bcg.perspectives
by THE BOSTON CONSULTING GROUP

# STAKEHOLDER MANAGEMENT

## HOW MUCH RELATIONSHIP CAPITAL DO YOU HAVE?

By Daniel López, Katharina Rick, and Henning Streubel

Relationship capital is an important asset to have. It doesn't appear on any formal balance sheet, but many companies have learned that lacking it can be a huge liability. For instance, shortly after Coca-Cola set up a bottling plant in Kerala, India, in early 2000, the region suffered a drought that would last for three years. During that time, the media reported that the Coca-Cola plant was the source of ground contamination, local activists claimed that the plant was depleting the area's groundwater, and six colleges in the United States banned the company's products.[1]

Coca-Cola's experience is a sobering reminder of how critical it is for businesses to build relationship capital through effective stakeholder management. Companies need to be aware of the political and media climates wherever they operate—and of the key influencers who can affect public opinion and government policy. Having a disciplined, strategic approach toward working closely with the right stakeholders and identifying their potential issues is integral to building the relationship capital that leads to long-term success and a competitive advantage. This is especially true for businesses that have an economic, social, or environmental impact on their communities and are heavily regulated. For instance, companies in the food, pharmaceutical, chemical, mining, agriculture, lumber, water, oil, or gas industries come under a lot of scrutiny.

In industries such as these, maintaining a "social license to operate" demands thoughtful planning and commitment from the top to ensure that effective stakeholder management—which sometimes falls under external or government affairs or corporate social responsibility—is a priority.

### Competing Interests, Evolving Needs

Traditional businesses tend to think of "stakeholders" rather narrowly as employees, shareholders, and customers. But in the context of this article, we define stakeholders as any external influencers that can affect public opinion or government policy—either on behalf of or against a company's business interests. Some key stakeholders may be highly visible: a politician, government official, or regulator; a blogger, journalist, community activist, or the community in which a company operates. Others may be less obvious. They may work quietly behind the scenes: a direct report, a business partner, a friend or spouse of a decision maker. The goal is to identify and cultivate a broad network of decision makers, influencers, and opinion leaders so that relationship capital can be built and your company's messages can be heard before any need arises or any incident occurs.

Stakeholder management capabilities are growing more important as businesses and society evolve. A combination of factors is driving this evolution. Mobile technologies, social media, and the Internet have transformed how we communicate. Information and images can be instantly broadcast around the world—pulling back the curtain on business and government events that might have been shrouded in secrecy in the past. As a result, the public is more knowledgeable about environmental risks and human rights. At the same time, corporations have become more socially conscious and mindful of the need to give back to the communities they operate in. Today, expectations are greater for companies in highly scrutinized industries. And, for their part, governments must ensure public safety and promote local economic interests through policies, regulations, and taxes that can change quickly as priorities shift—adding to the operating risks that companies face.

## How Stakeholder Management Builds Relationship Capital

Stakeholder management is about building long-term, trusting relationships with people who can affect the future of your business and your company's reputation. It goes well beyond government lobbying. Even when lobbying efforts succeed and a policy decision supports your company's position, a blogger or journalist could argue that the decision was wrong and shift public opinion against your interests—putting your operations at risk.

Effective stakeholder management is a two-way street, with the goal of promoting mutual understanding. All parties want to feel that they have been heard, that they are part of the decision-making process. By consulting a wide range of leaders, influencers, and opinion makers, and by encouraging a dialogue—not just promoting their own business interests—companies can go a long way toward gaining support and defusing potential problems. Although clarifying the company's point of view is a key objective, effective stakeholder management goes beyond communication. It involves coordinated actions and behaviors, such as a strong leadership presence and a demonstrated commitment to the community through relevant social investment. Only an integrated stakeholder-management approach can create sustainable relationship capital.

