

#beSUSTAINABLE

TOOLKIT:

Stakeholder Engagement

2nd Edition



Created for you by:



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This Toolkit: Governance (“Toolkit”) is issued by Bursa Malaysia Securities Berhad to, among others, assist listed issuers in preparing the Sustainability Statement as required under the Listing Requirements of Bursa Malaysia Securities Berhad [paragraph 9.45(2) and paragraph (29), Part A of Appendix 9C of the Main Market Listing Requirements (supplemented by Practice Note 9) and paragraph (30) of Appendix 9C of the ACE Market Listing Requirements (supplemented by Guidance Note 11)].

While this Toolkit is intended to provide the relevant information and guidance for listed issuers to prepare their Sustainability Statement, it may not be exhaustive in its coverage. Listed issuers must exercise discernment and diligence when using this Toolkit.

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PREFACE

This Toolkit has been updated based on feedback from a user survey on participants of Bursa Malaysia's sustainability reporting related workshops, internal feedback from within Bursa Malaysia, and other local and global developments in the areas of sustainability and sustainability reporting. This second edition 2018 of the Toolkit replaces the first 2015 edition. This edition includes references to latest developments in sustainability and sustainability reporting.

In producing the Second Edition of the Toolkit on Governance (2018), we would like to thank representatives of listed issuers as well as individuals who were involved in producing this updated Toolkit.

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1. Purpose

Paragraph 6.2 (c), Practice Note 9 of the Main Market Listing Requirements requires disclosure on:

material sustainability matters and -

- (i) **how they are identified;**
- (ii) **why they are important to the listed issuer;** and
- (iii) **how they are managed** including details on:
 - (aa) **policies to manage** these sustainability matters;
 - (bb) **measures or actions taken to deal** with these sustainability matters; and
 - (cc) **indicators** relevant to these sustainability matters which demonstrate how the listed issuer has performed in managing these sustainability matters.

The purpose of this Toolkit is to provide further guidance to listed issuers on how to perform stakeholder engagement to determine economic, environmental and social (“EES”) risks and opportunities (“**sustainability matters**”) that are material by applying the steps proposed in this Toolkit. The Toolkit can also be used to support continual engagements for general business purposes (e.g. maintaining customer loyalty).

Throughout this Toolkit, sustainability matters are considered material if they:

- (a) reflect the listed issuer’s significant economic, environmental and social impacts; or
- (b) substantively influence the assessments and decisions of stakeholders.¹

Throughout this Toolkit, the term stakeholder engagement is defined as follows:

“Stakeholder engagement is the process used by an organisation to engage relevant stakeholders for a purpose to achieve agreed outcomes” (AccountAbility, 2015)

This Toolkit should be read in conjunction with Bursa Malaysia’s Sustainability Reporting Guide (“**the Guide**”), including the definitions provided in the Guide.

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¹ This definition is also contained in paragraph 6.3 of Practice Note 9, Main Market Listing Requirements and is adapted from the GRI Standards.

2. Content of this Toolkit

This Toolkit covers the following:

- How to carry out stakeholder engagement, including details on how to identify stakeholders and how to understand, manage and respond to their concerns;
- Best practice rules for engagement with stakeholders;
- Case studies on stakeholder engagement; and
- Example disclosures in relation to stakeholder engagement.

3. Stakeholder engagement

Stakeholders play an important role in relation to an organisation, either as advocates, sponsors, partners or agents of change. Engagement with stakeholders focuses on inclusiveness, responsiveness and building a continuous relationship between the organisation and its stakeholders. It should involve any party that is impacted by the organisation's business practices (directly or indirectly) or who can influence the organisation and its decisions. Examples of stakeholders include shareholders, community, employees and the government (more details on identifying stakeholders are provided in **Stage 1** of this Toolkit).

Stakeholder engagement is driven by enhanced understanding among businesses of the value derived from effective engagement. It also takes into account the growing level of interest and sophistication amongst stakeholders (e.g. through use of social media) in how organisations run their business and the impacts of their operations.

There is increased awareness of organisations' business activities and how they have wide-reaching environmental and social impacts. Organisations are also now cognisant of the reputational risks faced by poor relationships with their stakeholders. Organisations that anticipate the potential in stakeholder dialogues at an early stage and follow a step-by-step process are better positioned to drive strategic direction and operational excellence for their businesses.

It is imperative to establish a robust stakeholder engagement process. Generally, the process involves 3 main stages, as depicted in Figure 1 below:



Figure 1: Stakeholder engagement process

Stage 1: Engagement strategy and planning

Objectives

Stage 1 looks at setting the strategy for engagement and identifying stakeholders that underpin the organisation's stakeholder engagement approach. This stage is crucial to ensure strategic alignment with business objectives to ensure all interests converge to fulfil the organisation's needs. Engagement strategy and planning also helps an organisation to identify key stakeholders which will in turn help in identifying sustainability issues and prioritising sustainability matters that are material.

Drivers of stakeholder engagement

Stakeholder engagement is very often driven by a set of internal and external drivers. These drivers may prompt an organisation to begin an engagement with certain stakeholders or to re-evaluate engagement strategies and relook at engagement plans to ensure that these new expectations are met. Below are some examples of drivers for stakeholder engagement.

- **Changing societal expectations on the role of business** - society in general now looks to business to be part of the solution in addressing social issues.
- **Development of new technologies** - advancements in telecommunications and increase in accessibility to information, are driving more informed stakeholders who now have the knowledge to be part of the debate for all issues including sustainability issues.
- **Increase in public scrutiny** - organisations are increasingly subjected to intense inspection and enquiry into their operations, particularly by non-governmental organisations.
- **New legislation or government requirements** - for example, mandatory reporting of sustainability issues such as GHG emissions and water scarcity among others.
- **Significant events** - for example, natural disasters that affect business activities or large industrial incidents (e.g. Chernobyl and Bhopal disasters) or media exposés relating to business operations (e.g. Nike controversy with child labour).

Case Study: Drivers for stakeholder engagement

Adidas completed an annual country risk profile that assessed the socio-political and human rights issues associated with its sourcing of input materials and products. This was done by its field teams through regular engagements with local stakeholders (civil society, government, etc.) and through concerns brought to them by international NGOs. Their 2008 analysis flagged reports of high rates of anaemia among female workers, who made up 85% of its workforce in Cambodia.

This triggered Adidas to engage with the International Labour Organisation to look at food provision for workers in their garment supply chain. This led to the subsequent establishment of canteens and food services, both to improve workers' nutrition and also to increase their disposal income (by offering free or subsidised food).

Stage 1 requires an organisation to approach stakeholder engagement strategically by considering the following questions. The sequence of the questioning is interchangeable as long as all the elements are addressed (as illustrated in Figure 2).

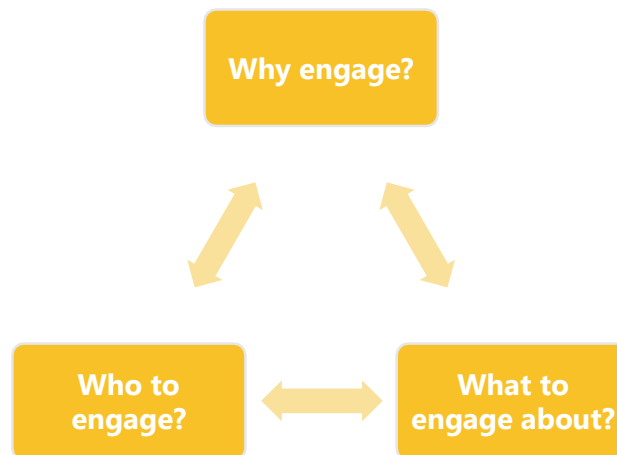


Figure 2: Considerations to determine purpose of stakeholder engagement

Addressing the three questions will allow an organisation to attend to operational issues as well as setting strategic direction of the organisation. Figure 3 below illustrates example sequences of the three questions.



