

SIFA STRATEGY

STAKEHOLDER ENGAGEMENT – NO LONGER OPTIONAL

September 2017

By June 2018, the Boards of UK companies will have no choice but to have adequate data to understand, manage and report on how a range of stakeholders support their business.

We forecast in July this year that the momentum towards improved stakeholder engagement was accelerating. The Government's publication of its response to the consultation on the Green Paper on Corporate Governance has now made it inevitable.

The media has recently concentrated on the impact on employee representation and executive pay, which arguably make easy copy and better headlines. However, the recommendations and changes put forward by the Government are very clear in expecting companies – both public and private – to engage and report on strengthening the employee, customer and wider stakeholder voice.

The research we published in July of this year showed that 46% of respondents were not in favour of the proposed changes – against 44% who were supportive. For those companies not in favour, the Government's intervention will come as a frustration – it should not.

Improving stakeholder engagement, and the data to enable it, need not be a complex issue and can derive significant commercial and economic value if managed in the right way.

The Government has published its response with the intention that changes to the corporate governance code and stakeholder engagement be in place by June 2018. This leaves corporates with just nine months to review stakeholder engagement efforts and prepare for the inevitable reporting requirements which will follow within a short time of the new code.

The onus will be on Company Directors to create a system of understanding multi-

stakeholder engagement which includes not only the interests of shareholders but also employees, customers and suppliers as well as other stakeholders if important to the business' sustainability.

The Board will also be required to report on how the Directors regard their stakeholders and take account of this within their decision making, as well as how the company has identified and sought the views of key stakeholders.

For those companies that are not prepared for such a significant change there are two comforts. Firstly, stakeholder engagement measurement and pro-active management programmes can be swiftly implemented without any significant disruption or cost. Such measurement can provide strategic insight into stakeholder relationships, with the ability to make pro-active decisions to improve business relationships, identify areas of risk and provide data to facilitate external reporting.

Secondly, as the Government recognised, there is already leadership in this area and as a result they are inviting the FRC to consult on the development of a new code to establish the importance of strengthening the voice of employees and other stakeholder interests at Board level.

Our research showed that 32% of companies are already monitoring and engaging more directly with their stakeholders as part of a structured management programme or are taking steps to improve stakeholder engagement. 19% have already allocated responsibility to a board committee or a non-executive director as outlined in the Government's recommendations. These companies are

placing greater significance on corporate behaviour and stakeholder relationships, recognising that multi-stakeholder value is an economic evolutionary process. As more companies demonstrate leadership in this area, other companies will follow suit, even before the new code comes into effect.

To conclude, the Government's effort to drive stakeholder engagement improvements is a positive step for corporate Britain. Such engagement can be measured and implemented without perceived governance or operational disruption. In this new era of consumerism, information access and stakeholder activism, this is the right time for governance reform to place stakeholder engagement on the Board agenda.

ABOUT SIFA STRATEGY

SIFA Strategy is a specialist stakeholder engagement and reputation consultancy. We provide senior level advice, underpinned by research and analytics, to organisations serious about managing and improving their relationships with stakeholders, and communicating with them effectively, for both commercial and valuation benefit.

FOR FURTHER INFORMATION:

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