ENGAGING STAKEHOLDERS AND BUSINESS-NGO PARTNERSHIPS IN DEVELOPING COUNTRIES

Maximizing An Increasingly Important Source of Value

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Contents include:

A demonstration of the commitment of a group of interviewed Canadian companies to local community stakeholder engagement in international projects, outlining in their own words the value to business of stakeholder engagement.

Recommendations to companies regarding the need for further investment and progress in the active engagement of local community stakeholders.
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EXECUTIVE SUMMARY

This paper is written primarily for business, in response to the recognition by business of the increasing value derived from successful local stakeholder engagement in developing countries. The paper examines the progressive work of Canadian companies in engaging local community stakeholders, and acknowledges the prominent role of business in fostering sustainable development. The paper examines the value to business of engaging a broader range of local community stakeholders, the value to business of partnering with NGOs within this process, the critical success factors for successful engagement, the management systems employed by business, current needs of business and patterns of business investment, international trends, and recommendations for Canadian business.

Key findings are:

- The active engagement of local community stakeholders is, for many businesses, viewed as being a ‘necessity.’

- Canadian and foreign corporations operating in the developing world are integrating environmental and social sustainability (through stakeholder engagement) into their operations to ensure or increase bottom-line profitability.

- Stakeholder engagement provides value to corporations in the form of: (i) access to land; (ii) trust and reputation building and assurance; (iii) securing a ‘social’ license to operate; (iv) access to local community users of corporate goods and services; (v) marketing and competitive advantage; (vi) improved quality of decision-making; (vii) overall industry health; and (viii) stable operating environments.

- Corporations recognize that NGOs represent one source among many for providing complementary skills sets and expertise, facilitating communication and understanding with local stakeholders, and strengthening process credibility.

- Critical success factors to stakeholder engagement include: (i) early engagement; (ii) identification of correct key stakeholders; (iii) trust development; (iv) flexibility; (v) open sharing of information; (vi) appropriate time frames to converse; (vii) realistic expectations; (viii) meaningful indicators; (ix) reporting of results and accountability; and (x) building long-term sustainability into projects.

- Business stakeholder engagement management systems currently utilize flexible, less formal methodologies and build on in-house and industry experience. Business is prioritizing engagement on a project-by-project basis over the development of more structured management systems.

- Priorities and plans of corporations include: (i) developing their own stakeholder engagement management systems; (ii) learning how to proceed through discussion and experience sharing; and (iii) seeking to move towards standardized, credible and accepted reporting systems.

- Recommendations for business include: (i) continue to enhance management and reporting systems; (ii) continue/promote investment as competitive advantages are easily eclipsed; and (iii) engage in partnerships where appropriate to build trust and reduce time and financial cost of engagement.
Introduction

In the words of Canadian business:

* “There is no way to conduct business in the future if stakeholders are not involved.”
* “The value that lies in engaging stakeholders is that it is a necessity to gain their approval.”
* “We feel strongly that effective engagement of local community stakeholders is a competitive advantage.”
* “Stakeholder engagement is the only way to ensure the sustainability of project goals.”
* “Successful local stakeholder engagement means better business. Successful local stakeholder engagement means more business.”

The active engagement of local community stakeholders in international business projects is, for many businesses, viewed as not just being valuable but as being a “necessity.” Canadian and foreign corporations operating in the developing world are integrating environmental and social sustainability into their operations to ensure or increase bottom-line financial profitability; stakeholder engagement is becoming the foundation of these efforts. The resulting benefits accrue to both the company and to local communities.

Business is the key driver of international development. Private investment and capital in developing countries eclipses Official Development Assistance (ODA) many times over. By further integrating extensive stakeholder engagement and social and environmental considerations into their project delivery, businesses are increasingly sophisticated drivers of sustainable community social and economic development, wealth creation, local ownership and poverty alleviation. In a small but increasing number of cases, the value of entering into partnership with non-governmental organizations (NGOs) within this engagement process is also being recognized—with relations shifting from conflict to collaboration.

This paper demonstrates the commitment of a group of interviewed Canadian companies to local community stakeholder engagement in international projects, outlining in their own words the value to business of stakeholder engagement. The interviewed companies represent a sampling of what the Centre for Innovation in Corporate Responsibility (CICR) considers to be among the leading-edge Canadian efforts regarding stakeholder engagement within the developing world.

This paper makes the case for the value of broader business-stakeholder engagement to the large number of businesses who have not yet achieved the same level of progress as these interviewed companies. The paper makes recommendations to both these companies and to the progressive interviewed companies regarding the need for, and key leverage points requiring, further investment and progress, and the means for establishing an increasingly critical competitive advantage in this field.

This paper demonstrates that the goals and objectives of these leading corporations are not necessarily exclusionary to the goals of the NGO community in regards to development and it outlines cases where business has collaborated with NGOs and the value of that collaboration. It also outlines why business may choose means other than partnership with NGOs to achieve the most effective engagement (and development impact) with local stakeholders.

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1 Stakeholder theory recognizes that there is a multiplicity of groups and categorizations that can be considered ‘stakeholders’, and the difficulty that exists in bounding a problem or system in order to identify relevant ones. This paper uses the term to identify those groups or individuals who are primarily impacted by project developments, usually at the local or community level.

2 As employed in this paper, non-governmental organizations (NGOs) are defined as “groups whose stated purpose is the promotion of environmental and/or social goals rather than the achievement of economic power in the marketplace or political power through electoral process.” (Bendell and Murphy, 1997)
This paper hopes to facilitate ongoing improvements in broad stakeholder engagement and increasing partnership between business and NGOs by providing:

• For those businesses who still largely engage only the traditional limited group of stakeholders, insights regarding the necessity and value of engaging a wider group of stakeholders and means of maximizing that value through evidence (both of the value and of the means) from their business peers;

• For those companies with advanced skills and experience in engaging local community stakeholders, insights into the perspectives and value sources as viewed by other Canadian companies and a look at what might lie ahead and key factors for sustaining and creating competitive advantage in this field;

• For NGOs, identification of the needs of business in stakeholder engagement and how to add value and find the best niche in working with companies. It also helps identify who the alternative groups or competitors for NGOs are, in terms of partnering with business for development, and how to leverage an NGO’s contribution to development through partnership with business.