Figure 3: Example sequences



Figure 4: Stage 1 of Stakeholder engagement

Step 1: Identifying Stakeholders

There is no uniform list of stakeholders for all organisations. Depending on the nature of business, an organisation may have a diverse range of stakeholders with different levels of influence or interest in the organisation. The list remains fluid as long as there are changes in the internal (e.g. changes to business strategy) and external environment (e.g. legislative changes). Although not exhaustive, the following provides an example of a list of stakeholders that may be relevant to an organisation:

Internal stakeholders	External stakeholders
<ul style="list-style-type: none"> • Investors / financiers • Employees • Trade Unions • Board of directors 	<ul style="list-style-type: none"> • Non-governmental organisations (“NGOs”) • Government • Media • Industry peers • Academics & the scientific community • Local communities/society • Customers • Suppliers

Internal and external stakeholders can be identified based on the following considerations:

- Does the organisation have a legal obligation towards the stakeholder?
- Does the organisation have any financial or operational responsibility that involves the stakeholder? (e.g. through contracts, codes of practice, etc.)
- What is the magnitude of influence that the stakeholder holds? Does it affect the organisation's ability to meet its goals and objectives? This encompasses those with formal decision-making powers and those with an informal influence.
- What is the physical proximity of these stakeholders to the organisation? Do they live within close range to the location of the organisation's operations?
- How often does the organisation engage with these stakeholders?
- What is the state or extent of dependencies of these stakeholders? Does the organisation depend on them for supplies, for example? Do they depend on the organisation for work or for products and services?
- Who does the stakeholder represent? E.g. local community heads, trade union representatives, regulatory body liaisons, etc.

An organisation should begin by coming up with a list of stakeholders to include everyone who has an interest relevant to the organisation's activities, products and services and business strategy or is impacted by its operations today or into the future. The organisation also needs to take into consideration learnings, if any, from its past and present engagements and ensure there is diversity in the list of stakeholders. The process must also leave room for revisions or improvements upon obtaining feedback from stakeholders.

Food for thought

The loudest voices or heaviest campaigners may not necessarily be the key stakeholders. Consider adding more low-key stakeholders who are impacted or may be potentially affected by the organisation to ensure all valuable feedback is captured.

Case Study: Stakeholder selection

This example highlights CIMB Group Holdings Berhad's disclosure on their basis for stakeholder selection and stakeholder inclusiveness for their Citizenship Report 2017:

“Basis for Stakeholder Selection: Our basis for selecting the most critical stakeholders is to consider three factors: stakeholders' influence on our business, interactions, reputation; the degree or level of our dependency on various stakeholders to further their interests as well as our business; stakeholders who share common business and community interests and aspirations or their representativeness. On the next page are our most critical stakeholders and the various platforms we use for regular engagement.

Stakeholder Inclusiveness: We did not conduct any special stakeholder meetings in 2017 for the purpose of this report. However, the data analysed for the year under review includes information from customers, employees, suppliers, and community development partners collected through various institutionalised platforms on a monthly, quarterly, and annual basis. We analysed the stakeholder feedback and information to identify 28 material topics of interest as indicated in the table below. Based on our internal materiality assessment, we then identified several key issues to prioritise in 2017 - the ones that hold high significance for both internal and external stakeholders of CIMB.”

(Source: CIMB Group Holdings Berhad's Citizenship Report 2017)

Step 2: Stakeholder Mapping

Once all relevant stakeholders with relevant needs and expectations (those that the organisation would be expected to address) have been identified, the organisation can begin to map them in a way that addresses their concerns. Stakeholder mapping is a collaborative process and should include multiple perspectives when developing a list of key stakeholders. This means gathering personnel from management as well as from various departments (e.g. procurement, safety, engineering, finance, etc.)

For example, the list of relevant stakeholders can be categorized into groups, which can be further broken down into sub-groups, based on their specific needs of information or focus areas (e.g. government and regulatory authorities require compliance-based information relating to the organisation's environmental and social risks).

The next table provides an example of how stakeholders can be categorised into groups and sub-groups and each group's focus area(s).

Group	Sub-group	Focus areas
Employees	<ul style="list-style-type: none"> • Management • Permanent hires • Contract staff • Cleaning staff • Security guards 	<ul style="list-style-type: none"> • Career development and ongoing communication • Occupational safety and health • Job security • Employment terms and conditions
Government / Regulatory Authorities	<ul style="list-style-type: none"> • Health and Safety Department • Department of Environment • Labour Relations Department 	<ul style="list-style-type: none"> • Legal compliance
Media	<ul style="list-style-type: none"> • Social media • Newspapers (printed and online) 	<ul style="list-style-type: none"> • Continuous and meaningful communications • Avoidance of bad publicity
Community	<ul style="list-style-type: none"> • Local surrounding community • Local government • Local charities 	<ul style="list-style-type: none"> • Community investment, development and impact • Liaison with community groups
Industrial peers	<ul style="list-style-type: none"> • Trade associations • Roundtable 	<ul style="list-style-type: none"> • Industry stewardship
Customers	<ul style="list-style-type: none"> • Consumers • Distributors 	<ul style="list-style-type: none"> • Products/services transparency • Useful products/services

Step 3: Determining engagement objectives and risks

Engagement objectives provide good guidance to organisations in relation to their engagement approach and also provide a means by which to gauge the success of their exercise.

An organisation is encouraged to define its engagement objectives, in line with the organisation's strategic objectives. Examples of specific engagement objectives may include:

- securing a licence to operate in a certain region;
- increasing customer satisfaction;
- minimizing the organisation's negative environmental and social impacts; or
- identifying new opportunities for business.

Additional key engagement objectives could be to assist an organisation in identifying sustainability issues (refer to **Phase 2: Understanding the Organisation's Context of Toolkit: Materiality Assessment**) and determining material sustainability matters from the initial list of sustainability issues (refer to **Phase 4: Prioritisation of Toolkit: Materiality Assessment**).

It is also useful to identify, assess and address the engagement risks. This would allow the organisation to make better decisions, anticipate potential negative outcomes, focus on areas for opportunity and maintain positive relationships.

Stakeholder Risks	Organisational Risks
<ul style="list-style-type: none"> • Unwillingness to engage • Participation fatigue • Creating expectations of change that the organisation is unwilling or unable to fulfil • Lack of balance between weak and strong stakeholders • Disruptive stakeholders • Uninformed stakeholders • Disempowered stakeholders • Technical barriers in case of online engagement processes • Conflict between participating stakeholders 	<ul style="list-style-type: none"> • Damage to reputation • Waste of time and financial resources • Loss of control of issues • Not meeting organisation's expectations • Strong criticism • Creation of conflicts of interest • Internal disagreement on way forward • Non-compliance with legal and internal policies and standards

Source: Adapted from AA1000 Stakeholder Engagement Standard (AA1000SES), AccountAbility, 2015

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The example below shows how an organisation is responding to its business strategic objective to maintain its social licence to operate in a specific geographical area.

