**

**Change how they use an existing product or service**

*Why use*<br>If the consumption of the product or service is the cause of negative environmental or social impacts, influencing use practices is critical.

**Ask of the consumer**

**Vote or engage politicians**

*Why use*<br>This approach mobilizes consumers as activists to drive system change on material issues for the company.

**Ask of the consumer**

**Buy more of the “good”**

*Why use*<br>This approach seeks to shift shopping choices to those that are more sustainable.
Helping individuals with their personal goals

The Swedish home goods retailer IKEA Group has been working to engage its shoppers on sustainability for years. In 2016, it launched a three-year project in the UK and Ireland, “Live Lagom,” to help to identify small lifestyle changes that lead to improved sustainability outcomes (Lagom is a Swedish word meaning “just the right amount”).

The project involves understanding what participants (all family members of IKEA Group employees) would like to improve in their homes, giving them vouchers and advising their purchasing according to their personal goals.

Initial findings suggest it has been successful in driving consumer awareness and behavior change. Saskia Restorick, Director at the consumer campaign group Hubbub Foundation, a partner of the project, explained its success was due to “the company not using eco-jargon or telling consumers what to think. Instead it was an honest, authentic conversation, that showed the company was serious about its commitment and allowed participants to explore what worked for them, alongside like-minded people.”

Looking ahead, the company is looking to apply the learnings from the research into further consumer engagement and to build the “Lagomer” community. On a wider scale, IKEA Group is also advancing co-creation activities with consumers in addition to entrepreneurs and universities.

Taking a risk to fight violence against women

When male violence against women was identified as a key material issue for the Mexican beer brand Tecate (owned by Heineken), the Brand team felt compelled to tackle the sensitive and complex issue. Two out of three women in Mexico have experienced some form of violence.

The Brand team launched a groundbreaking media campaign in 2016 translated as “A man is not defined by his strength nor his power, a man is defined by how he treats women, so if you don’t respect women, Tecate is not for you.” The company partnered with an NGO to better understand the issue, develop their strategy and also to be supported and guided by and expert in this topic.

It was an honest, authentic conversation, that showed the company was serious about its commitment.

“The campaign was a resounding success. Though it was a risk to tell consumers to NOT buy their beer, sales performance was not impacted negatively; in fact, the brand continues with its growth. It boosted Tecate’s reputation: metrics on social listening were positive and many other NGOs subsequently reached out to partner on the issue.

“A key success factor was consistency on the topic,” said Diana Lozada Rodriguez, Brand Manager. “We used this key issue to define our brand’s purpose and built the campaign around it.”

The brand subsequently launched other campaigns on the issue: “No means no” focused on consent and “This is the way we are” focused on challenging traditional Mexican male stereotypes.
The initiative is ongoing, with TNC continuing to support the effort. The 2018 phase will reach people in 70+ countries and feature Olympic swimmer Michael Phelps as its global ambassador. It has also launched an Amazon Alexa “skill” to encourage consumers to turn off the tap, in a bid to meet users in the channels that they use.

Case Study: Colgate-Palmolive

Saving water and strengthening the brand

The US consumer products company Colgate-Palmolive has made water stewardship a priority. Consumer use of their products makes up the vast majority of their water footprint. According to Colgate, an individual consumer can save 8 gallons of water every day by turning off the tap when brushing their teeth.

So in 2016, the company created its “Every Drop Counts” campaign to encourage people to turn off the tap while brushing. The campaign’s mission is to reach 100 million people and inspire 10 million children to turn off the tap while brushing.

In its inaugural year, the company partnered with the supermarket Safeway and the environmental NGO The Nature Conservancy (TNC) to run a co-branded consumer media campaign, including an ad during the Super Bowl. It led to a 6% gain in category sales at Northern California Safeway Division and a 12% spike in Colgate toothpaste sales in the region over eight weeks in 2016.

Colgate-Palmolive has made water stewardship a priority. Consumer use of their products makes up the vast majority of their water footprint.
Recommendations

We identified several approaches that enable companies to effectively drive change with their consumers:

**Tap into consumer motivations and understand barriers**

Grounding engagement in behavioral science is essential if engagement is to be successful. Unilever has been a leader in understanding and influencing consumer behavior around sustainability. Its Five Levers for Change model is a helpful framework to think through approaches to engaging consumers (see image).

Making more sustainable products desirable was a key recommendation from all the consumer experts we interviewed. Using celebrities to make them aspirational can be a powerful lever as well. See Colgate-Palmolive case study on page 70.