• For all parties, including government, the critical success factors for successful business-stakeholder engagement and business-NGO partnership.

Methodology

This paper compares dominant perceptions and discourse found in the literature relating to business and the engagement of a wide group of local stakeholders, with the opinions and experiences of interviewed Canadian business leaders. Interviewed were 17 executives from 14 Canadian businesses (small to large sized mining, oil and gas, telecommunications, electronics, consulting, and engineering companies).

A detailed overview of the research methodology is presented in Appendix I. For the purposes of clarity and to avoid misunderstanding, those text items found in quotations in this paper are verbatim quotes from interviewees. Refer to Appendix II for a full list of participating companies.

The Centre for Innovation in Corporate Responsibility appreciates the participation of interviewed companies, and recognizes the valuable contribution that their insights and experiences have made to the development of this paper.

Development: The Private Sector as a Driving Force

Government, NGOs, and business all approached development differently in the past, and many lessons have been learned from those approaches. Just as governments and NGOs have changed their approaches to development, business has also increased energy and focus on local community stakeholder engagement, social and environmental factors, building local enterprise, local economies and local ownership, fostering sustainable communities and economies beyond project life, and ensuring the successful transferring of responsibility for long term project success into the hands of local community stakeholders.

This transition has been hastened by rapid economic, social, political and environmental changes which have established business as the primary driver of development. Changes include:

• Globalization of markets, and the increasing role of private sector investment in developing economies (many times that of ODA);

• Changing role of the state from goods provider to market facilitator; and,

• Devolution and decentralization of responsibilities from national to local levels.
Additional incentives for enhanced business-stakeholder engagement within this changing milieu include:

- Strengthened national environmental regulations and social and environmental funding guidelines by international finance institutions (IFIs), including requirements for stakeholder engagement1;
- Globalization of information technology, and the ability to rapidly and easily disseminate information from local stakeholders to a mass audience, i.e. “there is no place to hide”; and,
- The rise of NGOs as influential actors in policy development and corporate accountability.

A common factor among nearly all of these points is that local stakeholders and local interests, local capacity-building, and strong local involvement in decision-making are increasingly understood to be the key elements of development efforts. These changes mean that effective engagement of local community stakeholders has become an increasingly important source of value for business.

I. Engaging Stakeholders

The Value to Business

Interviewed Canadian businesses not only indicated several sources of value from broad stakeholder engagement, most also emphasized that it was a non-negotiable element of business affairs. While regulatory compliance increasingly calls for enhanced stakeholder engagement, mere regulatory compliance was rarely identified as the sole driving force for engagement.

Although they are often approached and discussed differently, the needs and issues that are important to business are often one and the same as development practitioners (such as micro-enterprise development, sustainable community economic development, environmental sustainability, and human rights). It is important to bear in mind, however, that any “engagement needs to be done in the context of the company’s mandate to further profit.” Profit aims to quantify a business’ contribution to society. These Canadian businesses are integrating stakeholder engagement and social and environmental considerations into their operations in order to determine the most accurate quantification of their profit and contribution to society.

Canadian businesses identified the following key sources of value:

**Engagement as a “Necessity”**

Dialogue and consultation with key project stakeholders is considered by Canadian business to be integral to the success of any project development. Benefits derived include:

⇒ **“Securing Access to Land”**

Formal access to land is obtained through regulatory processes governing right-of-ways (ROW), access easements, land-use permitting, and environmental impacts. For many companies, especially those in the mining, oil and gas sectors, being able to expedite the approval process has tangible bottom-line impacts. Many companies recognize the importance of well-conducted consultations in light of strengthened national Environmental Impact Assessment (EIA) frameworks and World Bank EIA funding guidelines which call for such engagement.

As a result of consultations between local communities situated around Noranda, Rio Algom, and Teck Corporation’s joint Antamina (Peru) mineral development project, a pipeline was constructed to avoid continual trucking and its associated adverse safety aspects on the local communities, and also to avoid environmental impacts in a National park.

1For example, the World Bank requires an environmental assessment of all Bank funded projects to ensure that they are environmentally sustainable, and to improve the decision-making process. For projects with potentially significant adverse environmental impacts, the borrower is required to consult with project-affected groups and non-governmental organizations, and to take their views into account.
Furthermore, in many developing countries it is government that owns and makes decisions regarding land without meaningful consultation with local occupants of the land. “While we have land title agreements with national authorities, most of the time it is left up to [the company] to negotiate with the people on the land - sometimes with the help of government, but often not.” It is through dialogue with local communities that companies are able to secure access to the land. In the experience of one company, there is “no way of doing business without talking to the community.”

⇒ **“Trust and Reputation Building and Assurance”**
There is importance attributed to the need to be “seen to be responding to community concerns.” Meaningful response arises from listening to and understanding community concerns. Developing trust is especially important for companies operating within regulatory environments which emphasize consultation, since not having credibility with local communities can result in project delay or even cancellation. For companies not subject to such regulation, developing trust is a necessary precondition for effectively managing community expectations. To avoid misunderstanding many companies seek to “demystify the project for local people” through openness, “transparency,” and sharing of information so that they can engage in dialogue based on common understanding.

⇒ **“(Social) License to Operate”**
There is broad agreement among companies regarding the need to obtain a social “license to operate.” Companies must have established trust and relationships with local stakeholders to allow them to efficiently operate without negative interference by the local or broader stakeholders. The question becomes for many “how to get [the local community’s] permission.”

⇒ **Access to Local Community Users of Corporate Goods and Services**
For some companies, engaging stakeholders provides a direct benefit through the development of a product or service user base. By familiarizing local stakeholders with their services or products through dialogue, consultation regarding capacity, needs and willingness to pay, and training, companies can foster a supportive local user environment. By fostering local community socio-economic development, companies can establish the conditions for a sustainable and long-term user base.

⇒ **“Marketing and Competitive Advantage”**
A corporate reputation for successful stakeholder engagement “acts as a calling card to future projects. We see it as a competitive advantage.” Increasingly, a good reputation is “necessary to be invited into the game” on future projects. The reality for many companies is that “[your] reputation precedes you when you are known to be responsible,” or irresponsible. In many developing countries, companies perceived to be irresponsible are no longer invited or chosen to participate in projects by the host country government. “Without [our reputation] it would be a lot harder to be get on the bidders’ list.”