Questions and Responses:

➤ ***What are my engagement objectives?***

Maintaining a social licence to operate is key to our business success without which it will affect our access to key natural resources that are pertinent to our operation. In light of recent increased number of complaints and allegations related to our operation's impact on the biodiversity in Area X from the local community, we recognise that there is a need to engage with the community as well as relevant government authorities to better understand their concerns and expectations relating to the sustainability matter (i.e. loss of biodiversity), as part of our engagement objectives to maintain our social licence to operate in Area X.

➤ ***What are the levels of influence over and from stakeholders relating to these objectives?***

The local community and government have a strong influence in determining our continued presence in Area X. Close rapport with the community and government enables us to access key natural resources for our production as well as maintain our social licence to operate in the area. Our operations in that area has also had a positive impact on the local economy i.e. through new jobs generated.

➤ ***What are the desired outcomes from engagement with these stakeholders? How is success measured?***

No resistance or alternatively voiced support from the surrounding community on our operations in Area X as well as stronger trust of the government authorities, especially enforcement officers (in the form of reduced number of inspections).

➤ ***What are the risks faced by the company if they do not engage or have poor engagement sessions?***

Losing the licence to operate in Area X.

Step 4: Identifying sustainability issues and EES impacts

Through the process of determining engagement objectives and risks as described in the previous section, an organisation can also begin to identify its sustainability issues and EES impacts.

The identified sustainability issues and potential EES impacts provides the organisation with oversight over which issues are most relevant to each of its stakeholder groups and also helps inform the specific engagement approach required subsequently with them.

Stakeholder prioritisation

Stakeholder prioritisation deals with the best approach an organisation may take to engage with its stakeholders. Engaging with all stakeholders or engaging on all issues is often resource- intensive and inefficient. Prioritisation is aimed at creating a balance between time, resources and expectations of stakeholders. In addition, it assists an organisation in determining the levels of influence and dependence a stakeholder group has over the organisation's relevant sustainability issues and EES impacts and contributes towards the materiality assessment process.

For further details on this process, please refer to **Toolkit: Stakeholder Prioritisation Matrix**.

When does an organisation need to revisit its stakeholder engagement strategy?

Ensuring that these four steps (as detailed above) are executed well, are crucial as they are the foundation of an effective stakeholder engagement. An organisation's stakeholder engagement strategies should be robust and flexible and be reviewed by the organisation if there are signs of weaknesses or unmet objectives. Some signs that indicate the need to revisit the organisation's stakeholder engagement strategies are:

- The organisation has no stakeholder mapping, tiering or profiling of information;
- Stakeholders are only limited to those with direct financial interest (e.g. customers and shareholders);
- Stakeholders are rarely, if ever, consulted on decisions;
- Dialogue with stakeholders mostly takes place during damage control or in light of negative media exposure;
- Online coverage is mostly negative; and
- Unclear board of directors or executive accountabilities for stakeholder management.

Stage 2: Communicating and engaging

Objectives

The aim of this **Stage 2** is to design and execute a stakeholder engagement approach which meets stakeholder expectations and organisational objectives.



Figure 5: Stage 2 of Stakeholder engagement

Step 1: Profiling stakeholders

Stakeholder profiling differs from stakeholder identification as described earlier in **Stage 1: Step 1**. Stakeholder identification involves creating a comprehensive list of relevant stakeholders that bear influence on or are impacted by the organisation. Stakeholder profiling, on the other hand, enables the organisation to go one step further by appraising the characteristics, behaviour and attitudes of these stakeholders in efforts to develop a better understanding of their needs and expectations.

For the stakeholder engagement process to work, an organisation should have a clear understanding of who the organisation's stakeholders are and the most effective ways to engage with stakeholders in order to support its engagement objectives.

Profiling stakeholders helps an organisation to:

- understand its stakeholders' requirements, priorities, general communication style and their relative influence over the business activities that are relevant to them;
- decide on the best approach to communicate any change to the business arising from material sustainability matters and the benefits of the change;

- gain key information about each stakeholder group, which allows the organisation to proactively manage their needs and expectations, which in turn facilitates greater support and acceptance of changes to its business and/or impacts of its business activities; and
- identify gaps in the organisation's knowledge and understanding of its stakeholders (e.g. change of interest of the stakeholders) and uncover possible ways to close these gaps.

Stakeholder profiling process is often adopted by established organisations which undertake stakeholder engagement and is something other organisations may look to work towards as they grow in sophistication in identifying, understanding and engaging with their stakeholders. Organisations which are new to the process may choose to do a simple profiling exercise and progressively work towards developing a more comprehensive profile for their stakeholders.

The stakeholder profile should provide the organisation with preliminary information on, among others, their stakeholders' preferred method of communication.

Stakeholder Profile Template

The following template has been extracted from AA1000's The Practitioner's Handbook on Stakeholder Engagement, Volume 2 as a point of reference for an organisation to construct its own stakeholder profile form.

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Stakeholder Profile		Last updated:
Stakeholder group:		
Primary subject / issue of engagement with this group		
Stakeholder objective		
Preferred level of engagement with this group		
Stakeholder group representative		
Specific representative / representing organisation		
Internal contact person		
Stakeholder's general view on the EES impact or issue		
Expectations towards the organisation regarding the EES impact or issue		
Engagement history and current highest level of and approaches to engagement	[fill in if you are already engaging]	
Stakeholders' usual or preferred highest level of and approaches to engagement		
Stakeholders' sources of funding		
Relationships / conflicts with other stakeholders		
Knowledge of the issue	<input type="checkbox"/> Leading Opinion <input type="checkbox"/> Good Knowledge <input type="checkbox"/> Medium Knowledge <input type="checkbox"/> Lacking Knowledge <input type="checkbox"/> No Knowledge Give details:	
Influence or perceived influence	<input type="checkbox"/> High Influence <input type="checkbox"/> Limited Influence <input type="checkbox"/> Low Influence <input type="checkbox"/> No Influence Give details: <input type="checkbox"/> Conflict between perceived and actual influence Give details:	
Willingness to engage	<input type="checkbox"/> Willing <input type="checkbox"/> Moderately interested but friendly <input type="checkbox"/> Uninterested <input type="checkbox"/> Hostile	
Actual and /or potential impacts of stakeholder on business - associated risks and opportunities	Positive impacts/ opportunities: Negative impacts/ risks:	
Scales at which they operate	<input type="checkbox"/> Global <input type="checkbox"/> Regional <input type="checkbox"/> National <input type="checkbox"/> Subnational <input type="checkbox"/> Local Give details:	
Cultural issues to consider (if any)		
Practical issues to consider (e.g. the stakeholder's ability to engage given resources, staff, etc.)		
Is it necessary to engage with this stakeholder?		
Other comments		

Step 2: Determining the engagement approach

Once stakeholders have been profiled, the next step is to determine the engagement approach.

In the context of identifying material sustainability matters, an organisation could start by evaluating the current state of affairs for sustainability issues and EES impacts that have been identified by the organisation (refer to **Phase 2: Understanding the Organisation's Context** and **Phase 4: Prioritisation of Toolkit: Materiality Assessment**) and consider the following:

- Are these sustainability issues and/or EES impacts already being managed and monitored within the organisation?
- What systems or management approaches are in place currently, to address these sustainability issues and/or EES impacts?
- Has the organisation decided on a change in business strategy driven by these sustainability issues/EES impacts or their associated material sustainability matters?

