Stakeholder Engagement: A Roadmap for UK PLC Boards

Whitepaper produced by *Board Agenda* in association with Mazars

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Contents

Introduction

THIS GUIDE IS based on a very simple premise: it is good to talk. Most companies, of course, recognise this and their boards are becoming more enthusiastic about engagement. Not least, this is because they have seen material benefits for their businesses: research published recently by Hermes found that businesses that engage with their shareholders perform better and prove more resilient.

However, engagement is as much an art as it is a science. Legislation and regulation set out some clear rules about what businesses should and should not do, but there is also considerable scope for directors to apply these requirements as they deem appropriate. And the most effective engagement work goes well beyond simply ticking the compliance box.

In this context, this guide aims to provide directors and their colleagues with advice they can implement on how to ensure engagement with all their stakeholders becomes even more effective. It considers the evolving regulatory landscape on engagement, but also encourages boards to think more imaginatively about what will work best for their businesses. Every company, after all, is different.

Why publish such a guide now? Well, the reality for boards is that the combination of several powerful forces require them to think again about engagement. Even those that have been working productively with their stakeholders now face new challenges: 2022 looks set to be a watershed moment for engagement.

Many of those forces are coalescing in the dramatic rise in importance of the environmental, social and governance (ESG) agenda. For shareholders, ESG issues could hardly be more important. In the Responsible Capital survey published in September 2021, 88% of institutional investors agreed ESG factors play a central role when making long-term investment decisions and are seen as more important than traditional financial metrics. The survey also found 78% see engagement with companies as an effective tool for achieving investment objectives with an ESG lens.

Other stakeholders take ESG issues equally seriously. For example, research shows that 80% of consumers are now more likely to buy from businesses with a strong record on the environment; 84% of people say they want to work for such companies.

> Everywhere board directors look, they face new responsibilities to explain and justify the decisions their companies are taking

Policymakers and regulators are also key stakeholders on ESG. Charged with meeting challenging targets as they seek to arrest climate change, they are demanding that companies make much more significant disclosures on environmental issues. The UK was the first to require its listed companies to disclose climate-related risks and opportunities, in line with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations, and further TCFD-aligned disclosure will be rolled out to larger unlisted companies in the UK from April 2022.

Nor are these pressures only coming from domestic sources. Regulators and policymakers in markets including the US and the European Union are pursuing similar initiatives. At a supra-national level, the newly launched International Sustainability Standards Board (ISSB) has pledged to introduce a global baseline of sustainability disclosure standards by the end of 2022.

It is not only the E of the ESG agenda that is focusing minds. Many stakeholders are also demanding action on disclosures relating to social matters. High-profile campaigns such as Black Lives Matter and #MeToo have a long reach; for companies, this heightened social awareness of issues such as sexism, racism and inequality is requiring greater transparency and discussion in areas such as workplace diversity and remuneration policy.

Anthony Carey, Senior Adviser Board Practice and Public Policy at Mazars, says: "For most leading businesses, their human capital is the critical determinant of their success, so ensuring that everyone in the workforce has a genuine sense of belonging and is enabled to achieve their full potential is vitally important.

"There is also the social capital with respect to the communities with which the business engages. The challenge is currently that measuring the 'S' in ESG is less developed and can be more challenging as it is inherently more qualitative in nature; still, real efforts should be made to improve measurement and reporting in this area."

As for the governance element of the ESG agenda, there is growing recognition that companies need to do more to build public trust, particularly in the wake of corporate collapses such as BHS and Carillion, which cost many stakeholders so dearly. The government's proposed reforms – Restoring Trust in Audit and Corporate Governance – are part of the picture here. The ambition is to reduce the likelihood of future collapses, in part through new reporting requirements in areas such as internal controls, dividend and capital maintenance decisions, and resilience planning.

Indeed, risk and resilience are moving centre stage in stakeholder engagement. Those businesses unable to set out a transparent and credible narrative account of their approach to risk and resilience will not only fall short of the compliance requirements, but also undermine their relationships with key stakeholders.