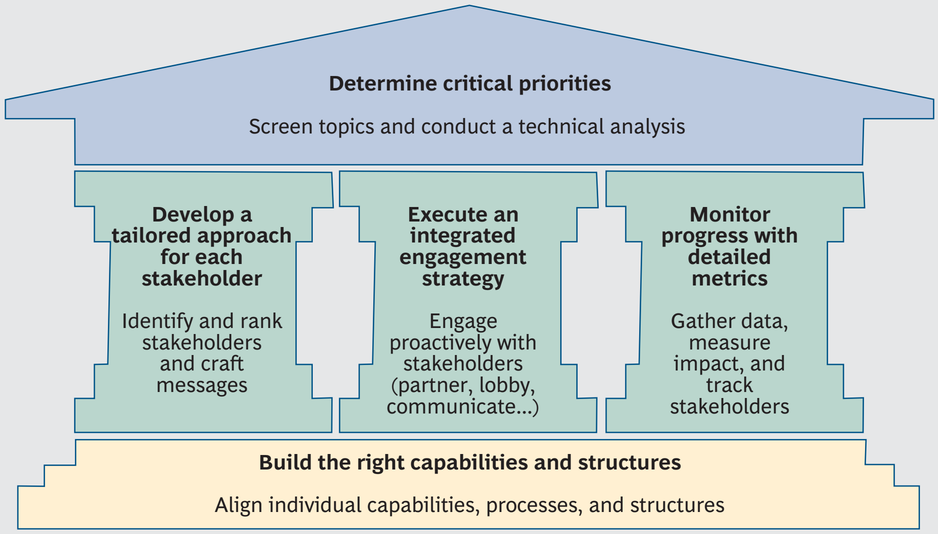
## An Integrated Approach

Many companies underestimate the importance and scope of effective stakeholder management or believe it's too obvious to merit focused attention. As a result, they may be squandering relationship capital without even knowing it. Too often they lack an integrated strategy or the right capabilities, or fail to take a proactive approach. Communication and coordination among different internal departments, offices, or geographic locations may be lacking as well, so new information, insights, and best practices aren't systematically shared and new staff members often have to start building relationships from scratch.

Through our work with leading multinationals across multiple industries, we have identified the basic elements of an effective approach to stakeholder management. (See the exhibit "Effective Stakeholder Management Has Five Integrated Elements.")

**Determining Critical Priorities.** In an ever-changing world, maintaining focus on the most important topics is integral to success. Not every issue or risk merits a

**Effective Stakeholder Management Has Five Integrated Elements**




**Source:** BCG experience.

stakeholder management strategy, but certain situations do. They include impending laws, taxes, regulations, or policy changes that could affect your industry; any planned changes by your company that could impact the community, such as a major business expansion, workforce reduction, or plant closure; major business opportunities, such as a plan to enter a new country or market; emerging or growing competitive threats; and technical, environmental, or safety risks in any areas of your business.

For instance, a European refiner and distributor of oil products was concerned about the impact of a government proposal to change several industry regulations and how the changes would affect its business. The company did a technical analysis and concluded that the changes would have a negative impact on its operations. On the basis of those findings, the company made it a key priority to develop a stakeholder management strategy aimed at regulators and environmental groups.

Identify, analyze, and rigorously prioritize these critical situations according to the potential impact of each one and your company's ability to influence the outcome. A detailed analysis of the bottom-line impact and second-order effects may be needed to assess the full scale of a potential problem or opportunity. For each situation, define a clear objective or outcome to guide your stakeholder-management efforts, and milestones for tracking progress.

**Developing a Tailored Approach for Each Stakeholder.** For each priority situation, identify the key stakeholders involved, analyze their interests and positions, and develop a tailored engagement strategy for each stakeholder. Because leaders, influencers, and opinion makers change over time, it's important that your information be current.

Not all stakeholders are equal. Some may have more weight in the decision-making process or be in a better position to shape public opinion. Rank the stakeholders according to their relative influence and think about how to approach each one, how often, and how much effort to put in. Careful observation, local insights, past experience, and gut instinct are all valuable in determining the best strategy for each stakeholder.

It is of the utmost importance to leverage all relevant parties in your organization for an integrated stakeholder-engagement approach. Relying on the external-affairs department is not sufficient. For your approach to be credible and effective, experts and senior leaders must all be involved.

Keep the management hierarchy in mind when creating an engagement strategy, and aim to align contact levels. When a higher-level business executive attends a lower-level administrative meeting, his intentions may be good, but he may raise expectations for future meetings—or even close the door to more senior-level contacts. The importance of such "stakeholder mapping" is commonly underestimated in emerging markets.

