



Global Compact
Network Netherlands



STAKEHOLDER INCLUSION AS ACCELERATOR FOR THE SUSTAINABLE DEVELOPMENT GOALS

**INSPIRATION FROM
THE NETHERLANDS**



Global Compact
Network Netherlands

2020

ABOUT GLOBAL COMPACT NETWORK NETHERLANDS

Companies face unique challenges to work responsibly and have different opportunities to make a positive impact. The local networks of UN Global Compact Promote the sustainability of companies at the base level in more than 85 countries by making Global Goals Local Business.

Global Compact Network Netherlands strives to mobilise a local movement of sustainable companies and stakeholders with the aim of improving the lives of future generations. Guided by the Ten Universal Principles and the 17 SDGs we support companies and stakeholders in understanding what responsible business means within a global and local context and provide guidance to translate sustainability commitments into action.

Global Compact Network Netherlands stimulates and facilitates the creation of local connections and catalyzes companies and stakeholders to achieve Agenda 2030.

**BECAUSE WE BELIEVE
BY WORKING TOGETHER,
WE CAN CHANGE THE FUTURE**



Global Compact
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Disclaimers: This publication presents inspiring examples of stakeholder engagement in relation to the SDGs from selected Dutch companies. These companies were asked to participate to which they have kindly agreed. They were selected with the expectation in mind that these companies could provide important and inspiring examples of how they practice stakeholder engagement with regard to the transitions that the SDGs strive to achieve. The inclusion of company names and/or examples is intended strictly for learning purposes and does not constitute an endorsement of the individual companies by the UN Global Compact or Global Compact Network Netherlands. Several pictures were taken before COVID-19, therefore the distance between people may not be in accordance with COVID-19 restrictions.



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BY US ALL, FOR US ALL.

The Sustainable Development Goals (SDGs) present the agenda to tackle the enormous challenges we face. They address issues like climate change, biodiversity loss, food, pollution, waste and circularity opportunities.

All this alongside major social, economic and digital challenges exacerbated by COVID-19. Therefore, business leaders must stand tall on their values as guiding principles, together with the public sector. United, we must, and we can, act with a clear responsibility and the ambition to create long term value for a better world and use the available competencies and resources for making a difference and creating prosperity for all, including future generations.

It is the role of business in society to contribute to creating a better world and turn the challenges into opportunities as well, creating jobs and prosperity. The only way we can do this and address the SDGs is via a stakeholder approach where businesses, governments, academia, NGOs and civil society work together. "By us all, for us all", as the SDGs say. Each of us must play to their strengths, whilst building coalitions with others with different perspectives, interests and needs. This is exactly what the SDG Network in the Netherlands has done and shown over the recent years, with over 100 partners.

This requires an active approach: stakeholder engagement; long-term outlooks; learning; embracing new perspectives; shared synergies; and also creating resilient and prosperous societies. Moreover, it also will protect business against losing out in a changing world, including additional climate related costs, liabilities, etc. This study is a very welcome contribution to recognize that stakeholder inclusion is an important driver in our joint further development: "a better world for all". It is possible. Let's learn from this study and build on it.

**FEIKE
SIJBESMA**

Former CEO and Honorary Chairman Royal DSM
Co-Chair Global Center of Climate Adaptation

DON'T WAIT. START NOW!

On the 25th of September 2020 we celebrate the 5th anniversary of the Sustainable Development Goals. The SDGs are important for business, but business is also important for realizing the SDGs.

Seven words

As chair of the Dutch employers' organisation VNO-NCW I have a personal connection with SDG 17, which stands for partnerships. The main topic of this brochure. The Netherlands is well-known for its socio-economic 'Polder model'. I believe it is in the Dutch DNA to find agreements and have dialogues with civil society in order to pragmatically recognize differences and come with solutions. By strong cooperation between unions, government and employer organisations for instance we last year not only developed the climate agreement ('Klimaataakkoord'), but also proposed a new pension modernization plan and three massive packages to help companies survive the corona-crisis. This spirit of cooperation is also recognizable in the way the Netherlands contributes to the SDG-agenda. Not only on national level, but also on a business level this consensus based approach delivers positive future perspectives for companies. Transparency and engagement of stakeholders belong to the core business of companies as I have found out in previous roles. In this brochure you can find many tips, examples and best-practices how to do this. And it doesn't always have to be very complicated. It all starts with seven simple words 'What do you think about our company?'

Stakeholders simply hold the mirror for you

Especially in this time where people have growing concerns about the negative impact of industry and the economic downturn, it is vital for parties to make serious efforts to keep having constructive conversations. Proper stakeholder engagement improves expectation-setting and leads to continuous learning cycles for all parties at the table. Stakeholders simply hold the mirror for you. And sharing your dilemmas leads to richer discussions and increased trust and cooperation. Stakeholder inclusion is indispensable for a company's transition to being purpose-led. Companies who are able to include stakeholders will be able to take responsibility to tackle the collective challenges of society. And that's what we need in this decade of transformation and contributing to the SDG's. So don't wait. Start now!

**INGRID
THIJSSSEN**

President of VNO-NCW





Business Ambition for 1.5°C: Our Only Future Luncheon. Photo credit: Konrad Gerger

PREFACE

One year ago Heads of governments and CEOs already concluded that the Sustainable Development Goals (signed in 2015) will not be reached if we don't speed up our efforts. With the COVID-19 crisis and its impact on health, economy and poverty, we are even further away from realisation of this global agenda. The SDG agenda, explicitly recognizes the role of business. Companies contribute towards solving global and national challenges through their innovations and through making purpose-driven decisions that reduce their negative impact and increase their positive impact on the society. Many companies are really committed to increase their impact on the SDGs. Global Compact Network Netherlands offers to them a platform to accelerate their impact. Following the progress report of UNGC most companies recognize the importance of the SDGs, but only 35% is able to translate the SDGs to concrete business targets. As Global Compact Network Netherlands we are helping our members to make this transition.

Late 2019, a group of the participants of the UN Global Compact turned to the Dutch local network with a few questions regarding stakeholder engagement. Network Netherlands welcomed these bottom-up questions and decided to organize a workshop together with ten other members to exchange best practices. One of the outcomes was that stakeholder engagement is not only something good in itself, but should also serve as an accelerator for the SDGs and increase the long-term success of the company. Full stakeholder inclusion will lead to a better alignment of long term strategies with societal goals. In March, Global Compact Netherlands organized a brainstorm with external experts on the relationship between stakeholder engagement and the SDGs. The outcome was that it would facilitate a study on best practices at present. You are currently reading the report of that study.

As a daughter network of the UN Global Compact, it was important for us that the study would be readable and usable for sister networks around the world. In that light the challenge was not so much to write about the SDGs, but about stakeholder engagement. The study uses international definitions for stakeholders and levels of engagement wherever possible. This year we are celebrating the 5th anniversary of the Sustainable Development Goals, the 20th anniversary of UN Global Compact and the 75th anniversary of the United Nations. For us this is the right moment to offer companies new handles to increase their role in the world. We hope this study will offer a useful new tool for Global Compact members, both in the Netherlands and elsewhere.



Linda van Beek

EXECUTIVE DIRECTOR

Global Compact Network Netherlands



Jan-Willem Scheijgrond

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EXECUTIVE SUMMARY

Stakeholder engagement is rapidly increasing in importance to support companies in successfully conducting their businesses and contributing to the Sustainable Development Goals (SDGs). Companies create long term value through relations with their stakeholders, not in isolation. The SDGs respond to major systemic challenges and provide a coherent vision for a sustainable society. Companies and stakeholders will both benefit from realization of the SDGs.

Integrating stakeholders' legitimate interests in corporate decision making through enhanced stakeholder engagement is an important key to unlock how companies can create long term value with their stakeholders. Companies should maintain an active and alert attitude to embedding a fuller consideration of their stakeholders' legitimate needs and interests in their decision-making processes and as an ordinary part of conducting business.

Although there are many publications covering stakeholder engagement and SDGs separately, only a few combine the two topics. This publication is of the latter sort.

A new, innovative model is presented to structure the complexity of stakeholder engagement into six aspects and four gears. This model can help to better understand the dynamics of stakeholder engagement and its effect on companies' contribution to the SDGs. This model is an addition to existing models of stakeholder engagement.

Dutch practices of stakeholder engagement and the SDGs are presented in best practice case studies, in quotes from CEOs or other board members and from directors of Dutch NGOs. Insights from CEO and director interviews and a digital survey are combined. Together this provides a rich and inspiring set of best practices and insights.

The main conclusion of this publication is twofold. On the one hand there are many inspiring practices, on the other hand there is still room for improvement to unlock the fuller potential of stakeholder engagement and shift into the next gear. Stakeholder engagement can act as an enabler to contribute to all SDGs. Recommendations are provided as a roadmap, and with this guidance comes a measure of



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urgency to act because of the persistent systemic challenges facing the world. A set of helpful questions is provided to inspire companies on their journeys to further stakeholder engagement and the contribution to the SDGs.

This publication aims to spur corporate leaders into an active and alert attitude. Every corporate leader is called to focus on figuring out next steps and moving forward to the following phase on their stakeholder engagement journey and its contribution to the SDGs. Such a journey is unlikely to be a linear process. We wish all the courage, resilience and passion that is needed to succeed!

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STAKEHOLDER ENGAGEMENT IN RELATION TO THE SDGS

1.1 INTRODUCTION

Stakeholders and stakeholder engagement are of increasing importance to companies. A purposeful company that treats stakeholders in line with the accepted and emerging stakeholder theories and practices, is likely to be more successful in achieving short-, mid- and longer-term value creation for all its stakeholders, including financial viability and long-term continuation of the company.

A purposeful company will seek to contribute to “solving the global challenges of the 21st century, best expressed in an integrated way by the Sustainable Development Goals” (The British Academy, 2019).

As stakeholder engagement is rapidly increasing in importance for business leaders, investors, accounting bodies, insurers and regulators, it is important to identify what practices are helpful to bring stakeholder engagement forward. Stakeholder engagement may very well have the potential to help deal with the world's biggest challenges. Therefore, it is important to assess which stakeholder engagement practices may assist in promoting the Sustainable Development Goals (SDGs).

This publication assists in the identification of successful practices by exploring several aspects of stakeholder engagement and the SDGs. These aspects include the motivation of the company to pursue stakeholder engagement (the why of stakeholder engagement), the orientation of the corporate targets (for example only financial targets or also environmental targets), the different types of stakeholders and their interests (the whom/what of stakeholder engagement) and the process of involving stakeholders (the how of stakeholder engagement). Furthermore, this chapter highlights the expected results of stakeholder engagement and the disclosure related to stakeholder engagement.

FROM STAKEHOLDER MANAGEMENT TO STAKEHOLDER ENGAGEMENT

In business jargon it is quite common to talk about stakeholder management, whereas in this publication we choose to talk about stakeholder engagement. Stakeholder management implies that there are stakeholders that need to be managed, where companies can control stakeholders, usually from a risk perspective or from the perspective of minimizing reputational damage. Besides, stakeholders don't like to be managed because it may imply that their interests are not fully taken into consideration. Therefore, throughout this entire publication we will use the term ‘stakeholder engagement’, with the only exceptions being in the quotes of the CEOs.

Ultimately, we will identify six aspects and four gears with respect to the uptake of stakeholder engagement in relation to the SDGs. Pointing out the ways in which companies successfully apply these gears will help highlight relevant next steps for individual companies.

This chapter starts with a summary of the legal context and codes of conduct on stakeholder engagement. It continues with a brief exploration of the relationship between stakeholder engagement and the SDGs.

FROM ‘BUSINESS AND SOCIETY’ TO ‘BUSINESS IN SOCIETY’

Over the past decades a trend can be seen in a shift from business and society to business in society. Where a few decades ago companies had a separate department that was responsible for corporate responsibility, nowadays companies are more likely to take a holistic approach to their societal impact and are looking at ways to maximize the positive impact they have on society. This also implies society in business, where developments in society penetrate the board room because of the importance of these topics for the stakeholders of a company. Take for instance the Black Lives Matter movement or the MeToo movement where more and more stakeholders are demanding from companies to take a stand in these topics and to be involved and part of the solution, rather than the problem.

1.2 LEGAL CONTEXT AND CODES OF CONDUCT

The view that the responsibilities of companies and their managers extend to stakeholders, including employees, customers, (sub-)suppliers, shareholders, specific interest groups such as NGOs, the public at large and the environment has been around for a long time.

Since the 1980s, stakeholders have been functionally defined as “... groups and individuals that have a valid interest in the activities and outcomes of a firm and on whom the firm relies to achieve its objectives” ¹. But Berle and Means ² argued already in 1932 that the large public companies “... involve[s] the interrelation of a wide diversity of economic interests – those of the “owners” who supply capital, those of the workers who “create”, those of the consumers who give value to the products of enterprise, and above all those of the control who wield power.”

The notion that the company is built on the inputs of many different types of stakeholders has led many legal and economic researchers to identify the corporate board as the trustee of multiple types of stakeholders.

These perspectives have become increasingly important in relation to regulatory developments in the past decades. In Dutch statutory law, Art. 2:129 (5) / 2:239 (5) Dutch Civil Code states: “The Directors shall in the performance of their duties act in the interests of the company and its affiliated enterprise”. An explanatory Memorandum (Flex BV) notes that: “the interest of the company requires that the interest of other stakeholders, such as employees, consumers and suppliers that are involved in the company, have to be taken

¹: Freeman Harrison Zyglidopoulos 2018: 1

²: 2007: 310

³: Dutch Corporate Governance Code 2016, principle II.1/III.1

⁴: see Lokin and Veldman, 2020(fc)

⁵: OECD 2015: 34 - OECD (2015)

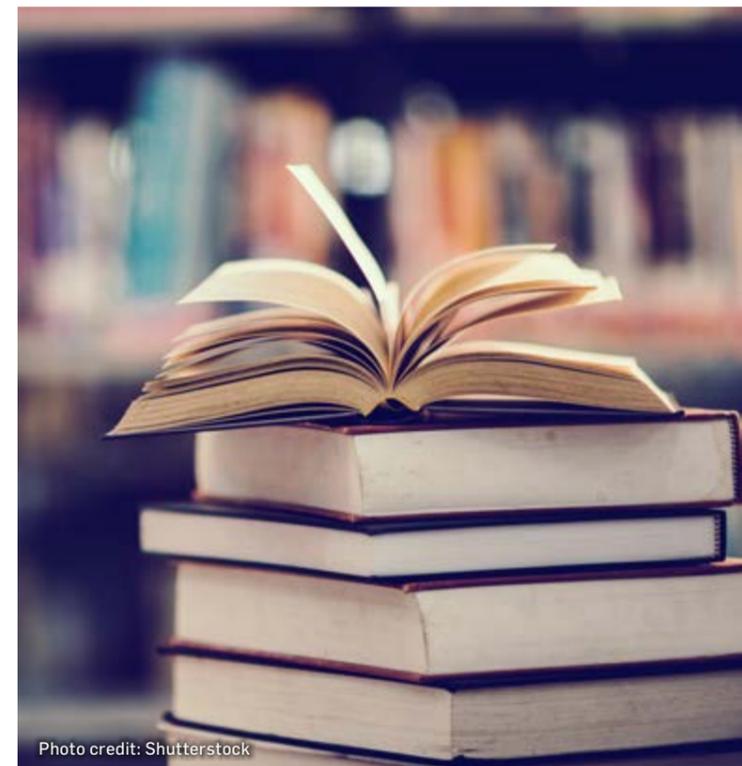


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into account in the decision-making.” Similarly, the Dutch Corporate Governance Code 2016 states that “[...] the management board/supervisory board shall be guided by the interests of the company and its affiliated enterprise, taking into consideration the interests of the company's stakeholders.” ³. A stakeholder approach may thus be considered central to recent developments in the Dutch regulatory landscape ⁴.

Beyond the Netherlands, stakeholder approaches have been adopted in the 2015 OECD Principles of Corporate Governance, where it is stated that the “Governance framework should recognize the interests of stakeholder and their contribution to the long-term success of the corporation” ⁵. The International Integrated Reporting Council states that stakeholders provide useful insights about matters that are important to companies, including economic, environmental and social issues that also affect the ability of the organization to create value. Likewise, the South African King IV Corporate Governance Code, Principle 16 (art 5.5) notes that: “In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interest of the organization over time.”