Everywhere board directors look, they face new responsibilities to explain and justify the decisions their companies are taking. And it is not only their shareholders seeking to hold them to account. Employees increasingly want to work with organisations that take the trouble to find out about their values and views – and what these might mean for the business. And in a tight labour market, they have plenty of choice about where they want to work. Customers, too, are growing in confidence in their purchasing power. Purchasers are flexing their muscles – not least because companies must now work more closely with them in order to understand the full climate impact of their supply chains. All these groups demand engagement and meaningful dialogue.

Finally, we should not overlook the impact of the Covid-19 pandemic as a disruptive force in the engagement arena. For one thing, the crisis has proved to be a powerful driver of the ESG movement, prompting millions of people to think more deeply about the way our societies work and the way our lives connect; in this context they are asking much more searching questions of the organisations they deal with. Plus, there is a growing feeling that the pandemic has also reset the relationship between governments and companies, given the unprecedented interventions by the State during the pandemic.

There have also been practical consequences of the pandemic. For example, boards have had to embrace digital channels in order to work together and to engage with key stakeholders. They have discovered new ways to interact with a much broader range of individuals and groups than in the past; there will be no going back on that.

All of which means the time is now right for every board to think again about stakeholder engagement – in the broadest sense of both words. There is a genuine opportunity here to use disruption as a catalyst for positive change and to build more effective relationships with every stakeholder in the business. In this guide, we explore many of the ways of doing exactly that.

Part 1:
Annual reports and disclosure: an overview for boards and directors in 2022

The company's annual report and accounts is the key document of record for every listed company – and for many stakeholders it serves as a first point of contact. Directors have responsibilities under both statutory requirements and the UK Corporate Governance Code, including new regulation on environmental reporting. But the report also offers an opportunity to tell a story – to articulate a compelling narrative about the organisation's mission, its brands and its values.

Statutory requirements

The statutory requirements for the annual company report are set out in the Companies Act 2006, which requires the directors of the company to prepare strategic and directors' reports for each financial year of the company.

In addition, the legislation setting out the content of a listed company's annual report is supplemented, for those with a premium listing, by recommendations of the UK Corporate Governance Code, relating to a series of principles. These principles include that the report should explain the board's responsibility for preparing the annual report and accounts, and state that directors consider the annual report and accounts, taken as a whole, to be fair, balanced and understandable.

Importantly, from an engagement perspective, the code also requires boards to set out in the annual report what steps they have taken to develop an understanding of the views of major shareholders about the company. Examples given include direct face-to-face contact, analysts' or brokers' briefings and surveys of shareholder opinion. In other words, the code underlines the duty of boards to engage with their shareholders.

> Boards should be willing to use annual reports to go beyond compliance with regulation and discuss achievements, challenges and plans

ESG reporting

For accounting periods beginning on or after 1 January 2021, commercial companies with a premium listing on the main market of the London Stock Exchange must include a statement in their annual financial report explaining the extent of their compliance with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations and recommended disclosures on a comply-or-explain basis. And from April 2022, TCFD-type disclosures will extend to other Public Interest Entities, including large private companies and some financial services companies.

The TCFD regime builds on previous environmental requirements, including rules requiring companies to disclose their annual greenhouse gas emissions, and how these compare to previous years. In addition, companies must disclose energy use from activities for which they are responsible, and from purchases of electricity, heat, steam or cooling.

TCFD compliance is a significant exercise. The regime is built on four separate pillars, covering organisations' governance arrangements around climate-related risks and opportunities; the impact of these risks and opportunities on their strategy and financial planning; their management of climate-related risk; and the metrics they are using to assess and manage risks and opportunities. It includes 11 specific disclosure objectives.

Moreover, this work will only expand, says Anthony Carey, Senior Adviser Board Practice and Public Policy at Mazars. "Even for the more advanced companies, what is currently being reported on ESG is only the beginning of what promises to be a long journey; as such, boards should be willing to use annual reports to go beyond compliance with regulation and discuss achievements, challenges and plans, using high quality metrics and meaningful narrative," he says. "They should endeavour to build trust by implementing processes and controls for the production of ESG related information and consider the use of internal or external assurance using a similar approach to the one followed in the production of financial information."