⇒ **“Improved Quality of Decision-Making”**
Involving community members in the decision-making process is viewed as being vital to the decision-making process. Project design, implementation, and operation can benefit from the local, intimate knowledge possessed by affected communities. Lack of inclusion can be “disastrous.” Access to their knowledge and insights also allows companies to devise strategies which appropriately and effectively meet the needs of the communities, so that they can foster and develop a sustainable capacity.

⇒ **Overall Industry Health**
Some companies view their ability to maintain
performance to be partly a function of the overall health of their industry. For example, if an industry as a whole is perceived (rightly or wrongly) to be environmentally destructive and not responsive to stakeholders, then individual companies may be negatively impacted in the form of reduced entry to markets or shareholder protest. Progressive companies are investing in stakeholder engagement to enhance the performance and reputation of their own company, and by extension, the reputation of their industry.

Engagement as a Vehicle for Local Community Economic Sustainability and Poverty Alleviation

⇒ “Stable Operating Environments”: Sustainability of the Community is Vital to Ensuring the Sustainability of the Business Operation

Meaningful dialogue and consultation is necessary to ensure that communities understand the activities of a business, that project goals are consistent with community interests, that the needs of the community are being listened to, and that members of the community are being given the appropriate level of training to capitalize on opportunities for continued development. Companies realize that they are embedded within their local operating environments: what they do affects what surrounds them, and they are in turn affected by the conditions and activities of their surrounding environment.

Thus, there is a realization that in order to have a “stable operating environment,” issues such as local community economic development, poverty, and human rights need to be addressed. Typically expressed in terms of community ‘buy-in’ and ‘community-ownership,’ this perspective presumes that by making stakeholders aware of the fact that there are benefits to be derived, and by transferring those benefits and responsibilities, there will be an increased commitment to ensuring that the project proceeds in a successful manner.

⇒ The Value to Business of Stakeholder Engagement as Identified Through the Literature

There are direct connections between what is found in the literature and what was articulated by companies regarding their motivations for engaging stakeholders. Key converging points include:

- Increased stakeholder commitment;
- Improved access to information and, as a result, improved targeting of initiatives;
- Enhanced credibility and maintenance of reputation.

One benefit identified by the literature not explicitly mentioned during the interview process, though closely linked to many of the above points, was:

⇒ Greater Return on Cost of Engagement

The financial costs of engaging in up-front consultation are large, but consultation has been proven to generate a greater willingness for stakeholders to invest their time, labour and other resources in a project they ‘own,’ thereby stretching the value of invested funds (Schwartz 1996). Although some of the benefits may be difficult to quantify, in the long-term companies undertaking this upfront investment will tend to generate a substantial return.

Canadian businesses noted that enhanced stakeholder engagement most often took more time and money up-front. However, they agreed that this investment was critical and provided significant long-term benefits. “The time and cost are higher, but there is no other way for the sustainable success of a project.” This investment “is cheaper in the long run, and is one of the reasons that [they] invest in it.”
The Challenges of Stakeholder Engagement

As expressed by interviewed companies, the difficulties they have encountered when engaging local stakeholders include:

⇒ **A Lack of Organization Among Local People and, Therefore, Little Ability to Negotiate and/or Present a Common Voice**
For many companies, their projects represent the first contact with large-scale development for isolated communities. As such, there is often a severe lack of community ability to understand the implications of the project and to articulate their issues and concerns to the company. As a result, in many cases, businesses stressed that they often "went to communities and helped them organize" and mobilize—providing education and skills training required in order to understand business activity, agree on common goals, and "carry on necessary dialogue."

⇒ **Language, Communication or Cultural Barriers**
The greater the number of languages involved and the number of cultures involved, the greater the time and investment in understanding and communicating that is required for successful engagement. Businesses interviewed were sensitive to the needs of local leaders to communicate and negotiate in their native tongues, and that having all parties understand and make some adaptations towards the cultural norms of each other were crucial foundations of wider discussion and agreement.

⇒ **Power Differentials Within and Among Different Stakeholder Groups**
In more than one case, businesses pointed out that the community "did not have trust in their elected officials," or that community leaders often were from families who had been more privileged and/ or had strong-armed their way to community representation. Several companies responded to these issues by organizing and establishing "Community Advisory Panels" made up of people who "were not holding office and had never done so in the past" as another group with whom to carry on regular dialogue.

In one example, different villages within a company's sphere of activities were seeking the company's assistance in protection against aggressive factions in other villages. The company responded, "they couldn't see [providing that sort of protection themselves], but they would help all the groups organize themselves to secure [their titles through knowledge sharing and skills training regarding documentation of land title and 'ownership']."

⇒ **Sorting out Special Interest Groups and Hidden Agendas**
There were examples given of individuals participating in the process of dialogue and consultation who had vested or biased interests. These interests were often concealed, being manifested in the form of opposition to company initiatives. Companies suggested that the only way to deal with this type of manipulation is to ensure the openness and transparency of the process, and to develop a level of trust with other community members who are aware of these special interests.

⇒ **Potential for Abuse of Process**
Businesses sometimes encountered stakeholders who had heard of other business-community negotiations and not only had highly unrealistic expectations for compensation but tried to "hijack" the process with continuing unrealistic demands. In one example, the training component of community capacity building was taken-over by privileged members of the community who viewed the training process as a vehicle for personal gain, as opposed to collective benefit.
II. Engaging Stakeholders and Partnering with NGOs

The Value to Business of Partnership with NGOs

Business-NGO partnership for the purposes of facilitating the engagement of local stakeholders was viewed as being one of several valuable options for companies operating in developing countries. For some, the values identified above of engaging stakeholders were enhanced by partnering with NGOs. There was a recognition of the important skills and expertise that NGOs can sometimes bring to the process. But, there was also strong emphasis on the need to ensure NGO involvement is based on reciprocal value rather than simply representation. It was also made clear that while there are benefits to be derived from partnering with NGOs, this option remains only one among many.

