SOCIAL RISKS MITIGATION AND STAKEHOLDER ENGAGEMENT PLAN

Aldi Muhammad Alizar (Intenational Association for Public Participation (IAP2) Indonesia),
Choerunisa Noor Syahid (Intenational Association for Public Participation (IAP2) Indonesia),
and Anas Nikoyan (Intenational Association for Public Participation (IAP2) Indonesia).
e-mail: aldi.alizar@gmail.com; c.runisa@gmail.com; nikoyananas@yahoo.com

ABSTRACT

In the practice usually the company facing many problems, that potentially become a business threat. In many literatures stated that the risk is defined as the deviation of ideal results to the actual outcomes, and it has bad effect for the business activities. In the 1980's, the concept about risk management began develop to minimize the risk of the company loss and threats.

The Independent Project Analysis (IPA) Global on their risk management and company's sustainability studies stated that there are four important things that can do by the company towards minimize the risk impact, which are (1)stakeholder assessment, (2)social and environmental baseline studies, (3)community engagement, and also (4)grievance and communication mechanism. One of the most significant to make business more sustainable is stakeholder assessment. It is because the stakeholder assessment process will affect the company's strategy in how to handling the stakeholder, who might become threat or support for the company.

Bekefi, Jenkins, and Kytle (2006)have delivered four phases of stakeholder identification, that are (1)the understanding of the issues that stakeholders' brought, (2)the understanding of stakeholders, along with (3)perception which thought by stakeholders, and then (4)the understanding of how (means) the social risks occurred in the community.

This paper provides a proven instrument, namely social risks assessment tools (SRAT) to define the social risk throughout the development of those four components to identify social risks. The instrument also produced a social risk matrix to understand social risks significance and prioritization. The results of this instrument became the basis for the company to make social risks mitigation strategy and action plan (SRMAP).

Keywords: stakeholder identification, stakeholder engagement, social risk

Introduction

Sampath (1990) was identified that the business activity is an economic activity that intended to make profit. Then it will be awkward if the companies or entrepreneurs doing business without thinks about profit oriented. Based on that point, is undeniable that every company must be trying to protect their business activities from any kinds of risks that can be threatened for their profits.

In the implementation of avoiding the risk threats is not easy. The company is required to have an innovative business strategy to make them free from any kind of threats. One of the strategies that usually used by the companies is Corporate Social Responsibility (CSR). CSR is performed to confirm the companies' commitment to achieve sustainable development. CSR is a proof contribution in promoting and establishing a balance position among economy, social and environment. In the implementation of CSR, the companies usually facing some dilemmas, since they should be fair in repaired the environment destruction without compromising with the companies' goal, which is profit-oriented.

However, the implementation of companies' CSR usually leads to the new challenges. It was happened in the extractive companies in Indonesia, to include from mining and also oil and gas sectors. Both of them usually facing the challenges especially related to the land acquisitions for their business activities. Instead of obtaining the ease of doing business, those companies are regarded as the trigger of the environmental and natural resources degradation in their project location.

Reflecting to these cases, then it is required comprehensive knowledge from the companies to recognize their stakeholders' as well as the risks that they brought. This paper would like to give a complete overview related to the risks and issues identification from each stakeholder, as well as the instrument that can be used by the companies in mitigating their social risks. This instrument becomes important to be recognizable by the companies, as well as their approaching methods before implementing their business activities, especially in CSR implementation.

Conceptual Framework: Business Activities and Social Risks

Definition of business becomes important to understand, since this paper discussed about the company's activities in achieving their profit and benefit. Prides, Hughes and Kapoor (2008) stated that business is the organized effort of individuals to produce and sell for a profit, the goods and services that satisfy society's needs. The general term of business refers to all such efforts within a society or within an industry. In addition, Brown and Petrello (1979) stated that business is an institution that produces some goods and services, which demanded by people. Regarding to those concepts, the authors defined that business as an organization that produces or provides goods and/or services to meet the community's demands and needs.