**Executing an Integrated Engagement Strategy.** Before reaching out to the critical stakeholders, be absolutely clear about how you'll present your position and key messages—and when. Using the objective or outcome you set for each priority as a starting point, tailor your messages accordingly. Then determine how best to share them. The refiner and oil product distributor that was concerned about the proposal to modify regulations in the industry presented its technical analysis to regulators and environmental groups. The fact-based presentation showed that the proposed regulatory changes would come at a high cost, reducing critical supply capacity by making it unprofitable. This approach broadened the conversation and prompted a search for a win-win solution.

Depending on the situation, the stakeholder, and your relative access, the best approach could be a telephone call, a press release, an in-person meeting, a formal presentation, working with external lobbyists, or a combination of different approaches. Prepare positions and messages of varying length and detail, tailored to each situation. Be clear and consistent on your key talking points with all stakeholders, and listen carefully to opposing positions and competing agendas. Timing is critical, too. You don't want important stakeholders to hear your news from the media before you have a chance to reach them. Rather, engage on critical messages in advance.

**Monitoring Progress with Detailed Metrics.** Tangible data gathering is at the heart of measuring the success of your stakeholder management. No single metric can capture the value of relationship capital. A variety of aspects, however, can prove to be powerful signposts, such as the value impact created for the community by reducing malaria infections. In addition, keeping a detailed contact log with information on whom you've reached out to, what approach you took, what was discussed, the stakeholder's response, and any follow-up actions is essential. These records are critical—not just for remembering what transpired but for future knowledge-sharing and staffing continuity. New insights from the engagements should be shared broadly as well. Best-practice companies in the oil and gas industry make such discussions a routine part of every leadership-team meeting—much as safety has been a core topic for many years. Measure the impact of your outreach efforts by tracking progress against target milestones and outcomes. Engineering-focused companies tend to respond well to the use of concrete measures to influence and adjust behavior.

**Building the Right Capabilities and Structures.** Effective stakeholder management requires the right individual capabilities, processes, and structures. Make sure that strong leadership and PR skills are in place, and that people with excellent technical, engineering, and communication skills are on staff—or that training and education programs are in place to develop them. Stakeholder management efforts should not be a dumping ground for failed engineers or other poor performers. Besides having the right skills and capabilities, companies must ensure that their business leaders are comfortable taking a public role and reaching out to the community. One way to achieve this level of comfort is to establish a leadership academy for business executives that addresses the value of relationship capital and effective stakeholder management.

Moreover, there must be clear reporting structures and procedures to promote more efficient processes, faster decision making, coordinated responses, and shorter reaction times—and to ensure that knowledge is shared throughout the organization. Clarify who will have the final say when making difficult decisions or determining which stakeholders to approach and who will join the meeting. Best-practice companies promote synergies among different departments such as government affairs, community engagement, and communications through strong organizational ties. Tensions between business units and corporate headquarters, functions, and the line are normal and to be expected. Companies that excel in building relationship capital recognize and consciously manage those tensions.

At first glance, these five elements may seem like common sense, but few companies systematically address each one in a thorough fashion and then integrate them into an effective program. To excel in just one element is not enough to be successful. When it comes to building relationship capital, the whole is truly greater than the sum of its parts.

Forward-looking companies do everything they can to anticipate potential stumbling blocks along the path to success and to manage the factors that are within their sphere of influence. Taken together, the five elements we've outlined form a powerful, integrated approach to stakeholder management, proactively building the relationship capital that can become a long-term competitive advantage.

Note

1. Tamara Bekefi, Beth Jenkins, and Beth Kytle, "Social Risk as Strategic Risk," Corporate Social Responsibility Initiative, Working Paper No. 30, John F. Kennedy School of Government, Harvard University, 2006.

## About the Authors

**Daniel López** is a partner and managing director in the Madrid office of The Boston Consulting Group and a topic expert in the firm's Energy practice. You may contact him by e-mail at lopez.daniel@bcg.com.

**Katharina Rick** is a principal in BCG's San Francisco office. You may contact her by e-mail at rick.katharina@bcg.com.

**Henning Streubel** is a partner and managing director in the firm's San Francisco office. He leads BCG's Energy practice on the U.S. West Coast and is the firm's topic expert on stakeholder management and relationship capital. You may contact him by e-mail at streubel.henning@bcg.com.


10/12