

Stakeholder Governance Working Group

Findings from Surveys of IoD Members



May 2021

The IoD
Centre for
Corporate
Governance

Introduction

Organisations need their stakeholders as much as their stakeholders need them. An organisation that neglects the interests of key stakeholders such as employees, customers or local communities - or fails to understand its impact on them and vice versa - risks losing the 'licence to operate' without which it is very difficult for any organisation to be successful over the longer term.

Many organisations understand this instinctively. For them, the main challenge is how to integrate stakeholder considerations into their decision-making and operations effectively.

But there is also no shortage of examples of organisations across all sectors that appear either to have overlooked their stakeholders altogether or failed to understand the impact their actions would have on them.

We asked IoD members where they feel they are on this spectrum, and how in practice their boards aim to understand and take account of the views of stakeholders. Over 900 members responded to a short survey carried out through Policy Voice, and 28 also took part in a more in-depth survey. We are extremely grateful to everyone who participated.

The responses to the two surveys were analysed by Dr Andrew Myers, Research Director at the Henley School for Customer Management. The results are set out in more detail in this report, but some of the main findings are:

- The main benefits of stakeholder governance and engagement identified by respondents were that it can enhance the long-term value of the organisation, and help to improve the quality of the board's decision-making and the management of risk.
- Over 70% of respondents consider that their board is managing stakeholder governance effectively - this figure rises to nearly 80% for larger organisations - while 85% of respondents believe there is a shared understanding of what is meant by stakeholder engagement at board level. However, it appears that respondents are not always clear about the distinction between stakeholder governance and stakeholder engagement

- Nearly 40% of respondents believe that stakeholder engagement would be more effective if the board were given more direct responsibility, while 35% believe that there is scope to improve communications between the board and stakeholders.
- One-third of respondents have some form of direct stakeholder representation on their board; however, there appears to be little appetite for introducing board-level representation among those organisations that do not have it already.
- Most organisations have a champion of stakeholder governance, and some have more than one. The CEO was cited most frequently (by 40% of respondents), but the Chair and the whole board also play a leading role in some organisations.
- Some categories of stakeholders are seen as important by organisations of all sizes, including the workforce, customers and investors. But there are some other categories, such as regulators and local communities, that are considered important by many more large organisations than small to medium ones.

It is difficult to draw any firm conclusions from these findings. The level of awareness of the value of stakeholder governance and engagement at board level is obviously one factor affecting the survey results but there may be many others.

For example, some of the smaller organisations that responded to the surveys may be sole traders or owner/managers for whom the questions about the internal division of responsibilities are not likely to be particularly relevant; while those organisations in heavily regulated sectors or subject to public reporting requirements might be expected to have a greater level of awareness.

That said, the findings raise many interesting questions, for example:

- How is stakeholder governance different from stakeholder engagement, and how does it relate to the purpose of the organisation and the fiduciary duties of directors?
- Who should have lead responsibility for stakeholder governance at board level - the CEO, the Chair or the whole board? Is it preferable to have one single lead or to have split or shared responsibilities?
- How does the board measure and balance the differing interests of and impacts on its multiple stakeholders?
- What is the most effective and appropriate way of ensuring the board understands the views of, and potential impact on, stakeholders when making decisions? As well as more information, would changes to the decision-making process help to ensure stakeholder considerations are better integrated?
- What are the main barriers to stakeholder governance and engagement and how can they be overcome?
- Is there a difference in the effectiveness of the governance arrangements and decision-making between those organisations with some form of stakeholder representation on the board and those without? How are the interests of other stakeholders affected in those circumstances?
- Is the fact that some smaller organisations consider they have fewer key stakeholders than larger ones an indication that some categories of stakeholders are less relevant to them or that they are less aware of those stakeholders' relevance? If the latter, what can be done to raise awareness levels?

The Centre will be exploring some of these questions in more depth through a series of webinars, starting in June 2021. Information about these webinars can be found on the [Centre's website](#).

Survey results

Methodology

This report brings together the results of two separate surveys of the IoD's membership. The first formed part of the IoD's 'Policy Voice' initiative which explored a number of different themes pertinent to its members ("the short-form survey"). There were 904 responses to this survey. The second asked more in-depth questions and was completed by 28 IoD members ("the in-depth survey").

This report is divided into three sections:

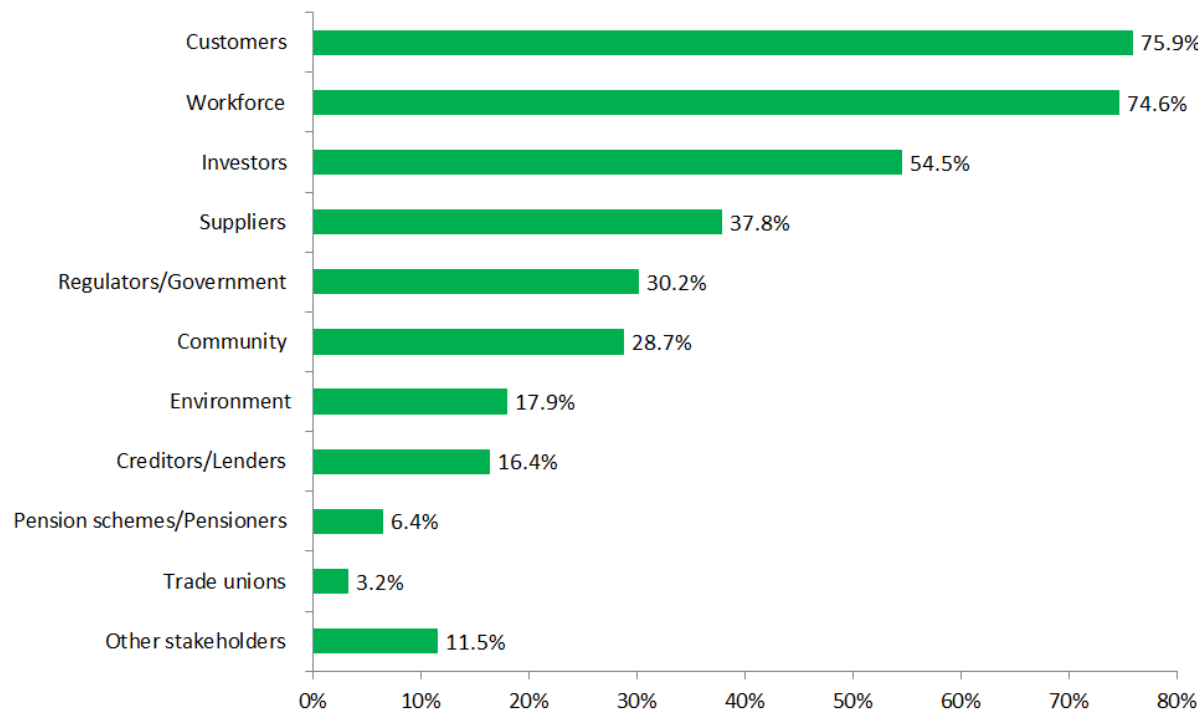
- Who are the stakeholders - identifying key stakeholders and how their views are represented at board level
- Stakeholder governance - what it means to respondents and how it is effectively promoted within the organisation
- Stakeholder engagement - what it means to respondents and the potential benefits of greater engagement.

