

Better Risk Management through Stakeholder Involvement

By Randy Kritkauský

President of ECOLOGIA

November 2011

How to Reduce the Risks in “Risk Assessment”

Good risk assessment and effective risk management both assume a high degree of information disclosure. “Due diligence” usually relies on written records and walk through audits of manufacturing facilities or service providers. As a twenty year old international NGO with a long history of activities on local as well as global levels, ECOLOGIA knows that corporations, government agencies, auditors, standards certifying bodies, and insurance companies are too often deceived by superficial appearances and incomplete documentation. Investment or insurance decisions are frequently made on the basis of such inadequate information. This is especially harmful when information has been deliberately designed to omit reporting of problems, and to conceal risks and illegal activities. Stakeholder engagement, when done professionally and with genuine “two way communication”, is a tool which can increase the accuracy of risk assessment. When combined with the more traditional forms of assessment, stakeholder engagement adds the dimension of “ground truthing” and can help managers, investors and/or insurers more adequately evaluate the risks and benefits involved in a business decision.

Remote Sensing and Ground Truthing

Geographers and planet scientists frequently use satellites for “remote sensing”, in order to gather information about geological formations, water quality, air pollution, temperature changes and forest growth patterns. The bird’s eye view from a distance of hundreds of kilometers can provide valuable knowledge; the extra distance and new perspective can reveal patterns that were difficult to see close up. However, “remote sensing” has its limits, and interpreting the remote data has its pitfalls. For example, infra-red indicators may suggest tree growth, but may confuse hickory trees with oak trees. Methane emissions may be interpreted as identifying leaks in a gas line or from illegal mining in a certain area, but those emissions might in fact be caused by bogs decaying and thawing. “Remote sensing” can also be vulnerable to deliberate deception. Remote military

intelligence may miss troop movements and missile re-positionings because these were conducted on cloudy days, in order to prevent satellite cameras from detecting military activities.

Scientists who use remote sensing also know that data need to be verified from the ground, or “ground truthed”. In ground truthing, experts go on the ground in person, to report on the real life particulars. Is the new tree growth from oaks or from hickories? Are the bogs highly active, giving off their own methane? Are the missiles actually in the place where the satellite data indicated? Ground truthing can verify, or challenge, the information obtained by remote sensing.

In the business context, there are times when company managers turn on the pollution reduction equipment only when they expect environmental inspectors or auditors. Underage workers may be dismissed for a few days when labor inspectors visit. Dangerous working conditions can be corrected temporarily when safety inspectors are expected.¹ In summary, industrial facilities can routinely conduct risky activity under “cloud cover”.

It would be a costly mistake to assume that these routine deceptions are a normal part of doing business, and to ignore their existence. A culture of deception can be an important indicator of a management culture that will put investors, customers, and insurers at risk. Needless to say, it can also harm workers and communities.

How to Deal with the Problems of Incomplete Information and/or Deception

ECOLOGIA advocates addressing this problem by involving stakeholders in meaningful, careful communications. Stakeholders (workers, customers, suppliers, community members) can participate constructively in inspections, management decisions and processes, and standards compliance audits or verifications. When managed well, these stakeholders can provide accurate and low-cost information with which to “ground truth” the data compiled by inspectors and found in formal documents.

¹ An ECOLOGIA staff member once worked for a printing factory located in New York State, in the US. Every six months, there would be a telephone call to the factory boss, after which he would tell the workers, “fire inspector coming”. Workers were told to drop everything they were doing in order to move large stacks of cartons away from fire exits, clear away all ashtrays and other signs of smoking, cover up open chemical containers, etc. Then the fire inspector would arrive - about an hour after the phone call - find the workers seemingly all on task, check off that fire exits were clear, chemicals were handled appropriately, and no fire safety rules were being broken. As soon as the inspector left, the exits were once again blocked, the printer resumed smoking next to the machinery, and chemical containers were re-opened. Never did the inspector even ask a worker, “is it always like this?”.

True Stories – How Neglecting Stakeholder Involvement Creates Risks and Increases Costs

Tale of a Wasteful Investment- (*Stakeholder Theme: Relying only on documents leaves risk managers highly vulnerable.*) Almost three decades ago, when I was the leader of a regional environmental NGO in Northeastern Pennsylvania, I witnessed the sad story of the purchase of a contaminated local municipal waste landfill by Waste Management, the world's largest multinational waste disposal company. Waste Management's business model was to buy already permitted landfill sites, upgrade them in exchange for an expansion permit, and make millions of dollars. Before they bought Lyncott Landfill, they carried out the required due diligence, examining documents filed by the previous landfill operator, and environmental inspection reports generated by the regional environmental protection office. However, that particular regional environmental protection office had serious corruption problems, dating back many years. For example, they had been issuing illegal permits to allow haulers to introduce hazardous industrial waste into municipal landfills. More seriously, there had been willfully inadequate monitoring in exchange for "favors" from the previous landfill operator. Tons of heavy metals (arsenic, chromium, cyanide) had been brought onto the Lyncott Landfill site in cardboard boxes and buried without state of the art protection. These actions often happened "after hours".