Depending on the current state of affairs, each sustainability issues/EES impact can be assigned an engagement level that is deemed fit. An example, as provided by AA1000 and UNEP's stakeholder engagement manual is detailed below:

Level of engagement	Description
No engagement	No engagement on an issue.
Exploratory	Ad-hoc engagement with stakeholders when opportunities or challenges arise: focused on learning and exploring the issue and often dependent on individual commitment.
Developing	Good quality engagement processes with some thought to design and stakeholder needs, but management systems are patchy, the impact of engagements to actual operational decision-making is unclear, and there are no clearly established performance objectives addressing the issue.
Embedded	High quality engagement processes feed into operational decision making and are embedded in core management processes. Engagement is systematised to ensure that the issue is adequately addressed.
Strategic	High quality engagement embedded in management and governance processes and linked to business strategy. Issues are addressed in-depth, often with the objective of systemic change and on a global and local level.

(Source: SRA, UNEP, AccountAbility, 'The Stakeholder Engagement Manual, Volume 2: The Practitioner's Handbook on Stakeholder Management', p.52, 2005)

In determining the best engagement approach, an organisation should work with personnel involved in stakeholder management (e.g. procurement manager, customer and investor relations, etc.) and leverage their knowledge to help determine if the engagement approaches being considered to address a sustainability issue/EES impact are appropriate.

The organisation should bring about awareness on engagement practices with these personnel by asking if the current approach to engaging with stakeholders sufficiently addresses the sustainability issues and EES impacts and determine if the level of approach needs to be changed.

Generally, the approach may range from simple forms of engagement like communication to advanced forms of engagement like partnerships. Before selecting an engagement approach, an organisation should take into account several considerations. The organisation may want to consider its engagement objectives which are defined earlier in **Stage 1: Step 1**. The stakeholder prioritisation process (also mentioned earlier in **Stage 1: Step 4**) also informs the organisation of the type of approach best suited to specific stakeholders (e.g. town hall sessions are more suitable for all employees; focus groups are usually held for NGOs and advocacy groups).

The table below looks at the different types of approaches that an organisation may engage in.

Partnership	Dialogue	Consultation	Other Communication
<ul style="list-style-type: none"> • Joint-venture agreements • Local community projects • Multi-stakeholder enterprises 	<ul style="list-style-type: none"> • Grievance mechanism • Advisory boards • Multi stakeholder sessions 	<ul style="list-style-type: none"> • Focus groups • Questionnaires/ surveys • Internal assessments • Online feedback form/ survey 	<ul style="list-style-type: none"> • Annual report • Town hall sessions • Employee training • Corporate website • Press release • Press conference • Company brochures • Internal circulars/ bulletins • Toolbox sessions • Internal committee meetings • Conferences/ summits • Company tours

The table below is a sample of an engagement approach that has been adopted by an organisation in the telecommunications sector.

Stakeholder Group	Engagement approach	Frequency	Engagement focus/ objectives
Customers	<ul style="list-style-type: none"> • Customer satisfaction survey 	Annually	On affordability and accessibility of network
Employees	<ul style="list-style-type: none"> • Town hall meetings • Employee satisfaction survey 	Annually/ Quarterly	Career progression, employee development needs
Suppliers	<ul style="list-style-type: none"> • Code of Ethics • Request for Proposal • Supplier Evaluations 	Ongoing	Sound payment practices and vendor performance
Regulators	<ul style="list-style-type: none"> • Compliance with stock exchange requirements 	Ongoing	Pricing and information needs
Community	<ul style="list-style-type: none"> • Community development programmes 	Ongoing	Social requirements and specific feedback on programmes
Media	<ul style="list-style-type: none"> • Press releases • Conferences • Interviews • Advertising 	Annually/ quarterly	New developments for public knowledge/ promotion
Non-governmental organisations	<ul style="list-style-type: none"> • Face-to-face meetings • Joint-events 	Ongoing	Biodiversity and other environmental concerns

Step 3: Engaging with stakeholders

Preparing for Engagement

Prior to stakeholder engagement, an organisation should ensure that it has the capacity for engagement or takes steps to increase its existing capacity. The stakeholder engagement process usually involves personnel across a variety of functions, hence development of engagement skills should extend beyond that of a single department such as the investor relations department to other departments such as procurement, human resources and operation managers. This is because the other departments also interact with the organisation's various stakeholder groups. There is no generic set of skills required for stakeholder engagement as the approaches taken are usually diverse in nature.

However, basic skills (as indicated in Figure 6) can be instilled through training.

In addition to building a strong skills and knowledge base within the organisation, credibility is also important in earning the trust of stakeholders and in establishing acceptance and support for the organisation's response to material sustainability matters identified.

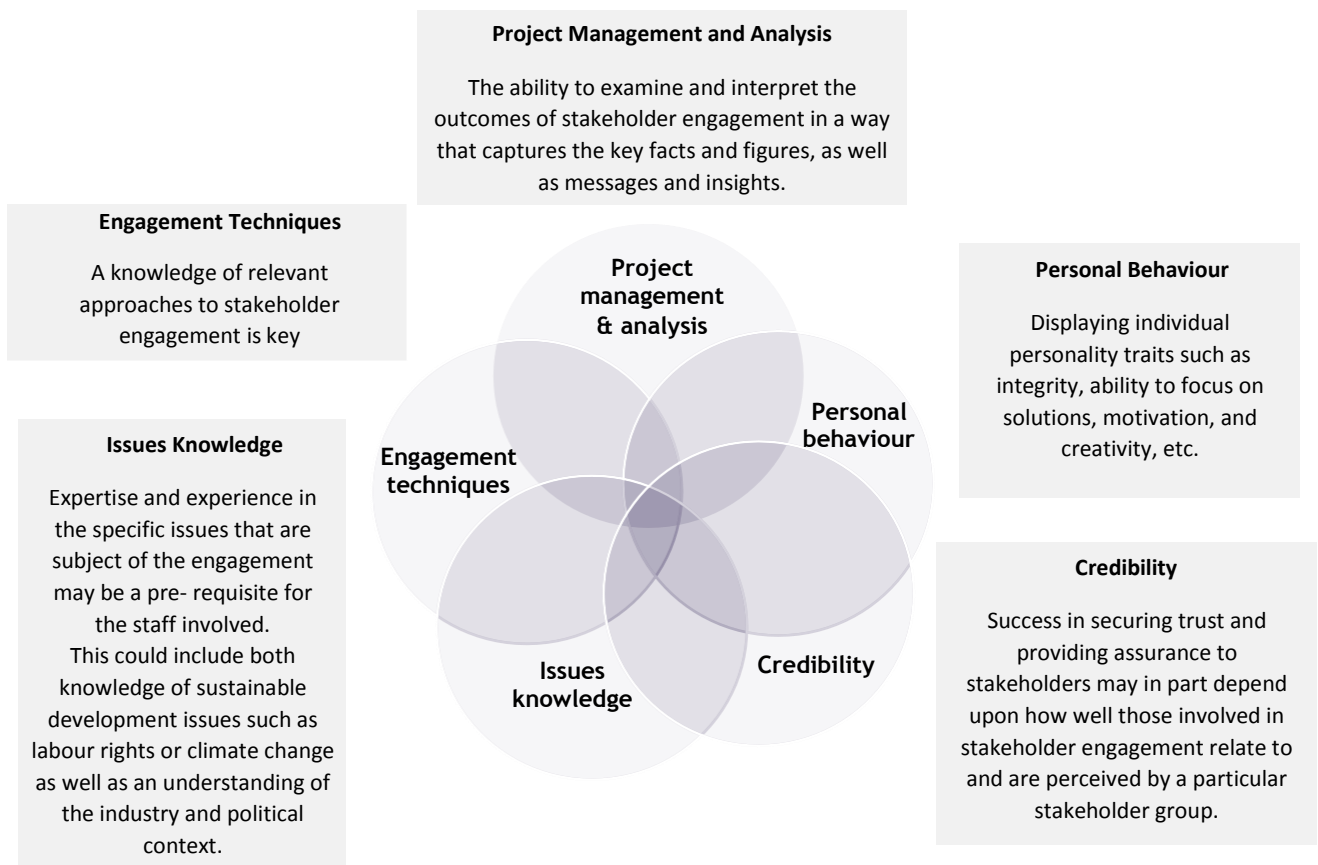


Figure 6: Skills and characteristics essential for stakeholder engagement

Figure 6 above illustrates the skills and characteristics map as shown in *The Stakeholder Engagement Manual, Volume 2: The Practitioner's Handbook on Stakeholder Management*. These are the essential characteristics that an organisation should exhibit in order to have successful engagement. To move beyond that, the organisation may also incorporate 'key enablers' to increase its ability to respond to EES impacts or specific material sustainability matters more effectively. Examples are provided in Figure 7 below.