As well as looking at responses overall, the results of the short-form survey are broken down by size of the organisation, namely:

- Small - 0 to 49 employees (615 responses)
- Medium - 50 to 249 employees (174 responses)
- Large - 250+ employees (115 responses).

Unless otherwise indicated, the numerical data in the report is taken from the short-form survey. The quotes (shown in italics) are taken from both surveys.

Figure 1: The organisation's key stakeholders



n=904

Stakeholders

Put simply, a stakeholder can be anyone who has an interest in or an impact on an organisation, or are impacted by its activities. They could be internal (for example, employees and managers) or external (for example, customers, suppliers, local community and government etc.). For the purposes of this research stakeholders, as defined by the Companies Act 2006, have been used.

The results from the short-form survey highlight that, overall, customers and the workforce are the organisation's key stakeholders (see Figure 1), with investors coming third.

The chart shows, however, that businesses are likely to have multiple stakeholders.

"The Government is a key stakeholder for our business, as its regulatory environment directly impacts our trading, service model and profitability" [Short-form survey]

Are all stakeholders treated equally? Not necessarily:

"Some stakeholders are more closely managed than others - for example, employees are surveyed - others are not" [In-depth survey]

Larger organisations scored customers, investors, regulators and government,

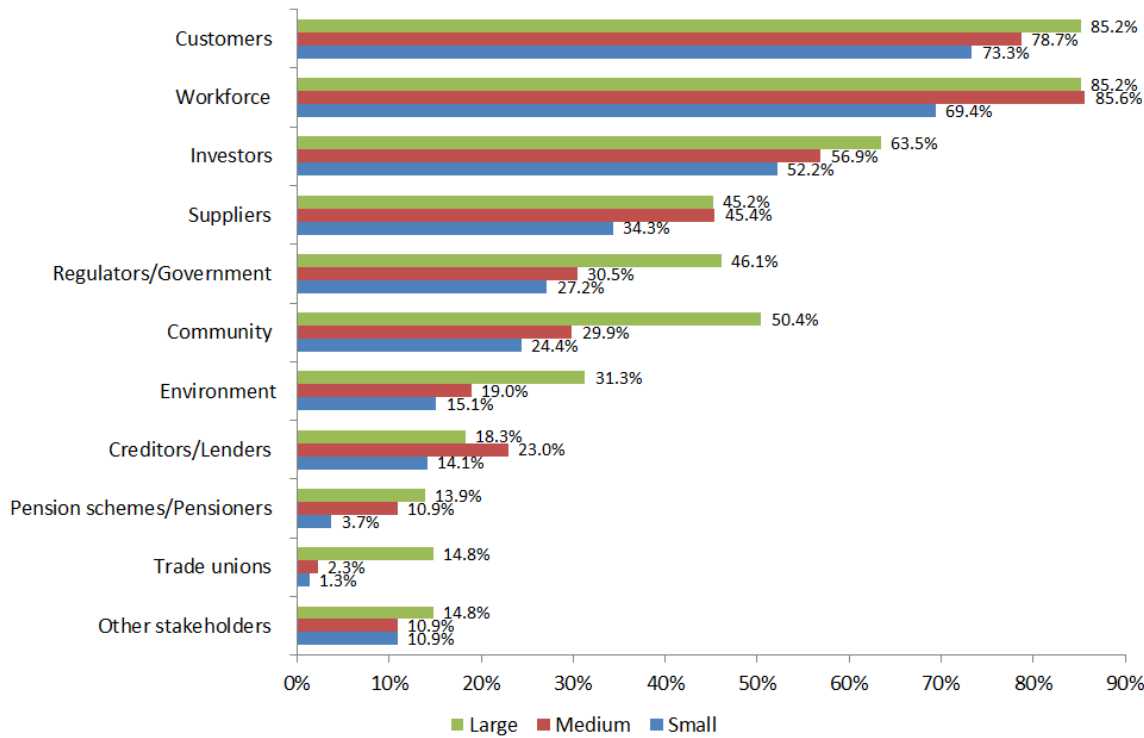
community, environment groups, and trade unions as more likely to be key stakeholders compared to small and medium-sized organisations (see Figure 2).

With respect to stakeholder representation, just over half of respondents to the short-form survey (53.6%) highlighted reporting and feedback through the senior management team as a means of representing key stakeholders views within the organisation (see Figure 3). This was followed by informal contacts and discussions with board members. Direct stakeholder representation on the board was identified by a third (33.6%) of respondents.

Specifically with regard to the views of employees, these are often fed back through regular Q&A type meetings with staff, or from staff surveys on key issues of interest.

The views of stakeholders for smaller organisations are less likely to be represented compared to medium and large-sized organisations, although less than 10% of those organisations say that views are not represented at all (see Figure 4). In some cases, though the smaller organisation comprises of just one individual (a sole trader or owner/manager) so representation of stakeholders can be somewhat limited.