CODES OF CONDUCT 1 - DUTCH LEGAL FRAMEWORK

In Dutch statutory law, Art. 2:129 (5) / 2:239 (5) Dutch Civil Code states: "The Directors shall in the performance of their duties act in the interests of the company and its affiliated enterprise", while Art. 2:140 (2) / 2:250 (2) Dutch Civil Code states that: "In the performance of their duties the Supervisory Directors shall act in the interests of the company and its affiliated enterprise". In an explanatory Memorandum (Flex BV) it is stated that: "the interest of the company requires that the interest of other stakeholders, such as employees, consumers and suppliers that are involved in the company, have to be taken into account in the decision-making." Here, stakeholders are defined as groups and individuals who, directly or indirectly, influence the attainment of the company's objectives.

CODES OF CONDUCT 3 - DUTCH STEWARDSHIP CODE FOR INSTITUTIONAL INVESTORS (2018)**Principle 2**

Asset owners and asset managers monitor their Netherlands-listed investee companies on material issues, including, but not limited to, the company's business model for creating long-term value, the company's strategy, performance and risks and opportunities, the capital structure, social and environmental impact, corporate governance and corporate actions such as mergers and acquisitions. Material issues are those matters that are likely to significantly affect the company's ability to create long-term value.

Guidance principle 2

Every corporate action should be judged on its own merits, thereby taking into account the interests of other stakeholders of the Netherlands-listed investee company. In assessing the Netherlands-listed investee companies' long-term value creation opportunities, risks, strategy and performance, it is critical to consider environmental (including climate change risks and opportunities), social and governance information (including board composition and diversity) besides financial information. Material issues can include short-, mid- and long-term developments.

CODES OF CONDUCT 2 - DUTCH CORPORATE GOVERNANCE CODE

The Code is based on the notion that a company is a long-term alliance between the various stakeholders of the company. Stakeholders are groups and individuals who, directly or indirectly, influence – or are influenced by – the attainment of the company's objectives: employees, shareholders and other lenders, suppliers, customers and other stakeholders. The management board and the supervisory board have responsibility for weighing these interests, generally with a view to ensuring the continuity of the company and its affiliated enterprise, as the company seeks to create long-term value.

Principle**1.1.1 Long-term value creation strategy:**

The management board should develop a view on long-term value creation by the company and its affiliated enterprise and should formulate a strategy in line with this. Depending on market dynamics, it may be necessary to make short-term adjustments to the strategy.

When developing the strategy, attention should in any event be paid to the following:

1. the strategy's implementation and feasibility;
2. the business model applied by the company and the market in which the company and its affiliated enterprise operate;
3. opportunities and risks for the company;
4. the company's operational and financial goals and their impact on its future position in relevant markets;
5. the interests of the stakeholders; and
6. any other aspects relevant to the company and its affiliated enterprise, such as the environment, social and employee-related matters, the chain within which the enterprise operates, respect for human rights, and fighting corruption and bribery.

Principle 2.4 Decision-making and functioning:

The management board and the supervisory board should ensure that decisions are made in a balanced and effective manner whilst taking account of the interests of stakeholders.

CODES OF CONDUCT 4 - PRINCIPLES OF CORPORATE GOVERNANCE OECD 2015

The corporate governance framework should recognise the rights of stakeholders established by law or through mutual agreements and encourage active cooperation between companies and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises.

A key aspect of corporate governance is concerned with ensuring the flow of external capital to companies both in the form of equity and credit. Corporate governance is also concerned with finding ways to encourage the various stakeholders in the firm to undertake economically optimal levels of investment in firm-specific human and physical capital. The competitiveness and ultimate success of a company is the result of teamwork that embodies contributions from a range of different resource providers including investors, employees, creditors, customers and suppliers, and other stakeholders. Companies should recognise that the contributions of stakeholders constitute a valuable resource for building competitive and profitable companies. It is, therefore, in the long-term interest of companies to foster wealth-creating cooperation among stakeholders. The governance framework should recognise the interests of stakeholders and their contribution to the long-term success of the company.

CODES OF CONDUCT 6 - KING IV 2016

Principle 16 (art 5.5): In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interest of the organization over time.

The governing body should exercise ongoing oversight of stakeholder relationship management and, in particular, oversee that it results in the following:

.....

- b.** Determination of material stakeholders based on the extent to which they affect, or are affected by, the activities, outputs and outcomes of the organization
- c.** Management of stakeholder risk as an integral part of the organization-wide risk management
- d.** Formal mechanisms for engagement and communication with stakeholders, including the use of dispute resolution mechanisms and associated processes.

CODES OF CONDUCT 5 - IIRC INTEGRATED REPORTING FRAMEWORK 2013

An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

2.9 Because value is created over different time horizons and for different stakeholders through different capitals, it is unlikely to be created through the maximization of one capital while disregarding the others.

3.10 An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Stakeholders: Those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators, and policy-makers.

1.3 STAKEHOLDER ENGAGEMENT IN RELATION TO THE SDGs

Stakeholder engagement fits well with the SDGs adopted at the United Nations Summit in 2015 by government leaders of 193 countries. The SDGs consist of 17 overarching goals, 169 targets and 231 unique indicators.

These SDGs represent a global policy agenda to be implemented nationally as the blueprint to achieve a better and more sustainable future for all. The comprehensive agenda put forward in the SDGs needs active involvement of business, including the financial sector, to be realized. To facilitate their adoption, the Ten Principles of the UN Global Compact (see appendix) present an authoritative framework that guides business in the areas of human rights, labor, environment and anti-corruption. These principles represent the fundamental values that business should embed in their strategies and operations. Companies are encouraged to communicate through multi-stakeholder dialogue with the constituents who are most significant to their operations. Participants in the UN Global Compact are required to report to stakeholders in a transparent and public manner by submitting their annual Communication on Progress.

Engagement of stakeholders is explicitly embedded in one of the SDGs, i.e. SDG 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development. Cross sectoral and innovative multi-stakeholder partnerships will play a crucial role in our route to the year 2030. SDG 17 seeks to encourage and promote effective public-private partnerships.

The SDGs represent a set of material topics for companies that matter to the companies and their stakeholders, directly and indirectly, now and in the future. The SDGs are arguably beneficial to all stakeholders, including companies. For this reason, businesses often seek to align their activities with the SDGs by adopting selected SDGs goals, targets and indicators and by including their contributions to advancing these goals in their corporate mission, strategy, objectives and reporting.



Photo credit: Arne Hoel/The World Bank, Flickr

Such alignment can take at least two forms, which can also be combined. Firstly, the purpose of the company can be aligned with one, or a select few, of the SDGs, which will create a strong focus on maximizing a positive contribution to one, or a select few, of the SDGs through the company's most important products and services. Secondly, a company can seek to do no harm and to manage the outcomes of its business activities in line with the SDGs, which will generally focus on minimizing negative contributions and creating positive contributions over a range of relevant SDGs. Emerging regulations and codes of conduct in the area of ESG norms typically focus on minimizing negative contributions.

The SDG Compass developed by the GRI (Global Reporting Initiative), UN Global Compact and the WBCSD (World Business Council for Sustainable Development) in 2015 states: "As the SDGs form the global agenda for the development of our societies, they will allow leading companies to demonstrate how their business helps to advance sustainable development, both by minimizing negative impacts and maximizing positive impacts on people and the planet." The SDG Compass continues by referencing strengthening stakeholder relations as one of the five core benefits for companies from implementing the SDGs and as a control mechanism to reduce the risk of being "exposed by growing legal and reputational risks."

It is therefore reasonable to expect that companies will not only report on the SDGs, but will involve stakeholders in their business to a greater extent with the aim of increasing their impact on the SDGs. We believe that a deep understanding and broad inclusion of material stakeholder interests into corporate decision-making processes and reporting is critical for a company's continuation, its ability to create long-term value and will generally help companies positively contribute to the SDGs.

SDG AMBITION

Leaders of government and CEOs concluded in September 2019 that progress on implementation of the SDGs is lacking due to incrementalism and cherry picking and needs to be accelerated in the Decade of Action and Delivery. For its part, the UN Global Compact together with Accenture and SAP launched the SDG Ambition at the World Economic Forum in Davos in January 2020. In July 2020 a draft report was published that included measurable benchmarks capable of being integrated into the management of companies in their strategizing, day-to-day management and reporting practices. The Dutch Network is amongst the first to start with the in-country program: after a dialogue in a parallel session of the SDG Action Day on September 25th 2020, the launch of the [SDG Ambition 2030](#) took place.

COMPANY SELECTION OF THE SDGs

With the introduction of the SDGs a common language has been developed to address the societal, environmental, economic and governance challenges facing the world. The SDGs give guidance to companies about how and in what areas they can contribute to a better world. Since the launch of the SDGs in 2015 many companies have adopted these. Several studies show that many companies have selected a limited number of SDGs to focus on. SDG 8 (decent work and economic growth), SDG 12 (responsible consumption and production) and SDG 13 (climate action) are selected most frequently. One outcome of these studies is that more work can be done by companies on the selection of sub-targets that lie underneath the SDGs and to set concrete, ambitious and long-term goals on these SDGs.

GRAND CHALLENGES REQUIRE CSR 4.0 APPROACHES – ROB VAN TULDER

The grand systemic challenges of our time – reflected by the SDG agenda – re-iterate the need for companies to engage with primary and secondary stakeholders in a sophisticated, strategic and synergistic way. Over the years, in particular frontrunner companies have pushed the business case for stakeholder engagement and 'CSR' from a traditional (CSR 1.0 = Corporate Self Responsibility), via a defensive (CSR 2.0 = Corporate Social Responsiveness), to a more strategic approach (CSR 3.0 = Corporate Strategic/Social Responsibility). Stepping up the pace for the SDGs calls for additional corporate engagement in building fit-for-purpose strategic partnerships with governments and NGOs, to create maximum impact through collaborative advantage. CSR 4.0 (Corporate Societal Responsibility) includes the design transformational partnerships for all SDGs - not only for SDG 17.

THE PURPOSE OF BUSINESS IS TO SOLVE NOT CAUSE PROBLEMS - JAAP WINTER

Fifty years ago, Milton Friedman proclaimed in New York Times Magazine, that the social responsibility of business is to increase its profits. Directors have the duty to do what is in the interests of their masters, the shareholders, which is to make as much profit as possible. Friedman's view has become the dominant paradigm in the last 50 years. The single-minded focus on financial returns to shareholders that has been advocated in business schools and practiced extensively and enhanced by for example incentive schemes to ensure directors focus on just that, has cost society severely. Well before the COVID pandemic, businesses with this focus were criticized for causing the degradation of nature and biodiversity, contributing to global warming, stagnating wages and exacerbating economic inequality. The costs to employees, societies in which corporations work and natural capital in the form of our environment and climate are treated as externalities for which the corporation does not bear any responsibility unless regulation explicitly forces them to. The result is best exemplified by the drastic shift in gain sharing away from employees towards shareholders and top management eating more of the economic pie. Clear evidence for this over the period 1992-2018 is produced in a recent EY report to the European Commission. Shareholder pay-outs have risen from 1% of revenues in 1992 to 4% in 2018, with the Netherlands interestingly very much at the leading front of pay-outs to shareholders (EY Study on directors' duties and sustainable corporate governance, July 2020).

Business has been responding to this criticism by emphasizing that it has a broader purpose in society and a broader responsibility to various stakeholders as well as shareholders. The Business Roundtable statement of September 2019 in the United States was a clear departure from the shareholder primacy rhetoric of the past decades and a signal that business leaders sense a change is needed. However, in the current power structure of corporations, they need their shareholders' support to make any meaningful change beyond the nice words and branding, for example if they would want to include their purpose in society into their articles of association. That is why many others and I have now pleaded for a mandatory change to corporate law to enshrine the broader responsibility of directors to ensure that the corporation conducts itself as a responsible corporate citizen. Such a broader responsibility should not only be acted upon to the extent it furthers the shareholders interests. It should be the other way around: shareholders' interests should be served and profit making should occur in the context in which business sees it as its responsibility to solve societal problems, not cause them.

Business, indeed, needs to engage a broader responsibility towards society. Developing practices that realistically involve stakeholders in decision-making, either in the production and distribution chain or possibly within the corporate itself, should help business to clearly see what stakeholders need and expect. Companies can also make business decisions based on this. Therefore, business can become a force to serve people and the planet and that is the business we should want.

GEARS OF STAKEHOLDER ENGAGEMENT: A PRACTICAL MODEL

2.1 INTRODUCTION

This publication makes a distinction between six aspects of stakeholder engagement: 1) motivation, 2) orientation of targets, 3) stakeholder types, 4) approaches, 5) (pursued) outcomes and 6) disclosure. For each aspect there is a distinction based on four stakeholder engagement gears: 1) legal minimum, 2) the 'I' perspective, 3) the 'you and I' perspective and 4) the 'we' perspective. All four levels include a link to the contribution towards the relevant SDGs. Other ways of looking at stakeholder engagement could have resulted in different insights and perspectives^{*1}.

Like all structures and modelling, this structure of six aspects and four gears of stakeholder engagement is a simplification of reality. Reality is obviously more nuanced and complex. However, this structure does help to model the complexity of this topic and to better understand each aspect and each gear individually.

The following paragraphs elaborate on the combinations of these six aspects and four gears of stakeholder engagement.



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SIX ASPECTS OF STAKEHOLDER ENGAGEMENT

DISCLOSURE

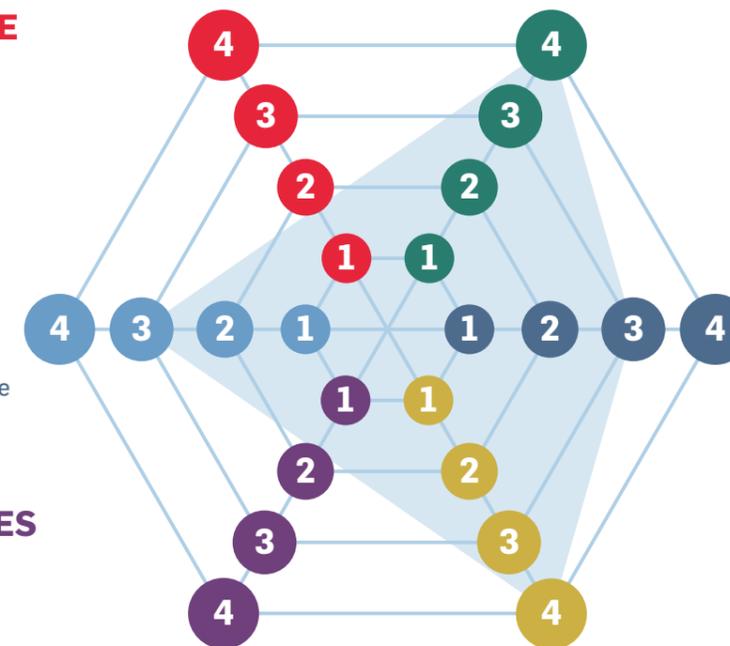
- 1. Mandatory
- 2. Opportunistic
- 3. Wider
- 4. Impact

(PURSUED) OUTCOMES

- 1. Insight
- 2. Validation
- 3. Alternatives
- 4. Integrated value

APPROACHES

- 1. Information
- 2. Consultation
- 3. Involvement
- 4. Partnership



MOTIVATION

- 1. Legal-minimum
- 2. Risk-based
- 3. Opportunity-based
- 4. Stewardship

ORIENTATION OF TARGETS

- 1. Compliance
- 2. Do no harm
- 3. Shared value
- 4. Purpose

STAKEHOLDER TYPES

- 1. Internal
- 2. 1st tier
- 3. 2st tier
- 4. 3st tier

*1: There are many studies available on levels of stakeholder engagement and sustainability, amongst others Van Tulder, R. (2018) Business & The Sustainable Development Goals – A framework for effective corporate involvement, RSM Erasmus University (Open source Series on Positive Change)

2.2

ASPECT 1: THE MOTIVATION FOR STAKEHOLDER ENGAGEMENT



Companies can have different drivers for pursuing stakeholder engagement. In this publication a distinction is made between four of these drivers.

The first driver refers to external requirements, either in the shape of hardcoded law or through more soft coded standards, like sector-specific codes of conduct, guidelines or reporting frameworks. This is called the **legal-minimum** motivation. Examples are existing legislation, the OECD Guidelines for Multinational Enterprises and in the Netherlands the IMVO covenants.

The second driver is based on a business case from a risk perspective. Stakeholder engagement is used as an instrument to avoid possible liabilities, costs or reputational damages, now or in the future. This is the **risk-based** motivation for stakeholder engagement. Risk-based stakeholder engagement generally seeks insights on issues directly related to the company's activities or products which are of most concern to influential stakeholders. Risk-based stakeholder engagement is mostly aligned with the Behavioral stakeholder theory (Donaldson Preston 1995) and the do-no-harm approach.