Nudging for Good, a joint project by BVA Group and the AIM European Brands Association, has created a toolkit to help companies create and implement campaigns to help consumers make more sustainable choices.

**Build trust through authenticity and consistency**

In a world of hyper-transparency and connectivity, companies must take a more proactive and genuine approach to engaging with consumers. Tamay Kiper, Senior Manager, Membership & Advisory Services at Sustainable Brands, advised “Be the first one to reach your consumers to shape the messaging.”

Saskia Restorick, Director at the Hubbub Foundation, explained “Millennials see past pure promotion and marketing ploys. They are looking for honesty and real purpose, not companies who just jump on the bandwagon.” Companies should demonstrate their commitment to sustainability by setting bold, strategic ambitions on their material issues while being honest about challenges and complexity.

**Address the system**

Part of “making it easy,” as Unilever puts it in its Levers for Change model, is working to address systemic challenges that prevent consumers from making more sustainable decisions. David Blanchard, Chief R&D Officer at Unilever, explained “our responsibility is to make sure our packaging is fully recyclable but also easy for consumers to recycle. So, we aim to make our labelling as clear as possible and support national labelling schemes where they exist.”

Leading companies are using consumer communications to change societal norms, for example, to create a more equitable and inclusive society. In September 2018, Nike launched a bold new ad campaign “Dream Crazy” featuring the US football player Colin Kaepernick (who was blacklisted by football teams after refusing to kneel for the National anthem in protest against racial injustice) with a message: “Believe in something. Even if it means sacrificing everything.”

Unilever’s “Five Levers for Change”
Customers

Just as individual consumers are demanding more, large organizational customers are increasingly looking to their suppliers to demonstrate high sustainability performance.18

The rise of initiatives like CDP Supply Chain, which enables companies to request supplier disclosure of climate, water and deforestation impacts, underlines the demand for engagement. Companies are also seeing a rise in direct requests for information. “In the last 2-3 years, account managers have had more customer questionnaires coming in on sustainability,” shared one corporate interviewee. “It’s never a science and interpretation can be half the battle. You need to be willing to have a call or a face-to-face meeting to better understand what they are looking for.”

B2B companies are also expected to provide more sustainable choices in their products and services. Customers are becoming savvy about their supply chain impacts and so are pushing upstream, asking their suppliers to reduce impacts through innovation. Some suggest that this is also an area ripe for collaboration. Companies are responding to these demands, with some proactively driving the conversation on sustainability.

Recommendations

We identified several approaches that enable companies to effectively drive impact through their customers.

Be highly transparent

Business customers are often looking for more detailed information than consumers and a first step to engagement is to disclose the company’s performance on issues that matter to customers. For example, Shell aims to share information that can answer as many sustainability questions in their public reports as possible. Proactive transparency becomes the starting point for responding to individual questions and requests that require more tailored information.

Co-create products & services

Best practice involves some form of co-creation to address customer sustainability challenges. One company shared that it has developed a proactive engagement program for customers that raises awareness about sustainability issues and works with customers to develop initiatives and tools to address specific sustainability issues that are of mutual interest. The program has been successful, with the added benefit that customer-facing employees have become more fluent in sustainability.

Share own lessons learned

Every company is on its own sustainability journey but there is much that can be learned from each other. Business customers’ own sustainability can be advanced through deep engagement with suppliers. Markus Strangmueller, Corporate Development, Sustainability Management at Siemens, said, “The company uses workshops to share their own approach to dealing with sustainability challenges, including the SDGs, to help customers advance their own approaches.”
Case Study: 3M

Mapping customers’ sustainability goals to products

The global manufacturing company 3M has taken a proactive approach to engagement with its customers. As part of customer account manager training, every customer account manager is asked to read their respective customer’s sustainability report and map how 3M’s products help the customer with their sustainability goals.

They see this kind of engagement as a growth opportunity, to not only deepen the relationship with their customer but to identify new innovations that solve customer problems and address societal challenges.

“By purposefully embedding sustainability into our strategies, brands, research and development, and customer engagement, we’re able to move 3M’s growth to new levels and advance our commitment to improving our business, our planet, and every life,” said Cassandra Garber, Global Sustainability Leader at 3M. “We are a purpose driven business, committed to mapping big societal issues against our customer’s sustainability goals and challenges, thereby innovating and expanding our portfolio of products with sustainability advantages.”