NGOs, at the same time, have begun to realize that engaging business does not necessarily mean having their social and environmental mandates co-opted, nor does it necessarily mean losing public credibility. It is possible to achieve mutual benefits when both parties engage in constructive partnerships, seek to accomplish common goals and work in a common direction.

‘Partnership’ was defined in different ways by different companies. ‘Partnership’ ranged from formal contractual agreements to informal relationships based on agreed upon criteria and objectives. Common to all of these arrangements was:

- the need to be working together toward a common direction and goals;
- out of the matrix of NGOs, only those that can bring value to the partnership should be engaged;
- a recognition that both parties should be
entering into “working partnerships”: sharing responsibilities, benefits, profits and gains. “No one will enter into a partnership if they have nothing to gain from it,” or if one side bears all the responsibility.

As identified by companies, the value that NGOs can bring to the stakeholder engagement process includes:

⇒ **Provision of Expertise and Skill Sets that are Complementary to those of the Contracting Company**

Canadian and other foreign corporations operating in developing countries often encounter situations that require expertise that is not available in-house. NGOs sometimes have expertise in specialized fields that company employees do not, and therefore represent valuable repositories of knowledge. The key point for companies is that the skills and knowledge that NGOs possess must be complementary to those already possessed by the company. The presence of an NGO in and of itself is not necessarily of value.

⇒ **Allow Quicker, More Direct and Comprehensive Access to the Feelings of Stakeholders (and, Therefore, More Rapid and Solid Stakeholder Consensus)**

Locally-based NGOs are often perceived to have intimate contacts with and understanding of local communities. The ability of these NGOs to facilitate the consultation and dialogue process is considered by many companies to be valuable. In their view, having the NGO act as a facilitator allows the company to more rapidly understand needs and issues that “would otherwise take them several months to find out themselves,” and also to overcome the fact that otherwise they “may not have been able to get the most accurate information possible.”

⇒ **Bring Credibility to the Process**

Partnering with NGOs provides the added benefit of enhancing the credibility of a company’s stakeholder engagement process. This credibility is intimately tied to the preceding points regarding NGO provision of complementary expertise and access to community needs and concerns. If an NGO and a company can be seen by local stakeholders to be working in a “common direction toward a common goal,” then the credibility of the process, and of the company, will be enhanced.

Value as Identified in the Literature

As with stakeholder engagement, the discussion of the value of business-NGO partnerships in the literature is quite similar to the key points identified above. In particular, dominant points of convergence are:

- Increased ability to identify and navigate local contact networks;
- Better ability to quickly and easily identify local needs and concerns;
- Enhanced credibility and reputation;
- Constructive engagement is less costly than confrontation;
- Able to maximize expertise; and,
- Maximization of social and intellectual capital.

An important point raised in the literature which was not explicitly identified by the interviewed companies was:

⇒ **NGOs Often Represent a Valuable Source of New and Insightful Ideas**

Organizations—regardless of whether they are profit seeking or voluntary—consist of unique and creative individuals. The interplay between organizations offers the opportunity for open and progressive companies to maximize new ideas and approaches. The ability of a business organization (or an NGO) to reap these benefits is predicated on its openness and willingness to listen to these ideas.
The Challenges To Business-NGO Partnerships

Partnering with non-governmental organizations within the stakeholder engagement process was viewed by business as being only one of several available options. Businesses provided many examples and described in great detail experiences of stakeholder engagement at the local community level through a variety of means. However, there were only a few cases where business could illustrate partnerships with NGOs. Every company indicated that they were open to the idea of partnering, but that numerous difficulties need to be addressed before these arrangements can be successful:

⇒ **Lack of NGO Understanding of the Way Business Operates and the Contribution to Development from Business**

A common complaint among business is the lack of recognition it receives regarding its contribution to social and economic development at the local level. There is a feeling that business is being unfairly accused of continued paternalism and economic exploitation— with little regard paid to the benefits to local communities, the efforts of business in engaging and establishing common goals and priorities with local communities, and the actual testimonies of satisfaction of local stakeholders. This conception prejudices the ability of the ‘partnership’ to be truly open and collaborative, and to obtain meaningful and effective results.

⇒ **Lack of “Joint Venture Mentality,” Concerns over Accountability, Concerns over Long-Term Ability to Deliver, and Associated Risk Issues**

Companies do not wish to engage organizations that are perceived to be lacking accountability. Business needs NGOs to adopt a “joint venture mentality.” As one respondent stated, “NGOs come to me asking for money, but not telling me how they can add value.” Joint venture mentality means both partners adopt a common vision and direction, with a sharing of responsibilities and benefits. In the view of business, there needs to be accurate reporting mechanisms and information sharing pathways to maximize the effectiveness of the partnering arrangement. Business is concerned that NGOs have been held to a very different standard of accountability. Not only do companies want this standard to be changed, it also means they are concerned about an NGO’s ability to meet the accountability standards that businesses must meet. This in turn creates concerns over risks which the company may not be willing to take.

In one example, a Canadian firm contracted a local NGO to carry out community consultations to identify community concerns prior to an EIA (for the purposes of conducting the EIA in a way that responded to local concerns). The local NGO’s credentials on paper were strong. It was ultimately discovered that the NGO did not have the expertise claimed. In fact, the NGO collapsed during the contract. The company was not alerted and lost significant time and resources. In the end the company carried out direct consultations on its own due to a lack of an NGO presence or required expertise. It is often “touch-and-go” as to whether an NGO has the ability to maintain its operations, and a business must consider the risks of relying on their performance.

⇒ **Lack of NGO Presence in Local Communities**

For many companies, there is often no NGO representation in the remote locations in which they operate. As such, ‘local’ NGOs that are not local to the project bring little value to the engagement process. As one company expressed, “an NGO having an in-country representative located in the capital city does not add value to a project that is 200 kilometres away.”

There is also a perception that Canadian NGOs are not proactive enough in regards to developing contacts in Canada. Canadian
businesses feel that the best approach for business is to “go there and talk to NGOs.”

The recognition by business of the need to develop local sustainable economic capacity has led many companies to ‘fill the gap’ in remote locations. They have helped individuals to organize themselves into NGOs or other forms of organization such as co-operatives, develop micro-enterprise and learn about the importance of planning versus crisis response.