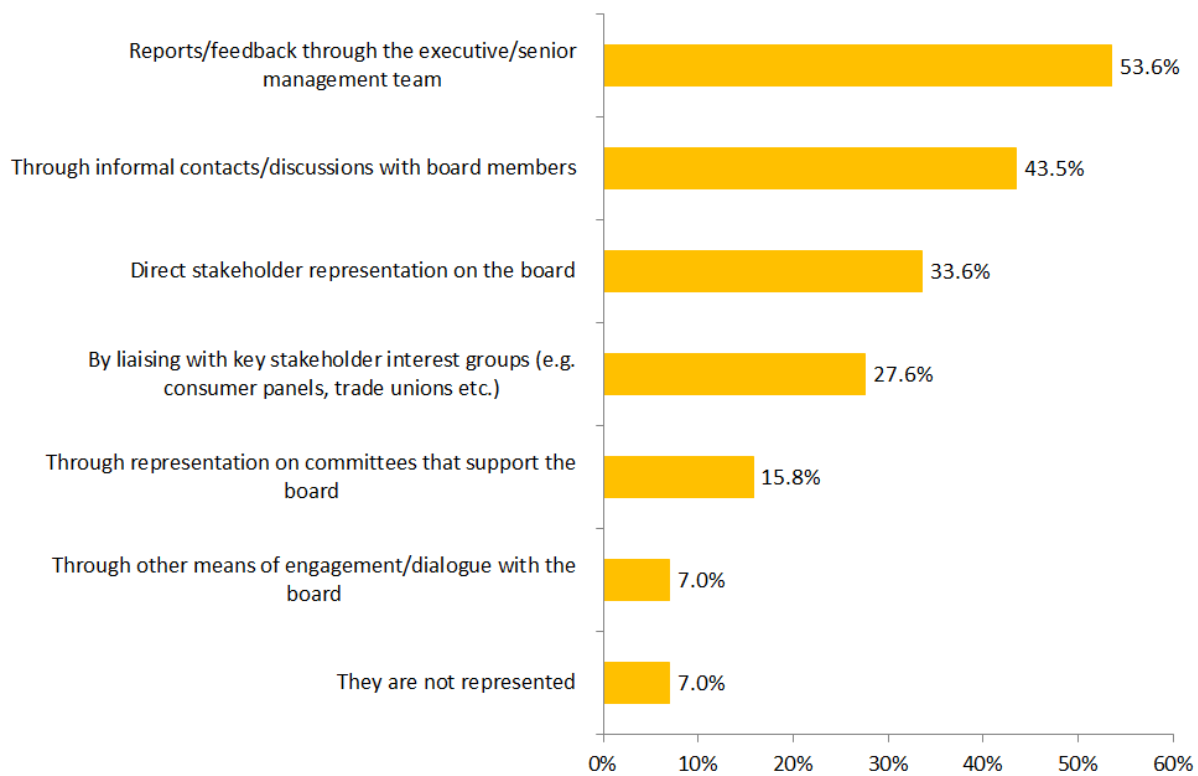
Figure 2: The organisation's key stakeholders by size of organisation



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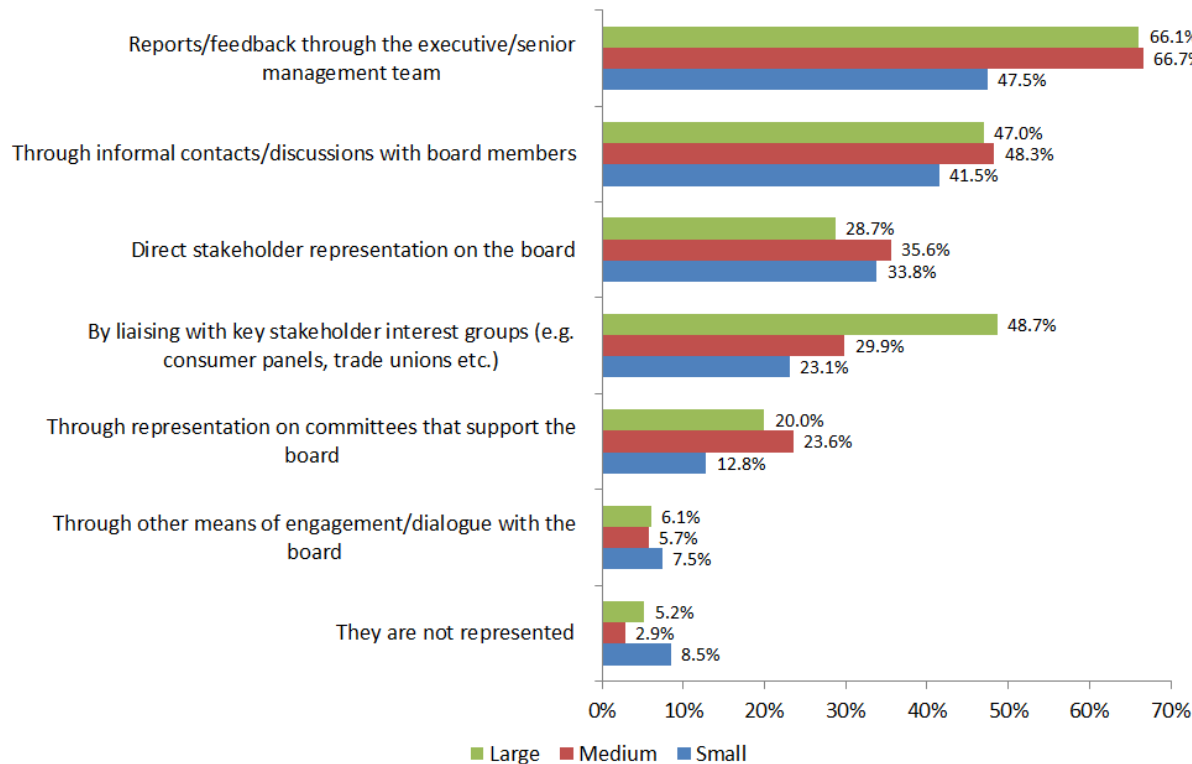
However, a higher percentage of smaller and medium-sized organisations that responded to the short-form survey have some form of direct stakeholder representation on the board than larger organisations (33.8%, 35.6% and 28.7% respectively).

Figure 3: How views or interests of key stakeholders are represented within the organisation



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Figure 4: How views or interests of key stakeholders are represented within the organisation by size of organisation



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Stakeholder Governance

No definition of stakeholder governance was provided in either survey as the aim was to establish whether IoD members had a clear and common view about what it means. Respondents to the in-depth survey believe it can be described in a number of ways, for example:

- Involving/being inclusive to those who have an interest in the business
- Stakeholders having an input into decisions with their views being considered
- Developing positive relationships with stakeholders
- Two-way communication between the board and its stakeholders
- Consultation through openness, trust and transparency
- An interaction with all stakeholders not just shareholders
- Reassurance that company is behaving ethically and is financially sound
- Being seen to be managing the organisation in line with regulations/guidelines.

More specifically, when defining stakeholder governance comments from the in-depth survey include:

“Stakeholder governance is the holistic treatment of stakeholders whoever they may be”

“Allows stakeholders to provide input to the Board to improve openness and to comment on governance issues”