The third driver is **opportunity-based** motivation and aims to create shared value, which is driven by business opportunities and may also include positive reputation, increasing sales or improved targets as specific, indirect goals for stakeholder engagement. Typically, stakeholder engagement targets unlocking new business opportunities for companies. Here, the stakeholder is mostly considered a means to an end. This way of stakeholder engagement is in many aspects aligned with the Instrumental stakeholder theory (Donaldson Preston 1995).

The fourth and last driver is called the **stewardship** motivation, which encompasses the sense of responsibility to care for all stakeholders and to create positive societal impact, which may be expressed through public advocacy of the SDGs and sustainable development in general beyond the direct interest of the company itself. Balancing the

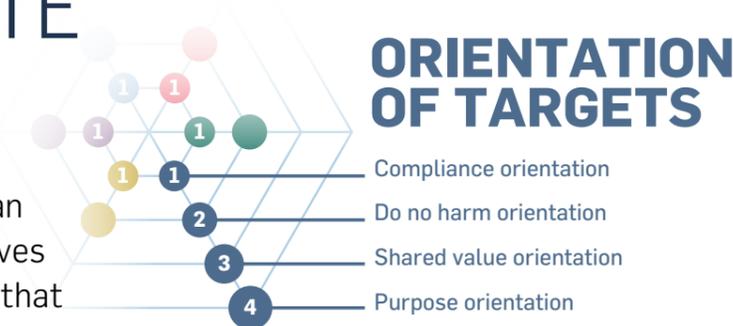
interests of all stakeholders, now and in the future, is an important aspect of a stewardship orientation. Typically, companies driven by stewardship define the purpose of their company in terms of providing lasting solutions for the world's challenges without externalizing costs, direct or indirect, now or in the future. Stewardship motivation is mostly aligned with the normative stakeholder theory, with purposeful companies and a more proactive approach.

CONNECTIVITY WITH VALUE CREATION

Business does not operate in isolation. Direct and even indirect stakeholders, such as societies and the environment, are major contributors to short and long term (positive and negative) value creation in an increasingly transparent world. Businesses will be exposed and challenged by direct stakeholders in their value chains and beyond by direct and indirect (e.g. public interest) stakeholders. The mapping of opportunities, risks and related impacts is, therefore, part of due diligence. Building resilience against exogenous factors and interests requires a forward-looking perspective and listening to the emerging context regarding business operations and strategy. Moreover, it also presents an opportunity to actively engage with stakeholders to identify better practices, new opportunities and relevant trends. The need and opportunity for such engagements is typically company specific and related to its purpose, size and potential, positive and negative, impacts.

2.3

ASPECT 2: THE ORIENTATION OF CORPORATE TARGETS



A (set of) corporate target(s) is an indication of what a company strives to accomplish. A target suggests that progress is structurally managed and tracked through accounting and control functions. Because companies may adopt different approaches to target setting and their use in relation to stakeholder engagement, we distinguish between four different orientations to target setting.

The first orientation is **compliance**. All targets are directly related to legal obligations and represent the bare minimum of target setting on sustainability objectives. Although regulation may be well developed, by definition it is mostly a political compromise and comes into force after a long period of consultation, negotiation and transposition.

The second orientation is **do no harm**, which centers issues like the responsible business conduct stipulated in the government-backed OECD Guidelines for Multinational Enterprises. This orientation dedicates at least some of its targets to external stakeholders, like customers and suppliers, and such targets are focussed on avoiding a negative impact on stakeholders. This orientation is usually risk-based.

The third orientation is **shared value**. At least some targets are related to issues aligned with the SDGs and that are significant to stakeholders such as the media, influential NGOs and others. This may well include issues that are of a long-term nature, like targeting emission neutrality or circularity. Such targets are typically not directly related to the purpose or the mission of the company. Aligning corporate targets with the SDGs usually affects part of the production process or part of the products and services of a company but generally does not cover 100% of a company's output. Such alignment may well support this orientation.

The **purpose** orientation sets one or more concrete and challenging longer-term targets on issues that are directly related to the purpose or mission of the company and the SDGs, typically with one or a select few SDGs. These targets appeal to positive and negative impacts which most stakeholders signal as highly significant to them. Examples include, but are not limited to, targets that are aligned with the SDGs.

WHAT DO WE MEAN BY IMPACT?

Impact is a change in outcome caused by an organization, where outcome is defined as an aspect of social, environmental or economic well-being. This definition is derived from the Impact Management Project, 2020.

2.4 ASPECT 3: TYPES OF STAKEHOLDERS AND THEIR INTERESTS



There are various ways to classify stakeholders. Criteria include significance to the company, significance of the issue to the stakeholder, the stakeholder's power or legitimacy of the stakeholder's issue.

In this publication, we draw on Sirgy (2002) and the OECD Guidelines for Multinational Enterprises, but we introduce a further division in the 'distal stakeholder' category and shift the media, local community and environment as stakeholders into a different category. This delivers the following classificatory scheme, divided into four categories.

The first type of stakeholders is the **internal stakeholder**, which comprises all the stakeholders that hold a formal contract with the primary purpose, i.e. to supply the company with labor. This group typically includes employees, management and directors. This group is also primarily interested in the business case for stakeholder engagement and in the impact on the company. Other, external stakeholder groups, as given in the following paragraphs, are more interested in the wider impact of a company's behavior or decisions.

The second type of stakeholders are those with a direct contractual or transaction-based relationship with the company. This group typically includes customers, first-line suppliers and capital providers and government-related authorities (i.e. for licensing). In this publication this group is classified as the **1st tier stakeholder**. The combination of the internal stakeholder and the 1st tier stakeholder is directly related to the company's core business processes, its daily operations and in the longer-term continuation of the company.

The third group of stakeholders comprises those that have the power to directly and significantly influence the first two stakeholder types. This group is called the **2nd tier stakeholder** and includes media, competitors, business experts, credit- and other rating agencies and influential NGOs. Additionally, indirect clients of a company are included in this group, i.e. the end-client of a B2B customer of the company. This category corresponds with scope three of the Greenhouse Gasses Protocol, and includes the entire value chain, proportionate to size of the company (OECD Guidelines for Multinational Enterprises, Chapter II, Commentary 15).

The fourth and last group of stakeholders lack the power to directly and significantly influence the company or the first two stakeholder types, but are or can be affected by the company's activities. This group is called the **3rd tier stakeholder**. Sometimes, some of the most critical stakeholders in this fourth group remain silent and will at best be reactive if invited to respond. Also, this fourth group of stakeholders is the most diverse and often divergent in their opinions. An example is future generations or employees of other companies in the same sector.

For the purposes of this publication, we will assume that within and between these groups, stakeholders can have different interests, which may differ from the company's interests and that not all interests can be quantified or expressed in monetary terms.

STAKEHOLDERS BECOMING RIGHTS HOLDERS

Good business practices sometimes develop into industry-standards or even law over time. The law of the future is a dynamic and evolutionary process: general principles of business' duty of care progressively applied by good practice by some businesses eventually become law with duties for industry and rights by stakeholders. Voluntary industry-developed codes and covenants for improving business standards raise expectations with affected stakeholders and society-at-large, and may eventually lead to regulation, for instance in order to crowd-in the non-compliant actors and/or to create a level playing field. The 2011 OECD MNE Guidelines were drafted as encouragement to businesses to voluntarily adopt comprehensive due diligence in the value chain. As such, they presented the basis for the 2017 French "Devoir de Vigilance" Law, mandatory for large companies, a recent initiative for EU-wide due diligence legislation by the European Commission. Similarly, the Global Reporting Initiative, a private sector, multi-stakeholder initiative, developed its voluntary sustainability reporting frameworks from 2003 onwards, providing a basis for EU Directive 2014/95 on mandatory Non-Financial Reporting. And the TCFD recommendations on climate-disclosures, initiated by the Financial Stability Board but industry-led and market-driven, are increasingly developing into soft law standards as Supervisory Authorities increasingly require compliance with these recommendations.



Photo credit: Unsplash

2.5 ASPECT 4: THE PROCESS OF APPROACHING STAKEHOLDERS

Approaching stakeholders can take various forms. Based on the initial four levels of the spectrum of public participation as proposed by the International Association for Public Participation (IAP2, 2007;2018) we distinguish between four different approaches to stakeholders in this publication.

The first approach is **information**. As the name suggests this is a one-way street in which the company informs stakeholders. Typically, this takes a more passive and written form in which the company informs the stakeholders through explaining their decisions and considerations. Stakeholders need to actively access and digest the information themselves, for instance through publicly available information.

The second approach is **consultation**. The name is similarly self-explanatory. This approach is a two-way street in which more specific information, points of view and arguments are shared mutually. A mutual understanding – not necessarily agreement – is part of this approach, but typically no commitments either way are expressed and neither the company nor the stakeholders feel or commit to any obligation to meet the concerns expressed by the other party. Critical, yet legitimate needs of stakeholders with low power to influence the company are generally not being met.

The third approach is **involvement**. The involvement approach differs from the 'consult approach' by the commitment of the company to undertake a specific action which is seen by the stakeholder to wholly or partially address their concerns. The 'involvement approach' builds on the 'consult approach', but in the 'involvement approach' the most material issues are acknowledged as a result of real listening and learning. Although the ultimate decision power still rests within the company, corporate decisions



will occasionally directly favour the stakeholder's interests even if this means a cost to the company. Typically, in the involvement approach both parties remain independent and the commitment is action-oriented and there is no binding commitment from the company to deliver results. A concrete possibility for such action is provided in the OECD Guidelines. The OECD Guidelines for Multinational Enterprises require companies to actively engage and exercise leverage in the value chain on negative material impacts, per Chapter II, articles 13 and 14.

In the fourth approach, **partnership**, the commitment becomes result-oriented to address the concerns of the stakeholder(s). Generally, this approach is preceded by and naturally builds on the former approaches of dialogue and involvement. In addition to commitment, trust and building a longer-term relationship are essential elements of this approach. Formal partnerships, such as a joint venture with stakeholders, as well as other forms of lasting cooperation to address specific issues and concerns may be part of a partnership approach. The company and stakeholders join efforts to work towards shared objectives, including addressing the most material issues of one or a combination of stakeholders. This approach may also have a governance dimension that addresses how (in-)direct stakeholders, including society-at-large, may be engaged in a structured way in corporate issues. The partnership approach may inform the formation of formal decision-sharing mechanisms, e.g. a permanent position in one or more of the governing bodies of the company.

2.6 ASPECT 5: OUTCOMES OF STAKEHOLDER ENGAGEMENT

The outcomes that a company wants to achieve from stakeholder engagement may also vary. Again, we distinguish between four types of (pursued) outcomes.

The first type of outcome is **insight**. In this approach the company focuses on gaining insights, in particular learning about the stakeholder's interests and motivations.

The second type of outcome is **validation**, which means that a company strives to get the stakeholders' validation or even their consent on how the company deals with certain stakeholder issues.

The development of more acceptable **alternatives** is the third type of outcome which a company can pursue. In this approach the company goes beyond gaining insights or seeking validation, but acknowledges a stakeholder's interests and at least partially caters for their interest in a balanced approach with the corporate's own interest.

The fourth type of outcome is **integrated value**. Collaboration means that the company and one or more stakeholders will collaborate to resolve certain issues. Here, the stakeholder is not central; rather, the issue and its resolution. The pursued outcomes resolve the issue in a balanced approach of integrated value creation and acknowledgement of mutual dependency and long-term relationships: a company creates value through the relation with their stakeholders.

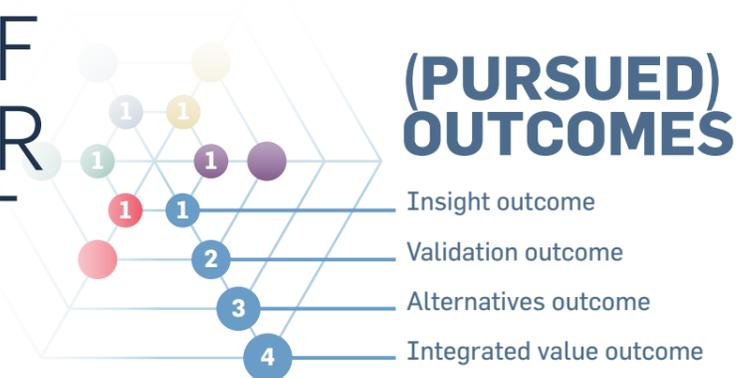


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2.7 ASPECT 6: DISCLOSURE

The disclosure of stakeholder engagement activities through publicly available sources may vary. Moreover, the scope of the information that a company discloses varies widely.



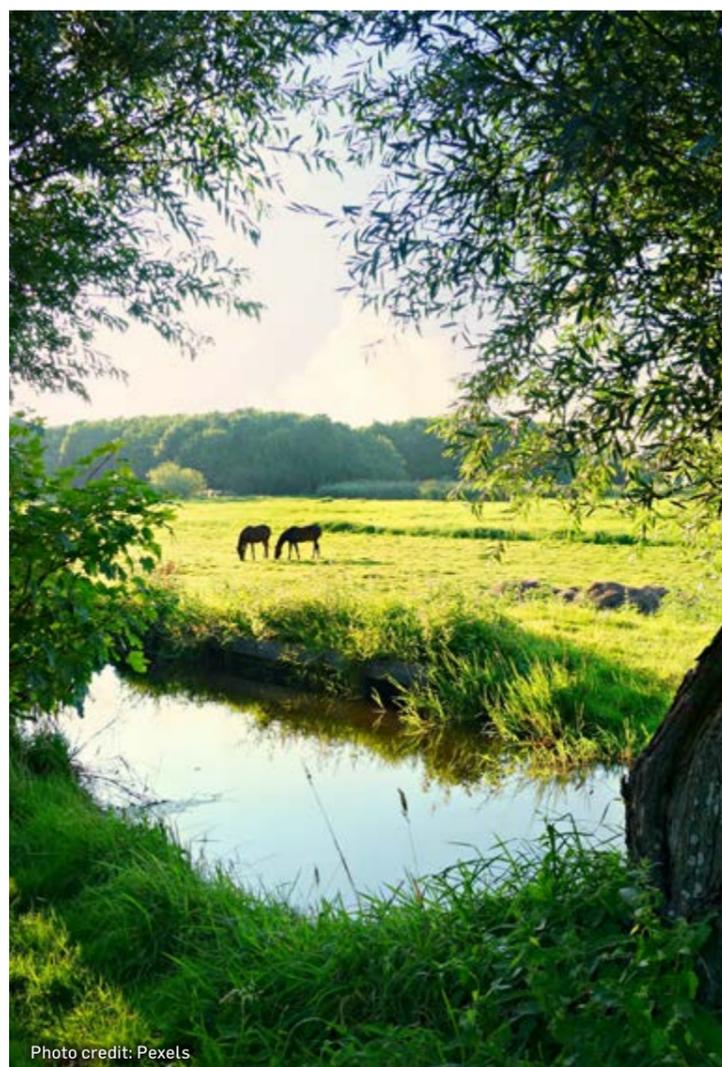
For instance, the standards developed by IIRC and SASB primarily focus on investors, while those developed by GRI and GC largely focus on non-investors. In this publication the scope of corporate disclosure that is of interest is the information related to the material issues for stakeholders beyond the group of internal stakeholders and providers of capital. With this scope in mind we distinguish between four approaches of corporate disclosure on material issues.

The first approach of disclosure, called **mandatory**, basically only discloses the legally required minimum to material stakeholders.

The second, **opportunistic** approach typically adds positive examples of stakeholder engagement and anecdotal evidence of stakeholder engagement. Typically, the scope of disclosure is limited to examples or parts of the business activities that perform well. If the scope includes all of a company's business activities the outcomes generally tend to be depicted positively, while less positive examples are either omitted or downplayed.

The third approach towards disclosure, called **wider disclosure**, is focussed on disclosure of information on the process of stakeholder engagement, its outcomes and the management approach to the material issues for stakeholders. In this approach the company discloses meaningful information on how it influences stakeholders and what is being done to maximize positive impact.

The fourth approach is more complete and typically includes all, if not most, material issues. The disclosure is balanced by including both positive and negative outcomes and impacts in a fair and realistic manner. Dilemmas and trade-offs are recognized and disclosed even before they are resolved. This type of disclosure is called **impact disclosure**.



2.8 ADOPTING GEARS DEPENDS ON SYSTEMIC CONTEXT

The feasibility and desirability of the adoption of a specific gear at a company level may differ depending on external conditions, such as the extent to which an industry is already in transition, the presence of a coherent regulatory framework, or the presence of an effective change coalition (Nijhof and Simons, 2020).

Moreover, a company may have more than one motivation depending on which part of their business is discussed or the specific topic at hand. Also, gears can change, for better and for worse, over time, e.g. as a result of leadership or ownership changes or when the continuation of the company is threatened.