⇒ Differing Perceptions of the Same Issue
Potential for conflict regarding the appropriate means of dealing with a particular issue or need is not attractive to business. In the words of one respondent, “We are not against engaging them [an NGO], but they at least have to be open to working together.” If the partnership is to be successful, and in order to establish and work together towards a common and agreed-upon goal, both parties need to engage in dialogue in a manner that is constructive and open to learning.

⇒ Lack of Requisite Experience
Several companies noted that most NGOs, while having an overall specialized focus and associated expertise, typically put members into the field that did not have enough experience, or “are made up of people with limited experience, under five years experience.” “Those members who would be truly helpful are working in management—these people are too busy to help on the operational level.” Companies often require a much higher or highly-specialized level of expertise (this also links to the accountability issue mentioned above). As a result, to meet these special needs, companies need to look elsewhere (local consultants, private sector firms, universities).

⇒ NGOs Are Often Simply Not Among the Key Stakeholders
For many companies, the reality is that in the contexts in which they operate NGOs are one of many stakeholders and often not among the key stakeholders. Other groups are frequently identified by the local stakeholders as being “more important and relevant.” Examples named include church groups, individuals, local companies and consultants/contractors.

Alternatives to NGOs
In general, unless NGOs could respond adequately to these concerns of business, companies preferred to engage other actors. These other organizations included universities in cases where highly specialized expertise was required. It included local contractors, local private sector firms, and local consultants who were members of and understood communities where businesses operated, and whose contribution and profits would translate into local ownership, wealth and job creation, and the development of the local economy, knowledge, and skills. It also included local community individuals, some with greater levels of knowledge, in order to gain the greatest intimacy, knowledge, and bond with the community stakeholders.

III. How are Businesses Engaging Local Community Stakeholders?

Critical Success Factors

As identified by interviewed companies, factors critical to achieving successful stakeholder engagement include:

⇒ Early Engagement
“We were fortunate on this project. The company we purchased had done a great job of stakeholder engagement, going door to door from the beginning to secure support and listen to concerns. For [another project], we were less fortunate. The company before us did not do a good job and we spent a lot of time undoing
mistrust.” It is critical to “engage in the beginning of the project,” otherwise it will “require expensive repair work and going back to do it over again.”

⇒ **Identification of the Correct Key Stakeholders**

Failing to identify the key stakeholders central to the process means the company agrees to joint priorities with the wrong people. On many projects businesses are forced to trust government / IFI determinations of the key stakeholders, which are sometimes inaccurate. In these instances the company has to seek permission to reorganize and approach the key stakeholders, or else they are instructed to continue to work with the pre-identified stakeholders, thus compromising the success and sustainability of the project.

⇒ **Development of Trust**

Developing understanding of one another and trust between business and stakeholders is the foundation for cooperation. “Our goal is intimacy. Being on a first-name basis with everyone in the community. Making sure every person has had a chance to air their questions and concerns.”

⇒ **Flexibility: “We won’t get the equation right right away”**

Most businesses noted that it was important to establish flexible relationships and agreements where all parties agreed that changes would be made as time progressed. No initial agreement is perfect, and if parties try to make it perfect no agreement would ever be reached. Mechanisms for improvement should be agreed to and built into agreements.

⇒ **Open Sharing of Information (Including Access to Data and Research Resources) and Understanding**

Having access to as much local information as possible is vital to achieving both regulatory approval and long-term community sustainability. Processes such as EIA demand a sufficient level of understanding regarding bio-physical, economic and social impacts. Achieving this understanding is predicated on the ability of the company to access local sources of information. A company needs to understand the important issues and concerns in order for it to work together with the local community to address them.

At the same time, it is vital that there be an exchange of information from the company to the community. This interchange is central to achieving community “buy-in,” development of trust and the creation of realistic expectations.

⇒ **Having Appropriate Time Frames to Converse**

Among other challenges, a lack of adequate time for dialogue (particularly at the outset) often means that an adequate level of trust has not been established. Consequently, there may not be a clear understanding of the project, nor understanding or agreement as to project goals and community development indicators. The results can range from the blockage of the project by local stakeholders to the lack of sustainability of a project upon its completion.

⇒ **Building Realistic Expectations:**

“People Must Understand To What They Have Agreed”

In most cases, business indicated that initial stakeholder expectations were far beyond the means of the company. Adequate time and resources must be invested in “managing those expectations” and coming to mutual agreement with stakeholders as to what is realistic and what is not. There must also be agreement on what the respective company and community responsibilities are for agreed-upon goals.

⇒ **Having ‘Buy-in’**

Similar to above, “buy-in” results from the building of trust and other factors above, combined with mutual agreement on energy and resources to be spent on achieving project goals.

“[It is essential] to discuss, be honest, open and transparent without any intermediary ... If you are doing these things, them likely so will [the community].”

“The community did not like it when we hired local people to try to facilitate discussion for us. We started building real trust when we sat down face-to-face, told them everything we could, and answered their questions directly.”
“Buy-in” means working in partnership to accomplish shared goals, as opposed to operating in an indifferent or hostile stakeholder environment.

⇒ Meaningful Indicators.
Indicators must be useful and relevant to the key stakeholders affected by each indicator. A company might have different indicators with each key stakeholder group, and might even measure similar goals with different indicators. In a typical instance, “indicators were discussed with the local community. They rejected some, and we rejected some.” Business also noted that in many cases the indicators that contracting IFIs wanted were not of interest to local stakeholders. “We had two sets of indicators - one for the IFIs and one that was agreed on, sensible to, and established with, the local community.”

⇒ Reporting of Results and Accountability.
What is measured by the indicators needs to be reported to the relevant stakeholders. Being open and transparent with results is critical to maintaining trust and for making decisions on continued plans of action.

Reporting directly to the most important stakeholders is key, and all businesses interviewed outlined various means of reporting back to those stakeholders. Reporting to a wider group of stakeholders (e.g. shareholders) was not deemed as important and as a result some companies issued regular social, environmental, or sustainable development reports while others did not. Some businesses hired independent contractors to visit communities and verify the measurements for the indicators reported were accurate. Also, it should be noted that the accountability of the stakeholder (NGO or otherwise) is also crucial and should be subject to verification. It is a partnership arrangement where all sides have their roles and responsibilities.