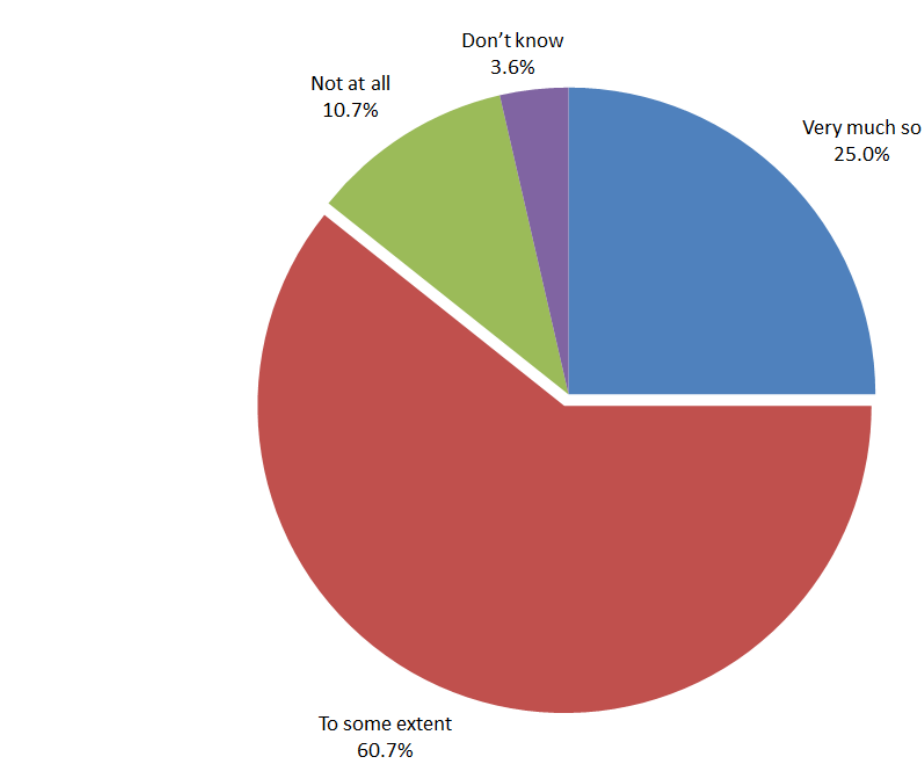
“Involvement of all who have an interest in the business, via two-way communication and membership”

“Stakeholder governance is running the company by looking at its effect on all who belong to or interact with the company, not just the shareholders”

“Ensuring that all stakeholders (e.g. staff, client and suppliers) are considered”

However, in over a third of respondents to the in-depth survey (36.4%), there appears to be a lack of understanding or shared view as to what stakeholder governance really means at board level.

Figure 5: Extent stakeholder governance plays a significant role in the decision making process at board level

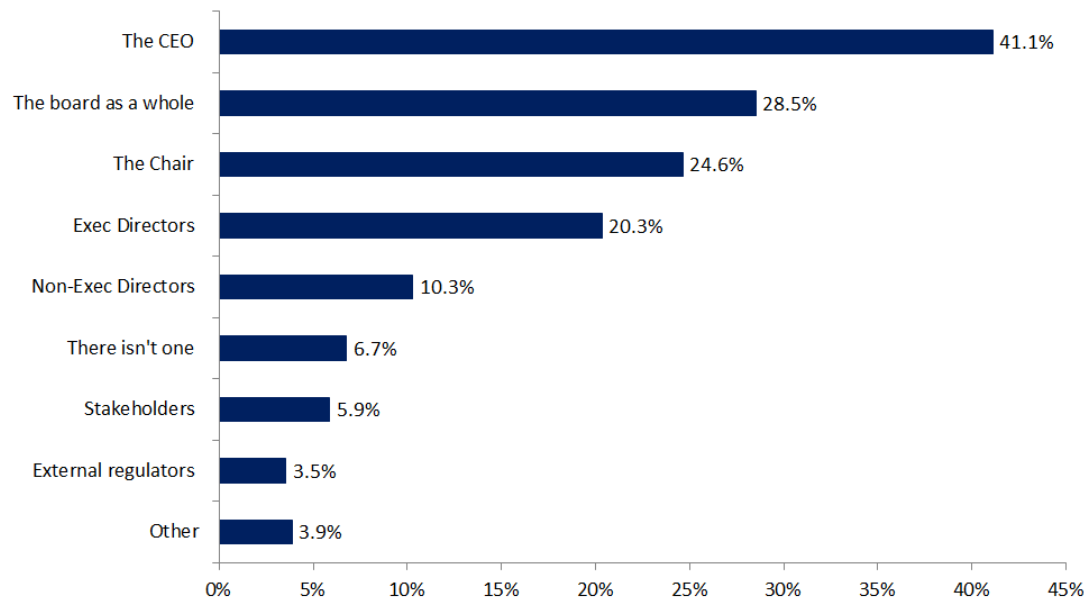


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Furthermore, when this group was asked whether stakeholder governance has a significant impact on the decision-making process at board level only one in four of those interviewed responded ‘Very much so’, with a further 60.7% highlighting ‘To some extent’ (see Figure 5).

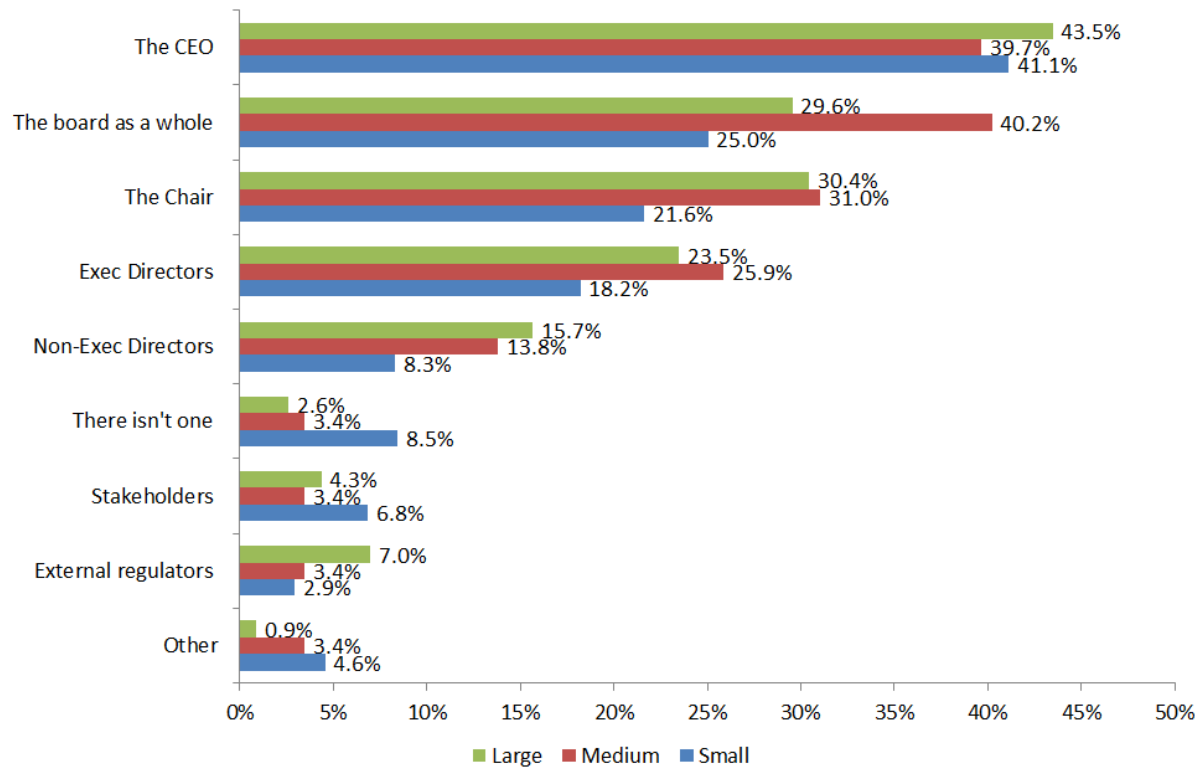
When asked about the driving force behind stakeholder governance within the organisation, about two-thirds of the short-form survey respondents (65.7%) reported that it was the responsibility of at least one individual, usually the CEO and/or the Chair (41.1% and 24.6% respectively). Just over a quarter (28.5%) however, cited the board as a whole as being the main driving force (see Figure 6).

