

# SIFA STRATEGY

## CORPORATE GOVERNANCE REFORM: HERE TO STAY

A multi-stakeholder approach makes good business sense,  
whether there is political legislation or not

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SIFA Strategy commissioned research, just before this year's General Election, into the preparedness and support of Corporate Britain for the proposed changes in corporate governance and stakeholder Board representation, as outlined in the Green Paper on Corporate Governance.

Whether or not the proposed legislation comes into effect, the findings show companies recognise the increasing influence of multiple stakeholders and the need for Board oversight. The momentum towards improved stakeholder engagement is inevitable.

Our research also shows that a number of companies are already monitoring and engaging more directly with their stakeholders as part of a structured management programme, with clear responsibility at the Board level. These companies are placing greater significance on corporate behaviour and stakeholder relationships, recognising that multi-stakeholder value is an economic evolutionary process. Other companies remain in the traditional model and are devolving stakeholder relations into the operations of their business with little or no Board involvement.

We believe those companies that are already practising a multi-stakeholder approach will lead the way in changing the stakeholder engagement model. This will happen as it becomes more evident that previously silent stakeholders have an increasing influence on a company's performance and that a pro-active management approach creates and protects enterprise value.

#### Key Findings:

- ✓ 32% claim to already have the necessary processes in place or are taking steps to improve stakeholder engagement
- ✓ 48% of companies undertake some form of stakeholder research, but only 3% research all stakeholders using one uniform approach
- ✓ Companies estimate that their behaviour and stakeholder relationships – their reputation – accounts for 40% of their enterprise/market valuation
- ✓ 10% have already allocated responsibility for stakeholder engagement to a Board Committee; and
- ✓ 9% have one or more Non-Executive Directors nominated for the task

## WHAT HAS CHANGED?

Over the last year we have seen a major increase in the profile of UK corporate governance. There has been a marked shift towards considering the interests of all stakeholders, following a number of events where actions taken by the owners of a company or the senior management has resulted in significant value decline for employees, pensioners, suppliers, business partners and shareholders.

This profile resulted in a Green Paper being published by the Government in November 2016, followed by a report from the BEIS Committee on Corporate Governance in March 2017. These two strands of work came together in the now infamous Conservative Party Manifesto which outlined a process for Board representation for stakeholders.

Whether the Green Paper ever changes its colour to White is another discussion, however it is clear stakeholder engagement and improving corporate governance is becoming a fixture on the Board agenda.

## OUR RESEARCH

We commissioned research through our partner YouGov, to understand how Corporate Britain viewed this potential change to corporate governance on Board representation and stakeholder engagement and to understand how prepared they are to enact the recommendations.

Our research, undertaken in April 2017, was focused on the FTSE 350, and we had responses from 79 Chairmen, Chief Executives and/or Finance Directors.

## DOES CORPORATE BRITAIN SUPPORT MULTI-STAKEHOLDERISM AND BOARD REPRESENTATION?

44% of respondents support the need for increased activity into taking account for a broader set of stakeholders, against 46% who don't. The remainder didn't know.

27% are looking to improve stakeholder engagement and are discussing it at Board-level while a further 5% already have the necessary processes in place. So, a third of Corporate Britain is already undertaking some form of multi-stakeholder approach, moving away from the single key stakeholder – the shareholder – perspective that has dominated corporate thinking for at least the last thirty years.

Our research identifies that stakeholder engagement predominantly remains the remit, not of the Board or the Executive Committee, but of the operational management. 58% of respondents said that responsibility sits with the senior management of respective departments. 15% said there is no point of responsibility, as it is not needed. 4% said there is no point of responsibility but it is under discussion. In total, including don't knows, 78% of companies do not have anyone with the responsibility for wider stakeholder engagement – at the Board level or elsewhere within the company's structure.

## THE VALUE OF A MULTI-STAKEHOLDER APPROACH

Extensive academic research continues to reinforce the fact that those businesses that embrace a multi-stakeholder approach outperform those that maintain a single-minded focus on shareholder value, across a range of indicators – be they sales revenue, employee growth and

retention and profitability [Source: Harvard Business School]. We have advised, for a number of years, that companies ignore at their peril the increasing importance and influence of those stakeholders that Boards have historically treated as the silent minority.

Previous articles published by SIFA Strategy have identified the drivers of this multi-stakeholder influence – the rise in the importance of corporate behaviour; increasing transparency created by the internet; and the growing visibility and influence of stakeholders through the use of social-media and technology revolutionising communications. For brevity, we encapsulate all of this into a single term, which we define as corporate “reputation”.

In our most recent research, we asked respondents to place a value for this “reputation” for their organisation. Overall, the mean percentage of enterprise/market value estimated to be accounted for by “reputation” is 40%, with some respondents putting it higher than 75%. With such a high value being placed on reputation, it is easy to understand why