Policies or measures surrounding the sustainability matter	Management commitment	Performance indicators/ measurements regarding the sustainability matter	Clear assignment of internal responsibility to competent individuals
An organisation could develop its sustainability policies and measures based on consultation with relevant stakeholders to ensure that the policies or procedures are realistic and meet the needs of the stakeholders.	An organisation could engage with its senior management to ensure that they are aware of the resource needs, policy and measures required for managing and reporting material EES impacts or sustainability matters and are able to see linkages between sustainability and the organisation's strategic objectives.	Stakeholder dialogues can be used by an organisation as a base to develop indicators and targets to measure the effectiveness of its management of its EES impacts and its material sustainability matters.	Personnel assigned to interact with stakeholders and address their needs and concerns on behalf of the organisation are equipped with necessary skills and personal characteristics suited to the position. This refers to individuals who are not only in close and frequent contact with external stakeholders (e.g. procurement officers or investor relations personnel) but also those who bear influence over internal stakeholders (e.g. line managers)

Figure 7: Key enablers for effective management of material sustainability matters

Once an organisation has taken steps to address capacity issues and is working progressively to manage engagement challenges, it may proceed to the following engagement step. This engagement step entails tailoring a process that endorses equitable stakeholder participation with a focus on the EES impacts or material sustainability matters at hand.

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Step 4: Engagement

By applying information from the previous stages, an organisation can select the approach or a combination of approaches to disseminate information effectively to its stakeholders and capture all relevant feedback from them. This may involve informing the stakeholders about certain events or directly involving them in the decision-making processes.

It is essential that during the stakeholder engagement session, any new EES impact or sustainability matter raised by stakeholders are given due consideration and where appropriate, considered in light of existing EES impacts or material sustainability matters. Where necessary, the EES impacts or material sustainability matters should be revised.

Documentation of the engagement process is important as the records can be used:

- for managing the organisation's post-engagement process, including addressing the stakeholders' concerns and reporting the outcomes back to them;
- as inputs for the organisation's strategy development; and
- for future reference and communication with the organisation's stakeholders.

Practical help - Best Practice Rules for Engagement with Stakeholders

- Assign roles and responsibilities for all in attendance but do not impose beliefs or motives onto the participants.
- Create a safe space for more passive stakeholders to speak and be heard.
- Steer the conversation to focus on the issues at hand. However, additional issues should not be brushed off but could possibly be discussed in future engagements.
- Allow the speakers to express their opinions fully.
- Maintain a tension-free environment during the engagement process, especially.

An organisation should consider the possibility of extending the engagement to cover sustainability matters that were not included in the first engagement exercise but have been identified as material through the course of the engagement process.

Determining material sustainability matters

Stakeholder engagement is a key component in the materiality assessment process as it helps an organisation to determine and prioritise sustainability matters that are material to the organisation and its stakeholders. The results of this engagement exercise can be used to inform the organisation's sustainability reporting and communication strategies and are also valuable to its strategic planning, operational management and capital investment decisions. Often, an organisation may determine its material sustainability matters through an informal internal review but this does not capitalise on the full value an effective stakeholder engagement exercise brings to the process. A materiality assessment should formally involve the entire spectrum of an organisation's stakeholders, both internal and external.

An example of an organisation's approach in determining material sustainability matters using stakeholder engagement is as set out in Figure 8 below:

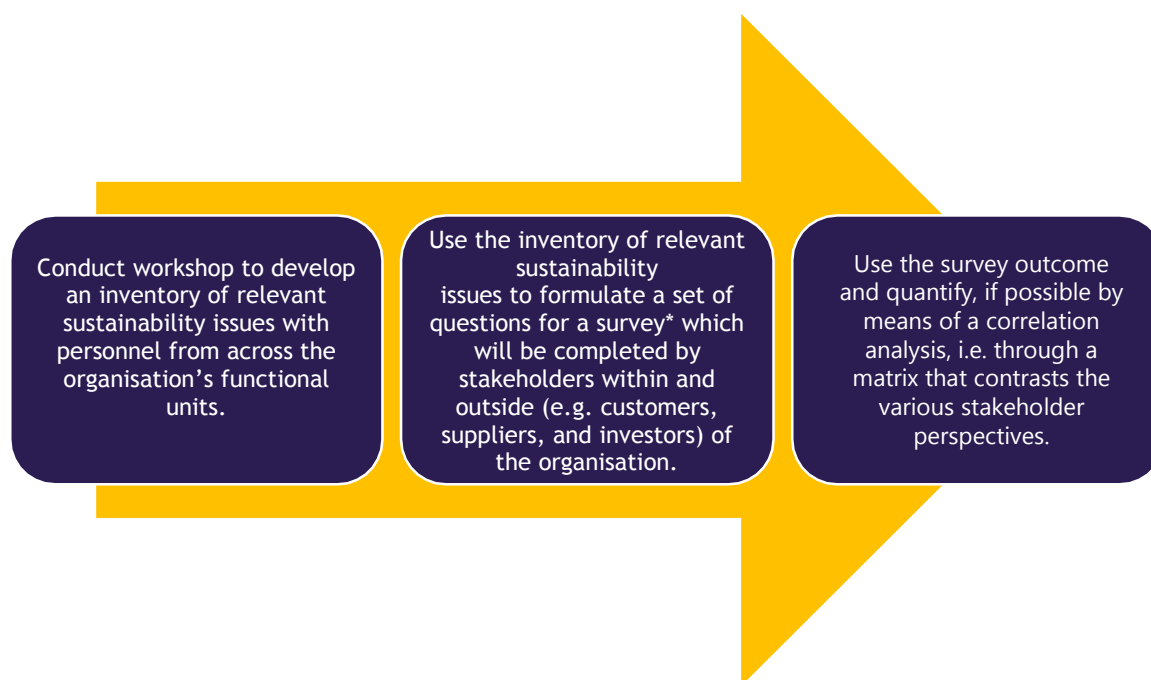


Figure 8: Example of stakeholder engagement in the materiality assessment process

** The survey can involve requesting stakeholders to rank issues on a scale of 1-10 based on the impact/importance to the stakeholder.*

To determine the importance of each stakeholder group for the purpose of defining an organisation's EES impacts and material sustainability matters, the organisation may choose to rank the stakeholders in each of the four quadrants of the Toolkit: Stakeholder Prioritisation Matrix. An organisation needs to determine the criteria used to rank its stakeholder groups. Consider the overall influence, impact and/or willingness to engage, of the stakeholders to assign this weightage.