Figure 6: Driving force behind, or a champion of stakeholder governance within the organisation



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Figure 7: Driving force behind, or a champion of stakeholder governance by Size of organisation

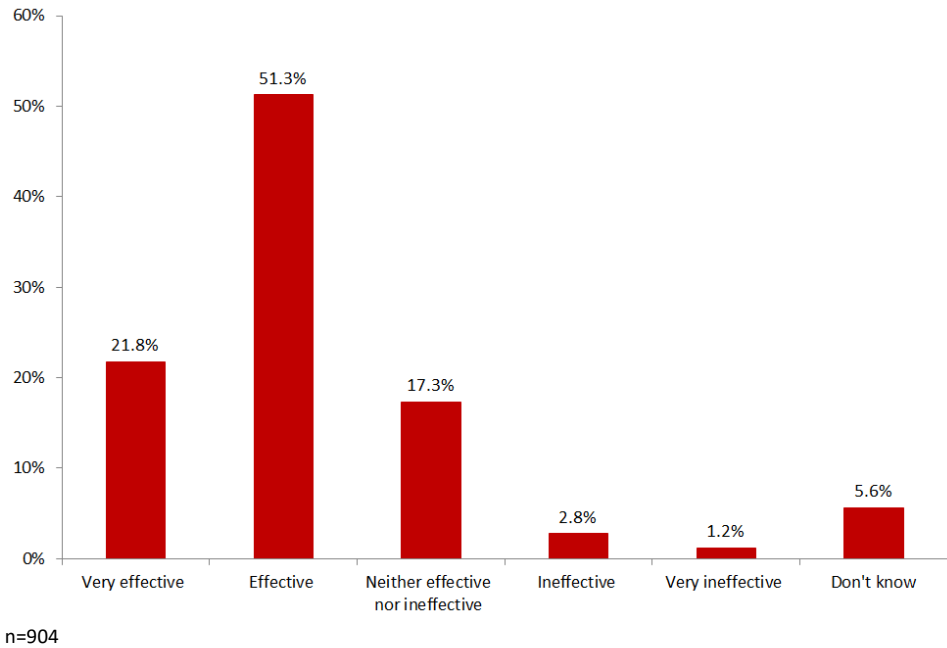


When breaking the data down by company size, the board as a whole comes out as the greatest driving force (40.2%) among medium-sized organisations. By comparison, the board takes the lead in only 25.0% and 29.6% of small and large organisations respectively. (see Figure 7)

The reasons for this trend are unclear but could reflect that within smaller organisations it will be the responsibility of the owner/manager or sole director, whereas for larger organisations it could be a result of the board choosing to delegate the responsibility for driving stakeholder governance within the organisation to management or a designated individual.

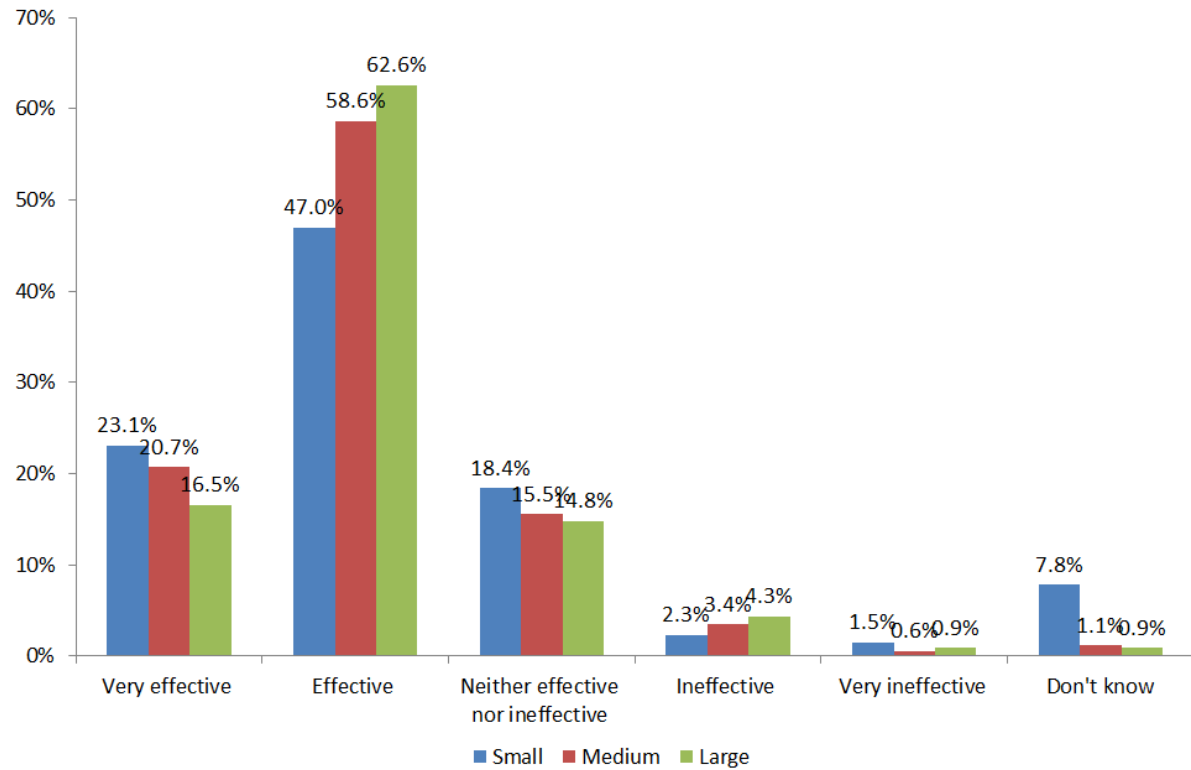
Approximately three-quarters (73.1%) of those responding to the short-form survey believe that the board is ‘Very effective’ or ‘Effective’ at managing stakeholder governance related issues (see Figure 8).

Figure 8: Effectiveness of the board is in managing stakeholder governance related issues



Generally speaking, larger organisations that responded to the short-form survey view themselves as more effective (79.1%) compared to smaller organisations, although even 70.1% of those smaller organisations believe the board manages stakeholder governance effectively (see Figure 9).