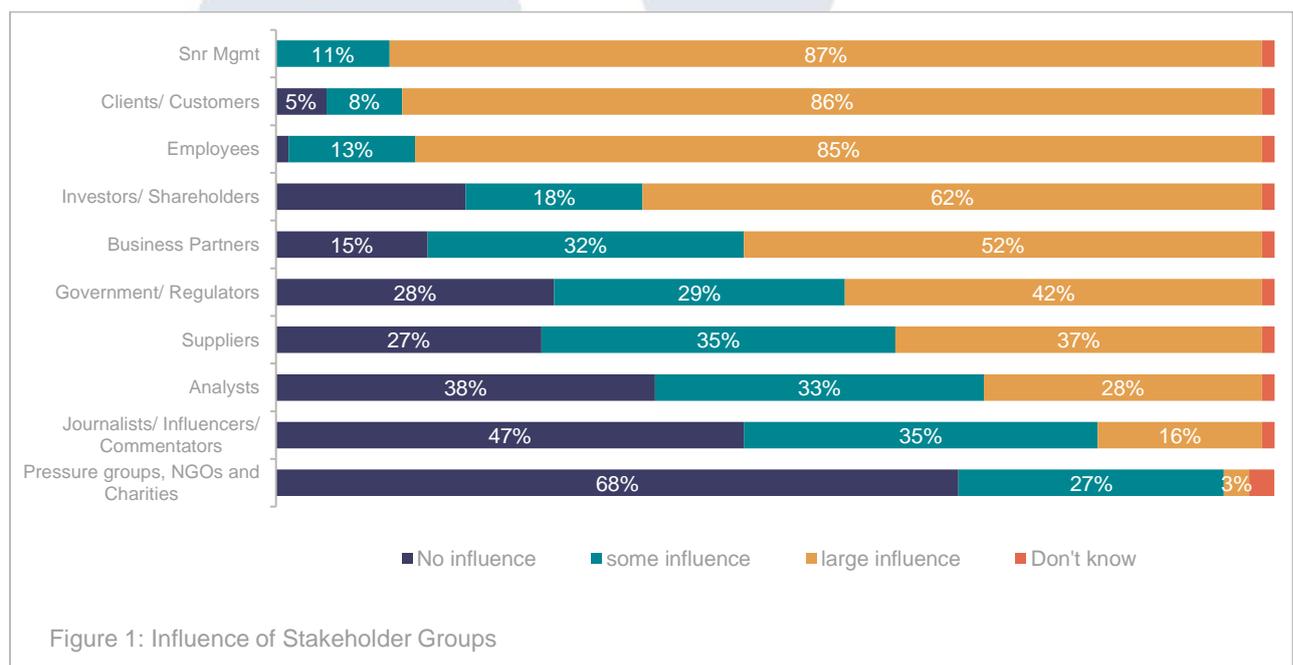
the move to a multi-stakeholder approach for companies is becoming more and more relevant and a Board agenda item.

To our mind, with the proof that such action is fundamentally good for business, and because Boards better understand the value it represents for the own organisations. we will see the Boards of UK companies moving reasonably swiftly to address this area.

### MOVE BEYOND THE EMPLOYEE

The area we questioned in the Manifesto was why the Government concentrated solely on the employee? From a political standpoint, following the well-publicised events at BHS, Sports Direct and others, this was understandable. However, it ignored the other major influencers in commercial performance and enterprise value.

Our research examined which stakeholder groups carry the most influence on the commercial performance and valuation of a business [See Figure 1 below].



What is clear is that for a Board to do their job effectively and create the change required, they need to take a broader look at the whole stakeholder universe that can significantly impact the performance of their business. We believe most companies will adopt a broader stakeholder approach, as those who have already started have done, in order to get the maximum return for their efforts. However, this will need to be done in a cost-efficient and minimum disruptive manner.

## THE MOVE TO BETTER DATA

How companies should implement stakeholder programmes beyond their chosen route of Board representation is open to individual processes. But, it does raise the question on what grounds Boards are supposed to make decisions. How are they to have adequate insight into the business and the current level of stakeholder support? Whichever route a company takes – be it to maintain stakeholder relations within the operations of the company, create an advisory council or nominate a non-executive director – they are going to require relevant data.

Such information must firstly provide a balanced and relevant representation of the company and the issues to be addressed. Secondly, it must be current and not only based on historic performance but also on future expectations. Thirdly it must be in a format that enables a clear understanding of the issues and the ability to make the necessary decisions within a realistic timeframe – especially if it is part of a full Board agenda.

The simple answer is the Board is going to require a new data set. This information must be timely, representative, uniform

and forward-looking. This will be even more important should any future legislation demand statutory reporting on stakeholder engagement.

Our research shows that for the clear majority of companies such information is not yet currently available in a workable format. 41% don't research their stakeholders but consider them through the general management of the business; a further 22% only research priority stakeholders; 16% research all stakeholders but using individual methodologies; and 10% research specific stakeholders around specific events.

At the moment, just 3% of companies research all stakeholder groups using one, unified approach. However, we are increasingly seeing companies beginning to take a multi-stakeholder approach and looking to generate relevant data to turn their culture, behaviour and stakeholder engagement into a tangible asset to be managed throughout the business.

We believe this is the route companies will take in the future if they are to realise the full value of stakeholder engagement and representing stakeholder interests at Board level. Such research will enable valuable insight into how each stakeholder supports the business and highlight areas of concern where relevant action can be taken.

## WHAT WILL HAPPEN NOW

We believe as Boards have a better understanding of the genuine value creation through multi-stakeholder engagement, they will embrace it quickly. As ever, some companies will evidently lead in this area and this will encourage others to follow. Some, no doubt, will publicly report on their successful activities and this will raise the bar even further as it

becomes an area of best practice and differentiation.

As multi-stakeholder engagement develops, Boards will quickly realise the answer lies in the need for specific data for their decision making – just as they have done in other operations of the business.

So, whether it survives or not, the Conservative's Green Paper will have accelerated the shift from a concentration on financial return to an era of multi-stakeholder value and the need for stakeholder interests to be represented in some form on the Board.

Stakeholder influence is here to stay.

## 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.

FOR FURTHER INFORMATION:

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