On a systemic level it is beneficial for stakeholders, for companies and for society at large to shift gears upwards, especially for major transitions that respond to complex, worldwide challenges. More and more companies start to realize that the SDGs stand for a total transition of the way we live and work. The WBCSD concludes that six systemic transformations are needed to achieve this transition. These are:

1. circular economy - redesign usage of scarce resources through rethink, reduce, repair, reuse, refurbish, recycle and recover;
2. cities and mobility - transforming urban environment and mass transportation;
3. climate and energy - decarbonizing our energy system to tackle climate change;
4. food and nature - making agriculture more sustainable and safeguarding the biodiversity on which we depend;
5. people - tackling inequality and poverty;
6. redefining value - considering business value in the context of its wider purpose for multiple stakeholders and its societal and environmental impacts.



Because it is almost impossible for companies to tackle these systemic transformations on their own, there is a need for cooperation, in supply chains and in the organization of partnerships with public and private partners at local, regional and international levels. Sometimes cooperation is virtually the only way to achieve transformation, especially in market conditions impacted by one or more of these three factors: 1) thin margins and absence of pricing power; 2) lack of regulatory power; 3) ability to externalize costs and/or no premium for sustainable production.

Hence, the fourth gear is the optimum at a systemic level, but the optimal gear for an individual company depends on many circumstances. Similarly, different stakeholders may have very different expectations of a company. In these circumstances, the convening power of industry associations, governments and international bodies may prove helpful to start a cooperative, transformative process to shift gears for the entire industry in a guided and controlled fashion. Therefore, the optimal gear for a single company is not always straightforward and depends on specific circumstances and is subject to changes over time. The identification of a specific gear is meant to inspire companies and to present the means, both within companies and in their wider environment, to shift gears upwards. Shifting gears is typically not achieved in isolation, but in close cooperation with stakeholders.

2.9 FLOW OF THE GEARS

The assumption is that there is a positive correlation between the several aspects of stakeholder engagement conducted by a company.

Our research aimed to evaluate the relationships between the six aspects of stakeholder engagement, as presented in the model in this publication. We have identified common denominators for each gear of every aspect. The figure below shows the most important characteristics of each gear and symbolizes the 'flow' in gears for all aspects. Each company can evaluate its own stakeholder engagement process based on this 'flow'. We assume that there is a positive correlation between the six aspects for each company, driven by the underlying, common denominator. However, it can also be possible that a company is in gear 2 for one aspect and in gear 4 for another aspect.

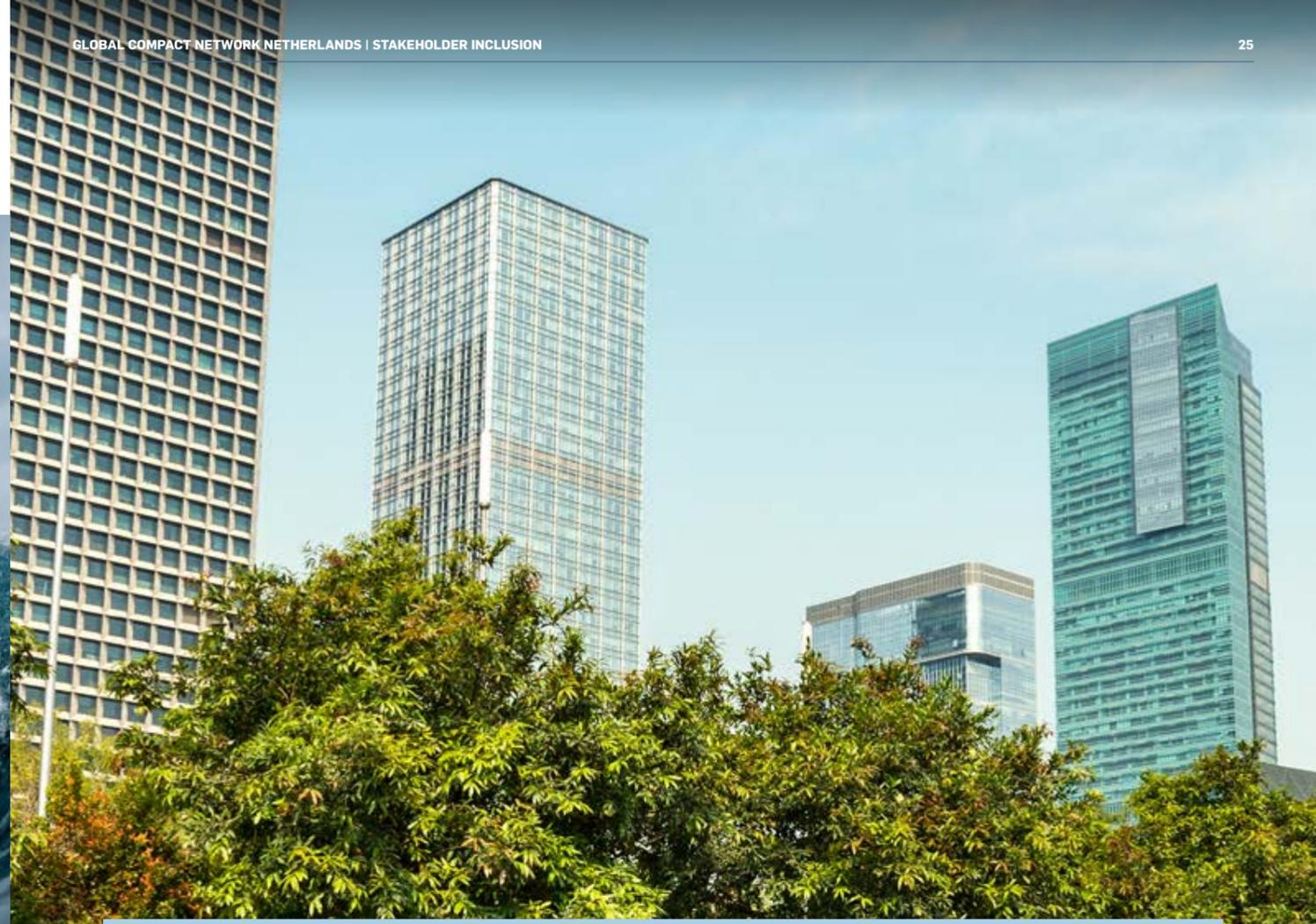
The common denominator for gear 1 in all aspects is the perspective of the legal minimum. For gear 2 companies it is the perspective of conducting stakeholder engagement because it pays off. In gear 3 companies are looking for opportunities to improve their business based on the notion of shared value with their stakeholders. In gear 4 companies partner with their stakeholders based on a vision on multiple value creation.



Photo credit: Pexels



figure 1: flow of the gears



STAKEHOLDER ENGAGEMENT AND FINANCIAL PERFORMANCE

Academic research has shown that effective stakeholder engagement leads to improved financial performance (e.g. Hillman and Keim, 2001; Benson and Davidson, 2010; Cabral, Mahoney, McGahan and Potoski, 2019). Garcia-Castro, Ariño and Canela (2011) find evidence of negative effects of stakeholder engagement on shareholder value in the short run and positive effects over the long run. Building better relations with stakeholders like employees, customers, suppliers & communities has been related to increased financial returns by helping firms develop intangible but valuable assets which can be sources of competitive advantage (Hillman and Keim, 2001).

For example, investing in stakeholder relations may lead to customer or supplier loyalty, reduced turnover among employees or improved firm reputation. These direct intangible assets will indirectly have an effect on a company's financial performance. Hence, investing in stakeholder engagement can be seen as complementary to shareholder value creation and as a basis for competitive advancement as resources and capabilities may be created that differentiate a firm from its competitors.

We suggest that the current model may provide inspiration for future research into the relation between the effects of motivation, targets, approaches and results of stakeholder engagement in the different gears on firm performance on the economic, social and environmental dimensions.

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3 DUTCH PRACTICES OF STAKEHOLDER ENGAGEMENT



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3.1 INTRODUCTION

Our research is based on two pillars. The first pillar consisted of interviews with business leaders and stakeholder representatives. The second pillar consisted of two digital surveys. In this chapter we have summarized the best practices from those two pillars.

We interviewed eleven CEOs and board members of leading Dutch companies. The objective was to collect best practices to help companies enrich their stakeholder engagement and accelerate their efforts to realize the SDGs. Our interviews were designed to obtain in-depth insights into board involvement and boardroom dynamics to identify what differentiates frontrunners and what other companies can learn from them. The insights from these leaders are interesting because, as frontrunners, they are pioneering the business transformation in practice. An analysis of their motivation, approaches, activities and results provides unique insights into the characteristics and actions needed to be a frontrunner in stakeholder engagement.

We also interviewed five directors of influential Dutch NGOs and stakeholder representatives to get the perspective from the stakeholder side. Four interviews were conducted with major Dutch NGOs, of which three represent a group of stakeholders. One interview was conducted with a managing director of an executive search firm who was

actively involved in a survey on sustainable leadership and had interviewed CEOs from around the world about their perspectives on sustainability. Based on these interviews, we were able to challenge the statements made by the CEOs, and to see if both groups (for-profit firms and NGOs) had the same observations and opinions. In many cases their opinions were aligned, but we also found some interesting differences.

In our second pillar, the online surveys, we asked stakeholders about motivations, approaches, activities and results of stakeholder engagement. One for for-profit firms and one for NGOs/non-profit organizations. We collected responses from 52 company representatives and 14 non-profit representatives.

In this chapter, we described the six aspects of stakeholder engagement and their characteristics, based on the interviews and the surveys. We included examples of best practices and quotes from CEOs and leaders for every aspect, to inspire others.

Based on these interviews and publicly available information, such as annual reports, brochures and websites, the companies were classified into the different gears as described in Chapter 2 for each aspect. Most of the companies we analyzed are in gear 3 or in gear 4 for one or more aspects. Many of the leaders spoke passionately about the SDGs and stakeholder engagement, but also described that there were still challenges to be addressed and hurdles to overcome.



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3.2 ASPECT 1: MOTIVATION

A company's motivation is expressed in their purpose, vision and/or mission. Different motivations are distinguished and the four gears from Chapter 2 are summarized in the table below.

GEAR 1 LEGAL-MINIMUM	GEAR 2 RISK-BASED	GEAR 3 OPPORTUNITY-BASED	GEAR 4 STEWARDSHIP
Motivation is to comply with soft and hard law and regulation.	Motivation is based on a risk perspective.	Motivation is based on opportunity perspective.	Motivation is based on stewardship thinking.
Stakeholder engagement is limited to legal obligations.	Stakeholder engagement is done mainly to prevent claims and litigation in order to secure short-term financial performance.	Stakeholder engagement is done with the goal to find business opportunities and improve long-term financial performance.	Stakeholder engagement is done to comprehensively learn about concerns and issues.
The company's mission statement or purpose typically pursues revenue and profit growth.	The company's mission statement or purpose typically pursues controllable product and/or service quality.	The company's mission statement or purpose typically seeks to be the preferred choice in specific customer segments.	The company's mission statement or purpose typically seeks to contribute to resolving world-wide recognized challenges.
	Mostly aligned with a 'do no harm' approach and the behavioural stakeholder theory.	Mostly aligned with the instrumental stakeholder theory.	Mostly aligned with the normative stakeholder theory.

table 1: characteristics of aspect 1

Companies in gear 3 or gear 4 are often seen as a positive example and an inspiration to other companies. Some companies not only inspire but actively involve other companies in achieving their mission, particularly if there are overlapping values and visions.

In the digital survey about two-thirds of the companies chose the opportunity-based motivation "because it pays off" and about a third of the companies chose "because that is how it should be". This is fairly consistent with the results from the CEO interviews.



Comparing the answers from the digital survey for companies and NGOs shows a fairly similar division. This means that the NGOs' perception of the company's motivation to conduct stakeholder engagement is in general fairly consistent with how companies view their own motivation.

Commentary from the digital survey also included some elaboration. Some companies conduct stakeholder engagement to stay relevant for their stakeholders, to support the process to create long term societal value, to keep their license to operate or because it is part of their corporate value proposition.

In the digital survey 85% of the companies said that they conduct stakeholder engagement to gain insight into stakeholder expectations, 77% to use it for societal value creation and 63% to increase support for the company's strategy. This also equals the top three answers from NGOs. Notably, gaining insights on the potential to decrease negative impact is mentioned by companies (51%) but hardly by NGOs (7%).

One of the areas of potential improvement emerging from the survey is that stakeholder engagement can be scattered over different topics and issues. Adding centralized oversight and steering would potentially benefit the coherence of stakeholder engagement as well as help to further professionalize the internal engagement of the stakeholder involvement processes. Connecting to the overall strategy and corporate purpose is considered to have the potential to further enhance coherence and execution.

CASE PHILIPS

DEVELOPING A SUSTAINABLE MODEL THAT IMPROVES ACCESS TO HIGH-QUALITY CARE

“Lack of access to affordable, quality care is one of the most pressing issues of our time. COVID-19 has only intensified the situation, overwhelming health systems around the world and stalling progress towards achieving universal health coverage (UHC) by 2030, the commitment made by all United Nations member states in 2015.

As a focused leader in health technology, it is our purpose to improve people's health and well-being through meaningful innovation. Philips aims to improve the lives of 2.5 billion people a year by 2030, including 400 million in underserved communities.

No company, NGO or government body alone can solve the many healthcare challenges facing underserved communities around the world. The Partnership for Primary Care (P4PC) is a partnership between Amref, Philips, the Dutch Development Bank FMO, and the Makueni County Government. The partners have been working in developing and testing a transformative model to strengthen the primary care system in Kenya, with the aim to replicate that across Africa. The program kicked off in July 2018.

In simple terms, Makueni County is responsible for policy, facility infrastructure, provision of healthcare professionals and drugs and supplies, Amref is taking the lead in strengthening community health units, training health workers and managing facilities, FMO is providing catalytic financing and financing expertise, while Philips is providing and managing health facility equipment and furniture. In this project the parties work together as equals, leveraging each other's strengths to the benefit of the population, and combining the strengths of the private and public sector. The mutual dependency defines the strength of this partnership and builds trust.

The evaluation of phase I of the project in Makueni (Aug 2018 - Jan 2020) identified significant improvements in quality of care, financial sustainability, human resources for health, and health system governance. The project facilities witnessed a 92% rise in patients and a significant rise in service utilization of up to 78% for primary care services such as antenatal care visits, skilled deliveries and immunizations.

The project is now progressing to the next phase for a county-wide roll out in 2021. Philips aims to replicate these types of large-scale transformations of primary healthcare across Africa, working in close partnerships with governments, engaging the UN family for independent knowledge brokering, and unlocking the innovative power of the private sector and civil society.”

RESEARCH RUSSELL REYNOLDS

GLOBAL RESEARCH ON SUSTAINABLE LEADERSHIP

“In the beginning of this UN Decade of Action (2020-2030) there is a strong awareness that we are not on track to achieve the Sustainable Development Goals. The COVID-19 pandemic further exposed fundamental weaknesses in our global system.

It is in companies' best long-term financial interest to play a proactive role in addressing the current social and environmental challenges our world faces because their key stakeholders, including investors, talent, customers, governments and suppliers will increasingly demand that companies have a positive impact on society.

This is more than a matter of strategy, policy and process: it is fundamentally about leadership and people. Executives and non-executives have a huge opportunity to make sustainability central to their organization's leadership and culture. Global search firm Russell Reynolds Associates looked at how frequently sustainability is a factor in senior executive hiring and board appointments. We analyzed close to 4,000 role specifications across industries and the globe, and found that in 2019 in only 4 percent of executive and nonexecutive role specifications was sustainability experience or mindset an actual requirement. In 15% of executive and non-executive role specifications reference was made to sustainability (up from 9% in 2015). To put that another way, businesses are increasingly doing a good job embedding talk of sustainability into descriptions about their company, but are falling short in applying sustainability when driving hiring decisions of senior leaders.

Expectations of CEOs, executives and board members are changing. Sustainability is a leadership issue and imperative to long-term success, which requires the right mindset and leadership attributes. It starts at the top, but it must become part of the fabric of the entire organization. This is not a matter of hiring a single individual to own sustainability. CEOs and boards need to be ambitious in driving a new vision for leadership and select, develop and foster sustainable leaders in their ranks. To achieve this, it is critical for companies to embed sustainability into their leadership processes, including succession planning, selection, compensation, and training. Sustainability is a leadership imperative. The time to act is now.”