In the implementation of business activities usually the companies are facing the unpredictable options. The companies have not been known what is the significant impact that will be occurred in the future. This situation can be categorized as a risk. Vaughan and Vaughan (2008) has been stated several definition about risks. On his definitions, the essences of risks are the uncertain and unpredictable situation that will bring the companies to gain a loss. The statement of uncertain and unpredictable situation become significant since the expected result can be same as the prediction or it can be completely different to the expectation. Based on this condition, then the companies may be indicated gain the risks if the results obtained are not accordance with the companies' expected results.

Regarding to that definitions, there are several risks resources that can lead to the companies' loss, such as (1)social risks, which is the risks that arise from others (it can be from individual or community) actions and because their actions the companies can not or can be delayed in achieving their goals; (2)physical risks (usually it called *force majeure)*, which is the risks that arise due to the natural phenomenon; and (3)economical risks, which is the risks that arise due to the country's economic situation such as inflation, monetary crisis, etc. Refers to the lack of CSR implementation, then this paper is focused on social risks. Since the risks came from the outsiders who will threat the business activities and company's sustainability.

One of the methods that can be used in reducing the level of risks is risks identification. Through the risk identification, then the companies can be understanding what the exactly their risks nature and what is the impact that can be facing by the companies. The theory of risks management in economic perspective gives several companies' provision in facing and managing the risks, which are;

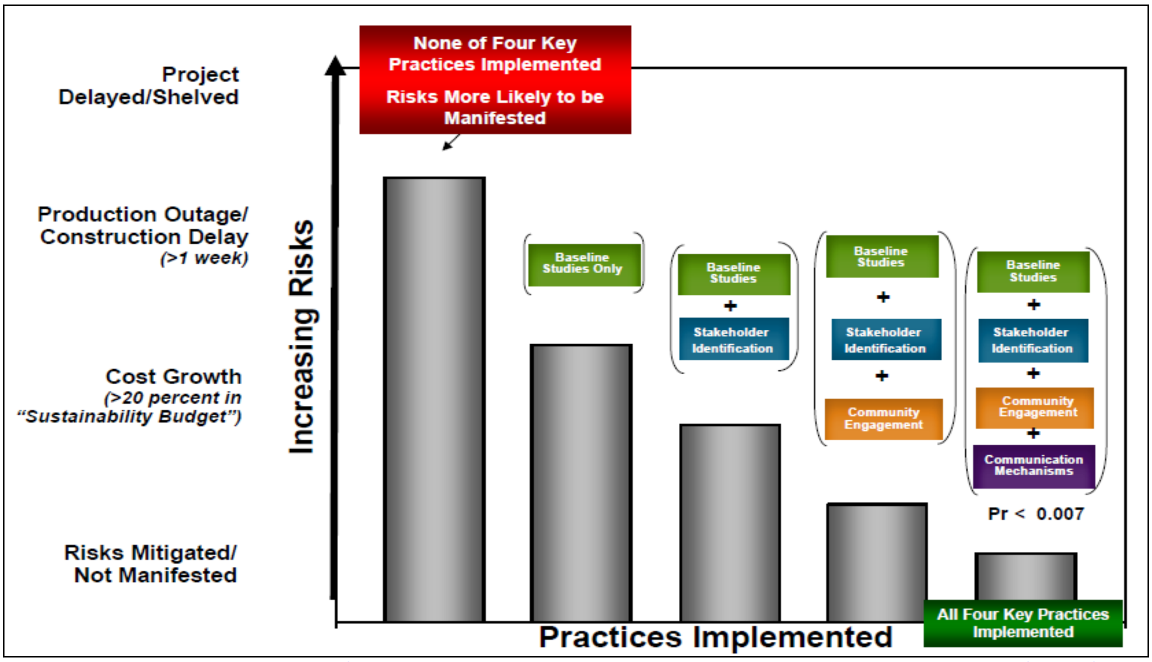
1. *Risks avers,* which is the calculation of the amount of risks and benefits that will be received by the companies
2. *Risks neutral,* which is the rational attitude of the companies in facing the risks. In this case the companies taking into account the expectation to be gained and to be loosed that will be received by the companies.
3. *Risks seeker,* different with the other two in this point the companies is looking for risks that to be received by them and will be taken the highest risks.