Figure 9: Effectiveness of the board is in managing stakeholder governance related issues by Size of organisation



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Stakeholder Engagement

For those taking part in the in-depth survey, stakeholder engagement was understood to be about:

- Engaging with stakeholders so that they understand the business better
- Seeking views on all company matters
- Engaging with those who are impacted by the decisions made
- Engaging with stakeholders so that the business has an understanding of their needs
- Involving stakeholders in the decision-making process (e.g. meetings/feedback)
- Ensuring the organisation is listening to and meeting stakeholder expectations
- Advising stakeholders on business activities and the future direction
- Ensuring that the stakeholder experience is a positive one.

More specifically, when defining stakeholder engagement, comments from the in-depth survey include:

“This is informing and ideally involving stakeholders in decisions on services”

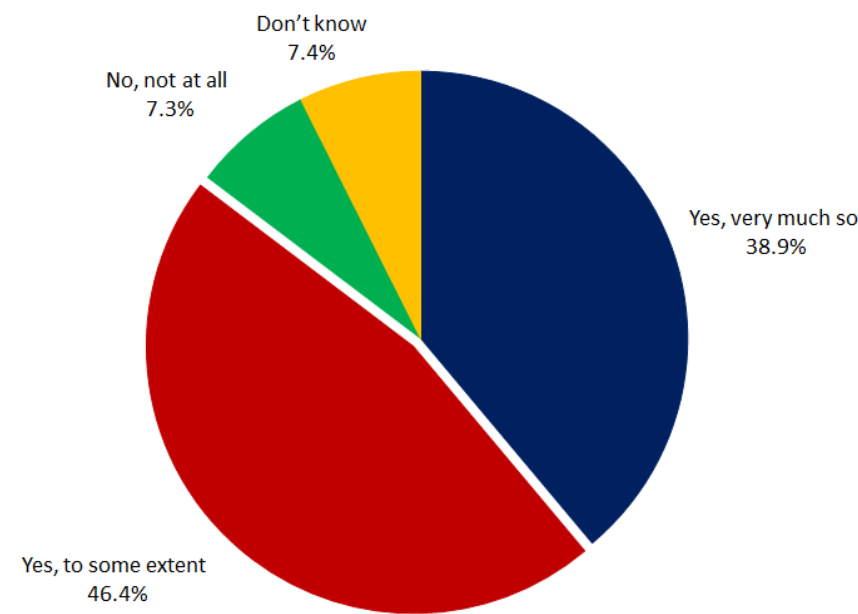
“The organisation interacts with stakeholders to listen to feedback and keep them advised on the board’s activities”

“Stakeholder engagement is the process by which the company involves people who may be affected by the decisions it makes or can influence the implementation of its decisions”

“Engagement with stakeholders is a principle that the board believe in and therefore seek their views on a wide range of topics”

“Engage stakeholders in the business perspectives to better understand difficulties and potential, to enable shaping positions business conditions and regulations”

Figure 10: Belief that there is a shared view at board level as to what is meant by stakeholder engagement

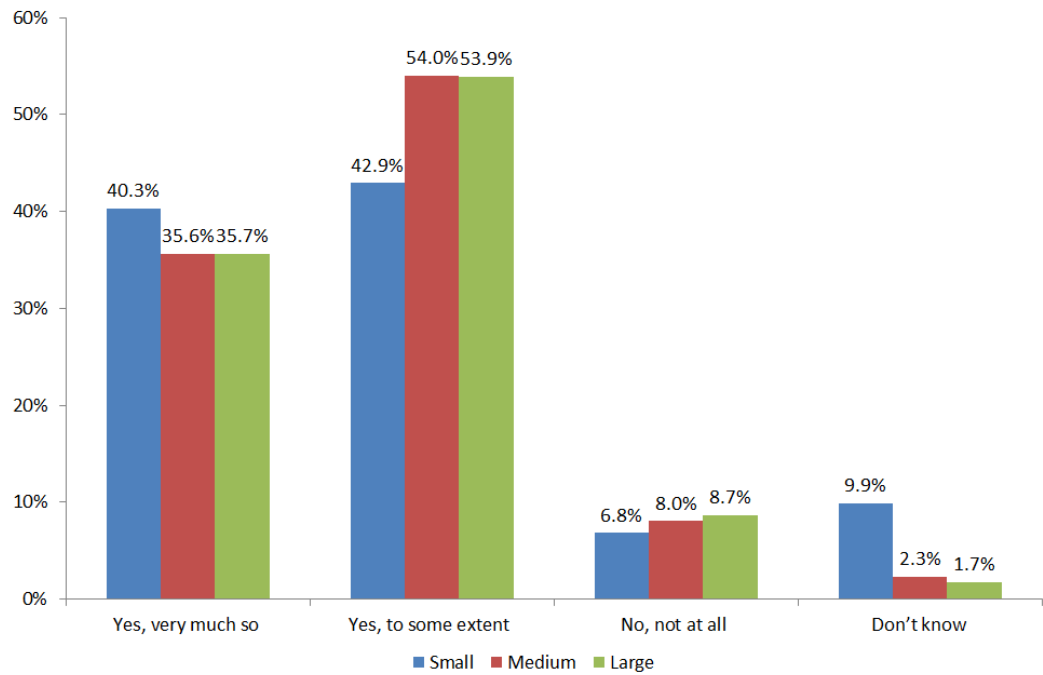


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Although 85.3% of those responding from the short-form survey believed there to be a shared view at board level as to what is meant by stakeholder engagement, only 38.9% indicated ‘Very much so’ (see Figure 10).

Medium and large organisations are more likely to believe that there to be a shared view at board level as to what is meant by stakeholder engagement compared to smaller organisations (see Figure 11), where around one in ten are more likely to express uncertainty. However, this could also be a reflection of the IoD membership profile.