Disclosure on the use of stakeholder engagement in the materiality assessment process enhances the quality of reporting to an organisation's stakeholders. Figure 9 below is from Roche², a Swiss organisation specialising in healthcare. Steps 2 and 3 of their materiality assessment process highlight the value they place on their stakeholders' views.

² <http://www.roche.com/investors/reporting/non-financial-reporting/materiality.htm>

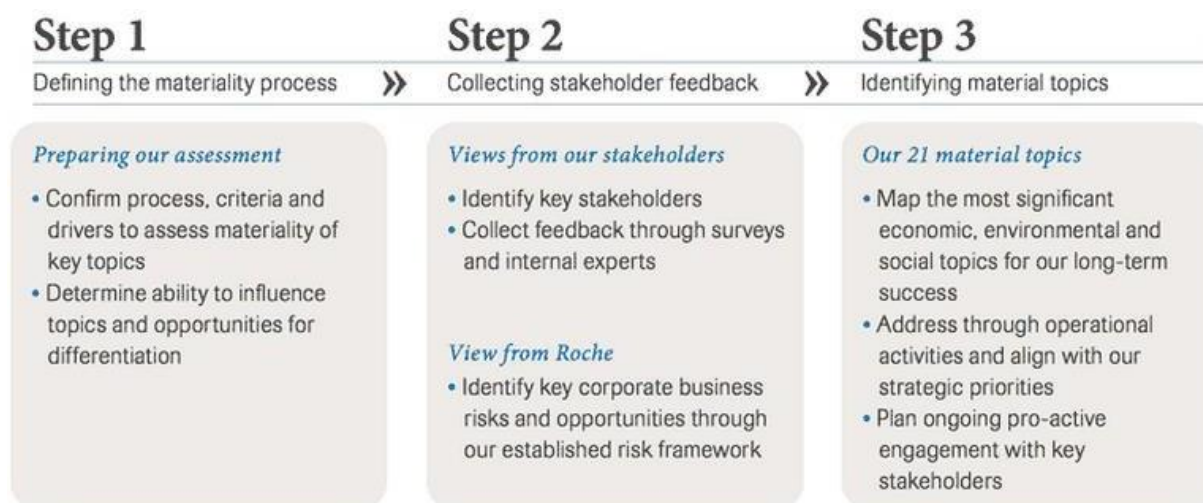


Figure 9: Roche's disclosure on the use of stakeholder engagement in the materiality assessment process

Case Study: Stakeholder engagement in the materiality assessment process

This example shows how Novartis, a Swiss multinational pharmaceutical company includes its stakeholders in its corporate responsibility materiality analysis:

"To help define the most important corporate responsibility (CR) issues for Novartis, the company completed a CR materiality analysis in 2013. The term "CR materiality" is a measure of how important CR issues are to the company and our stakeholders.

We interviewed nearly 100 stakeholders inside and outside the company to help us assess a wide range of economic, ethical, social, environmental and governance issues. We use these findings to guide our strategy, track issues of concern, inform and prioritise our corporate responsibility programs, and establish meaningful metrics against which to measure our performance. In 2015, we conducted a review of our materiality analysis with our external stakeholders. This confirmed the results of our 2013 exercise, encouraging us to further focus on access to healthcare, governance and ethical business practices, and research and development in 2016.

In late 2016, we kicked off our second full materiality assessment to help us understand the CR issues that matter to key internal and external stakeholders, as well as stakeholders' needs and expectations. We began conducting interviews, aiming to reach approximately 400 individuals from all relevant stakeholder groups worldwide. As with our previous materiality assessments, we will use the findings to guide our strategy, track issues of concern, inform and prioritize our CR programs, and establish meaningful metrics against which to measure our CR performance. This assessment will include new elements that will help us gain fresh insights and strengthen the value of the materiality assessment as a management tool."

(Source: Adapted from <https://www.novartis.com/our-company/corporate-responsibility/reporting-disclosure/corporate-responsibility-report/corporate-responsibility-priorities>)

The outcomes of an engagement session may be recorded in the following manner:

Stakeholder Group	Engagement Approach	Sustainability Matters	Stakeholder feedback	Possible Solutions/ Outcome of engagement
NGOs	Focus groups Partnerships	Sustainable supply chain	Suppliers' sustainability sourcing practices to be enhanced	Work with NGO to increase skill set of workers within the supply chain community
Employees	Town hall meetings Employee Satisfaction Survey	Career Development Employee Benefits	Need for focus on career progression Need to attend more trainings	Work closely with Heads of Department to map training needs

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The following are 2 case studies on communicating and engaging:

Case Study: Communicating and engaging

Nestlé has long had a deep interest in the concept of shared value creation through its business model. Shared value generates economic value in a way that also produces value for society by addressing its challenges. A shared value approach reconnects an organisation's success with social progress. This has driven Nestlé Malaysia to engage their stakeholders in efforts to meet the needs of the local society especially in the area of nutrition, a key aspect of their business. Nestlé explained their stance on nutrition in the report; "Food and nutrition are the basis of health and of our business - it is the reason we exist."

Below is the disclosure of the results of their engagement and the engagement outcomes, which is evident through Nestlé's response. Nestlé Malaysia disclosed their stakeholder concerns, gathered during their engagement sessions, in their Nestle in Society Report 2013³.

Stakeholder recommendations to Nestle about nutrition:

To approach children in urban areas via the education system and school curriculum. This follows studies that have shown that children do not have time for breakfast, as they are always rushing to get to school on time.

Why engage:

Lack of awareness and understanding amongst children about the importance of breakfast.

How Nestlé responded:

The Primary School Module - which is the first of the Nestlé Healthy Kids Programme - was launched by Nestlé Malaysia in August 2010 and implemented in collaboration with the Nutrition Society of Malaysia, to improve the nutrition knowledge and promote healthy lifestyles among schoolchildren aged 7-12 years. The programme has a two-pronged approach, which includes a dedicated website (www.healthykids.org.my) to reach out to the masses and a three-year research component which involves an intervention group. This resulted in the development of educational modules, which were presented to the Ministry of Education, with the hope that they will be utilised by all schools in the country.

2013 also saw the execution of a series of Teachers' Seminars involving teachers of three participating schools. The seminars provided these teachers with updates on the current nutritional problems among schoolchildren and the importance of healthy eating and lifestyle in preventing non-communicable diseases (NCD) among the young.