Different corporations approached the stakeholder engagement process in different ways. This difference was typically dependent upon the type of organization and the nature of the business that they were conducting.

For consulting companies working for clients (e.g. CIDA) emphasis was placed on achieving the results-based criteria as established in advance. As such, there was often not much emphasis placed by the company on developing engagement processes over and beyond the criteria established in the terms of reference for the project. There was recognition, however, that there needs to be flexibility in their approach to engaging stakeholders, as new and unidentified issues become apparent and need to be addressed. Ultimately, however, for these companies the final arbiter of what does and does not occur remains the “person who pays you to conduct their work.”

For corporations undertaking projects on their own (or through consortiums with other sectoral companies), there was emphasis placed on the need to actively engage stakeholders within a process that was meaningful for all parties. Participation of, and consultation with, key local stakeholders regarding “wants and concerns,” and goals and objectives for the process was viewed as being integral to the development of mutual trust and creation of realistic expectations. Many companies described the need to begin the process of exchanging information early-on, during the beginning phases of the project. “When working with stakeholders, you need time. You need to start with them, leave them for a while, come back and take a walk with them, and keep trying to make it sustainable.” Identification of key stakeholders ranged from partnering with local NGOs to identify the most important groups up-front, to simply “approaching local communities and beginning the dialogue process with them.”
Broader Perspectives - Building in Sustainability as a Critical Success Factor

A recurrent theme advanced by companies was their efforts to view stakeholder engagement as part of a larger perspective: the need to ensure local communities have a sufficient knowledge and capacity base to take advantage of direct and indirect benefits of development, and to apply these benefits in a sustainable fashion (in particular, sustainable beyond the involvement of the Canadian company). In the view of the companies, initiatives such as fostering the development of local non-governmental organizations, providing micro-finance opportunities, and particularly training of local individuals to create micro-enterprise, are integral to developing self-sustaining community capacity. It is important to note, however that these companies are not advancing the position that they should be the primary or sole institution responsible for fostering this sustainable capacity. For them, initiatives ultimately must be cost-effective and responsive to their guiding mandate of achieving a satisfactory return on investment. Rather, there is a willingness on their part to participate in a process with national government, international development agencies, and other institutions and stakeholders. They realize sustainability must be regarded as being a long-term objective, a capacity that must be developed and fostered over a generation. Whether the project is for three years or twenty, in the words of one respondent, the concern remains “what happens when we leave?”

Business Management Systems for Engaging Stakeholders

As the practice of engaging the widest group of local stakeholders becomes an increasingly important source of value, more and more corporations are moving from less-formalized, ad-hoc processes towards investing in comprehensive management systems. As with any source of value, the more important the source, the more emphasis is placed on maximizing it for competitive advantage.

These management systems include measurement, verification, and reporting of results to stakeholders. The need for developing these system components are being driven in particular by:

- World Bank, IFC, and other IFI social and environmental guidelines and regulations;
- The advantage of having documented and verified success stories and a strong reputation for the purpose of strengthening bids for new projects (demonstrating an ability to establish trust and credibility);
- Partnership agreements with local stakeholders which call on all parties to measure, evaluate, and report results toward mutually agreed goals;
- The demands by civil society, government, and/ or the public for transparency and verification of claims, and the need to produce on demand documented, verified evidence against allegations of wrongdoing or inappropriate corporate conduct;
- Voluntary initiatives on the part of corporations to reduce the pressure for prescriptive legislation that restricts the ability of business to find innovative ways to add social value;
- The need to demonstrate to shareholders the value-added and return on investing in stakeholder engagement;
- Increasing investor and consumer interest (investing patterns and consumer habits).

Existing Management Frameworks for Stakeholder Engagement

Canadian consulting companies interviewed had informal, but organized and understood methodologies for engaging stakeholders. These methodologies were integrated into each of the
companies’ bids and projects, and each had concrete examples of engagement with local communities that involved coming to mutually-agreed terms of collaboration. These businesses did not, however, have a defined and formalized management system which focused around stakeholder engagement. The large majority did not have formal training programs, nor formal and structured ways of integrating project experience into corporate memory and methodologies. Rather, methodology enhancement and training occurred informally on a project by project basis.

The approach of interviewed non-consulting firms was not uniform. These firms had differing levels of expertise based on the extent of their experiences abroad. Examples included companies just beginning initial operations in developing countries, to well-established firms with years of experience in these countries. While several had Codes of Conduct addressing stakeholder engagement and expressed interest in developing comprehensive management systems to support this component of the Codes, there were no examples in place.

Some interviewed companies preferred to have “as little bureaucracy as possible.” Their preference was to have a “hands-on” approach, with individual local operations given responsibility for developing situation-specific strategies. These companies, though not having an overall recorded or formalized strategy for stakeholder engagement, did indicate they had consistency regarding, for example, the presence of community affairs officers and environmental, health and safety standards at each operation.

Flexible Methodologies
Typically, these flexible methodologies “evolved naturally through corporate experiences.” However, some of these methodologies did build on other structured stakeholder engagement systems and bodies of expertise including “Rapid Rural Appraisal, and Participatory Action Research.” It was also noted that “sometimes the IFIs identify the stakeholders and the prescribed engagement process and we adapt to their requirements for the project.” The flexibility that business’ organized yet informal systems offered in these cases amounted to an advantage of being adaptable to imposed government frameworks – good or bad.

Reporting
There was varied reporting of the results of the stakeholder engagement process (either externally to shareholders and the broader public, or to the local stakeholders themselves). All interviewed companies reported their results in some form to the local stakeholders. Some companies with well developed internal reporting mechanisms indicated that “we get reports from our community liaison officers every quarter, and every year we have independent monitors verify the information,” but have chosen not to report externally to shareholders and the broader public. Other companies have been issuing ‘Environment’ or ‘Environment, Health, and Safety’ reports annually for several years. Others are now producing ‘Sustainability’ or ‘Sustainable Development’ reports. Others talked about the potential for ‘Social Reports.’ The debate regarding external reporting was still very much at the “feeling-things-out stage,” with numerous companies indicating that they are looking to other companies to see what direction they are taking.