Telling the story: narrative reporting

For all the regulation around reporting, many investors complain they are still not getting the full picture from companies' annual reports. And even when the facts and figures are there, there may be no narrative to tie them together and set out a vision of the quality and sustainability of the business's performance. For investor relations departments there is an opportunity here – to improve investor understanding of the business and to build stronger relationships with shareholders. Ultimately, the potential is for a stronger market rating.

Andrew Jones, Director of Narrative Reporting at Mazars, warns: "Sustainability disclosure will not truly be a mature field until the narrative on quantitative environmental impacts provides the same quality and detail of explanation as that on financial impacts."

> Companies will need to shift from a compliance-focused approach to reporting to a culture of communication

To reach this point, companies will need to shift from a compliance-focused approach to reporting to a culture of communication; many organisations have already made that shift on financial reporting. What is it that investors really want to know – and what is the most effective way of telling them? It takes time and resources to sift through the possible content for an annual report, deciding what is essential, what is relevant and what can be dispensed with. Such initiatives require board-level sponsorship – and, increasingly commonly, expert support.

However, committing to taking this narrative reporting seriously is worth the effort. It provides a formalised backdrop to the kind of engagement many shareholders are now looking for from leading companies. It may even be worth asking for feedback from leading shareholders on what they feel is missing from the current approach to the annual report.

Finally, don't overlook the importance of good design when preparing an annual report. Reports should be accessible and readable for investors, as well as including all relevant information. Well-designed reports that make good use of graphics and charts, as well as text, will have significantly more impact.

