

Delivering Renewable Energy Projects through Stakeholder Engagement

**Laurence Sherriff
Environmental Challenge Limited**

**EEA Conference & Exhibition
2012, 22 - 20 June, Auckland**

INTRODUCTION

It was once said by a well-known economist that:

“The business of business is business”¹

However, it now seems that business is singing a different tune:

“It used to be the case that the value of a gold mine was based on three variables: the amount of gold in the ground, the cost of extraction and the world price of gold... Today, I can show you two mines, identical [in terms of] these three variables, that differ in their valuation by an order of magnitude. Why? Because one has local support and the other doesn't.”²

Despite the fact that stakeholder engagement is mainstream practice in many business sectors and central to project delivery, stakeholder engagement for energy projects in New Zealand still appears to be conducted in an ad hoc or intuitive manner.

It also appears that value of stakeholder engagement to energy companies is not fully understood. Henisz, W. J. in his seminal paper demonstrates that increased cooperation and reduced conflict with stakeholders, substantially enhances company value (Henisz, W.J. *et al*, 2011).³

This should be a major concern for New Zealand energy companies. Therefore, the onus is on organisations responsible for delivering renewable energy projects to develop and implement robust stakeholder engagement strategies.

STRUCTURE

This paper attempts to convey the elements of a robust stakeholder engagement strategy and includes sections on:

- Business case
- Stakeholder engagement concepts
- Functions of stakeholder engagement
- Stakeholder engagement within the project life cycle

The paper draws on the opinions of professionals involved in nationally significant energy projects and the literature on stakeholder engagement. The ideas presented are common to both the opinions of these professionals and the literature reviewed.

¹ Widely attributed to Friedman, and sometimes cited as being in his work *Capitalism and Freedom* (1962). Also attributed to Alfred P. Sloan, sometimes with citation of a statement of 1964, but sometimes with attestations to his use of it as a motto as early as 1923.

² Henisz, W.J. *et al* (June 30, 2011); *Spinning Gold: The Financial Returns to External Stakeholder Engagement* (Yani Roditis, COO Gabriel Resources, interview by authors); University of Pennsylvania.

³ Henisz and his colleagues reviewed data of 28 gold mining firms to calculate the net present value of their mines. That value was then compared to the companies' market valuations. The result: the companies traded at a 72% discount compared to their net present value. Why? Because the net present value did not take into account the probability of delays or disruptions, and the cost overruns or revenue shortfalls that result. By incorporating the stakeholder cooperation index in a market capitalization analysis, the researchers reduced the discount placed by financial markets on the net present value of the gold from 72% to between 33% and 12% (Henisz, W.J. *et al*, 2011).

BUSINESS CASE

There are a several factors that can be used to justify a robust strategy for stakeholder engagement during a project. These are briefly outlined as:

- planning and operational delays;
- opposition lobbying and political risk;
- cost overruns and revenue shortfalls, triggering substantial corrective investment;
- sale value of smaller companies who hold a ‘social license to operate’;
- obtaining and retaining consents, permits and rights granted by authorities;
- legal compliance and liability;
- peace of mind for ethically driven employees;
- reputation, brand image and negative media coverage;
- stock market returns and market valuation;
- technological innovation; and
- organisational efficiency gains.

STAKEHOLDER ENGAGEMENT CONCEPTS

This section presents definitions, activities and principles for stakeholder engagement that are generally applicable across the project life cycle.

Stakeholders

Stakeholders are persons or groups who are directly or indirectly affected by a project, have interests in a project, or have the ability to influence its outcome - either positively or negatively. Examples include: landowners; occupiers; adjacent landowners; affected parties; local authorities; Crown departments, agencies and entities; interested parties; Iwi; media; rail and road corridor managers; utility operators, shareholders, employees and the public.

Stakeholder Engagement

Stakeholder engagement is an umbrella term encompassing a range of activities over the life of a project. These can be divided into key activities:⁴

- stakeholder identification and analysis;
- information disclosure;
- negotiation;
- consultation;
- complaints;
- stakeholder reporting; and
- management functions.