Prioritizing Direct Stakeholder Engagement
It should be noted that engagement, in whatever form required to successfully build trust and establish shared values and shared goals, was always the priority for the company. Aspects such as structured management systems and reporting back to shareholders were secondary to ensuring the company made the best effort possible to adequately engage stakeholders, developing whatever ad-hoc means necessary to suit the needs of the situation. Any basic engagement still included agreed interaction and goals setting, measuring, and reporting to key local stakeholders.
Knowledge of Alternative Management Systems
There was various degrees of knowledge regarding available “one size fits all” stakeholder engagement management frameworks, such as the emerging AccountAbility 1000 standards of the Institute for Social and Ethical AccountAbility for social and ethical accounting, auditing, and reporting. The overall feeling among interviewed businesses, however, was that these systems were still too thin and too general (not customized enough to be useful, nor relevant enough to these firms).

IV. The Identified Needs of Business

The Needs
The business leaders who were interviewed identified several areas of need:

Improvement Upon Already Working Local Stakeholder Engagement Management Systems
There is widespread interest among business to continue to build and enhance existing successful local stakeholder engagement processes. The need is to get better at what they are doing, “find ways to more effectively maximize the value that is available,” and create more value for the company while avoiding the regular risks of management systems.

Interviewed companies emphasized the need for creative and flexible stakeholder engagement management systems which add organizational clarity and focus, while avoiding “prescriptive” approaches which hamper innovation and hint of “paternalism.” These systems must be useful for and respond to “the different challenges of every unique situation” and every unique group of stakeholders.

Tied to this is the need to ensure projects consistently meet and achieve rapidly developing stakeholder engagement guidelines as prescribed by IFIs and EIA regimes. Although businesses felt they were already meeting and exceeding these increasingly well-developed guidelines, many businesses recognized that “these standards were going to become increasingly global” and increasingly demanding. Continued improvement of a business in stakeholder engagement will therefore result in an important competitive advantage as these standards continue to intensify.

Employee Training
Training of employees either specifically on methods and techniques, or on company polices and procedures regarding stakeholder engagement was viewed as a priority. Questions companies stated they were tackling included: “How can we be sure our employees can ensure a high standard of stakeholder engagement that ensures a strong trust with our local stakeholders?” and “How can we ensure that our employees see challenges and opportunities and do the right thing at the right time all the time?”

Leadership Examples
Several companies indicated that their best source of learning is from exchanging information with other companies regarding experiences in engaging stakeholders. As broader stakeholder inclusion is still in the relatively early stages of development, business finds that working together to develop approaches can be valuable and lead to more cost-effective and rapid improvements. Such interchange of information allows companies to integrate lessons and insights into emerging management systems, and ongoing everyday practices. Other companies have chosen to join business associations who focus on sharing methodologies in this area.

Measurement, Verification and Reporting
Another identified need is to develop transparent management systems which allow better measurement and enhanced credibility through

The Centre for Innovation in Corporate Responsibility, November 1999
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Engaging Stakeholders and Business-NGO Partnerships in Developing Countries:
Maximizing An Increasingly Important Source of Value

Independent verification. These requirements are considered important for maintaining and building corporate reputation. There are several increasingly recognized forms of verification, including direct stakeholder sign-off or social auditing, with emerging professional qualifications for auditors. Business is examining these and other options and is working to help support their credibility in order that they can then adopt these methodologies.

Cost-Effectiveness
There is an identified need to develop these management systems with an eye towards shortening the time span and up-front investment required for stakeholder engagement and the maximization of the noted sources of value, without compromising their relationship with stakeholders. This concern is in part driven by the increase in time and money that is required for consultation as mandated by IFIs and increasingly stringent EIA guidelines.

Identification of Corporate Social Responsibility Boundaries
Many businesses commented on the need to determine what their full corporate social responsibility is (i.e. the boundaries between government, NGOs, business and other societal actors). This includes determining “where the cross-bar is, relative to the norm of conducting business in the country.”

Credible, Acceptable Standards of Social Accounting and Reporting
Most of the interviewed businesses are choosing to develop, or have developed and continue to enhance their own management and reporting systems, due in part to the fact that none of the current competing systems have emerged as the clear standard. None have emerged as a standard with a level of credibility great enough so as to convince business to try to adapt their systems to the standard. Until a standard emerges, this means slower rates of development and greater levels of investment for Canadian and other companies.

These companies are willing to make the investment because of the value and importance involved. However, they do look towards the day when a credible standard emerges that is flexible enough to be meshed with existing corporate systems.

How Corporations are Investing – Priorities and Plans for Enhancing Stakeholder Engagement

Internal Development of Management Systems
The main trend identified through the interviews was that these corporations were working on developing their own stakeholder engagement management systems. These are customized systems that might borrow from emerging off-the-shelf “one size fits all” management systems, but do not use them directly. Companies want to “build stakeholder engagement and social responsibility systems around their current systems, not try to fit their unique operating systems into poorly matched external systems.”

These systems would include more formalized training programs for company employees and the development and increased awareness of policies and procedures regarding stakeholder engagement.

Exchange of Information with Industry Colleagues
Interviewed corporations emphasized that they were spending time and money on getting their best ideas and learning how best to proceed through discussion and experience sharing with industry colleagues. The overwhelming response of respondents was that “there is not one standard that applies to everyone,” and that the exchange of ideas is a necessary complement to work they are conducting on their own.
Prioritization of Resources and Energy Devoted to Direct Stakeholder Engagement

Interviewed companies emphasized that regardless of the development of their management systems, they would continue to prioritize the time and energy for proper stakeholder engagement on a project-by-project basis, and that the final criteria for success would be mutual satisfaction among stakeholders and company.

These companies continue to focus on investing in stakeholder engagement from the earliest stages—especially prior to EIAs, and in line with emerging stakeholder engagement criteria of EIAs.