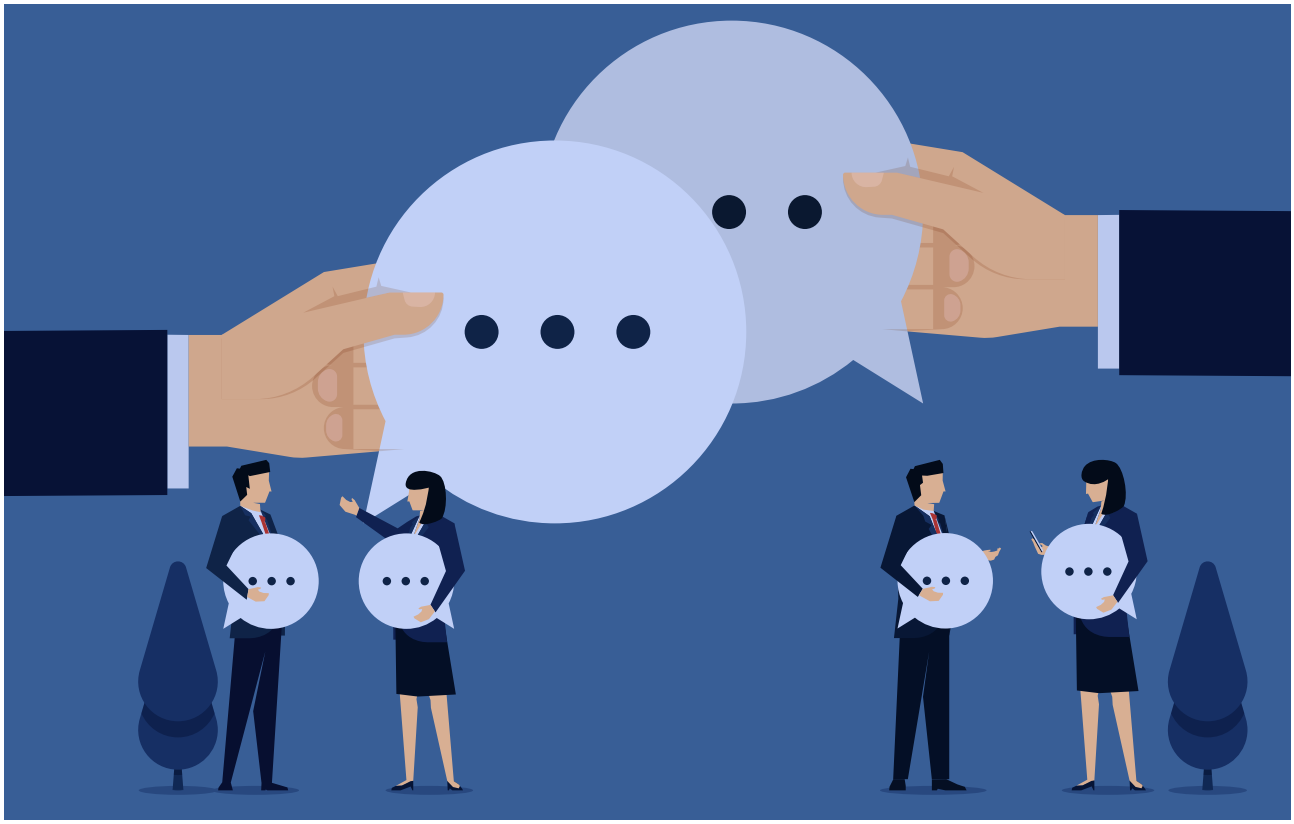
The Mazars view

"Companies are having to deal with the most pressure they have ever faced in relation to reporting on both the depth and breadth of financial and non-financial matters impacting their business," says Jessica Howard, Director in Accounting Technical Services at Mazars. "The last two years of events – principally the pandemic, the UK's exit from the EU and society's shift in recognising the importance of social and climate matters – has hugely accelerated the demand, and need, for effective corporate reporting, now a wider term that goes beyond the reporting in the financial statements.

"Corporate reporting is all about explaining and rationalising what is important to your business, why it is relevant, to whom it is relevant – that is, which stakeholders are impacted), and how the business is planning for threats and opportunities (both the good news and the not so good). Gone are the days of using a tick-box approach which asks whether the annual report has met the minimum requirements for compliance.

"There is clearly now a strong focus on front-end reporting. But it is important to remember the value of financial reporting in compliance with IFRS that supports the front-end reporting. For example, on environmental matters, the need to ensure the front-end reporting on climate strategy, the business model and the business' activities feeds through into how this impacts on the financial information within the financial statements, such as increasing or decreasing revenues, changing cost bases, impairment of assets and provisioning. This is crucial for demonstrating to stakeholders practically what this means for the financial performance, position and cash flow of the business."

Part 2:
How boards and directors can construct positive shareholder dialogue



Shareholder engagement is an increasingly crucial consideration for companies as they attempt to set out their long-term strategies and build deeper relationships with their investors. The depth of board engagement is increasing here – one recent study found that at 51% of companies, a member of their board other than the CEO or CFO had engaged directly with a shareholder in the previous year.

Moreover, boards also recognise that investor engagement is not a practice that takes place solely in the weeks preceding the annual general meeting – even where the meeting is not expected to be contentious. Companies work hard to engage with shareholders all year round. They are trying to establish strong and constructive relationships with investors, not least because they know they will then have more chance of winning support if a difficult situation does arise, or if an aggressive shareholder emerges.

Then there is the question of ESG. With environmental, social and governance issues rising up the agenda of most investors with great speed, engaging on these questions must be a priority. The 2019 Edelman Trust Barometer of institutional investors found that 61% had increased their investment allocation to companies that excel when it comes to ESG factors. Another study, which polled independent financial advisers, found 85% had seen a rise in client requests to allocate capital to ESG-integrated funds. The message from investors of all shapes and sizes is clear – as the fund manager BlackRock puts it in its latest Stewardship Report, "engagement is core to our stewardship efforts as it enables us to provide feedback to companies and build mutual understanding about corporate governance and sustainable business practices."

Another way to think about that is in terms of long-term shareholder value, and the impact of ESG on this value. In addition, how are different stakeholder groups affected by ESG issues that relate to the company? This will be critical in setting the focus of sustainability reporting and programmes.