In many literatures, it has actually delivered some common methods in dealing with the risks, such as (1)avoiding the cause of risks, (2)reducing the risk probabilities, and (3)shifting the risks into an insurance company. However for the latest one, it cannot be done for the social risks. Reducing the social risks through risk identification and stakeholder assessment also can be used to avoid the cause of risks.

Result and Discussion

The Independent Project Analysis (IPA) Global on their study about risk management and company's sustainability was stated that there are four important things that can be done by company toward minimize the risk impact. The four strategies, which are (1)stakeholder assessment, (2)social baseline studies, (3)community engagement, & (4)grievance (communication) mechanism (Figure 1.)

Figure 1. Four Strategic Keys in Business Risk Management



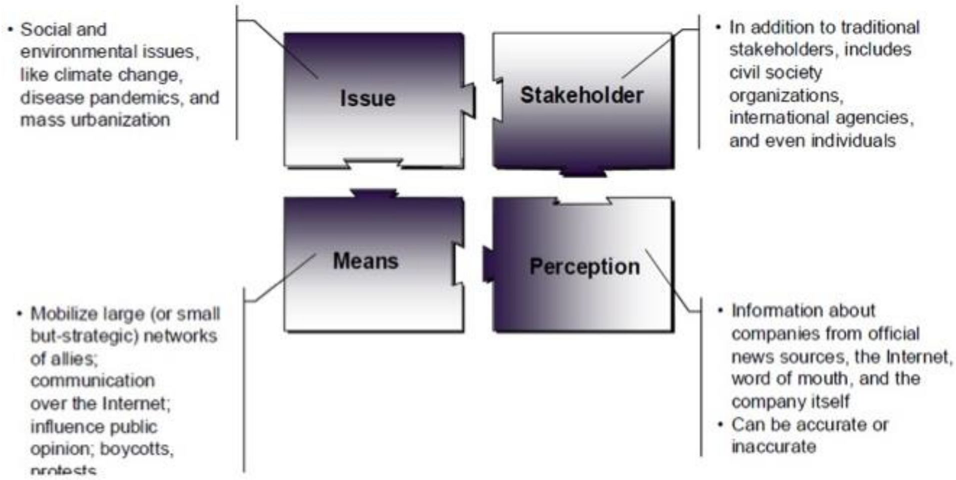
Source: https://www.commdev.org/userfiles/IPA%20Presentation_%20IFC%20Sustainability%20Exchange%202013_final.pdf

Based on the key practices of IPA Global, it can be seen that there are four steps that should be taken by the company before running the stakeholder engagement. Those four steps are effective to minimize the risks that would be disturbed the business process. Herewith the explanation of each steps, there were:

1. Baseline Studies. It is the fundamental part before the company doing an engagement to their stakeholder. This point becomes important to do, since it is the initial analysis to gain information about social impact assessment in the project areas and surrounding. In addition, this section also provides comprehensive information about the social aspects from the each stakeholder.

   Bekefi, Jenkins, and Kytle (2006) through the social risk model identification has shown that there are four objects that should be seen by the company before they are doing engagement (Figure.2). The four objects are, (1)issue, this part is about the existing problems or rumors that related to the business operation, (2)stakeholder, is about who brought the issue and which represent by, it can be civil society, NGO's, international agencies, or even individuals, (3)means, this point is used to identified about stakeholder influences and issue mobilization by the stakeholder, and (4)perception, it is about what do the people think about the companies, and it can be accurate or inaccurate.