Standardization of Systems

These companies are investing in, and looking at, moving towards more standardized, accepted and credible reporting systems (from environmental reporting to both environment reports and social reports, or to Sustainable Development reports). Not all interviewed companies were planning to engage in reporting beyond the immediate local stakeholders; however, this seemed in large part due to the limited value that comes from such reporting prior to the existence of accepted and credible international standards. Investments in establishing an acceptable standard will increase, and once established, corporate investment in meeting this standard will flourish.

V. What’s Ahead: Sustaining and Enhancing Canadian Competitive Advantage in Stakeholder Engagement and Bottom Line Business Performance

Trends

The Centre for Innovation in Corporate Responsibility believes that the paths being blazed by these forward-thinking Canadian companies, and the needs and priorities with which they are working, are in-line with developments on the international scene.

There is currently a renaissance of interest in accounting standards. In the past, the growth of private enterprise created demands for financial accounting, auditing, and reporting systems which have now evolved into specific, well-organized and trusted frameworks of accountability and transparency. More recently, the gradual realization and integration of the importance of the environment and environmental sustainability has fostered the growth of environmental accounting, auditing, and reporting systems. This field is still young and is repeating the developmental process of financial reporting in terms of increasing specificity, organization, value, credibility, acceptability and trustworthiness.

In recent years, the increasing recognition of the importance of social dimensions, and stakeholder engagement and participation in decision-making is activating the first significant stages of the creation of social accounting, auditing, and reporting systems for business. In
Fact, November 1999 marked the unveiling of the first international standards for social and ethical accountability: the AccountAbility1000 standards. The rate at which these more recent systems are being developed are vastly accelerated as government continues to reduce its role and as business is given more flexibility (and greater responsibility) to accomplish social, environmental, and financial objectives through innovation and creativity—rather than prescription and command and control. Correspondingly, leading businesses are responding to this public trust in the private sector by significantly investing in adopting these types of (currently) voluntary frameworks (but increasingly required by IFIs, etc.) to reduce pressures on governments to legislate more restrictive and prescriptive means of balancing and contributing to social, environmental, and financial objectives. Leading companies are seeking a credible, accepted standard, but until then will continue developing their own hybrid systems according to their own needs.

Recommendations for Canadian Business

Enhance Management Systems and Reporting Systems
Canadian companies need to invest in successful stakeholder engagement with the mindset of creating a competitive advantage in maximizing an increasingly significant source of value. In particular, this means investing in management systems and reporting systems to more systematically maximize value. In addition to meeting World Bank and other IFI standards, a rapidly growing number of companies worldwide are adopting primitive standards for social and ethical accounting, auditing, and reporting (essentially reporting on the engagement of, and relationships with, all of its stakeholders). Companies with examples of Social or Sustainable Development reports include Shell, British Petroleum, and Placer Dome. The greatest degree of reporting comes from US and UK-based corporations (from markets, incidentally, that are typically recognized as the most liberal of the market economies).

Secure the Competitive Advantage in This Field (or Risk Not Just Disadvantage but Loss of License to Operate)
Companies that do continue to invest in stakeholder engagement and partnership will be better equipped to secure strong relations and maximize the value of investments and international projects vis-à-vis their competitors. They will increasingly secure more bids and contracts through their strength of reputation in this field. Some Canadian companies are convinced they have won bids because of this strength already, and it is for this reason that they continue to invest in enhancing these systems.

Those companies not already committed to the engagement of a wide group of stakeholders risk obsolescence. Expectations of business in this regard from investors of all types—whether they be looking to mitigate against social and environmental risks or whether they are committed to the development basis of the projects—are rapidly ruling out companies who are not committed to these issues.

Continue Investment in a Rapidly Developing Field
Those companies already doing well will find themselves eclipsed by other companies if they do not continue to push and invest and further develop engagement frameworks. The rate of change in terms of business progress in this field means that current competitive advantages are easily surrendered.
Partnering with NGOs can be an important strategic move for companies. Subject to the previously identified considerations, companies looking to maximize their resources and stakeholder engagement may wish to review the benefits and the challenges outlined in the section on business-NGO partnerships. This will allow businesses to determine which NGOs or other potential partners might best be positioned to add value and contribute to a company’s competitive advantage.

NGOs themselves should closely examine the concerns of business regarding partnership, the alternatives to business for collaboration for stakeholder engagement (i.e. the NGOs’ competition in partnering with business), the stated needs and priorities of business, and how they can improve their own performance and achieve their own goals while working in tandem with corporations.

Leading Canadian businesses have made significant progress in engaging a broader group of local community stakeholders for the purposes of increasing profitability while enhancing development. They must continue in this innovative spirit in order to maintain a strong international position in this area of business operation. Corporations who have not made the same level of progress must now react quickly in order to enhance profits through stakeholder engagement and to protect their own sustainability.
APPENDIX I

A review of literature concerning stakeholder engagement, public participation and business-NGO engagement was undertaken in order to determine dominant conceptions of where the benefits and difficulties lie in engaging local stakeholders and partnering with NGOs. A broad range of sources were consulted to obtain as balanced a perspective as possible.

A survey of 17 executives of 14 Canadian corporations operating in developing countries was undertaken between October 15 and November 10, 1999. These respondents were drawn from across the country, and from a range of industries (small to large sized mining, oil and gas, telecommunications, electronics, consulting, and engineering companies) in order to obtain a cross-section of opinions. The companies selected were considered by CICR to be leaders in this field. They therefore are not necessarily representative of corporate Canada as a whole. Rather, their leadership and focus on this field may serve as a strong indicator of its possible future centrality to business operations.

A questionnaire was developed to help facilitate the discussion, with the majority of the answers provided in an open-ended format. These interviews were conducted either over the phone or through in-person meetings. Results were aggregated and synthesized, thereby preserving the anonymity of respondents. It is acknowledged that the interpretation of results is subjective, and any errors or omissions are attributed solely to the authors.
APPENDIX II

List of interviewed companies

Agriteam Canada Consulting Ltd.
AGRA International Ltd.
Barrick Gold Corporation
CAE Electronique Ltée.
Canadian Occidental Petroleum Limited
Cowater International Inc
Noranda Inc.
Rio Algom Limited
Semex Alliance
SNC-Lavalin International Inc.
SR Telecom Inc.
Tecsult Foresterie Limitée
Tecsult International Limitee
Westcoast Energy Inc.
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