FUNCTIONS OF STAKEHOLDER ENGAGEMENT

This section describes the stakeholder engagement activities that organisations should undertake during a project.

Stakeholder Identification and Analysis

⁴ Sequeira, Debra et al. 2007. *Stakeholder Engagement: A Good Practice Handbook for Organisations Doing Business in Emerging Markets*. International Finance Corporation; and, McCallum, Alison et al. 2007. *SEAT: Socio-Economic Assessment Toolbox*. Anglo American

Stakeholder *identification* is made up of several steps. Stakeholders must be determined and categorised. This can be done by delineating the project's geographical scope and reviewing any relevant regulation. The *analysis* identifies stakeholder interests, effects and influence. These functions provide the basis for prioritising stakeholder types and building a stakeholder engagement strategy.

It is impractical and unnecessary to engage with all stakeholders at the same time or at the same intensity. Furthermore, it is perfectly appropriate to make decisions without external input. The key is to engage the right people on the right issues at the right time in the right way. This can be guided by a stakeholder engagement plan in order to save both time and money.

Referring to historical stakeholder information related to a locality can save time and flag up risks, liabilities, or unresolved issues. If a greenfield project has already occurred in the area, reports may be available from local authorities or public sector agencies. District and regional plans can also identify relevant stakeholders and interests.

Information Disclosure

Disclosure is a formal term for making information accessible to stakeholders. Communicating information to stakeholders is an important first (and ongoing) step in the process of stakeholder engagement. Engagement will be more constructive if stakeholders have accurate and timely information about a project and its impacts.

Good information disclosure will increase transparency and accountability, and will act as a means of promoting understanding and engendering public trust. A lack of information can lead to widespread misinformation that damages a company's reputation and undermine efforts to engage with stakeholders. If companies are viewed as closed or secretive, public trust is affected.

Disclose objective information early on to targeted stakeholder types. In short, 'tell it like it is'. Refrain from exaggerating good news, such as employment opportunities, or playing down the bad, such as anticipated effects during the construction period. If actual numbers are available, give these out, even if they are only estimates. Be clear on the project elements that are fixed or could change as a result of stakeholder input.

Treat the disclosure of project information as an integral part of the stakeholder engagement. Give stakeholders the information they need to participate in an informed manner and sufficient time to process it. People often need time to think about the issues and weigh the trade-offs.

Provide meaningful and accessible information in a format and language that is readily understandable and tailored to the target stakeholder group. Determine the appropriate level of technical detail and how stakeholders would like to be engaged (ie. phone, mail, internet, meetings).

Weigh up the risks and benefits of information disclosure, particularly with respect to controversial issues. There will be stages in a project where disclosing certain types of information will entail risks. Poorly timed information releases have the potential to stir up public reactions, speculative behaviour and create misinformation. When dealing with

stakeholders over controversial issues, it is often better to release information to them when meeting face-to-face.

Any non-disclosure should be weighed against the need for stakeholders to be informed in order to protect their interests.

Negotiation

Negotiation and consultation are different, but related processes along the spectrum of stakeholder engagement. Negotiation aims to reach an agreement while consultation tends to be more open-ended.

Negotiation is required when seeking agreement over rights to land and resources. Negotiation offers the chance to reach settlements outside of legal or compulsory acquisition proceedings. Negotiated agreements may also be appropriate in situations where a stakeholder is severely affected and compensation creates a fair and equitable outcome.

Negotiations with stakeholder should be entered into in “good faith”. Good faith negotiations are transparent, considerate of negotiating parties, and deploy negotiation principles and procedures readily understood by all parties. Other principles to keep in mind during negotiations are:

- treat all parties in an equivalent manner (eg. use the same compensation formula);
- pay reasonable expenses incurred by stakeholders during negotiations;
- explore issues and interests and identify common objectives or strategic interests;
- avoid single-issue bargaining (eg. a single focus on compensation)
- disclose information;
- mitigate or off-set significant environmental effects;
- document discussions, commitments and results; and
- prepare for potential disputes or conflicts.

Consultation

Consultation is a two-way process of dialogue and aims to build relationships over time. Consultation provides stakeholders with the opportunity to understand a project and its impacts; and companies with the opportunity to clarify stakeholder attitudes, risks, impacts, opportunities and potential mitigation.