Figure 2. Social Risk Model Identification



Source: Bekefi, Jenkins, and Kytle (2006)

Afterwards, based on the analysis and also the likelihood of the issue, then it can be predicted on which stage that the risks is occurred. As seen on the figure below (Figure.3) about the risk area, the company should do react immediately if the categorize of risk include in "critical" or "high" part. However, it also become a consideration for the company if their risk on categorized "moderate", "low" and "very low".

Figure 3. Risk Identification

Likelihood	Area of Risk (Consequence)				
	Catastrophic	Major	Medium	Minor	Low
Almost Certain	Critical	Critical	Critical	High	Moderate
Likely	Critical	Critical	High	High	Moderate
Possible	Critical	High	High	Moderate	Low
Unlikely	High	High	Moderate	Low	Low
Rare	High	Moderate	Low	Low	Very Low

Source: Bekefi, Jenkins, and Kytle (2006)

2. Stakeholder Identification. The important thing that needed to know by the company is basic principle of stakeholder involvement. Identified to gain the information can be from anywhere and everywhere, either individuals or organizations. On this section, it could be worthy if the company's recognize the roles of each development actors and its issues. Comprehensive information of each development actors becomes important as the basic for the company's strategy.
   Nauheimar (2012) stated that in understanding the stakeholder to consider some ***legitimacy*** factor is important variable as a normative appropriate. Another thing is ***power***, which defined as the ability of stakeholder to influence the action for other stakeholder. Through their power, stakeholder also can define what kind of outcomes that their desired able. The latest in understanding the stakeholder is ***urgency.*** It is related to their attention towards getting capacity. This part is about the stakeholders'

ability to push other-stakeholders interests to achieve their goals. Those three points (legitimacy, power, and urgency) are tried to make social constructed and it can be influenced directly or indirectly. Consequently, there are 8 different types of stakeholder based on to those three points that stated on a book of *Theory and Practice of Stakeholder Analysis* (Nauhemar, 2012):

- Dormant stakeholders (Power, no legitimacy and no urgency)
- Discretionary stakeholders (Legitimacy, but no power and no urgency)
- Demanding stakeholders (Urgency, but no legitimacy and no power)
- Dominant stakeholders (Power and legitimacy, but no urgency)
- Dangerous stakeholders (Power and urgency, but no legitimacy)
- Dependent stakeholders (Legitimacy and urgency, but no power)
- Definite stakeholders (Power, legitimacy and urgency)
- Non-stakeholders (No power, no legitimacy and no urgency)

3. Community Engagement. After the company having knowledge about the roles and risks level of the stakeholders, the next step is the process of stakeholders' involvement to the company's activities. On this engagement, the company can used which strategy that the most suitable for the company's need and stakeholder interest. The essence of this stage is how to create the trust between both parties, which are the company and stakeholders. It is become required to establish the favorable conditions. Consequently, the company's goals can be achieved without bothering the stakeholders' interest.
   The International Association of Public Participation (IAP2) has been developed some important values for Public Participations practices. Through the public participation's basic values, then the objectives of both side will be fulfilled. Furthermore, the public participation can be used as the medium to delivery the stakeholders' desires and their expectations.
   In order to increase the stakeholder engagement, IAP2 also introduce a spectrum that can be used as a standard in the decision-making process. Herewith the scheme:

Figure 4. Stakeholder Engagement Implementation Spectrum

INCREASINGING IMPACT ON THE DECISION

	INFORM	CONSULT	INVOLVE	COLLABORATE	EMPOWER
PUBLIC PARTICIPATION GOAL	To provide the public with balanced and objective information to assist them in understanding the problems, alternatives and/or solutions.	To obtain public feedback on analysis, alternatives and/or decision.	To work directly with the public throughout the process to ensure that public issues and concerns are consistently understood and considered.	To partner with the public in each aspect of the decision including the development of alternatives and the identification of the preferred solution.	To place final decision-making in the hands of the public.
PROMISE TO THE PUBLIC	We will keep you informed.	We will keep you informed, listen to and acknowledge concerns and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and issues are directly reflected in the alternatives developed and provide feedback on how public input influenced the decision.	We will look to you for direct advice and innovation in formulating solutions and incorporate your advise and recommendations into the decisions to the maximum extent possible.	We will implement what you decide.