Inevitably, there will be times when the interests of different groups of stakeholders are not complementary and, may even be at odds with one another. A materiality assessment will help the largest areas of potential impact. And as boards do this work – and make trade-offs – they will need to prioritise long-term value creation, given the advantages it holds for resource allocation and economic health.

Engagement in practice

The bottom line is that the board needs to get to know its leading shareholders. And it is better to build those relationships steadily over time – during periods of non-hostile relations – rather than attempting to court investors only when there is the prospect of trouble.

It will help not to regard shareholder engagement as a chore. This is work that has benefits for both sides. Shareholders get to express their concerns about the company and hear directors' perspectives, as well as to examine the board's oversight and secure an insight into the company's strategic plan. Directors get to learn about shareholders' priorities, their concerns about the company and how the company is perceived as performing compared to their main competitors.

What, then, does good shareholder engagement look like in practice? Well, the first point to grasp is that good shareholder engagement is not an exercise in box-ticking, or something that can be left to the last minute. In the current environment, institutional investors' stewardship teams are working with investor relations departments and the company's leaders more closely than ever before.

Certainly, it is important that companies prepare suitably for their AGM, but engagement should be all year round. Visibility and proactive shareholder engagement will be the key to avoiding investor dissent – and identifying contentious issues in the first place. And even where views differ, positive communication, rather than outright confrontation will deliver more positive results.

> Visibility and proactive shareholder engagement will be the key to avoiding investor dissent

Even in the absence of an AGM deadline, boards need to understand how shareholders see the business and the key issues affecting it. Best practices include:

- Companies should conduct a year-round process of engagement with shareholders, covering corporate governance and general business issues, with discussions and events that are aligned to the financial calendar and investor relations programmes.
- Proxy advisers are a crucial audience for shareholder engagement, often representing significant numbers of investors – and making their views known even to those they don't represent. Companies should be aware of the recommendation frameworks employed by the key advisers in the same way that their policies are aligned to the strategies used by key shareholders.
- Good and improving ESG performance should be highlighted throughout the financial calendar. The aim should be to set that performance within the context of a demonstrable framework that sets out key policies and benchmarks.
- Engagement should include a range of key non-executive members of the board and committees, rather than falling to a single individual. Traditionally, this has generally involved the chair leading on corporate governance, the CEO on business performance with the remuneration committee chair often also involved. Going forward, the audit committee chair and, where applicable, non-executive directors leading on sustainability or workforce engagement should also be more involved. Proactive shareholder engagement should be an integral part of the role of these non-executives, rather than something they choose to take on as an additional duty.
- Representation of the workforce's views, and engagement with the workforce, is likely to be a focus for shareholders going forward. Resolutions and policy relevant to this point should be carefully considered – what exactly will employee representatives' roles be, and what expertise and experience should be expected of them?
- Non-executive director nominations should be supported by detailed biographies, highlighting the relevant expertise now expected by the Corporate Governance and Stewardship Codes in the UK and which are aligned to a transparent skills framework.
- It is also important to prepare for difficult situations. In the event of likely shareholder dissent of 20% or more for an AGM resolution, businesses should engage quickly and actively with shareholders and be aware of the potential to be placed on the Investment Association's Public Register.

Not all directors will necessarily feel comfortable with engagement, but training and preparation can help. For example, a dry run with the investor relations team can be helpful to understand how the conversation might progress and any considerations related to regulation. Agreeing an agenda for engagement meetings makes sense – common topics include strategy oversight, board composition, executive compensation, capital allocation, management performance, any shareholder proposals, ESG issues and risk management.

Aim to spread the engagement net wide. It is often tempting to engage only with a handful of very large shareholders. But while these investors are important, companies may be overlooking other key shareholders, who are often proactive leaders in corporate governance such as certain pension funds.