CASE POSTNL

DIVERSITY

“With around 120 nationalities represented in our workforce, PostNL is a multicultural company. Diversity and inclusion are important for us, as well as our customers and other stakeholders. It creates more perspectives in our discussions, improves the decisions we make and generates ideas for new services we introduce. Ultimately, it makes our business stronger. In our diversity and inclusion policy, we focus on creating a work environment where everyone feels safe and is provided with development opportunities to maximize their potential. PostNL stimulates diversity in age, gender, ethnic background, sexual preference and distance to the labor market because we recognise that diversity in mindset and abilities is crucial to succeed as a company. Every three years PostNL holds a diversity survey, and we define follow up actions accordingly.

In addition, PostNL finances scientific research into diversity and inclusion, and uses the factual results to define specific improvement areas. We use these to provide new insights to our employees on cultural resilience. Each year we train people across the company on how to interact in a multicultural environment. This enables our people to make PostNL a pleasant and open place to work. When we identify intercultural issues, internal specialists work on a case-by-case basis to address them. PostNL works continuously on specific actions across all elements of its diversity and inclusion policy to optimize the capabilities of its workforce to operate in a multicultural and diverse society. PostNL also looks at multicultural diversity through mobility programs and management development programs, with the aim of attracting more multicultural talent and better aligning recruitment for traineeships.

At the end of 2019, almost 50% of the workforce was female. PostNL offers equal opportunities for all employees. However, with only 27% of management positions held by women, there is still progress to be made. Developing leadership within an organization takes time. This is why PostNL believes in focusing on diversity and inclusion, and understands that developing talent at lower levels of the organization helps shape a more diverse management structure for the future.

PostNL identifies talent with multicultural backgrounds to help them move into leadership positions within the company. In addition, we help women nearing the executive level of our organization with a mentoring program called Women Inclusion Network (WIN), providing them with the opportunity to expand their professional network.”

Frans van Houten, CEO Philips
 “Sine qua non”

“Stakeholder management is a sine qua non for Philips. Without stakeholder management we are unable to accomplish our mission.”

Hans Reus, managing director Russell Reynolds
 “Addressing demands from stakeholders”

“It is in companies' best long-term financial interest to play a proactive role in addressing the current social and environmental challenges our world faces. Their key stakeholders, including investors, talent, customers, governments and suppliers will increasingly demand that companies have a positive impact on society.”

Dailah Nihot, Chief Organisation & Corporate Relations NN Group
 “Purpose driven mission”

“With our new Management Board we recently defined a new purpose. Our purpose ‘we help people care for what matters most to them’ reflects the kind of company that we aspire to be, and is also based on input from different stakeholder groups. The discussions within our board clearly showed that we truly want to make a difference in the lives of people. That is what drives us as individuals, and we believe it also creates a strong foundation for our company.”

Jan-Joost Bosman, CEO Auping “Just do it”

“In the transition to a circular product proposition, you will initially have to deal with an increase in costs rather than a decrease. So, there are often enough reasons to postpone it, but you just need to do it.”

Jaap Wassink, country director Coca-Cola European Partners Netherlands

“With active stakeholders, sustainability comes naturally”

“I feel that sustainability is very much embedded in our business, about a quarter of our management time goes to this topic. And that also has to do with our brand. When I go to a football match on Saturday morning with my son, people ask me about what Coca-Cola is doing. Everywhere my employees go, they get questions about sugar and plastic, so you take this to your work.”

Bart Romijn, director Partos “Discrepancy between board and people on the ground”

“I see that top executives are more willing to listen to the needs of critical stakeholders. There is also more room in the board to reflect on trends and risks. When you talk to people on the ground, or if you look at a commercial chain, this awareness is less.”

Herna Verhagen, CEO PostNL

“Balancing stakeholder interests in our DNA”

“Companies with a highly visible presence and strong connections with society such as PostNL have a balanced stakeholder approach in their DNA. We ask our stakeholders for input and we actively seek a dialogue with them before we make decisions on major issues. To be clear: this is not a trend of recent years: this has been part and parcel of our DNA since the start of our activities over 220 years ago.”

Danielle Hirsch, director Both Ends
 “Honest conversation”

“Stakeholder management is the wrong term. We shouldn't strive to manage each other. We should strive to engage in an honest conversation with each other on the basis of respect and equality.”

3.3

ASPECT 2: TARGETS

In setting targets, companies show what their focus is, and what they think is important. In other words, targets reflect the priorities of the company.

By prioritizing financial targets, a company signals that shareholders are considered as more important than other stakeholders. And by committing to long term and ambitious targets on societal impact, a company signals that a purpose isn't just a hollow phrase, but that they are actually committed to making a difference in people's lives.

The old phrase “what gets measured, gets done” is also true for contributing to the SDGs. This was also the reason for the initiative of the UN to set up the Inter-Agency and Expert Group that developed 231 unique indicators for countries to measure progress on the SDGs. One of the respondents in the survey said: “In general, companies select targets for SDGs that also deliver a financial gain, such as reducing energy and water usage. However, issues such as wellbeing of people in

the supply chain or deforestation and loss of biodiversity are scarcely selected as concrete targets.” We noticed from our interviews with the CEOs and in our desk research on publicly available information that the SDGs and their sub-targets requiring a more systemic approach, such as SDG 14 (Life below water) and SDG 15 (Life on land), are less likely to be selected by companies.

However, setting targets isn't enough. There also needs to be a sound governance system around those targets clarifying who is responsible for those targets and where they are embedded in a standardized process.

From our research it emerged that many companies struggle with defining meaningful Key Performance Indicators (KPIs) to measure their efforts on stakeholder engagement and once those KPIs are defined to incorporate them in a solid planning and control process. Setting clear responsibilities and prioritizing the robustness of data on non-financial KPIs can be a differentiator to solve these challenges.

We saw from the interviews that companies that are in gear 4 ask their stakeholders what they should focus on and determine company targets together, based on the ambition to create a positive impact on society. They also introduced non-financial targets in their remuneration policies on board level.

GEAR 1 COMPLIANCE	GEAR 2 DO NO HARM	GEAR 3 SHARED VALUE	GEAR 4 PURPOSE
Targets are mostly financially driven.	Motivation is based on a risk perspective.	Targets are focussed on impact on internal stakeholders, and 1st tier stakeholders such as clients, suppliers, governments and NGOs.	Targets are focussed on impact on society as a whole and linked to the sub-targets of the SDGs.
There are only non-financial targets if the law requires a company to set targets. An example is a target for gender equality in boards, which is mandatory in some countries.	There are some non-financial targets, such as NPS and number of complaints. Non-financial data is not managed at a central point.	There are targets on output indicators. Non-financial data is managed centrally, often by the finance department.	Impact-measurement is part of a management cycle and part of a periodic routine. The entire board is responsible for their share of the impact KPIs.
The mission statement of the company is aimed at financial results, such as being number one in its market.	The mission statement of the company is focussed on delivering the best service for the customer.	The mission statement of the company is focussed on delivering a positive impact on 1st tier stakeholders, such as ‘improving the lives of our clients’.	The mission statement of the company has a long-term focus, usually more than 5 years, on making a concrete contribution to society.
Targets are prescribed top down from board level.	Employees are consulted in defining the targets.	1st Tier stakeholders are consulted in defining the targets, and their input is taken into consideration.	Targets are determined together with external stakeholders. Partnerships form an important part of those targets.

table 2: characteristics of aspect 2

Several companies have started to measure their impact on their stakeholders, both positive and negative. However, CEOs report that there are multiple barriers, such as the quality of data and difficulties in determining KPIs that reflect the impact of the organization and the measurement of that impact.

In our survey we found an interesting difference between NGOs and companies. Only 7% of the NGOs say that companies have quantitative targets for the SDGs, whereas 17% of the companies say they do. A possible explanation is that not all targets are externally disclosed and therefore external stakeholders are not aware of the existence of those targets.

CASE WITTEVEEN+BOS

SDG IMPACT TOOL

STAKEHOLDER INVOLVEMENT

"At Witteveen+Bos we have four corporate objectives. Our primary objective is to add societal value and to contribute to the United Nations Sustainable Development Goals (SDGs). The other three objectives are talent development, sustainable business operations and creating economic value. These four objectives were established as a result of a materiality analysis in 2015. During this analysis a wide group of internal and external stakeholders were interviewed and a survey was conducted among employees. In 2019, we renewed this analysis. Our potential contribution to the SDGs has been part of the analysis. We revealed what SDGs Witteveen+Bos should focus on, considering the importance that our stakeholders attach to each SDG, the impact that we had on this SDG at the time of measurement, and the impact that we could have as a company. Relevant to our company are the SDGs good health and well-being, clean water and sanitation, affordable and clean energy, good infrastructure, sustainable cities, responsible consumption, climate action and the preservation of aquatic and terrestrial wildlife. The materiality analysis showed us the impact that our stakeholders presume we have, based on their knowledge of the company and our projects. This provides direction in setting priorities for progress. To measure this progress, we developed the SDG Impact Tool. In 2019, we retrospectively assessed our projects in developing countries, a small part of our total project portfolio."

QUALITATIVE AND QUANTITATIVE

"The projects were first assessed on quality: to which of the UN's SDGs did the project make a positive or negative contribution? For example, designing a hydropower station in Africa is expected to improve access to electricity and sustainable energy and reduce CO₂ emissions. These projects were then assessed on quantity, for example: how many people now have access to electricity or how many people now use sustainable electricity instead of fossil fuels?"

POSITIVE AND NEGATIVE EFFECTS

"Most of our projects in developing countries contribute to SDG 6 Clean water and sanitation: in the 26 projects that we assessed, over 4 million people are experiencing a positive impact. Our biggest positive effect in the number of people is on SDG 13 Climate action, and SDG 11 Sustainable cities and communities: we have protected 2.3 million people from floods resulting from climate change and improved the conditions for over 10 million people in cities. Materials and energy are used in most infrastructural construction works. We therefore assume that our projects have a negative impact on CO₂ emissions. Projects aimed at renewable energy and circularity are an exception. Our assessed projects also have a negative impact on water consumption."

NEXT STEPS

"The next steps in applying the SDG Impact Tool will be to assess our full project portfolio, to raise awareness among project leaders to make a conscious selection of projects, to set targets for increasing impacts and to determine how to increase the impact on relevant SDGs at the start of a project."

DOUBLE MATERIALITY AND DYNAMIC MATERIALITY

Materiality is a concept that defines why and how certain issues or information are important for a company or a business sector. The non-binding guidelines to the EU Non-Financial Reporting Directive (NFRD) introduced the term "double materiality", in a supplement on climate related disclosures, approaching materiality from two perspectives. The first perspective concerns the impact of the company on society at large, the second perspective concerns the impact of society at large on the company.

Materiality can and should be used not as a technical exercise, but to shed important light on business-critical matters for management, senior leaders, and even board members. These insights should inform strategy and risk management and need to be drawn up in dialogue with stakeholders, to ensure that critical topics are not overlooked.

Thomas Kuh et al. introduced the term "dynamic materiality". It implies that in today's world, stakeholders of companies have the capacity to determine what is material for a company. The Internet has given them agency and a voice in shaping the market's perspective on a company. Consequently, designation of which issues are material for a company is more fluid than ever before. In a world where companies have less control over their own narratives in the market, grasping this dynamic is essential for corporate leaders. What is material today may not be tomorrow, and what is not material today may be tomorrow. Consequently, which issues are material is more fluid than ever before.

Renate de Lange, PwC "KPIs"

"Firstly, we ask our stakeholders which themes they consider important as input for our materiality matrix. Following more qualitative conversations, we learn what our stakeholders expect of us and what we should do in our services and our organization to be able to meet those expectations. There are KPIs for the material themes."

Wiebe Draijer, CEO Rabobank "Measuring Impact"

We try to report on our impact through indicators, but it is tough. It is a challenge to find an indicator that is measurable and that represents the impact you are making. As reports become more and more automated, indicators need to be easily available and should be able to be embedded in a daily management routine. There aren't many indicators that meet both requirements. In my opinion, the core of the SDGs is mapping the full cost price of all products and services, that's my holy grail.

Maarten Otto, CEO Alliander "SDGs"

"Our company has made an explicit link with the SDGs. An important development is that we want to explain better and better what our quantitative contribution to the SDGs is."

Frans van Houten, CEO Philips "Ambitious target setting"

"Innovation can be achieved only in collaboration with all stakeholders. An open dialogue and knowledge sharing will always bring something in return. If your targets are not ambitious enough you will never be able to achieve a break-through innovation."

3.4 ASPECT 3: TYPES

Companies can involve different types of stakeholders. The table below summarizes the classification as was given in Chapter 2. Reference is also made to the OECD Guidelines for Multinational Enterprises, Chapter II, articles 10-14.

GEAR 1 INTERNAL STAKEHOLDERS	GEAR 2 1 ST TIER STAKEHOLDERS	GEAR 3 2 ND TIER STAKEHOLDERS	GEAR 4 3 RD TIER STAKEHOLDERS
Stakeholders with a formal contract to the primary purpose, i.e. to supply labour to the company.	Stakeholders with a direct contractual or transaction-based relationship contract with the company.	Stakeholders with the power to directly and significantly influence the first two stakeholder groups.	Stakeholders who are or can be affected by the actions of the company but with no power to directly and significantly influence the first two stakeholder groups.
Mostly interested in the impact on the company.	More interested in the impact of the company.	Mostly interested in the impact of the company.	Mostly interested in the impact of the company.
Employees, management, directors	Customers, suppliers, capital providers, government-related authorities	Media, competitors, rating agencies, influential NGOs.	Future generations, the environment.

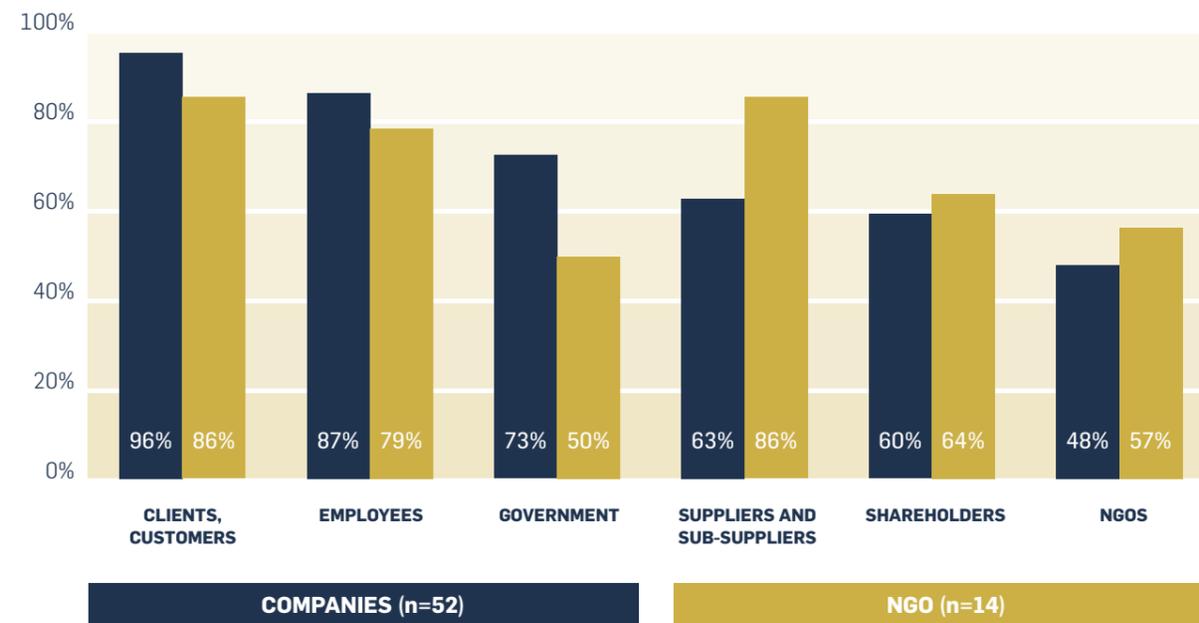
table 3: characteristics of aspect 3

The interviews showed that for local issues it is good practice to involve local parties. For example, for a stakeholder issue in Kenya, local parties need to be included in processes, rather than only relying on voices outside the country. However, the survey also shows that this good practice is sometimes difficult to achieve in certain countries. Local governments or NGOs, both local and international with local activities and connections, can sometimes be helpful to convene the right stakeholders.

Some of the interviewees remarked that companies get the clients and the shareholders they deserve. This also means that the client base, the shareholders and the stakeholder base can and is likely to evolve in accordance with the strategic direction the company chooses to pursue. Of course, this is not a guarantee: companies cannot choose their shareholders or their stakeholders.