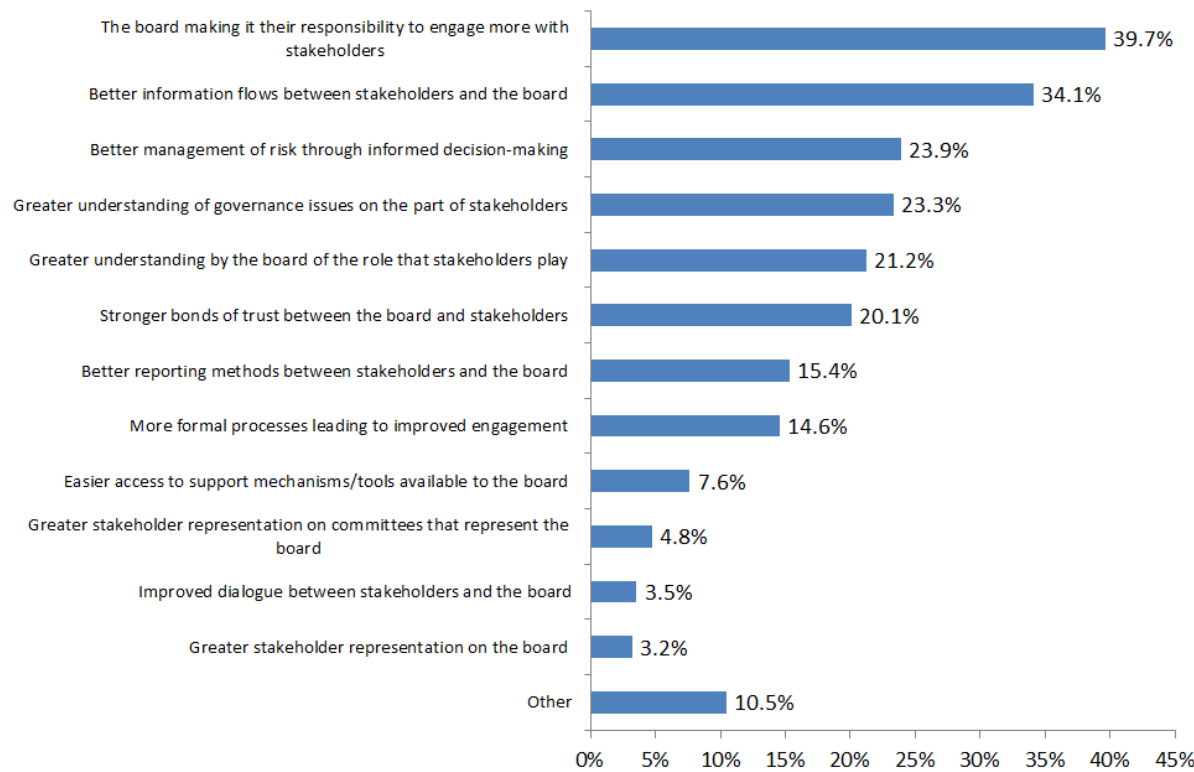
Figure 11: Belief that there is a shared view at board level as to what is meant by stakeholder engagement by size of organisation



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When asked where improvements in stakeholder engagement could be made, respondents to the short-form survey identified making it the board’s responsibility and Improving information flows between the board and stakeholders as key areas (see Figure 12).

Figure 12: What could specifically lead to greater/more effective stakeholder engagement within the organisation



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Communication is also key, with a view that more regular and structured contact was needed (for example, through quarterly meetings):

“Greater communication and transparency always builds relationships between parties” [Short-form survey]

Understanding stakeholder needs and having their input is also important:

“The strategy of the company has to be aligned to the stakeholders needs” [Short-form survey]

“More information [is needed] from some stakeholders to balance and inform decisions” [Short-form survey]

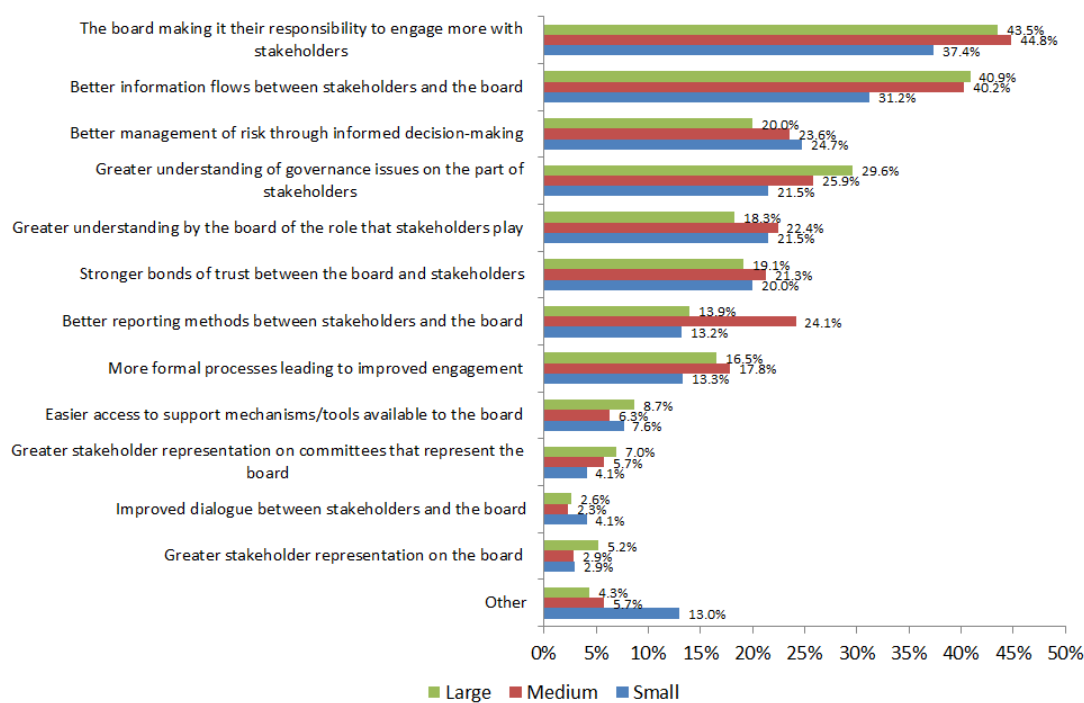
Having formal processes in place is another area identified as improving stakeholder engagement:

“We are actively using the Wates Principles as a guide to reviewing and improving our stakeholder engagement and have a formal process in place” [Short-form survey]

Increased understanding on the part of both the board and stakeholders were also identified as important: in the case of the board, understanding of the role that stakeholders play (21.2%), and in the case of stakeholders, an understanding of governance issues (23.3%).

For smaller organisations, some aspects may be less relevant but better management of risk through informed decision-making is rated high compared to medium to large-sized organisations (see Figure 13).