Purchasing power, whether at an individual or organizational scale, is an important lever to change the system. Businesses are becoming more sophisticated around communicating with, influencing and even partnering with consumers and customers on their material issues. We encourage companies to go further. We recognize that lack of control of downstream impacts can be daunting, but, as the examples above have shown, engaging consumers and customers can help to not only drive impact but benefit the business.
SustainAbility is encouraged to see signs that corporate stakeholder engagement is moving in the right direction – by which we mean towards deeper relationships that can accelerate the solutions needed to address society’s systemic sustainability challenges.

Though the future is uncertain, nearly everyone engaged in this research suggested that we will see more engagement in the next 3-5 years: more proactive, more strategic, more integrated and more diverse in both type and form of engagement.
How must stakeholder engagement practice evolve in the next 3-5 years to accelerate sustainable development?

We asked our corporate and stakeholder survey respondents the same question and found their answers coalesced around these key themes. Both sets of survey respondents felt that:

**Companies must:**
- Integrate engagement into business
- Engage more proactively
- Be more ambitious

**Both must:**
- Better listen to different viewpoints
- Be more constructive and collaborative
- Follow a more strategic approach

**Stakeholders must:**
- Better understand how business operates
- Be more consistent
- Push companies to do more

Corporate pioneers are demonstrating how stakeholder engagement can be implemented strategically to generate value for business and stakeholders. More companies must adopt engagement as a business strategy, meaning not as a stand-alone process, but as a philosophy for how business should operate in society. Holding an annual stakeholder convening is no longer sufficient. Companies need to engage flexibly and continuously to succeed. Companies that embrace the need for strong stakeholder relationships will be more likely to collaborate, innovate and prosper in the future.

Investors, suppliers, customers and other stakeholders must play their part in holding business to account, but they also are required to come to the table intending to co-create solutions to common challenges, even – or especially – when that requires compromise. One stakeholder survey respondent said that stakeholders should “be less judgmental, accept a willingness to start the journey and recognize that Rome wasn’t built in a day!”

SustainAbility is committed to supporting companies to develop and implement strategies to advance engagement and drive impact on their material issues. We call on companies and their stakeholders to step forward to find common ground and build relationships that will enable society and the environment to thrive. We all need to make this vision of more proactive, strategic, integrated and diverse engagement a reality, to thicken the threads between us and co-design the future we all want.
Acknowledgements

This report was developed with support from the members of the SustainAbility Transparency Network (STN). SustainAbility has convened this group of global companies for nearly two decades to explore how transparency, stakeholder engagement and integration accelerate progress towards a more sustainable future.

A key benefit of the network is access to our annual research output, developed to be of greatest relevance to their roles as sustainability practitioners. Members contributed to the research by selecting the topic and by sharing their ideas through interviews, survey responses and ongoing discussions with team members at SustainAbility.

We would like to thank our SustainAbility Transparency Network members for their time and insights and for raising important questions about the challenge of stakeholder engagement. We could not have created this report without your input, and support as members of the Network.

We would also like to thank the many individuals who helped create this report. SustainAbility’s 2018 STN intern Anya Chodosh conducted valuable desk research, led the surveys, supported interviews and contributed to the analysis. Other SustainAbility Transparency Network team members – Denise Delaney, Margo Mosher, Bron York, Kate Newbury-Helps and Jonathan Sim – offered valuable input into the research approach and writing. SustainAbility’s Executive Director Mark Lee provided much needed guidance and thought leadership throughout the research and writing process. Thanks must also go to Wolf&Player for their expert design and layout of the final publication.

Many other organizations helped inform our thinking on this topic. We would like to thank all the respondents of the corporate and stakeholder surveys and the interviewees. We appreciate you sharing your time, insights and experience with us as we conducted research for this report.

Interviewees:

- Article One
- Avaya
- BASF
- Ceres
- Cranfield School of Management
- eBay
- Fibria*
- Goldcorp
- Heineken
- The Hubbub Foundation
- IKEA
- innocent
- Keystone Policy Center
- Marks & Spencer
- Molson Coors
- Nedbank
- Novartis
- Oxfam
- Pacific Gas and Electric*
- Pret a Manger
- Robeco
- Rockwool*
- Shell*
- Siemens
- Snact
- Sustainable Brands
- Symantec
- Syngenta*
- The Purpose Business
- Trucost
- UK SSD
- UNEP
- Unilever
- Vodafone
- Which?
- WWF

* Denotes member of the SustainAbility Transparency Network

SustainAbility Transparency Network Members
Appendix

Methodology

In addition to interviews (see the previous chapter) and a literature review (which we reference in the next chapter), we drew on the online tool Datamaran and our own surveys as key inputs to this research. We provide further details on these methodologies below.