³ http://www.nestle.com.my/asset-library/documents/pdf/about%20us/nestle_nestleinsocietyreport_2013.pdf

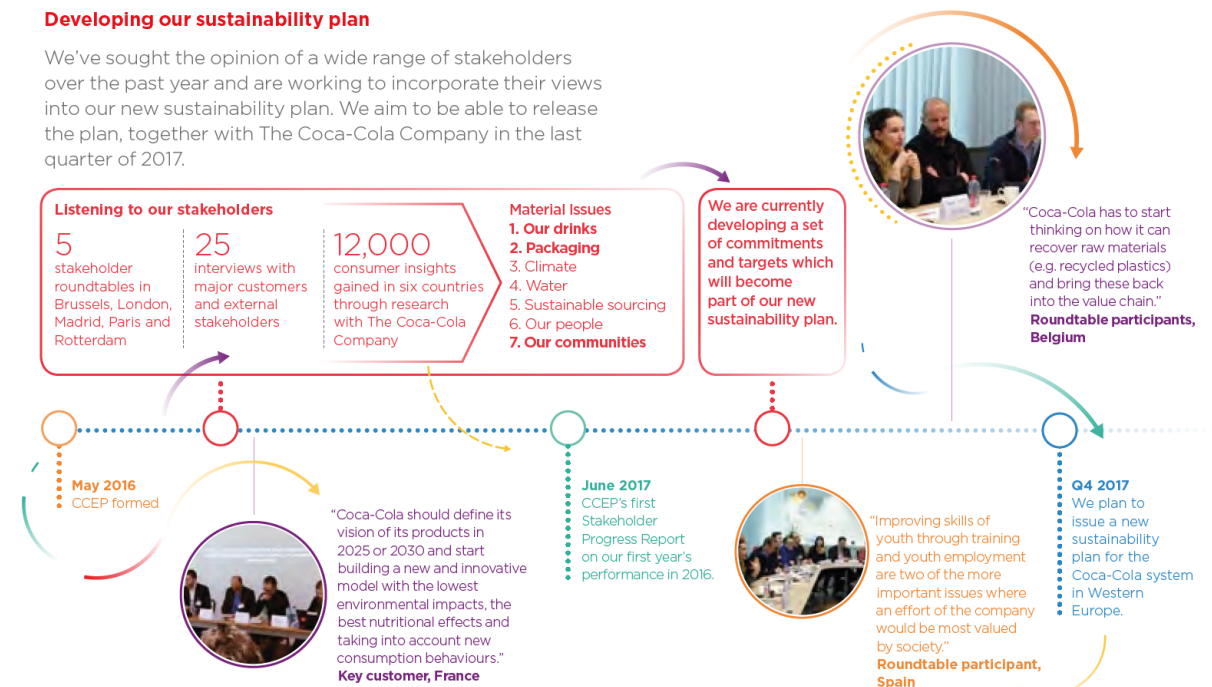
Case study: Stakeholder inclusion

Below is an excerpt from Coca-Cola European Partners, world's largest Coca-Cola bottler's Stakeholder Progress Report. Here it highlights how it engaged with its stakeholders to develop a sustainability plan, and have also included excerpts of stakeholder engagement outcomes.

"We speak regularly with a wide range of stakeholders, including our local communities, customers and suppliers, NGOs and other members of civil society. Over the past year, we've had a unique opportunity to incorporate their views into our new sustainability plan. We've spent time listening to their feedback and understand that stakeholders expect us to develop strong commitments to reduce the sugar and calories in our products, make our packaging as sustainable as possible and contribute in a meaningful way to the communities in which we operate."

Developing our sustainability plan

We've sought the opinion of a wide range of stakeholders over the past year and are working to incorporate their views into our new sustainability plan. We aim to be able to release the plan, together with The Coca-Cola Company in the last quarter of 2017.



(Source: Adapted from Stakeholder Progress Report 2016, Coca-Cola European Partners)

Stage 3: Monitoring and responding

Objectives

The aim of this Stage is to translate learnings, insights and agreements gathered from the engagement into action, and to ensure that stakeholders understand how the organisation does this.

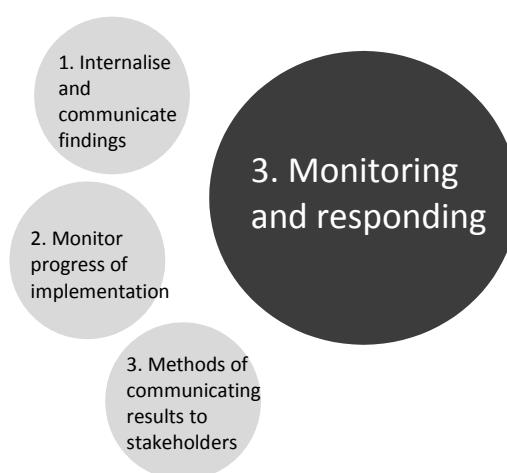


Figure 10: Stage 3 of Stakeholder engagement

Step 1: Internalise and communicate findings

In order to follow through with the engagement outcomes, an organisation should translate the commitments, perspectives and needs of its stakeholders into action plans. Nurturing the relationship with stakeholders is crucial. This requires an organisation to provide timely feedback on action plans to its stakeholders.

An organisation should develop an action or response for its EES impacts and material sustainability matters based on the concerns as well as key discussion points expressed by its stakeholder groups during the engagement. This includes defining roles and responsibilities of different departments or personnel for implementing the action plan, setting targets and milestones, and developing a timeline for realisation. The organisation needs to engage with the relevant internal parties to gain their concurrence on the action plan before communicating it back to the particular stakeholders and executing the plan. Generally, communication with stakeholders can take place at any time the organisation considers to be appropriate depending on the urgency and the responsiveness of the stakeholders.

Step 2: Monitor progress of implementation

When executing the action plans, an organisation should consider using a matrix to monitor the engagement outcome and implementation progress. An example is provided below:

Engagement Objective	Outcomes/ Results	Strategic & Operational Implications	Owner / Decision Maker	Smart Target	Internal Responsibility for Monitoring and Reporting	Dead line
Identify and prioritise material sustainability matters	List of prioritised stakeholder concerns	Determine material sustainability matters Design and implement measures to manage material sustainability matters	Board of Directors	N/A	Various	Ongoing
Increase market share	Introduce a wider variety of products	Perform market survey and R&D	Sales and Marketing Department	Increase sales of product line by 20%	CEO Head of Sales and Marketing	Q4, 201X
Reduce product packaging footprint	Smarter product packaging are welcomed by both customers and supplier	Increase recyclable materials content in packaging Innovate packaging design for carton to be re-useable	Product Design Department (to work with packaging supplier)	Reduce packaging size by at least 10% Increase composition of recyclable materials content to 30%	Head of Product Design	Q4, 201X

Step 3: Methods of communicating results to stakeholders

As mentioned earlier, an organisation should keep its stakeholders informed of updates on the implementation of the action plans. There are various ways in which stakeholders can be informed/engaged including:

- One-on-one conversations;
- Quarterly updates in newsletters;
- Incorporating progress reports into the organisation's regular reporting activities (e.g. annual reports/sustainability reports).

Ceres's Turning Point report in 2018 saw that out of more than 600 of the largest U.S. companies, only 9% conduct ongoing stakeholder engagement across a diversity of platforms, including during the materiality assessment process and via traditional investor events. This high level of engagement is positively correlated to higher performance. Among these companies, 100% are working to reduce GHG emissions, 98% have corporate commitments to improve diversity, and 79% are committed to protecting the human rights of employees — significantly outperforming their peers.

The following are 2 case studies on stakeholder engagement:

Case Study: Stakeholder engagement

Sonoco Products Company is a United States-based international provider of diversified consumer packaging, industrial products, protective packaging, and packaging supply chain services as well as the world's largest producer of composite cans, tubes, and cores. The disclosure of their stakeholder engagement process, specifically for the purpose of conducting their materiality assessment is as set out below:

Materiality Analysis

"We conducted a quantitative, stakeholder-driven approach to identify and prioritise the sustainability issues material to our company and our stakeholders. The analysis leveraged the Accountability AA1000 Stakeholder Engagement Standard and identified issues were aligned with the Global Reporting Initiative (GRI) G4 Reporting Principles and Standard Disclosures.

Stakeholder identification

We began by establishing nine stakeholder groups:

- Customers
- Suppliers
- Peers
- Shareholders
- Non-governmental organizations
- Community leaders
- Regulators / government
- Employees
- Leadership

To represent the interests of each identified stakeholder group, we selected individual stakeholders using methods appropriate to the type of stakeholder. For example, the largest suppliers by total spend were selected to represent the Suppliers stakeholder group and the largest customers by total sales were selected to represent the Customers stakeholder group.