Neighbors knew of the presence of hazardous materials in the unlined municipal landfill. The local environmental NGO knew this. But the official records in the local office showed no evidence of these real and dangerous operations at the landfill site. The multinational waste company never convened a meeting of local stakeholders as part of their due diligence. Eventually Waste Management learned of serious ground water contamination - when local citizens and local government litigated and successfully sought a court order to clean up the site. It cost the company more than ten million dollars to remediate the site they had hoped to be an investment. One simple stakeholder meeting could have pointed the company in the right direction, encouraged the investors to ask the right questions, and saved the company millions of dollars.

State government learned as well. The new head of the regional state environmental protection office, appointed after this scandal became public, contacted the local environmental NGO *on the first day he was appointed to his new office*, requested a face-to-face meeting, *and affirmed that he could not do his job without working with community stakeholders*. He became a proponent of and expert practitioner of stakeholder involvement. He eventually became an ECOLOGIA board member.

Tale of an Industrial Accident that Exploded a Myth of Certification- . *(Stakeholder Theme: It costs very little to convene a local community or stakeholder meeting to "ground-truth" paper document claims that adequate safety policies exist and are routinely implemented.)* On Friday, September 21 2001, at 10:18 a.m. the French town of Toulouse was shaken by one of the largest industrial accidents in European history. The AZF fertilizer factory, a subsidiary of AtoFina and part of oil giant TotalFinaElf, exploded and pieces of the installation flew into the air. Twenty nine people were killed, thirty four were seriously wounded, and several thousand suffered lesser injury. Parts of Toulouse and its municipal services (airport, railway station, 90 schools) were shut down. The accident cost the French government 228 million euros and Total FinaElf, owner of AZF, more than 2 billion (<http://www.erris.org/accidents/majaccidents/toulouse.html>). The chemical plant was certified to both ISO 14000 and ISO 9000. Certainly these standards cannot be expected to prevent all accidents. But AZF had a long history of labor controversy, and a long record of local media attention that exposed a culture of mismanagement and cost cutting safety violations. Taking worker and community safety concerns seriously might have made a difference

Standards Certification With Chinese Characteristics- *(Stakeholder Theme: In Many developing countries where the concept of rule of law has not been fully accepted or implemented, "certification" can be little more than paper. Certifiers and auditors need to consult stakeholders/workers to penetrate elaborate and systemic deception.)*

Over the last decade we have met with numerous Chinese government officials, factory managers, and Chinese standards experts. They all tell us the same story. Highly expensive international ISO standards certification bodies do a credible job of certification and due diligence. However, the vast majority of ISO certifications in China are conducted by Chinese national certifying bodies that range from honest/conscientious/informed to dishonest/careless/uninformed. Many factory owners and managers have told us that auditors and certifying agents can be bought with an expensive dinner and some local entertainment. In *The China Price*, Alexandra Harney documents how even diligent foreign auditors and certifiers are misled by being taken to showcase factories where only a small part of the production process occurs. Often just around the corner is another factory where non-compliance is the norm and most goods in a supply chain are produced. Harney discovered this when workers informed her about “shadow factories.”

Low Cost Solutions through ISO 26000 and Stakeholder Engagement

The good news is that broad stakeholder participation (industry, government, labor, NGOs, consumer organizations, consultants) in the creation of ISO 26000 resulted in a global guidance standard that requires meaningful local stakeholder involvement. International stakeholder groups, like ECOLOGIA, understood that this would make a CSR based standard meaningful and would address many of the shortcomings of previous ISO standards that relied on paper document examination and/or site inspections guided too heavily by manufacturing facility staff. Previous labor, health, safety, environmental, and consumer standards are embedded within the ISO 26000 stakeholder framework. Adherence to local, regional and national laws is an important part of the ISO 26000 process, which enables it to be effective in different contexts. ISO 26000 moves auditing and verification to a more informed level because it connects them to stakeholder engagement. This provides implementers with huge potential risk reduction, and savings, for a relatively small investment in stakeholder-involved due diligence.

As an international NGO with deep roots in local NGO and community involvement, ECOLOGIA knows how to communicate by reaching down into the community or worker network. We know how to communicate laterally with our colleagues to benefit from their information gathering networks. And we know how to communicate concerns upward to decision-makers in industry and government. When we were retained as consultants at the Alcan Ningxia aluminum plant in China, our client noted that we opened communication channels because we were the outsiders without a history of distrust and without obvious local social and political obligations. While we worked for an industrial client, we and they made it clear that we were first and foremost an independent international NGO. We can help factory managers, investors, insurers, and all those who want to reduce real risks by exercising our unique brand of NGO attestation and stakeholder involvement. With real and significant risk reduction, everyone wins.

In ECOLOGIA's experience, accessing local and internal knowledge requires getting out of the box of routine clipboard-type inspections and meaningfully engaging workers and community residents. We have decades of experience working from the community perspective. We know how to build trust with workers and community members. We know how to engage them in constructive dialogue so that they help to identify problems *and also offer solutions*. As part of our CSR and ISO 26000 consulting work, ECOLOGIA offers a variety of services assisting those in the corporate

world who wish to explore methods of stakeholder involvement in their risk reduction activities. These activities range from training programs for staff on stakeholder communication and involvement, to actually conducting public stakeholder meetings and roundtables. **Stakeholder involvement is the low cost, and too-long neglected low hanging fruit in the risk reduction world.**

Contact:

Randy Kritkausky

ECOLOGIA

+1-802-623-8075

Middlebury, Vermont, USA

rkritkausky@ecologia.org

<http://www.ecologia.org>