In the digital survey companies cite their customers, their employees and the government as their top three stakeholders, in that order. Suppliers and sub-suppliers rank four and shareholders fifth. NGOs as stakeholders are mentioned by 48% of the companies, just outside the top five. Although this means that most companies involve their major stakeholders, there is room for further development by expanding the types of stakeholders. In the conducted interviews it was mentioned that the relationship between companies and NGOs is established and also has evolved to a more open, productive relationship based on a professional exchange of knowledge and joint fact-finding on appropriate occasions.

STAKEHOLDERS MENTIONED IN TOP 5



With regard to the number of different stakeholders, few companies (17%) include less than three stakeholder groups, most companies (36%) include four to six stakeholder groups. About a third of the companies (31%) indicate including more than ten stakeholder groups.

In the interviews it was mentioned that a company's own employees, especially in case of higher diversity, can offer useful insight into the issues that are significant to other stakeholder groups as well. It is therefore recommended that a company's own employees also be included as stakeholders for issues that do not pertain to their positions as employees at said companies.

Another recommendation is to also include critical stakeholders. Although this may sound obvious, our research shows that this is not common practice.



Photo credit: Shutterstock

CASE KPN COMMITTED TO CIRCULARITY

KPN on its way to being close to 100% circular by 2025

“With remote controls and fiber optic cables made from recycled plastic, KPN shows that the company takes circularity seriously. As the greenest telecom brand in the Netherlands, KPN strives to connect everything and everyone in a sustainable way. From design to purchasing and service, in many places in the company we are working to be even more energy efficient and circular in the coming years.

Ten years ago, the telecom company joined Global Compact, the United Nations’ sustainability platform. KPN has only used green electricity since 2011 and has even been climate neutral for its own operations since 2015. This was followed by discussions with customers, NGOs and educational institutions about the next step. That became circularity. Simply put, this means that the company wants to produce virtually no waste. Ensuring that all new KPN network and customer equipment last longer and is produced with fewer new raw materials also contributes to the circular economy that the Dutch government wants to achieve in 2050 and gives substance to SDG12: Responsible consumption and production.

The new ambition has been set out by the Executive Board: to become about 100% circular from 2025. By aiming so highly, it was clear to the entire organization that everyone had to make a contribution. New products must be designed differently, remain in use for longer and can be reused at the highest quality possible at the end of the lifecycle. Where possible, virtualization is applied, in which we replace hardware with software.

It soon became clear that KPN would never achieve this goal without the cooperation of suppliers and customers. Customers are therefore reminded of the importance of returning devices so that they can be recycled. But for these new sustainable products, suppliers in particular must take a leading role.

Since 2017, we have been calling on suppliers to sign the KPN Circular Manifesto and to work together to reduce the joint CO₂ and environmental footprint. After two years, eighteen suppliers have already joined, who together account for about 70 percent of the annual expenditure on equipment for the network. The first circular products are now a fact: a remote control, TV receiver, modem and fiber optic cables made completely or mostly out of recycled plastic. In order to be almost completely circular by 2025, KPN is also working together with industrial design students from various technical universities to come up with smart innovations. In this way we deploy our entire network to achieve these sustainability ambitions together.”

Joost Farwerck, CEO KPN
“Different shareholders”
“At KPN, the adage is: “customers first.” And our customer wants us to serve them fairly and transparently. That is therefore also the core of our implementation of the sustainability goals and in linking our strategy to the SDGs. (...) KPN thus also attracts shareholders who look more to the long term.”

Jan-Joost Bosman, CEO Auping
“Changing relationship”
“Our suppliers suddenly also become our customers because we send raw materials back to them. We realize that the choices that we make have vast consequences for us and for our partners.”

Herna Verhagen, CEO PostNL
“Stakeholder influence”
“Contrasts between stakeholders’ interests are fairly minor in my view. As a board, you continually weigh up the company’s interests, its long-term viability, and how you can positively impact your stakeholders. Any differences between these three positions are usually minor. It’s just that for some it can take longer before you meet their expectations.”

Jaap Wassink, country director Coca-Cola European Partners Netherlands
“Constructive stakeholders”
“We of course are open to all kinds of questions, remarks coming from all stakeholders around us, also the most critical ones. It’s more to say that our dialogue is more active and two-way with the more ‘constructive’ stakeholders and very critical ones, who want to join forces with and are willing to solve challenges collectively.”

3.5 ASPECT 4: APPROACH

There are different ways a company can approach its stakeholders. It may depend on the importance of the issue, the relationship with the stakeholders or the type of stakeholder.

From the interviews it appears that some companies have evolved in how they approach their stakeholders. Previously, companies would put their corporate dilemma with regard to the issue center stage. Increasingly, however, companies put the issue central and recognize that the issue is larger than the company. In this approach companies involve multiple stakeholders around a central issue. In brief, stakeholder engagement has evolved from an inside-out to an outside-in perspective.

Depending on the topic different approaches can be used within one company. Particularly, topics that are related to the mission statement of a gear 4 company are mostly dealt with using a partnership approach. Gear 4 companies may work together with competitors on societal issues that they feel are important to solve. Moreover, they lead in establishing and maintaining partnerships within their sector.



Photo credit: Eskinder Debebe, Flickr

Gear 4 companies do not try to manage stakeholders, they include them. This is explicitly shown in international supply chains, where gear 4 companies work together with local communities and their representatives, instead of managing a topic in the supply chain at a distance from a head office.

From our survey we noticed that 71% of the respondents among stakeholders wanted to be informed by the company via direct communication on the objectives and results. Fifty-seven percent also said that the annual report is a good way to inform stakeholders. One of the representatives said: “Annual reports have improved dramatically. However, I would also like to see the results of internal audits and complaints at the level of the supply chain.”

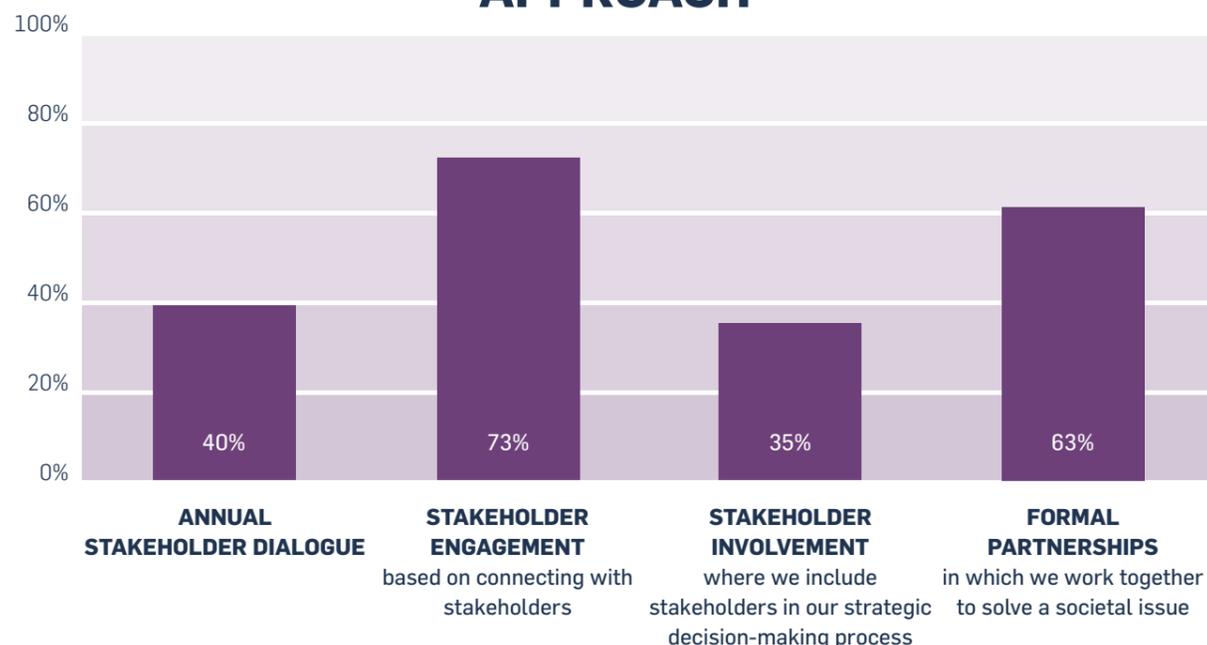
Based on our research we have identified the following characteristics of this gear:

GEAR 1 INFORMATION	GEAR 2 CONSULTATION	GEAR 3 INVOLVEMENT	GEAR 4 PARTNERSHIP
To provide stakeholders with balanced and objective information to assist them in understanding the issue.	To obtain feedback from stakeholders on analysis, alternatives and/or decisions.	To work directly with stakeholders to ensure that their concerns and aspirations are understood and considered.	To partner with stakeholders in each aspect of the decision.
“We will keep you informed.”	“We will keep you informed, listen to and acknowledge your concerns and aspirations, and provide feedback on how your input influenced our decision.”	“We will work with you to ensure that your concerns and aspirations are reflected in the solutions and provide feedback on how your input influenced our decision.”	“We will look at you for advice and innovation in formulating solutions and incorporate your advice and recommendations into our decisions to the maximum extent possible.”

table 4: characteristics of aspect 4

In our survey we asked companies how they approach stakeholders. Their answers (more than one answer possible) are listed in the graph below:

APPROACH



In response to our question how important partnerships are in reaching the goals of the SDGs, companies ranked this with a 7.1 out of 10. This image is confirmed by the stakeholders in the survey, in which 41% of the respondents said that they are involved by companies through a strategic partnership.

Some of the CEOs and board members responded that their approach to stakeholder engagement also depended on the stance of the stakeholder itself. Especially with regard to controversial topics, such as human rights in the supply chain or environmental topics, some stakeholders chose not to enter into dialogue with a company, but opted for a more confrontational approach, even suing a company or the government. This may be a result of increasing regulation of stakeholder rights, which can be enforced via a legal route. Indeed, there were several cases in which NGOs have gone to court to demand changes from a company or government. In those examples it will be very difficult to transform a legalistic standoff into a constructive relationship. However, there are examples of companies that were able to come to a constructive and open dialogue, and found effective ways of engaging after they had tried to understand each other's viewpoint.



Photo credit: Panagiotis Bartzos, Flickr

CASE SHELL NEDERLAND

TAKING A SOCIETYCENTRED APPROACH

“We live in turbulent times. Connectivity has become a key driver of value and vulnerability in a more globally interconnected world. Awareness of interdependencies between water, food, energy and broader social, political, economic and environmental considerations is growing. The energy transition is accelerating, and Shell has a large role to play. In the Netherlands, Shell recognized that new forms of transformative collaboration involving innovative multi-actor networks are needed to address interrelated challenges. Shell needed to transform itself from being the company that focuses on the value chains in energy to the company that can collaborate in broader value-creating systems.

How did the company go about this? In short, it focused on a society-centered approach. In early 2016 Shell Nederland reached out to four companies from other industries to form a small private sector initiative [footnote 1]. Rather than focusing on their individual goals, the five companies identified a shared purpose: the acceleration of the energy transition in The Netherlands. This was an important topic for the companies and society at large - looking for economically and environmentally sustainable business models. At the same time the group recognized they could not make the progress they wished, due to various challenges which they could not solve on their own.

Within just a few months, more than seventy other companies joined the five initiators. Economic and environmental representatives from the public and private sector were invited together with non-governmental organisations (NGOs) to discuss the challenges in a multi-stakeholder setting. The Energy Transition Coalition was born, with shared objectives and a common ground. Shell Nederland now found itself part of a constructive group of societal actors working on the Dutch energy transition. All group members were asked to contribute their knowledge and views without being biased towards their company's interests. While challenging, the idea behind it was to postpone narrow thinking by first defining the problem and the route to accelerating the energy transition in the country – and together look at solutions to move forward.

Based on these insights, the group drew up a manifesto outlining the environmental and economic challenges and opportunities for the country. These were shared with the government, together with specific 'asks' for greater focus, legislation and infrastructure to help enable large scale investments to help accelerate the energy transition.

Footnote 1: The companies involved were the Port of Rotterdam, ENECO, Siemens, Van Oord and Shell Nederland B.V.



Photo credit: Sylvain Liechti, Flickr

Within a year, the government was willing to meet the demands of the coalition. We have since seen significant progress in the energy transition, with many of the members of the Energy Transition Coalition collaborating and delivering concrete projects, innovation and investments. Creating new value systems together.”

CASE COCA-COLA

A PROGRAMMATIC APPROACH TO STAKEHOLDER DIALOGUE

“Since 2017 Coca-Cola Netherlands has organized broad stakeholder dialogues in a program called OPEN. Each year in November a variety of stakeholders, such as NGOs, clients, scientists, consumers and governments are invited to participate in informal round table discussions on themes that Coca-Cola is working on. In 2019, during the last edition of OPEN, examples of topics that were discussed were partnerships in sustainability, innovations in packaging, purpose marketing, volunteering and inclusiveness and diversity. At each round table representatives of different stakeholder groups enter into an open conversation with each other, resulting in a broad diversity of viewpoints and opinions. Through this approach of openness and vulnerability the discussions lead to a fruitful exchange of views and true understanding. Not only us at Coca-Cola as a company learn from these dialogues, but an important goal is that this is reciprocal and that participants also feel energized and inspired by each other.

Many of our colleagues listen or contribute to the sessions and a valuable effect of that is that the many of the things discussed in the dialogues stick with them and they become a strong part of the internal discussions afterwards when we continue the work on those topics. And OPEN has become something of a verb internally where people say 'we need to discuss this the OPEN way' so involve stakeholders, do a deep dive with customers etc. And we often continue taking some of the theme's further with some of the speakers. We are very committed to creating an inclusive and safe workspace and that means pushing for more diversity. For instance, we have had one of our table guests back with a very strong and insightful webinar on inclusiveness. That helps us get to a more fundamental understanding of what can hinder or help here and improve ourselves further. That is the core of OPEN.”

CASE NN GROUP

WE HELP PEOPLE CARE FOR THEIR FINANCIAL SITUATION

"In 2014, we started our community investment program, NN Future Matters, to improve people's financial resilience and economic opportunities in the communities where we live and work. The program targets different elements covered by SDGs 1, 4 and 8. To ensure global consistency while remaining relevant to local needs, we involve both international and local partners. Since the start, we have reached more than 138,000 young people - exceeding our target of 100,000 young people by 2020.

Not only do we provide financial support to partner organizations, our employees also have put thousands of hours, their dedication and expertise in volunteering; teaching about finance, social entrepreneurship and digital skills, and helping people prepare for the labor market.

FROM DEBT TO OPPORTUNITIES

Our 'From Debt to Opportunities' (Van Schulden naar Kansen) program, part of NN Future Matters, focuses on a specific goal: reduce debt-driven poverty in four Dutch cities within five years. Debt-driven poverty is a growing problem in the Netherlands. One in five households struggle with payment arrears. In particular debts among young people are growing.

In collaboration with 29 community partners, our NN volunteers operate in twelve districts in Amsterdam, Rotterdam, Arnhem and Zwolle. With local, accessible and personal assistance, we help people organize and manage their finances, become more financially assertive and increase their disposable income. Since the start of this program in 2016, we have reached 9,346 households.

The work of the program is being investigated by the Amsterdam University of Applied Sciences to determine its impact and effect. One of the preliminary outcomes is that 10% of the respondents are debt-free six months after their completion of the project. In 2021, we will share the overall results and recommendations of this study to a wide group of stakeholders to advocate further collaborative action.

HELPING CUSTOMERS IN ARREARS

"We are also committed to help our customers with financial problems. This is why we endorse the ethical manifesto of the 'Creditors Coalition' (Schuldeiserscoalitie). By joining this initiative, we can structurally work together with other companies to solve and help prevent financial problems. In 2019 we started a customer journey to improve our business activities for customers with financial problems. Multiple initiatives, such as a flexible payment date, have been implemented as a result.

Furthermore, we refer customers of whom we suspect having financial problems to a special website. This pilot was set up with the 'Dutch debt relief route' (Nederlandse Schuldhulp Route), an initiative to improve debt relief. The aim is to help customers at an early stage and to prevent situations getting worse.

It is expected that the number of people with financial problems will increase as a result of the coronavirus crisis. In the coming years we will scale up our efforts to help people grow their financial resilience and economic opportunities, building on our existing programs and committed employees, while creating new alliances."

Danielle Hirsch, director Both Ends "Change our behaviour"

"The real question of the SDG agenda is that each of us changes his or her behavior so that we all have a better future. It is important that we take our own responsibility and that we don't wait for others to do it first. The current model is finite and we have everything to gain in pursuing change."

Joost Farwerck, CEO KPN "Different approach"

"Our suppliers must sign KPN's Supplier Code of Conduct and KPN performs audits on this. This also applies to suppliers that are a few times larger than KPN. In the circular manifesto, we deliberately did not opt for a contract, but wanted to establish a statement of joint intention. The advantage is that suppliers agree more quickly and the result is that we now actually use products with circular design and also supply circular products to our customers."

