

SIFA STRATEGY

GREEN PAPER ENCOURAGES ORGANISATIONS TO BE MORE INCLUSIVE WITH ALL THEIR STAKEHOLDERS

A viewpoint on how organisations can respond to the challenge from
Government on accounting for the wider stakeholder voice

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Department for
Business, Energy
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CORPORATE GOVERNANCE REFORM

Green Paper

The Government is exploring different frameworks to encourage business to improve stakeholder engagement and transparency. Organisations will be required to demonstrate they are taking tangible steps to ensure they are listening and responding to a broader set of stakeholders. The good news is such steps can be easily implemented without disruption and can add immediate economic and social value.

There have been countless responses to the Government's Green Paper on Corporate Governance Reform, many of which support reporting requirements as a way of bridging the gap between organisations and their stakeholders.

The **Financial Reporting Council** recognises the need for companies to be more transparent and accountable to a wider group of stakeholders, suggesting more effective reporting in terms of the ways in which the Board considers its stakeholders. It outlines that:

“ultimately it is the responsibility of the Board to achieve a culture that takes account of the views of wider stakeholders” and further, that “Boards should be required to demonstrate how they had regard to wider stakeholders in their key decisions”.

This opinion is shared by the **CBI** which recommends that while companies should be able to adopt a tailored approach to strengthening the stakeholder voice, they should be required to report on how they are engaging with and taking action on behalf of their stakeholders.

Similarly, the **Institute of Business Ethics** ('IBE') suggests that responsibility should lie with the company chairman who should be required to make a formal statement each year on how their Boards have taken into account the views of key stakeholders such

as employees, customers and suppliers when making decisions.

There are many more voices of similar stature which echo these sentiments and who will be looking to the impending White Paper for insight into what potential legislation or best practice will look like.

While we don't yet know how the Government will take this debate forward, it is clear that the question around how to manage and incorporate the voices of all stakeholders is being taken more seriously by business, Government and commentators.

This issue is not going away and businesses will soon need to demonstrate their leadership and consideration for this area.

The challenge to business is probably best summarised by the IBE which argues:

“...Boards need to look not only at their internal processes and accountabilities but also at what drives behaviour throughout the business. They need to define the behaviour they want and then ensure that these values are properly embedded in the organisation and in its relations with stakeholders.”

In essence, the challenge to the Boards of both public and large private companies will be fourfold:

- 1) A requirement for the Board to demonstrate they are actively listening and have adequate information on a broad number of stakeholders;
- 2) A requirement to show the Board is taking action as a result of this information;
- 3) The ability, if necessary, to report and be transparent on the information they have and the actions they are taking, potentially also setting out identifiable measurements of success; and
- 4) The potential reputational damage if required to explain why they are not taking adequate actions or have not demonstrated how stakeholders are considered in decision-making

SO WHAT DOES THIS MEAN IN PRACTICE?

At first glance, such information and transparency looks like it will add a significant burden to an already regulated, time-constrained and information- loaded Board agenda – at a time when many senior management teams are battling with significant economic and political changes.

However, there is an opportunity for business to put in place a process which evaluates stakeholder views and summarises key drivers and issues to facilitate management decision-making, without requiring governance or structural change. Valid research of stakeholders on

a uniform score and timeframe can be implemented and can be used to drive cultural/behavioural change and improve decision-making.

If done in the right way, such stakeholder engagement and measurement has the potential to bring considerable value to the business. It can reduce Board data, improve Board insight into stakeholder support and be easily transparent and economically effective.

From our experience of supporting companies in navigating this process and advising on internal structures and stakeholder engagement, there are a number of considerations to bear in mind to ensure success:

- 1) Companies will need to engage directly with stakeholders through regular surveying, measuring and monitoring. It cannot be a tick-box exercise but must be structured in a way which is sure to yield valid insight and data appropriate for use by a Board.
- 2) In order to gain the most value, any approach must be embedded within strategic frameworks and decision-making.
- 3) Consistent, robust metrics and analysis will be key to enable Boards and senior management to track progress and support decision-making.
- 4) As commentators have already recognised, how a business chooses to implement such processes must be tailored to the specific circumstances and

environment in which the business operates and needs to take into account different business models, stakeholders and issues. There is no one-size-fits-all solution.

- 5) The framework employed should be sufficiently resilient and transparent in order to enable a business to be readily prepared to respond to any legislative or best practice requirements to demonstrate stakeholder consideration.

If done effectively, this will ensure that both corporate behaviour and the wider stakeholder voice become regular features on the Board and management agenda and are treated as strategic assets. We have also found that organisations benefit from this approach beyond just better stakeholder engagement. As much academic research has proven, those organisations that have corporate behaviour as part of their strategy and adopt a multi-stakeholder approach, also derive significant commercial and operational benefits.

Some enlightened organisations have already recognised this changing dynamic, and are gradually moving from a shareholder- to a stakeholder-driven business model and are establishing processes to ensure all their stakeholders are accounted for. However, it is clear that many businesses still struggle to embed and act upon the interests of their broader stakeholder groups.

Research undertaken by SIFA Strategy in late 2015, across FTSE 350 companies, revealed that while 78% were looking to move to a multi-stakeholder approach, only 16% believed they had effectively

introduced measures and appropriate frameworks that take into account the interests of a wider stakeholder base.

In the context of the Government Green Paper, we will be re-running this research and, while we expect companies will have continued to make progress towards a multi-stakeholder model, we expect to still see a gap in accounting for all stakeholder. This gap will become a significant challenge should the Government choose to listen to the many voices who have supported reporting requirements as a solution in their responses to the Green Paper.

ABOUT SIFA STRATEGY

Our guiding principle is that stakeholder support, culture and reputation can be understood, measured and managed for commercial and enterprise value creation. We enable these key assets to become a strategic and tangible tool, embedding them as an actionable management programme.

We support organisations on how to gain a full understanding of their key stakeholders and how they must feature in an organisation's strategic framework, inform and influence business planning, decision-making, corporate behaviour and communication. We provide implementation advice, ongoing data and analytics, measurement and monitoring tools and associated recommendations.

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