The board may ultimately decide it doesn't agree with a shareholder's view, but it can be helpful to look at issues from a different perspective

Follow up after engagement meetings. That means supplying any additional information requested, but also reflecting on what shareholders have had to say. The directors who met with the shareholder can share concerns with the rest of the board, who will then have an opportunity to discuss the feedback. This needs to be an open-minded process – the board may ultimately decide it doesn't agree with a shareholder's view, but it can be helpful to look at issues from a different perspective.

Finally, it is important that companies are realistic about engagement. Which shareholders is it practical to engage with – and how many? What are the most rewarding routes to engagement from a time management perspective? How should work be prioritised?

Smaller businesses may find institutional shareholders, except where they have very large stakes, do not have the time to engage with them individually. It may be necessary to explore other routes to engagement.

An expert's view on engagement

"Boards are going to have to democratise in the way that they approach engagement," argues Sheryl Cuisia, the founder of proxy adviser Boudicca and chair of ShareSoc, a group that represents individual investors. "Our history of engagement in the UK is actually pretty good, but it has often been too focused only on the very largest shareholders.

"Boards should be thinking about how to engage with shareholders beyond their top 20 largest investors – including their retail investors. The way they communicate needs to change too. There is still a role for, say, quarterly investor roadshows, but think about hybrid events as well as face-to-face engagement; digital technology provides a means with which to organise all sorts of forms of engagement in different ways.

"Good engagement starts with the quality and consistency of the information you present – even what is available on your website – and all shareholders should have access to this information.

"It is also never been more important to understand your shareholders – and who they are. Shareholder registry services make it possible to do this quickly and easily, so there is no excuse for not doing it. Small companies, in particular, where as much as 40% of the shareholder base may be comprised of retail investors, need to do this work. Be prepared to be constructive as you engage with these shareholders, but accept that they will have divergent views – you will never please everyone."

Part 3:
Strategic stakeholder engagement and the role of the board

Legislation on stakeholder engagement is clear: it must go well beyond engagement only with shareholders. Section 172 of the Companies Act 2006 requires all boards to consider stakeholders as part of their decision-making, and the vast majority of businesses do that as part of the ordinary course of business. It makes good business sense to do so: if taken seriously, stakeholder engagement can strengthen the business and increase its chance of long-term success to the benefit of stakeholders and shareholders alike.

In practice, however, not every company has a formal stakeholder engagement framework in place, which may mean some issues slip through the cracks. The lack of such a framework can also make it more difficult for companies to meet the requirement to report to shareholders in such a way that investors can assess how the interests of stakeholders have been considered during decision-making.

> Stakeholder engagement can strengthen the business and increase its chance of long-term success

The Institute of Chartered Secretaries' guidance is a good starting point as companies start to construct an engagement framework. It outlines the key steps that boards need to take as they consider how to pursue engagement with a range of different groups:

- Boards should identify, and keep under regular review, who they consider their key stakeholders to be and why. This includes employees, suppliers, customers and so on.
- Boards should determine which stakeholders they need to engage with directly, as opposed to relying solely on information from management.
- When evaluating their composition and effectiveness, boards should identify what stakeholder expertise is needed in the boardroom and decide whether they have, or would benefit from, directors with directly relevant experience or understanding.
- When recruiting any director, the nomination committee should take the stakeholder perspective into account when deciding on the recruitment process and the selection criteria.
- The chair – supported by the company secretary – should keep under review the adequacy of the training received by all directors on stakeholder-related matters and the induction received by new directors, particularly those without previous board experience.
- The chair – supported by the board, management and the company secretary – should determine how best to ensure that the board's decision-making processes give sufficient consideration to key stakeholders.
- Boards should ensure that appropriate engagement with key stakeholders is taking place and that this is kept under regular review.
- In designing engagement mechanisms, companies should consider what would be most effective and convenient for the stakeholders, not just the company.
- The board should report to its shareholders on how it has taken the impact on key stakeholders into account when making decisions.
- The board should provide feedback to those stakeholders with whom it has engaged, which should be tailored to the different stakeholder groups.

In practice, of course, the mix of groups identified as key stakeholders will vary from company to company. The workforce is clearly an essential stakeholder for almost all companies, and for most companies, the same will be true of customers, suppliers and providers of financial capital (including lenders and bondholders as well as shareholders), and the communities in which they operate. But there may be other groups to consider too.