Marjan van Loon, President-Director Shell Netherlands "Faster together"

"Only focussing on the business opportunity and then explaining how we want to do it, that is old news. We look for partnerships, dialogue and interaction. We need to know who the stakeholders are around a topic. Our approach needs to be proactive and with modesty. We must realize that a business opportunity is achieved together with those stakeholders. We are in a world of change and we go faster when we go together."

Maria van der Heijden, director MVO Nederland "My golden tip"

"The golden tip? Just do it! For example, you can organize a breakfast for tomorrow morning with your ten youngest employees."

Maarten Otto, CEO Alliander "Consensus"

"Stakeholder management is about reaching consensus in a long-term relationship with mutual dependency. Compromise is not consensus. Through stakeholder management we try to find a real solution in a collaborative manner."

Dailah Nihot, Chief Organisation & Corporate Relations NN Group "A balancing act"

"Weighing the interests of our stakeholders is part of our daily work, at all levels in the organisation. This is a delicate balancing act and not just a standard procedure. Our purpose and values guide us in carefully considering the impact of our choices, and help us in staying true to who we are."

Photo credit: Shutterstock

3.6 ASPECT 5: OUTCOMES

Companies can pursue different outcomes from stakeholder engagement. The table below summarizes the classification that was given in Chapter 2.

GEAR 1 INSIGHTS	GEAR 2 VALIDATION	GEAR 3 ALTERNATIVES	GEAR 4 INTEGRATED VALUE
The outcome for the company is gaining insights into the stakeholders' interests and concerns.	The outcome for the company is to validate their strategy and choices.	The outcome for the company is to find potential alternatives that take stakeholders' interests more into account.	The outcome is that an issue is resolved in a way that recognizes mutual dependency between most or all stakeholders, including the company.
Mostly a result from collecting information, often based on structured questions and selected themes.	Mostly a result from explaining and clarifying by the company in response to concerns and questions raised by stakeholders.	Mostly a result from better listening and acknowledging the interest and concerns of stakeholders.	Mostly a result from collaboration between stakeholders on the basis of equality and acknowledgement of interests.
"I" approach and outcomes	"I and you" approach and outcomes	"We" approach and outcomes	"Issue centric" approach and outcomes

table 5: characteristics of aspect 5

The outcomes from stakeholder engagement should be used to inform the corporate strategy, according to the digital survey. Both companies (90%) and NGOs (100%) rank this first, followed at a distance by validating the strategy (77% respectively 43%). Using the outcomes primarily for reporting purposes comes third and ranks relatively low. Companies (62%) indicate that the outcomes from stakeholder engagement have been used to adjust the corporate strategy, slightly higher than what NGOs (48%) experience.

This means that there is still room for further improvement and in general more companies can use the outcomes from stakeholder engagement to inform their strategy. In order to substantiate this, the concrete recommendation is to link the outcomes from stakeholder engagement to the strategy cycle and to include the development of these outcomes over time into the periodic monitoring of the strategic progress.

Companies (60%) also use stakeholder engagement to positively enlarge their impact on the SDGs, which is also recognized by NGOs (30%) albeit to a lesser extent. Still, some NGOs (29%) believe that companies have not used stakeholder engagement to positively enlarge their impact on the SDGs. In their commentary NGOs cite that companies will mostly select the SDGs which will also contribute to the corporate profitability, like lowering energy or water usage, while some other issues like deforestation or labor rights, are hardly chosen as a corporate target.



Photo credit: United Nations Human Rights, Flickr

Companies mentioned significant examples as long-term outcomes to which stakeholder engagement contributed, such as shifting internal focus, enhancing the external support base for corporate strategy, higher profitability / lower risk profile among others through a sustainability improvement loan and transformation of the industry.

Companies have also mentioned potential improvements with regard to the outcomes of stakeholder engagement. These improvements can be distinguished into improvements related to measurement, to communication and to the internal process. Communication-related improvements include, for example, communicating more about the positive impact of stakeholder engagement, communicating the objective clearer and wider and benefits of stakeholder engagement internally and externally. Measurement-related improvements mentioned by companies include, for example, clearer linking of the corporate output and outcomes to the impact on the SDGs, and adopting more impact-oriented targets. Improving the internal processes and increasing employee awareness were also mentioned.

CASE PWC KNOWLEDGE SHARING & LEARNING

"The COVID-19 pandemic changed the world in March 2020. All of a sudden, companies, restaurants, cafes, theatres and many shops were forced to close their doors. It became quiet in the streets and we saw the pressure mounting on hospitals, nursing homes and their employees. Uncertainty was everywhere. The spectre of greater inequality (SDG10) loomed with the sudden threat of collapse of companies.

PwC's clients were also affected. But not only them. SME entrepreneurs, self-employed persons and social entrepreneurs also saw their turnover plummet and uncertainty grew.

In this crisis, many PwC staff wanted to extend a helping hand to all those entrepreneurs and companies that were in uncertainty. Together with our stakeholders, we came up with the idea of the COVID-19 helpdesk; a free helpdesk for SMEs, social entrepreneurs, charities and the self-employed, where they could ask all their pressing questions.

For example, questions about government support measures, care for employees, the treatment of donations to social entrepreneurs or the possibility of temporarily postponing payment of taxes.

PwC staff from all disciplines within the organization (accountants, consultants and tax specialists) staffed the helpdesk.

In this way we helped many entrepreneurs and companies. From a yoga teacher to a peanut butter maker and from a tent builder to a driving school. We were often able to help them further with concrete advice. Sometimes we could only offer a listening ear. We shared the most important lessons from the questions received as feedback with the national government.

In addition to the Helpdesk, PwC has set up 15 extra pro-bono projects to respond quickly to the changing demand during the COVID-19 crisis from our stakeholders. Hundreds of PwC colleagues have contributed to this in recent months. Projects for, for example, the Kindertelefoon, Mud Jeans and the IMC Weekend School.

For example, in times of crisis, PwC has offered a large group of entrepreneurs and companies guidance with the broad knowledge and expertise available within the organization. We have tried to alleviate great suffering a little bit. We were able to do this because of the energy and drive of our colleagues. And because PwC is continuously in dialogue with society; with customers, social enterprises. This allowed us to quickly connect with and respond to our stakeholders. Because we believe in creating tomorrow together."

CASE AUPING PARTNERSHIPS

"Mattresses are one of the largest contributors to landfill waste worldwide, due to the complex composition of glued materials. In Europe alone, about 35 million mattresses are thrown away every year. Royal Auping has developed and launched the first circular mattress in the world in December 2018. This marks an important step in Auping's ambition to transform from linear to circular production and to inspire their industry accordingly.

In this journey Auping experienced first-hand that real change can be achieved by being very ambitious and by collaborating with others who are willing to find new ways to bring about real change. "Alone, you can achieve a lot, but together you can do everything. An important basic principle is that what we do is not just about the profitability of Auping, but about the profitability and sustainability of the entire chain. We want to be a positive force in a collective movement to transform the world into a better place for everyone."

"Together with our partner DSM-Niaga, Auping developed a new technology to create material with specific characteristics and suitable for modular design in mattresses. Each part of the new modular design is easy to disassemble and is completely recyclable for reuse in a new mattress. The composition of the mattress makes it possible to replace the different parts, ensuring constant hygiene and quality." Part of the new technology is open source to enable others as well to move to circular production.

The mattress also features a Niaga® tag which can be scanned to see the Circularity passport, so you know what you are sleeping on. It provides insight into the supply chain of Auping Evolve and information about recycling of it.

Notably, the role of Auping's suppliers changed by moving to circular production. Auping became their supplier of recycled materials. The mutual dependency increased and the relationship between Auping and its suppliers – and now also customers – deepened and strengthened. Auping recognized the social responsibility it has and was prepared to take risks, to challenge itself and to strive for the profitability and sustainability of the entire chain.

In 2019 Auping received the Circular Award Business for their circular Auping Evolve mattress from the Dutch government which is a recognition and a stimulation to work even harder on this transition. Royal Auping is a family-owned business from Deventer, The Netherlands, and active in the sleep sector for well over a century. The company joined the B Corp community and signed the United Nations Global Compact, committing themselves to the 17 Sustainable Development Goals."



Maria van der Heijden, director MVO Nederland
 “Set the scene for different behaviour”
 “We can really change our behaviour if we want to. We do need a government that leads and sets the relevant framework of legislation and regulations consistent with the SDG agenda and the Paris climate agreement.”

Renate de Lange, board member PwC
 “KPIs, IIRC Capitals and SDGs”
 “We link specific KPIs to selected SDGs and to each of the capitals through the integrated reporting model. This results in our output for each of the capitals. This year we will still report at output level. We know which SDGs we influence. We are now pondering to take the step next year to determine the impact that we have on the SDGs.”

Maarten Otto, CEO Alliander “Long term relation and contract”
 “In one of our tenders, we were able to agree on a long-term collaboration period thanks to sharing knowledge, interests and values. Our supplier has thus more certainty and is willing to invest more while affordability for us is still guaranteed.”

3.7

ASPECT 6: DISCLOSURE

We live in an era where transparency is very important. Companies have become complex structures, where their actions influence many people's lives. And with the introduction of digitalisation, stakeholders have the opportunity to get the information they need in various ways.

For effective stakeholder engagement, disclosure of stakeholder-specific information in relation to clear objectives and the progress achieved are important, both from the company's perspective and in order to facilitate interaction with stakeholders.

Through our surveys and interviews, we concluded that gear 4 companies typically apply different communication strategies for different groups, using different distribution channels, choosing different levels of interaction and presenting those different groups with tailor-made content. Gear 4 companies reported a high level of transparency, and would share dilemmas and uncertainties in their stakeholder engagement process.

Gear 4 companies use their disclosure process to obtain feedback and to learn from it. They know that there are multiple areas where they can improve, and take an open and vulnerable approach in their disclosures. They disclose where their companies have a negative impact on stakeholders and try to quantify this impact. They actively bring the information to their stakeholders in order to engage with them. Usually they have an innovative approach to disclosures, such as an integrated profit and loss statement, or a true price statement of their products and services.



GEAR 1 MANDATORY	GEAR 2 OPPORTUNISTIC	GEAR 3 WIDER	GEAR 4 IMPACT
Bare minimum, usually qualitative.	Output, both qualitative and quantitative.	Besides output, also positive outcomes.	Both positive and negative outcomes.
Information on stakeholder engagement is disclosed in the annual report	Information is disclosed on the website, and more elaborate information is included in an annual review.	Besides information on the website and in the annual review, specific documents, such as brochures are drawn up.	Information is included in an integrated report, tailor-made documentation and specific communication channels depending on the type of stakeholders.

table 6: characteristics of aspect 6

CASE NN PUTTING CAPITAL TO WORK

“As a large, international financial services company, responsible investing (RI) is an important factor in what we do. In our role as investors, we integrate environmental, social and governance (ESG) factors into our investment process. We apply different RI strategies, such as norms-based, voting, engagement, ESG integration and restriction. Our approach is a reflection of our investment beliefs, our company’s values, relevant laws, and internationally recognised norms and standards.

BUILDING RELATIONSHIPS, FINDING SOLUTIONS, SHARING EXPERTISE

We prefer inclusion over exclusion. We only restrict companies when engagement is either not deemed feasible or is unlikely to change a company’s conduct or involvement in specific business activities. Constructive and regular dialogue with investee companies on ESG aspects enables us to help them tackle a wide range of issues. Management is often aware of the need to change and willing to do so, but the support of share- and debtholders enables them to justify taking concrete steps. Support and in some cases pressure from stakeholders is often a key factor in bringing about change. It stimulates companies to adapt their business strategies and to improve their ESG performance.

In addition to regular bottom-up dialogue on ESG subjects and engagement on controversies, our asset manager NN Investment Partners (NN IP) performs thematic engagement; this engagement focuses on different themes that have a material impact on society, and where we believe our engagement efforts can achieve beneficial change. These themes share objectives as defined by the Sustainable Development Goals (SDGs) and deal with material risks as defined by the World Economic Forum. The exact engagement themes are selected in consultation with portfolio managers, analysts and external stakeholders.

We focus our engagement efforts on a select group of companies. In practice, this means that there will be multiple interactions with a company each year. Our investee companies are monitored throughout the year and we keep track of our engagements in our internal engagement database.

Our engagement usually lasts for a three-year period. After 1.5 years, we evaluate progress and adjust our engagement objectives if needed, for example, in the light of market developments and stakeholders expectations. We also assess progress and determine what further steps are required or possible consequences if insufficient progress has been made.



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INCREASING OUR LEVERAGE

In addition to our own efforts for our controversy and thematic engagement, we use the services of Sustainalytics Stewardship Services. Sustainalytics engages with company representatives on our behalf, using predefined targets.

Furthermore, we collaborate with other investors through (multi-stakeholder) initiatives on specific focus areas, such as climate change (Institutional Investors Group on Climate Change, Climate Action 100+), the oil and gas sector (Principles for Responsible Investing) and palm oil (Roundtable on Sustainable Palm Oil). This enables us to achieve maximum investor influence and pool resources and expertise. Together, we engage with policymakers, legislators and regulators to work on the development of sustainable government policies and financial systems.

During 2019, NN IP’s analysts and ESG specialists had 662 ESG engagements with issuers of which 34% concerned environmental issues, 19% social, 17% governance, and 30% ESG overlapping topics. We report on our efforts and progress in NN Group’s Annual Report and NN IP’s Responsible Investing Report. Going forward we aim to further our SDG impact reporting.”

Karin Sluis, CEO Witteveen+Bos: “Stakeholder panel in annual report”
“We have a yearly review on our strategy by a stakeholder panel. This feels like being scrutinized, in a positive way. Each year our stakeholder panel comes with issues that we need to address. Their views and recommendations are published in our annual report, because we think it is important to be fully transparent.”

Jan-Joost Bosman, CEO Auping
“New technology is openly available”
“We also open up the technology we use to produce circularly so that we can make the transition faster together with the whole industry. That may feel strange to some, that others are allowed to use it. But if you are afraid to share or to be transparent, it is much more difficult.”

Marjan van Loon, President-Director Shell Netherlands “Open and honest”
“It is important to communicate openly and transparently with companies and stakeholders. Whenever I experience a lack of understanding, it is usually because of a lack of information about each other.”

Angelique Laskewitz, director VBDO
“Tell your own story”
“Companies need to tell the true story and define a mission statement for a sustainable future. This will attract the right shareholders and customers that understand and support that mission.”

Renate de Lange, board member PwC
“Obvious or not?”
“One of our stakeholders recently mentioned to us: ‘the obvious is not obvious’. Some matters are so obvious for us that we may not communicate about it when we really should.”

Bart Romijn, director Partos
“Integrated reporting as a amplifier for change”
“Integrated reporting can be an amplifier for change when it comes to sustainability. It all starts with planning, then you should integrate non-financial data in management cycles and then report on it.”

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3.8 OVERALL OBSERVATIONS

Based on the interviews and on further desk research, all companies have been classified into a gear per aspect. It is not argued nor intended that these gears at a corporate level can be added up or averaged, nor that one gear is better than another.

As argued before, the optimal gear for a company also depends on the prevailing circumstances. Although certain criteria have been applied, it is also partially subjective and open for argumentation in which gear a company is classified in a certain aspect. One element contributing to this subjectivity is also that there could be distinct differences between divisions within one (large) company, making it less obvious to classify a company into one specific gear. A final limitation is also the relatively low number of observations, which prevent statistically significant quantitative conclusions.

Considering our preselection of frontrunning companies, it is clear that most companies would score relatively well in our assessment. We find relatively small differences between the companies in terms of their position in the gears. In addition, we find small differences between the highest gear and the lowest gear for individual aspects for ten out of eleven companies. For example, if a company has gear three as a maximum, it will typically have gear 2 as the minimum.

The research shows some differences between on the one hand the more focussed, manufacturing companies and on the other hand the service-oriented companies catering a wider breadth of market segments. Service-oriented companies, for instance financial services and consultancy firms, more often identify that their impact on the real economy is more indirect and that it is hard to single out one SDG as their main priority.

The surveys reveal that both companies and NGOs and other stakeholders find that there are ample fields of improvement for stakeholder engagement in relation to the SDGs. Ninety-three percent of the respondents in the survey amongst NGOs say that companies can use their stakeholder engagement to adjust their strategies. Fifty-eight percent of the respondents amongst companies say that the impact of stakeholder engagement can be improved. Especially the focus on creating a positive impact on the

SDGs is often mentioned, as well as embedding stakeholder engagement in the entire organization and engaging and partnering with stakeholders on selected SDGs. Sixty-one percent of the respondents amongst companies say that time is an important constraint, followed by knowledge in the organization by 31%. Of the NGOs 50% say that commitment of the company boards is the most important constraint.