Source: http://iap2sa.org/?page_id=908

4. Communication Mechanism. In order to build the trust, the company should need two-way communication with their all stakeholders. The best communication mechanism will give good results in gathering and delivering the information. The information can be related with the company's report or stakeholders' update. The company that is able to perform two-way communication with their stakeholders, undeniably can influence their own perception.

Conclusion & Recommendation

In mitigating the social risks, the company should recognize about the existing issues that can become threat for them, as well as identified who are the stakeholder. It is important to get the actual social risks through the stakeholder roles and risks level. After the stakeholder identification is well-defined and recognize on which positions, then the next step is stakeholder's involvement.

The purpose of stakeholder involvement is engaging the all of stakeholders, from any kind of background and purpose into the company's activities. Communication mechanism is the key to make the engagement result become succeed or failed. Refers to the stakeholder engagement implementation, through stakeholder involvement then the stakeholder can be increasing the impact decision for all parties. And it will give good impact relation between the company's and other stakeholder. Based on the fact, then the social capital, which is trust, can build much stronger and will protect the business activities.

As a recommendation, the results of this instrument can be used as the basis for the company's strategy in mitigating the social risk and do some action plan. This strategy can encourage the government as the most powerful part in the development to take back their values, which are (1)as development actors through their policy, (2)security agent which can protect all of the component in society, and (3)make sure that all of the stakeholder get involve and participate through democracy.

References

Bekefi, Tamara., Beth Jenkins, and Beth Kytle. "Social Risk as Strategic Risk". Working Paper No. 30 of Corporate Social Responsibility Initiative., Harvard University., USA., 2006.

Brown, Richard D., and George J. Petrello., "Introduction to business", 2nd Ed., Glencoe Pub. Co. & McGraw-Hill Companies, Inc., New York, USA, 1979

Kytle, Beth. John Gerard Ruggie. "Corporate Social Responsibility as Risk Management: A Model for Multinationals". Working Paper No. 10 of Corporate Social Responsibity Initiative., Harvard University., USA., 2005.

Nauheimer, Holger. "The Change Management Toolbook: A Collection of Tools, Methods, and Strategies". Creative Commons Attribuution-Share Alike 3.0 Unported License., 2012. Available online on http://www.seachangecop.org/sites/default/files/documents/2012%2010%20CC%20-%20The%20change%20management%20toolbook.pdf

Pride, William M., Robert J.Hughes, and Jack R.Kapoor. "Introduction to Business", 11th Ed., Cengage Learning., USA, 2008. Available online on http://www.cengagebrain.co.uk/content/pride80599_0538480599_02.01_chapter01.pdf

Sampath, G. "Advanced Level Management of Business", 7th. Ed., McGraw-Hill Companies, Inc., New York, USA, 2005.

Vaughan, Emmet J., and Therese M. Vaughan., "Fundamentals of Risk and Insurance".,10th Ed., John Wiley & Sons, Inc., Danvers, USA, 2008. Available online on http://www.san.edu.mn/images/post/Mergeshuuleh/Эрсдэл%20ба%20даатгал/fundamentalsofriskandinsurance.pdf

-----. , "How Sustainability Practices Influence Project Outcomes and Manage Risk". Presented by Paul Stanchfield and Fred Biery., Independent Project Analysis Global., 2013. Available online on: https://www.commdev.org/userfiles/IPA%20Presentation_%20IFC%20Sustainability%20Exchange%202013_final.pdf