Workforce engagement

Inevitably, employees will be the most visible stakeholder group for many businesses, and an obvious focus for engagement activities. It is also the case that the regulation on employee engagement is more prescriptive and detailed; the UK Corporate Governance Code suggests that one or more of the following methods should be used to engage with staff:

- appointment of a director from the workforce
- launch of a formal workforce advisory panel
- appointment of a designated non-executive director.

Each of these approaches comes with advantages and disadvantages that boards will need to weigh up in the context of their own circumstances. For example, while appointing a non-executive to take on employee engagement activities may seem straightforward, it puts a great deal of work on the shoulders of one individual – and may not be regarded as particularly empowering by staff. Workforce advisory panels and employee directors may have greater voice, but may be more complicated – and even difficult – to work with. They also remain relatively uncommon in the UK.

The key is to focus on what is most effective for the individual company. It may be that a combination of these approaches works best, but the test is that the board should be enabling "meaningful, regular dialogue with the workforce". Any engagement mechanism must therefore meet that test.

For example, two-way communication is vital. The company's approach should facilitate a dialogue between the board and the workforce. In practice, this means allowing the board and members of the workforce to understand each other's views on any given topic, so that the information feeding into the board decision-making process reflects the views of the workforce. It also means that communications back to the workforce on how the board has considered and acted on the feedback received can be relevant and practical.

> Boards will need to find ways to hear the views of a representative spread of staff

"Regular" engagement is not prescribed, but a box-ticking exercise conducted once a year is not likely to be sufficient. Dovetailing engagement activities with the board calendar would be a sensible way to ensure dialogue is smooth. Similarly, engaging with only some parts of the workforce is not enough; boards will need to find ways to hear the views of a representative spread of staff – from different levels of the company, say, as well as from different business units or different geographies.

Engagement with other stakeholders

As for other groups of stakeholders, the approach will vary from company to company. The work begins with identifying, profiling and mapping the stakeholders who are relevant to the topics on which the company is seeking to engage. It is important to plan and conduct engagement activities so that stakeholders feel able to provide candid feedback, and to work together for outcomes of mutual benefit. For example, suppliers may feel reluctant to raise concerns if they feel this could lead to loss of business; customers may be cynical about companies' motives.

One key is to gather the views of stakeholders through a range of channels, in order to ensure broad participation. This will help to produce detailed feedback that give a sense of the feelings of the widest possible group of stakeholders.

There are all sorts of practical steps to securing this feedback. Certainly, digital solutions are an increasingly valuable engagement tool, providing opportunities for businesses to reach out to broader and deeper respondent bases. But they should not be the only tool that companies use. Other possibilities include: director meetings, focus and listening groups, meetings with elected representatives, stakeholder forums, site visits, town hall meetings and open-door days, and surveys and polls.

Responding and reporting on engagement

Feedback collected through the engagement process will not be much use unless it is properly analysed, with outputs that provide the board and the wider company management with actionable insight and allow the understanding gained to be (and seen to be) taken into account in the board's decisions.

> Stakeholders are likely to see through superficial responses very quickly, undermining the relationship with the business

This requires thought. Much of the feedback collected is likely to be qualitative in nature, which may make analysis more difficult and time-consuming. Moreover, any meaningful response will take time to develop and implement, but companies need to balance this with the imperative to demonstrate responsiveness. Stakeholders are likely to see through superficial responses very quickly, undermining the relationship with the business rather than strengthening it.

Reporting on engagement takes two forms. The UK Corporate Governance Code and the new s172 statement require companies to communicate on their engagement activities with shareholders. But communicating back to each stakeholder group – closing the feedback loop – will also be important. This latter task will likely require direct communication methods; simply pointing stakeholders to the disclosures made in the company's annual report will not be sufficient.