Figure 13: What could specifically lead to greater/more effective stakeholder engagement within the organisation by Size of organisation

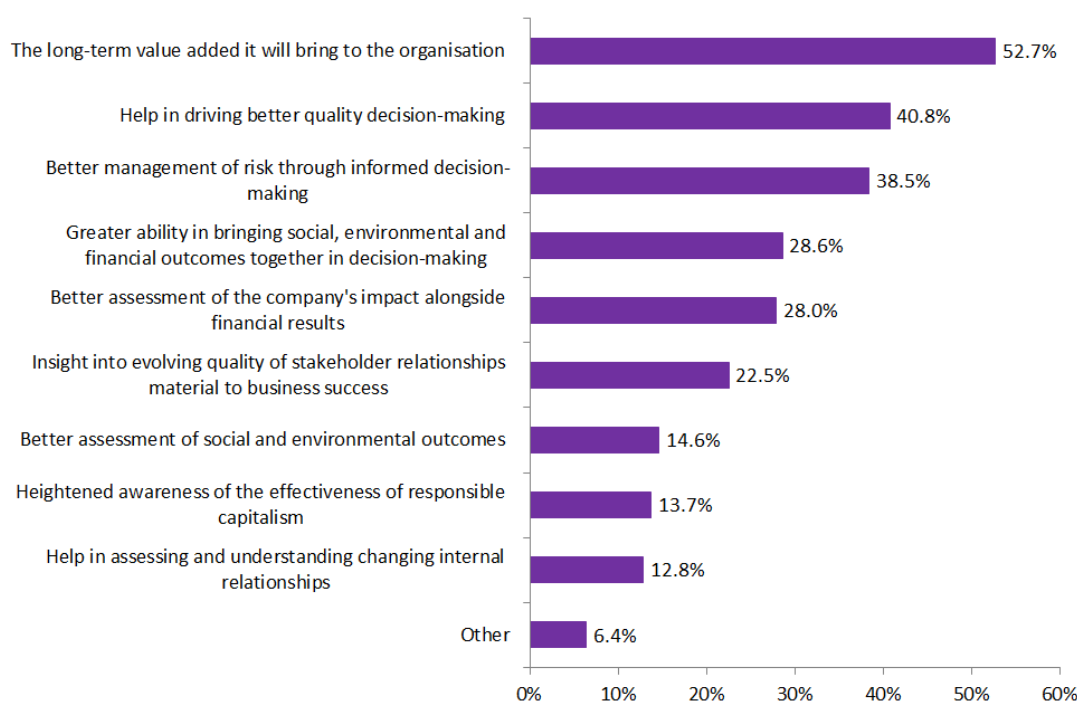


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Benefits of stakeholder engagement

The long-term value it will bring to the organisation was identified by over half of respondents to the short-form survey (52.7%) as a key benefit of paying greater attention to stakeholder engagement at board level (see Figure 14). Driving better quality decision-making (40.8%) and better management of risk (38.5%) were also seen as potentially significant benefits.

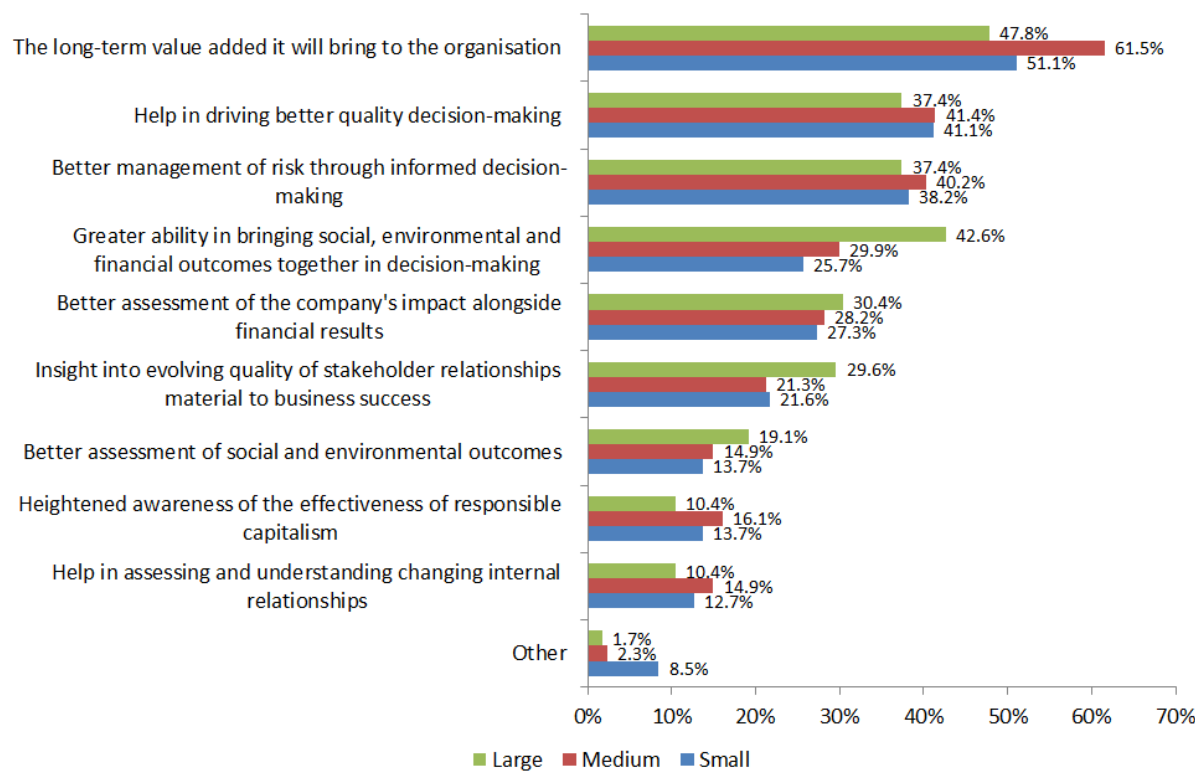
Figure 14: Benefits/opportunities to improved/greater attention to stakeholder engagement at board level



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The potential to add long-term value was seen as a benefit by more medium-sized organisations (61.5%) than small and large-sized organisations (51.1% and 47.8% respectively) (see Figure 15). On the other hand, a higher percentage of large organisations identified having greater ability to reflect social, environmental and financial outcomes in their decisions as an opportunity or benefit.

Figure 15: Benefits/opportunities to improved/greater attention to stakeholder engagement at board level by Sized of organisation



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Summary

Historically, it is the shareholder that has tended to have the largest say as far as the decision-making process is concerned. More recently, certainly since the Companies Act of 2006 (Section 172), other stakeholders are having their views increasingly being represented at board level through, for example, feedback mechanisms or informal discussions with its members.

While over 70% of respondents consider that they are effective at managing stakeholder governance there does not seem to be one clear definition that encapsulates what it means to businesses and views may actually differ within the board itself. Nor does there appear to be a clear understanding among all respondents of the difference between stakeholder governance and stakeholder engagement.

While it is clear that stakeholders play an important role in the decision-making process moving forward, greater engagement with stakeholders along with better information flows between the board and stakeholders are identified as key requirements to bring long-term value added to the organisation as well as driving better quality decision-making at board level.



About the IoD Centre for Corporate Governance

The IoD Centre for Corporate Governance exists to explore current issues in corporate governance, company stewardship and ESG - for the benefit of the business community, IoD members and wider society. The Centre arises from the IoD's Royal Charter obligation to "promote the study, research and development of the law and practice of corporate governance". The Centre functions as an independent, not-for-profit centre of excellence under the umbrella of the IoD. Please note that views expressed in Centre publications do not necessarily reflect the position of the IoD or the Centre Advisory Board, and are solely the responsibility of the authors.

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