THE LONG VIEW

MORROW SODALI

THE BOARD AND STAKEHOLDERS

IMPLEMENTING AN ENGAGEMENT PLAN

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In last month's article[1] I explained why stakeholder management needs to be seen as an integral part of strategy development and risk management. This has always been the case but it has become essential as the board's responsibilities towards stakeholders evolves – for example, the moves in Europe to make directors legally liable for the company's value chain – and as sustainability moves to the front and center of the board's thinking.

In that article, I discussed the board's role in defining material issues and identifying key stakeholders. This month I am going to pick up where I left off and talk about stakeholder engagement, perhaps the most critical element of stakeholder management.

Discussion of how the board develops an understanding of stakeholders often focuses on board composition, for example by ensuring it is reflected in the skills matrix used when the board is being refreshed. That is important, but having generalized stakeholder expertise on the board is no substitute for engaging with the company's specific stakeholders.

That said, the board will not normally take the lead. Most stakeholder engagement will be undertaken or overseen by management, and it would not be appropriate for the board to insert itself into existing relationships between the company and stakeholders. But it has a responsibility to ensure that the necessary engagement is taking place and that the results of that engagement are informing the advice that it receives.

In the previous article, I explained how many boards now use a materiality matrix to help them to identify key stakeholders through the lens of strategic priorities and significant risks (including reputational risks). Having gone through that exercise, the board needs to ensure that it is translated into action.

1. Hodge C. (2023) "*The board and stakeholder engagement - A strategic approach to the materiality matrix*"

Building a strategic stakeholder engagement plan

A good practice is for the board to ask management to develop an engagement plan, setting out the extent and nature of engagement being undertaken with each stakeholder group. This should be reviewed at regular intervals, in the same way as the board reviews the risk register and other plans that underpin the strategy.

There are two main questions that boards should ask when reviewing engagement plans:

1. Is the amount of engagement with specific stakeholder groups compatible with the relative priority the board places on them?

2. Is there a need for the board to be directly involved in engagement with particular stakeholders or on particular issues?

Balancing stakeholder engagement with board priorities

On the first question, my experience is that companies' engagement activities sometimes have an unintended bias towards certain groups of stakeholders based on how easy it is to engage with them. Other stakeholders may find their views are given less weight as a result.

The same is true within stakeholder categories. One good example is shareholders, where the views of retail shareholders often do not receive the same attention from companies as their institutional counterparts. That is why Morrow Sodali is sponsoring The Engagement Appeal, a recently launched initiative in the UK to empower and improve engagement with retail shareholders.

Selecting the right engagement mechanisms

Engaging with some stakeholder groups is relatively straightforward if the company has the desire to do so – for example, institutional investors and the workforce. They are easy to identify and there are established mechanisms such as investor roadshows and mandatory or voluntary workforce councils and panels.

The same sort of mechanisms may not work as well for some other stakeholders, such as customers and local communities who may be unable or unwilling to participate in panel meetings held during working hours, for example.

A lack of input from certain stakeholders does not necessarily mean a lack of interest on their part. This is something boards need to be conscious of when reviewing engagement plans. Management should be encouraged to design engagement mechanisms that take into account what would be most effective and convenient for the stakeholders, not just the company.

The role of the board in shareholder engagement

Turning to the question about the board's own involvement, as I said management should be the default lead for the company. But there are circumstances where it can be appropriate – and desirable – for the board to participate more directly.

An obvious example is when a company is facing a crisis relating to its performance or affecting its reputation. In these circumstances, the board needs to demonstrate leadership very visibly, and regular engagement with key stakeholders will be essential. I am sure we can all think of examples of boards that hid away when troubles hit their company, usually with dire consequences.

When a crisis does occur, it helps if the company has existing good relationships with those stakeholders whose support will be critical to its survival, so there is a stockpile of goodwill on which it can draw. This can be another reason why it might be appropriate for the board – by which I mean usually the Board Chair or the Chair of the relevant board committee – to have an ongoing relationship with certain key stakeholders.

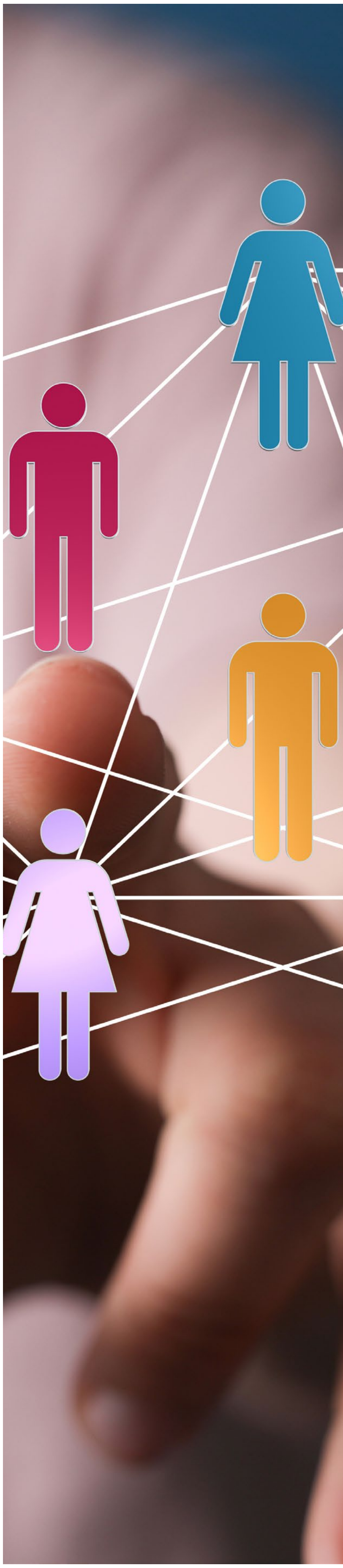
If the board wishes to do so, care needs to be taken to ensure that it does not undermine or detract from the relationship that management has with that stakeholder. For that reason there needs to be a clear understanding of what issues are up for discussion and which are not; for example, that any engagement led by the Chair should be on governance issues only, leaving operational and performance issues to management.

There is another reason why some degree of direct engagement might be desirable, which links back to where this article started – the need for boards to have a good understanding of the views of, and impact on, their material stakeholders.

Much of that understanding will come through reports from management and the expertise and knowledge of board members, but supplementing that with some direct engagement can both help to develop the board's understanding and send a signal to those stakeholders that their views are valued.

Examples of this sort of engagement might include inviting an important stakeholder group to give a presentation at a board meeting or away day, site visits or meetings with key suppliers or customers, and open meetings for the workforce which all board members attend.

In all cases, the board needs to be clear about what the purpose of the engagement is and how it fits into the overall engagement plan. Boards need to ensure they are using their time effectively, engaging only with material stakeholders and only when doing will add value.



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