Stakeholder Engagement and Reporting

Stakeholder engagement is not a tick-box exercise, but instead, it is a key process to understand the needs and expectations of stakeholders that are impacted by an organisation. Stakeholder engagement underpins many core processes within organisations, for example, informing your workforce strategy or ESG Approach. But it must be a balance of interaction between the company and its stakeholders.

It is a process of communication and engagement, gaining feedback, analysing the feedback and taking action. With the process rounded off by companies communicating with their stakeholders on the decisions made and actions taken. They should also discuss their stakeholder engagement activities in their annual reporting.

The legislation and best practices surrounding stakeholder engagement ensure that large companies provide their stakeholders a platform to be included in processes that affect them. It is also focused on ensuring reporting standards and communication is upheld.

However, to go beyond the compliance outlined by the legislation, an effective stakeholder engagement strategy is crucial. There are a variety of methods to utilise when undertaking stakeholder engagement. However, best practice outlines the most effective strategy is ensuring that continual inclusion and communication is present. Therefore, participatory approaches are the most effective method to gain true value from your stakeholder engagement. If correctly implemented, this can provide businesses with the guidance to create a strategy of both economic benefit and stakeholder value.

But, regardless of the approach, the fundamental processes cannot be forgotten. This is especially relevant in the post Covid business landscape that has forever changed the dynamic of stakeholder engagement.

Legislation and Best Practice

Stakeholder engagement is considered essential to Integrated Reporting and is the guiding principle and foundation for a wider range of frameworks. Stakeholder engagement is also a requirement of the Global Reporting Initiative (GRI) and other standards such as the AA1000 Stakeholder Engagement Standard, which sits alongside the AA1000 Assurance Standard.

There are several key pieces of legislation and best practice frameworks that ensure correct stakeholder engagement is upheld. Section 172 of the Companies Act 2006 places duties on directors, including consideration for the company's stakeholders in strategic decision making. Added to this, in August 2017 the Government announced a package of governance reforms which led to corporate governance reporting requirements in the Companies (Miscellaneous Reporting) Regulations 2018, as well as the UK Corporate Governance Code 2018. Companies in scope (see below), are required to provide reported evidence on how they have engaged with their stakeholders, including the workforce; and in doing so, how this has influenced the board's decision making.

A summary of the legislation and best practice guidance relating to stakeholder engagement is as follows:

1. Section 172 of the Companies Act 2006 applies to the directors of all medium and large companies (not just listed ones) - when deciding what would be most likely to promote the success of the company, a director must have regard for the interests of the company's employees, as well as foster the company's business relationships with suppliers, customers and others [1].

2. The Companies (Miscellaneous Reporting) Regulation 2018 requires all large UK companies to include a section 172 statement in their strategic report to demonstrate how they have complied with the Act; including stakeholder and workforce engagement, and how this has influenced board decisions [2].

3. The UK Corporate Governance Code 2018 (Principle D) stipulates effective engagement with, and encourages participation from, shareholders and stakeholders. It is applicable to all companies with a premium listing. Provisions 5 and 6 within the Code requires the Board to understand the views of wider key stakeholders and include in the annual report how their interests (and matters set out in Section 172 CA06) have been considered in board discussions and decision making. This includes engagement with the workforce through one or a combination of the following methods [3]:

• A director appointed from the workforce.

• A formal workforce advisory panel.

• A designated non-executive director.

4. The 'Wates Principles' (for large private companies) are six principles that have been designed to help boards of such companies to undertake meaningful engagement with material stakeholders [4]. The Wates Principles provide companies in-scope a framework for best practice to help them raise their standards of corporate governance. When utilised correctly, this framework will help boards of directors to understand and apply best practice, but also communicate their approach to their stakeholders [4].

The four examples outlined above will, for the most part, apply to all companies apart from those which are medium sized; or which are entitled to the small companies' exemption. The Companies Regulation 2018, applies to all companies with more than 250 employees in the UK, and must include in their directors' report a statement on employee engagement, which describes steps taken by the company to engage with their workforce.

Other legislation that is soon to impact UK companies operating in the EU, is the Corporate Sustainability Reporting Directive (CSRD) [5]. CSRD requires organisations to undertake a Double Materiality Assessment to identify which sustainability matters are most material to the organisation and its stakeholders. Central to the Double Materiality process is the requirement for companies to consult with a broad range of stakeholders (both internal and external) to understand the sustainability matters that impact them.