Finally, one question many companies will need to confront is how to address negative feedback with which the board disagrees. The reality is that it will not always be possible to reconcile the interests and views of every stakeholder group on key questions. The danger, without careful communication, is that stakeholders will feel the board has barely paid lip service to their feedback if they do not receive the responses they had been hoping for.

Conclusion

The imperative to engage effectively with shareholders and other stakeholder groups is only likely to strengthen in the months and years ahead. The trend in corporate governance has been clear and accelerating for some years now. And the huge increase in the importance of ESG issues will be an increasingly powerful influence – every company will be expected to engage on its ESG record, and on a range of broader issues.

The impacts of the Covid-19 pandemic are likely to provide further impetus for the engagement debate. For one thing, many businesses have had to develop different types of relationship with employers, customers and suppliers during the pandemic, which has prompted increased engagement. Also, societal surveys in markets around the world suggests many people have a new-found appreciation for the inter-connectedness of modern life, and are determined to make their voices heard.

In the past, some boards may have found the pressure to engage irksome; they may have viewed engagement as adding to the bureaucracy of business. But this is to see engagement through too narrow a lens. In practice, engagement is an opportunity to build stronger and more enduring relationships with the groups that will determine the business's long-term success (or otherwise). In short, it is an opportunity to add significant value.

Leading businesses now recognise this. Research conducted recently by the consultant McKinsey found a clear link between high-performing companies and engagement on external issues. Twice as many of these high-performing companies as the rest of the cohort said such engagement would increase their organisations' operating income by 10% or more.

Against such a backdrop – with drivers for improved engagement that span regulation, governance and performance – every board should now be considering its effectiveness. Well-considered, effective and meaningful engagement is not just about compliance (important though this is): it has the potential to deliver mutual benefit for all concerned.

Engagement checklist: seven key questions for boards to address for 2022

1. **Have you identified all stakeholders with whom it is important to engage, and reviewed this list recently?**

   Stakeholders will inevitably vary from company to company, so there is no one-size-fits-all solution here. Map your stakeholders and identify key individuals or groups with whom to collaborate considering carefully who you choose to represent each stakeholder. This should be a dynamic process that reflects changes in strategy, business requirements or legislation. Review the map regularly.

2. **Does your board have the skillsets required for good engagement practice?**

   There are different ways to ensure there is stakeholder expertise in the boardroom. Some companies reserve board positions for particular constituencies while others look for a range of non-executives from different backgrounds, so that they bring varying perspectives. The key is to address this question head on.

3. **Does your board keep its engagement knowledge and expertise up to date?**

   Engagement practices, including compliance and regulation, are moving on at pace, leaving both new and existing directors potentially short of the knowledge they need to deploy best practice. Training for both groups can address this problem. Working with external advisers will provide further support.

4. **Is stakeholder engagement on your board agenda – and the agendas of relevant board committees?**

   Stakeholder engagement – and the impact of board decisions on stakeholders – should be part of the structure of board decisions rather than a bolt-on compliance exercise considered after the fact. It is important to give engagement the time and space it needs in board meetings; certain committees may be a way to ensure this happens.

5. **Are you making good use of all appropriate engagement mechanisms?**

   Many companies will have changed the way they engaged with key constituencies during the Covid-19 pandemic, with more weighting given to digital channels. As the operating environment returns close to normality, there is an opportunity to retain what worked well from this new style of engagement, while also returning to the tried and trusted practices of in person meetings where helpful, and combining the two in hybrid forms of engagement.

6. **Are your stakeholders happy with the reporting they are receiving on engagement?**

   This question covers your shareholders who will want to consider your business's engagement work in their role as investors. But it also covers your whole set of stakeholders, for whom feedback and dialogue is a crucial part of the engagement process. Do these groups feel listened to? Where can improvements be made? Do you seek their views on the quality of engagement with them?

7. **Does your stakeholder engagement influence decision-making?**

   Is there good feedback to the board on the results of stakeholder engagement? Does the board spend sufficient time discussing it, identifying where the business is considered to be performing well, and where there is scope for improvement? Is there appropriate follow up action by the board as a result of the stakeholder engagement with implementation followed up?

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May 2022