Underpin projects causing significant environmental effects with consultation to support environmental effects assessments and the development of measures to mitigate impacts to acceptable levels.

Regardless of the stage of the project, consultation consists of basic steps that repeat over the project life cycle. The basic steps are:

- review the relevant legal or regulatory requirements or corporate policies;
- scope and address the priority issues and risks;
- select the best methods/ techniques to communicate with stakeholders;
- assign responsibilities and develop timetables for consultation;
- incorporate stakeholder feedback into decision-making processes;
- alter project designs and develop mitigation, where practicable;
- record and track consultation activities and commitments; and
- report to stakeholders on the outcomes.

Complaints

The way a company responds to complaints has major implications for project performance. In order to manage risk, a stakeholder engagement strategy should include a complaints mechanism. Complaints procedures will prevent issues escalating to levels that undermine a project and will stall further complaints.

Complaints procedures should be established at the beginning of a project and continue through to the end. As with the broader process of stakeholder engagement, management must be involved with complaints so that decisive action can be taken to avert disputes.

Reporting to Stakeholders

After stakeholder engagement has occurred, stakeholders will want to know whether their suggestions have been taken on board and what mitigation measures will be put in place. As such, follow-up, feedback and reporting to stakeholders are all important, including tracking and communicating progress against commitments.

This function must determine the methods and frequency of reporting, the level of disclosure and the registration and management of commitments.

Management Functions⁵

Increasingly, successful companies are systematically incorporating stakeholder engagement activities into their management system and core business activities.

Stakeholders will interact with many company representatives over the life of a project. It is therefore essential to manage information, efficiencies, conflicts and commitments.

Engaging different types of stakeholder requires different skills and potentially the employment of new personnel. Stakeholder analysis identifies the stakeholder types and necessary skills. If the stakeholder engagement process is likely to be complex or controversial, experts may be required. Staff (eg. liaison officers) will need authority to negotiate on behalf of the company. Therefore, management needs to specify the decisions staff may or may not unilaterally make and establish a clear line of reporting. The more controversial a project is, the more important it is for staff to have a direct channel to senior managers.

The integration of stakeholder engagement into day-to-day business operations requires that the stakeholder engagement strategy is 'owned' by company staff. Business units must be aware of the strategy and its rationale. In this way staff can act collectively and serve as front-line ambassadors.

A stakeholder engagement software application and database is an essential management tool. A good system will support *all* the components of the stakeholder engagement components discussed in this paper. It will also facilitate the continuity of these functions during transitional stages and when personnel change.

⁵ Sequeira, Debra et al. 2007. *Stakeholder Engagement: A Good Practice Handbook for Organisations Doing Business in Emerging Markets*. International Finance Corporation; and, McCallum, Alison et al. 2007. *SEAT: Socio-Economic Assessment Toolbox*. Anglo American

Contractors have the potential to directly impact stakeholder relations through their behaviour and day-to-day interactions with the local community. During the construction phase, contractors and their sub-contractors can have more frequent contact with local stakeholder than project staff. Affected communities often do not make a distinction between contractors and the company. Both are viewed as part of the project. Contractor actions therefore pose a risk for companies that should be managed from the outset.

STAKEHOLDER ENGAGEMENT WITHIN THE PROJECT LIFE CYCLE

This section discusses how a stakeholder engagement strategy can be incorporated into a project's life cycle.

Project Establishment

The establishment of a project involves strategic planning, project definition, concept design, feasibility studies, property negotiations and environmental consenting. The most intense periods of stakeholder engagement occur over this phase. The key aims of stakeholder engagement at this stage are to gauge support for, or opposition to the project and to identify key issues and concerns affecting the viability of a project.

Employment of stakeholder personnel and experts should occur at this stage particularly if the project is complex or controversial.

Prepare the stakeholder engagement plan, and as a function of this conduct stakeholder identification and analysis and produce a programme. For smaller projects, a plan may not be necessary. Review the applicable legal and regulatory requirements prior to drafting the plan to ensure the project can meet all its necessary obligations. A risk analysis should also be conducted and incorporate environmental, political, social and reputational risks triggered by stakeholder engagement, in addition to evaluating commercial, financial and technical risks.