Datamaran

Datamaran is an AI tool that analyzes large unstructured data sets from the global corporate reporting landscape. The tool provided insights on the “emphasis” of “stakeholder inclusion” in corporate sustainability and annual financial reports over time.

Stakeholder Inclusion – Refers to the involvement of people or groups who may affect or be affected by the entity’s activities and decisions.

Datamaran analyzed the corporate reports using statistical methods based on quantitative and qualitative variables, including:

- The number of hits per topic, which refers to the valid occurrence of one of the search terms or any combination of search terms corresponding to that topic
- Location of the topic (for example, in the CEO letter or foreword, or specific sections of the SEC filing)
- The number of topic mentions per sentence

Emphasis of the topic was rated as High, Medium or Low:

- High indicates a high number of hits; if the source is a sustainability report, they may also have a moderate number of hits but are present in key sections, defined as the CEO letter, summary or foreword from another executive.
- Medium indicates the topic was well discussed in a document but not to the extent of making it a strategic issue for the company. It received a moderate number of hits; if the source is a sustainability report, it may also have received a small number of hits but was present in key sections.
- Low indicates the topic was usually mentioned fewer than three or four times and was not present in key sections.

Surveys

SustainAbility conducted two surveys to collect primary data on perceptions of stakeholder engagement across a wide range of perspectives. We distributed the surveys to respective corporate and stakeholder networks between June 25 and August 1, 2018.

Corporate survey (Total respondents: 78)

Participants were all corporate sustainability practitioners with some expertise and/or responsibility for stakeholder engagement for their company. The majority were based in Europe (51%) and North America (39%).

Stakeholder survey (Total respondents: 31)

The majority were based in North America (45%) and Europe (43%).

Stakeholder survey

<table>
<thead>
<tr>
<th>Stakeholder type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
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</tr>
<tr>
<td>Researcher / Academic</td>
<td>19%</td>
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<td>10%</td>
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<tr>
<td>NGO (environmental)</td>
<td>7%</td>
</tr>
<tr>
<td>Investor</td>
<td>19%</td>
</tr>
<tr>
<td>Other</td>
<td>13%</td>
</tr>
</tbody>
</table>
Results

Figure 1
Ranking Stakeholders

Currently, how important is engagement with the following stakeholders to your company? Please rate from “not at all important” to “very important”.

Source: Corporate Survey

Figure 2
Increasing Prominence in Corporate Reports

Emphasis on Stakeholder Inclusion (%)
Annual Sustainability Reports, 2010-2017

Source: Datamaran

Emphasis on Stakeholder Inclusion (%)
Annual Financial Reports, 2010-2017
Figure 3
Company Drivers

What are the drivers of your engagement with your stakeholders? Please rate from “not at all a driver” to “a very high driver”.

- Maintain and/or build reputation and credibility
- Strengthen relationships with customers
- Deepen understanding of stakeholders’ concerns and expectations
- Anticipate and mitigate risk
- Build opportunities for partnership and collaboration
- Attract / retain employees
- Respond to stakeholder pressure
- Improve advocacy
- Drive product and process development / improvement
- Inform corporate strategy / plan
- Access new markets
- Increase financial resilience
- Define, test and/or enhance purpose
- Attract investment
- Influence individual consumer behavior

Source: Corporate Survey

Figure 4
Stakeholder Drivers

Which of the following are drivers of your engagement with companies? Please rate from “not at all a driver” to “a very high driver”.

- Drive impact on sustainable development issues
- Influence company decision-making
- Access and/or share expertise
- Collaborate / partner with companies to develop solutions
- Learn more about company activities and impacts
- Communicate my concerns, needs or expectations

Source: Stakeholder Survey

References


Notes

SustainAbility is a think tank and strategic advisory firm that for over 25 years has catalyzed and supported business leadership on sustainability. Through our agenda-setting research and advocacy, we chart new territory and help business leaders and their stakeholders understand what’s next. Through our advisory services, we help clients anticipate trends, understand and respond to key risks and opportunities, and foster authentic, effective engagement and collaboration with stakeholders.

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