Identification of potentially material issues

We researched publicly-available information for each stakeholder selected, compiling a list of sustainability issues from various sources, including:

- Websites;
- Annual reports;
- 10-K filings;
- Corporate social responsibility reports;
- Materiality matrices;
- Mission statements;
- Questionnaires.

For this first year, we did not directly contact stakeholders and decided to rely solely on our external research once we determined that the research provided a sufficient understanding of the issues necessary to support materiality assessment. However, the information available from internal stakeholders, primarily employees, was limited to social issues and did not adequately address economic or environmental topics.

We plan to expand our employee engagement approach to gather information on economic and environmental issues and incorporate internal stakeholders in the future. This year, our preliminary list was limited to issues identified by external stakeholders.

Stakeholder prioritisation

To help drive our focus to the most important issues, we weighted each stakeholder group based on the group's influence and dependence on Sonoco.

- Highly influential stakeholder groups are most able to impact Sonoco's achievement of strategic objectives.
- Highly dependent stakeholders groups are more positively or negatively impacted by Sonoco's operations.

Each stakeholder group was assigned a relative influence and dependency score based on a three-point scale, resulting in each group's aggregated aspect ratings being given greater or less importance.

Determining issue significance and alignment with GRI G4 aspects

Each issue identified was initially rated on a four-point scale based on the significance of the issue to the stakeholder. Issues which were not mentioned by the stakeholder in the available sources were deemed unimportant to the stakeholder and were scored on the lower end of the scale.

Issues which were either mentioned in multiple public sources or published by the stakeholder as organizational goals, performance indicators, or listed as an issue of high importance in a materiality matrix were scored on the higher end of the scale.

After rating the significance of each issue by stakeholder, we converted the issues into a common terminology using the 46 aspects included in the economic, environmental and social categories of the GRI G4 Reporting Principles and Standard Disclosures. We then aggregated the ratings for each aspect across the external stakeholder groups to calculate the average rating of each issue by group.

Management review and determination of material aspects

Sonoco management, through the Corporate Sustainability Council, assessed the significance of each aspect to Sonoco's business objectives. The Council is comprised of leaders from across the company, including but not limited to:

- Investor Relations
- Internal Audit
- Global Sustainability
- Global Technology
- Marketing and Innovation
- Global Environmental Services
- Human Resources
- Corporate Communications
- Consumer Products

Management convened a workshop to review and rate the twenty-three aspects determined most significant to external stakeholders. The workshop participants rated each aspect on a four-point scale based on the aspect's significance to Sonoco. An aspect's significance was defined as the influence it has on Sonoco's capacity to achieve its business objectives. Low rated aspects do not impact Sonoco's capacity to achieve its business objectives whereas high rated aspects greatly contribute to the achievement of Sonoco's business objectives. At the end of the workshop, an average of all the participants' scores by aspect was calculated.

For each aspect, the external stakeholder ratings and management's average ratings were plotted on a graph with the y-axis representing the significance of an aspect to external stakeholders and the x-axis representing the significance of an aspect to Sonoco's business. Aspects rated highly by both external stakeholders and management were considered to be material. The materiality matrix was reviewed and approved by management and will be included in Sonoco's 2013-14 Corporate Social Responsibility Report.

Future analysis

We will build on this year's progress and continue to refine the materiality assessment process. Further development over the coming years will include greater engagement with our employees on sustainability issues and seeking feedback directly from our external stakeholders. Sonoco will continue to proactively identify and manage the economic, environmental, and social issues material to our stakeholders."

(Source: <http://www.sonoco.com/sustainability/sustainabilityoversight/materialityandstakeholderengagement.aspx>)

Case Study: Stakeholder engagement

The following example illustrates how the different needs and expectations from different stakeholder groups can be captured. This example shows the different engagement methods used, outcomes of the engagements, the identified material sustainability matters and indication where the matters are further elaborated in the report:

Stakeholder Group	Specific stakeholders addressed	Type of engagement	Frequency	Areas of interest	Outcomes	Addressed by specific Material Sustainability Matters	Reference Page
Shareholders & Investors	Shareholders both in Malaysia and in Denmark	<ul style="list-style-type: none"> Engagement survey Annual General Meetings Analysts briefings 	<ul style="list-style-type: none"> At least once a year Once a year Twice a year 	Pollution, carbon footprint, preservation of the ecosystem, sustainable agricultural practices, consistent profitability and dividends from the company, maximisation of shareholder value, employee welfare and equal rights.	Good relationship with shareholders and positive reputation amongst investors, constructive feedback	<ul style="list-style-type: none"> Biodiversity & Conservation Sustainable Agricultural Practices Human and Workers' Rights Social Care and Workers' Welfare Equal Treatment 	84 113 66 72 64
Customers	Major consumer goods manufacturers, Refineries, and end consumers	<ul style="list-style-type: none"> Engagement survey One-to-one meetings Visits to Estates, Mills and our Refinery 	<ul style="list-style-type: none"> At least once a year Periodic Periodic 	No deforestation, and open burning, Reduction of carbon footprint, Price competitiveness, product quality and food safety, employee welfare, development and improvement of sustainable supply chain of products	Better awareness of UP Group's commitment to sustainability, and better understanding of our policies, culture and values	<ul style="list-style-type: none"> Biodiversity & Conservation GHG Emissions, Discharges & Waste Management Product Quality Sustainable Supply Chain of Products Certifications for Food Safety, Sustainability and Others 	84 104 141 144 142
Employees	Executives, staffs and workers	<ul style="list-style-type: none"> Annual employee survey, Operations and Environment Management Committee meeting Gender committee meetings Guest Workers Welfare Committee Occupational Safety & Health Committee Internal trainings 	<ul style="list-style-type: none"> Once a year Once a year Four times a year Six times a year Four times a year Periodic 	Pollution, Chemical and pesticide usage, environmental care, commensurate remuneration, employee social and welfare care, equal rights, safe and sustainable agricultural practices, health and safety at work, employment opportunities for locals, CSR and sustainable programs	Improved understanding of company policies and efforts taken to date, Inclusiveness in the management decision making	<ul style="list-style-type: none"> Sustainable Agricultural Practices GHG Emissions, Discharges & Waste Management Biodiversity & Conservation Human and Workers' Rights Social Care and Workers' Welfare Occupational Safety & Health Equal Treatment Community Welfare 	113 104 84 66 72 79 64 124

(Source: United Plantations Berhad, Annual Report 2016)

4. References for additional guidance

1. *AA1000 Stakeholder Engagement Standard (AA1000SES)*, AccountAbility, 2015.
2. *From Words to Actions, The Stakeholder Engagement Manual Volume 1: The Guide to Practitioners' Perspectives on Stakeholder Engagement*, AccountAbility and UNEP, 2005
3. *From Words to Actions, The Stakeholder Engagement Manual Volume 2: The Practitioner's Handbook on Stakeholder Engagement*, AccountAbility and UNEP, 2005
4. *GRI Standards*, Global Reporting Initiative, 2016.
5. *Stakeholder Engagement and the Board: Integrating Best Governance Practices*, International Finance Corporation, 2009
6. *The Human Rights Opportunity: 15 real-life cases of how business is contributing to the Sustainable Development Goals by putting people first*, World Business Council for Sustainable Development, 2018
7. *TURNING POINT: Corporate Progress on the Ceres Roadmap for Sustainability*, Ceres, 2018

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