Produce information for disclosure to stakeholders. This may take on the form of pamphlets, booklets, information sheets, websites, social media portals and verbal messages. 'Song sheets' and policies can be developed to guide employees and contractors on information disclosure.

Set-up a stakeholder engagement software application and database tool. This is one of the most efficient ways to incorporate stakeholder engagement activities into a company's management system and core business activities. This tool can be used for logging and recording results, tracking progress/ performance, reporting, handling complaints, risk identification, commitments management and ensuring legal compliance.

Company employees and business units must be made aware of, or parts of, the stakeholder strategy and its rationale.

Start to engage with selected stakeholders over project alternatives, for example, sites, routes, designs and construction methods. This is a good time to engage with local authorities and government departments, particularly if they will preside over legal processes to review project alternatives (eg. councils, LINZ). Disclosure of information about alternatives must

be handled with care to prevent speculative and NIMBY⁶ like behaviour. In many cases, it is better to explain the *process* for considering alternatives and not the alternatives *per se*.

As the project progresses from its original concept toward a defined design, landowner negotiations and consultation can begin. This should occur in a selective, systematic and sequenced way in order to:

- inform stakeholders of the project and its impacts;
- scope stakeholder issues, concerns and interests;
- determine compensation, mitigation, monitoring and potential benefits programs;
- gain agreement;
- gauge stakeholder support or opposition;
- report changes on the project design and proposed mitigation; and
- meet legal and regulatory requirements.

Towards the end of project establishment, the project alternatives considered must eventually be revealed to all stakeholders, normally when seeking permits or consents.

During this phase ensure information is reaching other professionals in the project team via meetings and reports, particularly those responsible for design, engineering, health and safety, external communications, financial affairs, workforce planning and risk assessment. In this way, stakeholder requests can be evaluated and either incorporated or rejected with a clear rationale communicated back to the stakeholder; or prioritised for action if a commercial, political, legal or reputational risk is posed.

Construction

Stakeholder engagement during the construction phase relates to all activities leading up to and during the physical construction of facilities, infrastructure or buildings, including temporary works needed to complete construction, such as access roads; as well as the management of contractors. The construction phase is usually a time of great concern for stakeholder with interests in the environment, and health and safety. During this period, the performance of the company will set the tone of long-term relationships with stakeholders for the remainder of a project's operational life.

The main tasks at this point are to evaluate whether measures are working as intended, responding to complaints and identifying solutions where there are failings. For stakeholder engagement to be effective during construction, it is necessary to:

- Choose contractors with the capacity to engage effectively with stakeholders.
- Get stakeholder liaison staff on the ground and introducing themselves before construction activities begin.
- Identify stakeholders affected by construction once the project design and scope is finalised.
- Notify stakeholders and representatives on construction activities and programmes using roadside signs, poster boards, newsletters and door-to-door leaflets, or in meetings.
- Aim for rapid response times in resolving complaints.
- Regularly report progress to stakeholders.

⁶ Not In My Back Yard

Operations

The transition from construction to operations brings many changes and as personnel change stakeholder relationships must be carefully managed to ensure continuity.

Engagement with stakeholders is an integral component of operations management, whether it is for day-to-day operational activities, periodic programs, or emergency situations. Depending on the nature and scale of the project, stakeholder engagement may be required from a range of departments and functions within a company. As such, it should be integrated into existing systems, including:

- health and safety;
- environmental management;
- procurement and contractor management;
- logistics management;
- site or plant inspections and audits;
- complaints and commitments management;
- external communications;
- security considerations, and
- risk management.

For stakeholder engagement to be effective during operation:

- Retain the same liaison officers.
- Periodically review and update your stakeholder information as changes occur.
- Survey stakeholder perceptions.
- Continue to disclose, engage, and report to stakeholders as needed.
- Communicate emergency preparedness and response plans on a regular basis and jointly review and update existing emergency response procedures based on practice drills and simulations

END