Stakeholders are not static, they form a dynamic field and can change over time. New partnerships can be created, employees come and go, and as a result of innovation, entire new supply chains can be established. Some CEOs told us that if you have a clearly defined purpose and communicate that purpose proactively, over time this will deliver the stakeholders that align with that purpose.

Our research also showed that there is a link between the circle of influence and the circle of involvement of companies. If a company feels committed to solving societal problems as laid down by the SDGs their circle of influence grows. And in this new circle of influence new stakeholders are introduced to the company. Where other companies say that they have no influence on the challenges that they see in the world, gear 4 companies take ownership for specific challenges and shape the conditions that enable a proactive and effective approach to those challenges.

THE COVID-19-CRISIS PUTS A NEW PERSPECTIVE ON STAKEHOLDER ENGAGEMENT

During our research, the COVID-19 pandemic raged across the globe. Many companies were affected by this crisis. In times of stress the true face of a corporate is shown, and also in this crisis we saw some interesting differences. From our CEO interviews it was clear that the COVID-19 didn't hold them back from their long-term objectives, and even helped them in defining where they could be of true value for their stakeholders. They used this situation as an accelerator for their ambitions, and invested even more in R&D or even introduced new business models. For example, Auping is now producing face masks on a large scale instead of bed mattresses. The CEOs also made it very clear that they understood that this was a common challenge, and that they had to overcome this crisis together with their stakeholders. So instead of prolonging the payment terms for their suppliers, they asked where they could be of help. And instead of asking their employees to come to work, where they could be exposed to health risks, they offered their employees extra time off to take care of their families. We also noticed a great 'just do it' mentality, based on a strong sense of purpose. Image: from a company centred approach, to a society centred approach



Photo credit: Unsplash



Photo credit: Unsplash

DUE DILIGENCE / EU

Due diligence is a continuous, preventative, risk-based process through which all corporations must effectively identify and assess risks and potential adverse impacts in their operations and along their global value chains. Due diligence is at the core of the UN Guiding Principles, the OECD Guidelines for Multinational Enterprises and the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. The OECD Due Diligence Guidance for Responsible Business Conduct offers a practical framework. Consultations with affected and potentially affected stakeholders are part of this due diligence process.

Commissioner Reynders announced that the European Commission will introduce a legislative initiative next year on mandatory due diligence for companies. A public consultation will be published as a first step.

This announcement was made after the publication of an EU study, which provided an overview of current market practices and an assessment of different regulatory options moving forward. This study confirmed that voluntary measures have not been effective in encouraging companies to identify, account for and mitigate negative human rights and environmental impacts in their supply chains. The study highlighted the need for EU-wide, mandatory legislation.

This EU-wide initiative puts stakeholder engagement in a more legislative framework. European corporations will be required to identify and assess human rights risks, prevent and mitigate adverse human rights impacts and account for how human rights impacts are addressed.

Joost Farwerck, CEO KPN “Connectivity”
 “KPN maps all of its most important stakeholders in a professional manner. In doing so, we believe that the right coherence and balance leads to value creation. I am convinced that coherence and value creation reinforce each other. An example is that if customer satisfaction increases, so does pride and employee involvement. The interests converge most closely if you do this from conviction.”

Dailah Nihot, Chief Organisation & Corporate Relations NN Group “SDGs as inspiration”
 “One of NN Group’s strategic commitments is to make a positive contribution to society. We aim to put our resources, expertise, and networks to use for the well-being of our customers, the advancement of our communities, the preservation of our planet, and for the promotion of a resilient, inclusive, and sustainable economy. The objectives in the SDGs are in that sense reflected in our strategy and form an integral part of our business. The SDGs also challenge and inspire us to take further action.”

Wiebe Draijer, CEO Rabobank “System change”
 “Each year, we publish an SDG-compass in which we present the progress we have made towards the SDGs, which are embedded in the bank’s strategic ambition. We have not done it the other way around. One of Rabobank’s strategic themes is Banking for Food, in the believe that this is what the world needs. In other words, we use a different starting point and we value the strong combination of our strategy and the SDGs.”

Frans van Houten, CEO Philips “Poldermodel”
 “The Dutch ‘polder model’ (a consensus-oriented consultation) is an outcome and a consequence of our values. We take the ‘polder model’ approach because our values tell us that reaching an agreement will make us stronger together. Even though the process can be tiring at times, it does lead to an outcome that is ultimately more useful and beneficial than opposing each other. That has to do with our values and beliefs: (...) religion, interdependence and limited hierarchy. The Dutch culture has a flat hierarchical structure; this is why we need to agree on the fundamentals.

Marjan van Loon, President-Director Shell Netherlands “Onwards”
 “It feels less risky to move onwards to a sustainable future, than believing that the past will come back as we have seen it. Which is actually just as big a risk or assumption as the assumption that the energy transition will be successful.”

Maria van der Heijden, director MVO Nederland “System change”
 “The SDGs are targeting a system change in which we all need each other. It is very powerful to search for new solutions together in an open dialogue.”

Karin Sluis, CEO Witteveen+Bos “Trust”
 “The key to successful stakeholder management is trust. Trust leads to wellbeing and prosperity. When there is trust, there is room for mistakes, doubt, innovation and a good conversation about those topics. Collaboration flourishes with trust. My experience is that you receive trust, when you give it all the time.”

In the Dutch polder model, the dialogue begins with the question: “what is actually important to you?”. I think that inclusiveness ultimately leads to fewer confrontations. It is also in our own interest that we approach each other, that we cultivate mutual understanding and are accountable, because then there is less chance for a problem to escalate and we can probably resolve it ahead of time.

Danielle Hirsch, director Both Ends
 “Honest conversation”
 “Poldering will fail if everyone doesn’t have an equal vote.”

You should not be afraid of your stakeholders; rather, you should simply engage them in dialogue. In the worst-case scenario, he will tell you that he doesn’t agree with you. Therefore, I believe that the Dutch polder model will ultimately lead to better results, better understanding and better solutions. I think the Dutch approach on stakeholder management distinguishes the Netherlands from other countries.”

RECOMMEN- DATIONS

4.1 INTRODUCTION

Based on the combination of the theoretical framework, desk research, the surveys and the interviews, this chapter provides recommendations to further enhance the use of stakeholder engagement in relation to the SDGs.

These recommendations are generalized and may not necessarily be applicable to all companies or other market participants under all circumstances.



Photo credit: Unsplash

4.2 GENERAL RECOMMEN- DATIONS

In our era of systemic risks and consequences (climate change, pollution, resource scarcity, inequality), increased interdependencies and transparency, the role of business cannot be seen apart from its relation to society.

As business performance is also evolving from financial risk-return to multi-capitals risk-return-impact, stakeholder engagement and inclusion evolves into a core aspect of business practice. Thus, stakeholder inclusion will further evolve as a core aspect of business practice. Core recommendations to advance stakeholder engagement to help advance the SDGs are:

1. DEFINE A PURPOSE ALIGNED WITH THE SDGs

A company's purpose and strategy should reflect the society-centric approach. The SDGs offer a coherent set of goals with widely adopted narrative and agenda, fit for business purposes and performance benchmarks. Selection of one or more primary SDGs helps companies focus, but be aware not to leave other relevant SDGs and standards behind.

2. FOCUS ON SYSTEMIC CHANGE, RATHER THAN INDIVIDUAL CHANGE

Because the seventeen SDGs are deeply interconnected, selecting any individual issue is ultimately best addressed by using a systemic approach. Similarly, multiple stakeholder groups are always involved when addressing any single SDG. Hence, coalitions of companies and stakeholders on a systemic level are necessary to address the societal, economic and environmental issues presented by the SDGs. Companies can accelerate positive change by sharing knowledge and best practices, initiating new partnerships, advocating for change and showcasing successes and dilemmas. Moreover, companies can join or initiate collective initiatives and multi-stakeholder collaboration with local governments, local trade unions and local NGOs to increase their impact.

3. ENSURE THAT STAKEHOLDER ENGAGEMENT IS PART OF THE STRATEGY PROCESS

Link the outcomes from stakeholder engagement to the strategy cycle and include the development of these outcomes over time into the periodic monitoring of the strategic progress.

4. SHIFT YOUR FOCUS FROM OUTPUT TO OUTCOMES

A focus on outcomes facilitates a long-term lens when it comes to defining, targeting and measuring the positive and negative impact of a company. Corporate boards may set long-term targets based on desired outcomes, design a theory of change in order to implement the right activities and measure the effect of these activities on stakeholders.

5. PERFORM STAKEHOLDER ENGAGEMENT IN A STRUCTURED WAY

Due process in good business is making informed decisions and deciding on trade-offs in consultation with clearly-defined stakeholders on material issues in a structured way. It also includes considering and balancing diverse, even conflicting interests. Investigate which structures can enhance stakeholder engagement and how. For example, using structural approaches aligned with external standards, anchoring stakeholder engagement in the governance of a company, considering a Stakeholder Code or introduction of a duly-considered statement by the Board.

6. INVOLVE TOP MANAGEMENT DIRECTLY IN REGULAR STAKEHOLDER ENGAGEMENT

The board of a company is the place where insights come together and decisions are made that impact stakeholders directly or indirectly. Particularly when the interests of stakeholders are not aligned, board members need to be aware of the consequences of their actions and choices and need to be able to make well informed decisions. Transparency about the motivations that underlie a decision is key to creating support for the decisions with all stakeholders.

7. INCLUDE EMPLOYEES AS STAKEHOLDERS AND BEYOND EMPLOYEE ISSUES ONLY

Harvest the insights, experience and networks of employees to act as an accelerator and source of inspiration in your journey towards reaching the SDGs. Engage employees in defining your purpose and use their input to embed the changes you need to make in your culture, business model, policies and procedures. Including independent representatives of the employees, such as works councils, unions, youth representatives, LGBTQ+ networks, women and cultural networking groups and other underrepresented groups, in your stakeholder involvement process can prevent overlooking the needs and rights of specific groups.

8. ENGAGE LOCAL GOVERNMENTS, LOCAL TRADE UNIONS AND LOCAL NGOS IN YOUR AMBITIONS

Jointly work on overcoming barriers and find new ways of working together. Join collective initiatives and multi-stakeholder collaboration with local governments, local trade unions and local NGOs to increase their impact on improvement of local human and environmental rights situations, including in your supply chain.

9. FULLY DISCLOSE ALL IMPACTS ON STAKEHOLDERS

Advanced disclosure, independently verified, is an important aspect for trust-building by business in society and stakeholder inclusion, and is also important for "Making Markets fit for Purpose and SDG Implementation". The concept of "Double Materiality" is a key aspect hereof and also recognized in the EU NFRD Consultation Document. Disclosure on both positive and negative impacts should be part of the annual report, verification by the external assurance provider can further enhance the quality, credibility and integrity.

10. ENHANCE THE HOW OF STAKEHOLDER ENGAGEMENT AND HARMONIZE TOOLS, INDICATORS AND METRICS.

For an accelerated race to the top at scale, public advocacy, cases, story-telling, performance-evaluation are all part of a collective communication-effort. The development of tools, indicators and metrics reflecting the impacts on stakeholders and society is still in an early stage, let alone harmonization or an established taxonomy. More work needs to be done including standardized measurement, quantification of positive and negative impacts per SDG to offer an actionable perspective for a company and its stakeholders for target setting and performance-evaluation.

4.3

RECOMMENDATIONS FOR FURTHER RESEARCH

Our research has brought some interesting insights on the basis of which we drafted ten recommendations. However, there are still fields of interest that need further research.

1. We recommend further development and testing of the six aspects and four gears model introduced in this publication. This may well include extending the research to an international context, as well as differentiation between different sectors. Such further development may benefit from a larger population sample, which may enable more solid conclusions on subsets, e.g. sectors, countries, private or public, etc.
2. Our interviews and surveys showed that the frontrunners on stakeholder engagement also have a strong long-term value creation, but the correlation between those two areas needs to be further researched and substantiated. Specifically, we recommend further research into this relation using the six aspects and four gears model introduced in this publication.
3. We recommend to further investigate and develop the role of stakeholder engagement in relation to the interaction between the corporate level and the systemic level, especially in transformations of entire industries and markets.

5. HELPFUL QUESTIONS TO ASK

The improvement of stakeholder engagement in relation to the SDGs is a journey. This publication is not intended to be a “how-to guide”, since there are many differences between companies.

Companies need to look at what stage they are in, and what they want to improve, and in which pace. However, we have drafted several questions that can help companies in creating their own journey.

These questions are consciously written in the ‘you’ form. It is suggested that these questions be asked and answered in a conversation form between two parties who trust one another. This allows for a natural flow with follow up questions to stimulate deeper thinking and more engaging answers.

MOTIVATION

1. What was the original vision on which your company was founded?
2. What do your stakeholders appreciate in your company's mission?
3. Can the mission of your company be linked to one or more of the SDGs?
4. How well are the values in your company's mission alive in your corporate culture?
5. What will your company have contributed to the real world on a ten-year horizon?
6. Why should all your stakeholders applaud your company?

TARGETS

1. What metrics can you use to measure the impact you have on your stakeholders?
2. Who is responsible for the non-financial KPIs?
3. How can you include non-financial KPIs in your management cycle in order to steer on them?
4. What KPIs do your stakeholders think are important for you to steer on?
5. How can you use the input of your stakeholders in an effective way?
6. How can you use impact measurement in your decision-making process?
7. Can you get assurance on non-financial KPIs?
8. Which partners do you need to reach the impact you want to have?

TYPES

1. Which stakeholder haven't you heard from? Why?
2. What would you like your stakeholders to say about your company?
3. What would be a fair comment for improvement of a well-informed stakeholder?
4. What is the biggest dream and the deepest concern of your stakeholders?
5. Which dilemma are you afraid to share with your stakeholders and why?
6. What can you learn from your most critical stakeholder?

APPROACH

1. Is there an open culture to discuss dilemmas and trade-offs?
2. Do you share information with them, even if it feels challenging?
3. Are you committed to involve stakeholders in your decision making and is this commitment explicitly expressed?
4. Are the interests of your stakeholders embedded in the governance of your company?

OUTCOMES

1. What are the outcomes from stakeholder engagement?
2. How does stakeholder engagement contribute to your long-term outcomes?
3. How do you measure whether you are successful?
4. What is the outcome for your stakeholder?
5. What was the crucial success factor behind the outcome?
6. What would have improved the outcome?

DISCLOSURE

1. Where can your stakeholders find the information that is relevant to them?
2. How can stakeholders get insight in the value creation of your company?
3. How can stakeholders evaluate the output that you deliver to them?
4. Are dilemmas and trade-offs disclosed in external information, such as the annual report?
5. What are the material issues to your stakeholders and how can you report on them in the most open manner, including positive and negative impacts?

6. WITH THANKS TO THE FOLLOWING LEADERS

ANGELIQUE LASKEWITZ
Director VBDO

BART ROMIJN
Director Partos

DAILAH NIHOT
Board Member NN Group

DANIËLLE HIRSCH
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FRANS VAN HOUTEN
CEO Philips

JAN-JOOST BOSMAN
CEO Auping

HANS REUS
Managing Director, Russell Reynolds

HERNA VERHAGEN
CEO PostNL

JAAP WASSINK
Country director Coca-Cola
European Partners Netherlands

JOOST FARWERCK
CEO KPN

KARIN SLUIS
CEO Witteveen+Bos

MAARTEN OTTO
CEO Alliander

MARIA VAN DER HEIJDEN
Director MVO Nederland

MARJAN VAN LOON
President-Director Shell Netherlands

RENATE DE LANGE
Board member PwC Netherlands

WIEBE DRAIJER
CEO Rabobank



Photo credit: Konrad Gerger, Flickr

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8. UN GLOBAL COMPACT

THE TEN PRINCIPLES OF THE UNITED NATIONS GLOBAL COMPACT



HUMAN RIGHTS

1. Businesses should support and respect the protection of internationally proclaimed human rights; and
2. make sure that they are not complicit in human rights abuses.



LABOUR

3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
4. the elimination of all forms of forced and compulsory labour;
5. the effective abolition of child labour; and
6. the elimination of discrimination in respect of employment and occupation.



ENVIRONMENT

7. Businesses should support a precautionary approach to environmental challenges;
8. undertake initiatives to promote greater environmental responsibility; and
9. encourage the development and diffusion of environmentally friendly technologies.



ANTI-CORRUPTION

10. Businesses should work against corruption in all its forms, including extortion and bribery.

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.