As demonstrated by its inclusion in the legislation and best practice guidance examples above, stakeholder engagement is crucial to the successful operations of businesses. These are in response to past corporate failures and aim to improve the overall quality of governance within businesses.

Conducting Stakeholder Engagement

While there are stakeholders which all companies have in common such as employees, customers/consumers and suppliers, there are others based on specific sectors, location, size and scale of operations etc. It is important to consider that engaging stakeholders often requires unique and tailored approaches appropriate for the specific group, to ensure maximum value is achieved.

There are several approaches that businesses can consider when undertaking stakeholder engagement, however best practice outlines the utilisation of a 'participatory approach' [7]. When implemented correctly, this will create a system in which every participant is contributing to each stage of the planning process, resulting in an approach in which every participant's perspective is considered [7]. This is important as many stakeholder groups frequently feel they have no platform to 'make their voice heard' or 'instigate change', these stakeholders need to feel empowered and able to contribute to key organisational decisions that may affect them.

Using a participatory approach is effective for both internal and external stakeholders. For internal stakeholders, such as employees, ensuring frequent engagement and a platform to share their voice is key to morale and creating an inclusive work environment. It can also have benefits such as creating a safer work environment or the reduction of wasted resources, by allowing issues that may only be apparent at the ground level to be voiced by employees. While external stakeholders, such as local communities, will be reassured that they are helping guide projects in a way most beneficial to their community.

Successfully implementation will include a bottom-up approach in which the stakeholders have the power to guide the approach in an environment that will acknowledge everyone's opinions, but with the freedom to respectfully challenge them.

Best practice suggests that a participatory approach should always underpin stakeholder engagement, with advantages including:

• Participants will feel a connection and ownership to the work.
• Greater credibility in the community in which changes are being made to.
• Access to a broader range of ideas.
• Provide a platform for previously unheard groups.
• Builds trust and respect between you and the stakeholder group.

Other methods for undertaking stakeholder engagement include surveys, face-face interviews, focus groups and independent stakeholder panels. Any stakeholder exercise should be carried out alongside a formal Materiality review, which identifies the most important issues for the business and the impact this has on both the business and their stakeholders. The engagement of key stakeholders in the Materiality process is, therefore, critical.

However, Covid created a shift in how the business world communicates. The use of video communication has become integrated into the corporate world and society

Asesoria's Comment

Stakeholder engagement should be considered essential for businesses which wish to meet legislative requirements, as well as best practise.

To achieve this continual communication and reporting are essential. Formal reports can be one of a company's best communication tools, particularly when underpinned with stakeholder engagement. Stakeholder informed reports ensure that stakeholders can truly feel that they have been included and valued in the process. They must be able to see the tangible results of their input through communication of actions taken.

Stakeholder engagement comes with many considerations, but the key is getting the balance right. As mentioned above, taking a participatory approach is seen as best practise and can be highly effective. However, it can be a lengthy process. Businesses also face the challenge of deciding whether to conduct engagement in a face-to-face environment or remotely via virtual meeting options. Where virtual meetings may be more convenient, they do not offer the same formal and intimate environment as in-person discussions which could reduce stakeholder trust creating a trade off in the quality of a participatory approach.

For participatory approaches to be effective, the stakeholders need to trust that their opinions are being valued and they have a voice in the process. In virtual engagement, it can be common for people to have their cameras turned off and mics muted and 'hide' within the group. It is incredibly difficult to create engagement with these individuals if they do not feel able to contribute in that environment. If a sample group is too large, it runs the risk of making the individual feel faceless and disconnected. But if the group is too small, they may be concerned that the focus is too narrow, and the community as a whole is not well represented. Additionally, it would greatly reduce the quality of the data for those engaging with those groups.

While this paper has outlined some key considerations of stakeholder engagement it is ultimately up to the individual organisations to consider what they wish to achieve from undertaking engagement and deciding the appropriate balance..

For more information on materiality and double materiality, please visit our website to see Asesoria's thought paper.

References:

1. Companies Act 2006, Section 172, (Amended) December 2017.
2. The Companies (Miscellaneous Reporting) Regulations 2018, January 2019.
3. FRC, 'UK Corporate Governance Code', July 2018.
4. FRC, 'The Wates Corporate Governance Principles for Large Private Companies', October 2023
5. European Union: New rules on corporate sustainability reporting: The Corporate Sustainability Reporting Directive
6. Unicef, 'Participatory Approaches', September 2014.
7. CTB, 'Section 2. Participatory Approaches to Planning Community Interventions', 2014.