

STAKEHOLDER

Elevating stakeholder voices to the board

The AICD has developed a guide for directors of all organisations to identify and elevate stakeholder voices to the board.

Elevating stakeholder voices to the board: A guide to effective governance¹ explores:

- the board's role in stakeholder governance;
- directors' legal duties in relation to stakeholders;
- principles boards should apply to ensure effective stakeholder governance;
- how boards can balance the interests of stakeholders when making decisions; and
- the hallmarks of good stakeholder governance.

This director tool presents a snapshot of key learnings from the guide.

Who are an organisation's stakeholders?

Stakeholders are groups that have an interest in an organisation, are likely to affect or be affected by the actions of an organisation, or whose actions can impact the operation or business model.

Most organisations will consider its workforce, customers, suppliers and shareholders/members to be key stakeholders. We would expect communities in which the organisation operates to also feature on the list, for example, Aboriginal and Torres Strait Islander peoples and local communities in which the organisation operates.

Ultimately, the board has overall responsibility for deciding who are an organisations' stakeholders.

Does the board have a role in stakeholder governance?

Broadly, the board is responsible for the overall governance, management and strategic direction of the organisation.

More particularly, directors have duties at law in Australia to act in good faith and the best interests of the organisation. Traditionally, this duty has been understood as owed to shareholders as a whole. It is increasingly recognised however that the best interests of an organisation cannot be isolated from the interests of its stakeholders, including employees, customers, suppliers and the community. Recent Australian court decisions demonstrate that directors have considerable discretion to take into account a broader set of stakeholders when making decisions on behalf of the organisations – indeed, in a practical sense, doing so is often necessary to protect the organisation's reputation and ensure its sustainability over the long-term.

Understanding stakeholder perspectives and how the organisation is managing relationships with key stakeholders is a deliberate exercise, and it is critical for the board to effectively discharge these responsibilities.

While day-to-day stakeholder engagement should be led by management, boards have an important role in overseeing management and establishing organisational processes that integrate stakeholder governance into the broader governance structures and processes.

1. AICD, 2021, *Elevating stakeholder voices to the board: A guide to effective governance*, aicd.com.au/stakeholderguide.

What does effective stakeholder governance look like?

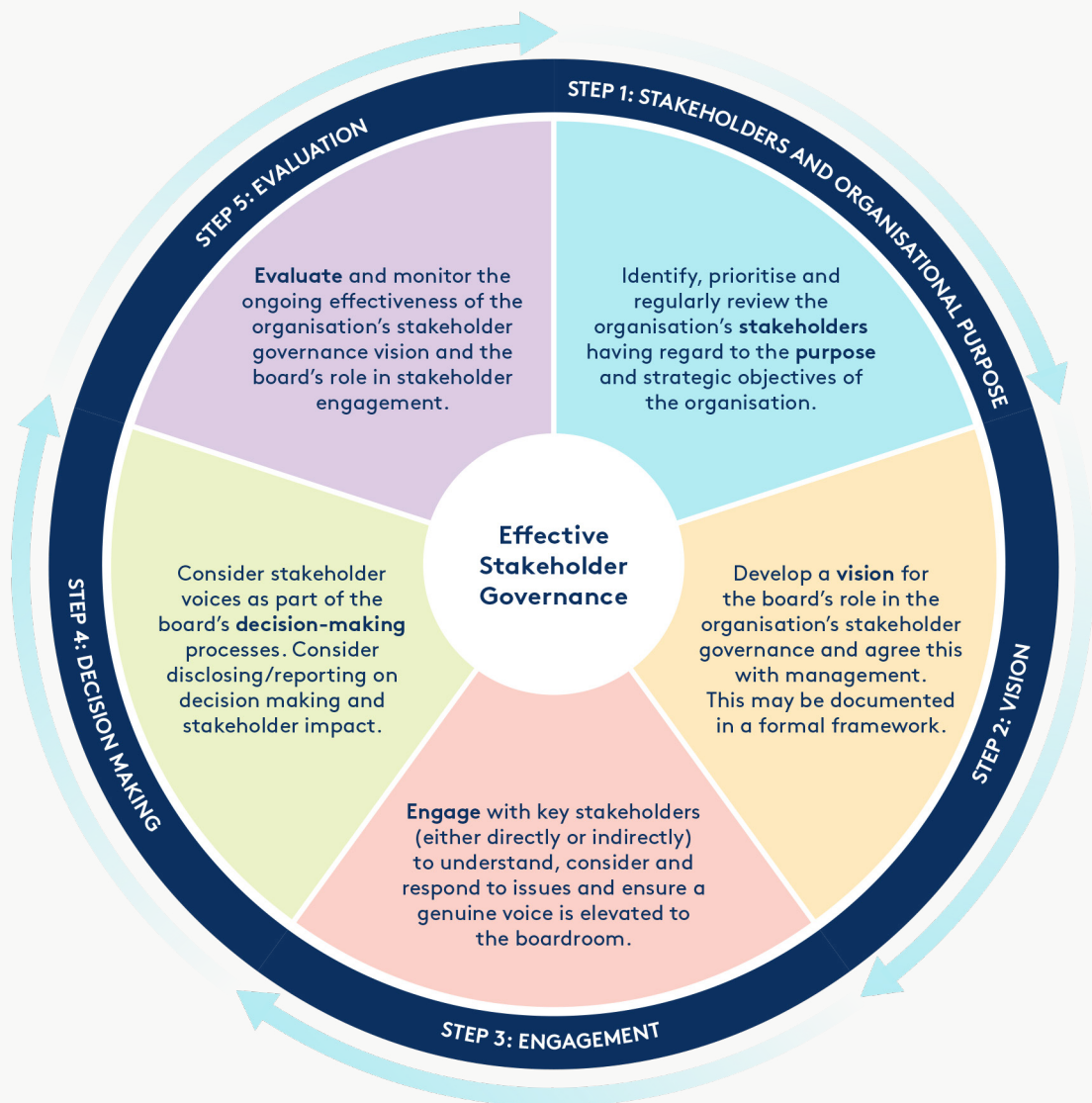
There is no ‘one size fits all’ approach to stakeholder governance. A board’s approach will be tailored depending on the purpose, size and nature of the organisation, and type of stakeholders involved.

Consequently, the guide does not attempt to prescribe a fixed set of rules for stakeholder governance; rather, it provides some core principles and steps to guide boards.

What follows are some key steps that can guide boards on effective stakeholder governance and oversight.

Boards of smaller organisations may not have established a formal framework for stakeholder governance. However, even the smallest organisation will have important stakeholder relationships and can benefit from applying some of the principles outlined below.

Fig 1: Effective stakeholder governance



STEP 1: STAKEHOLDERS AND ORGANISATIONAL PURPOSE

Stakeholders are groups that have an interest in an organisation, are likely to affect or be affected by the actions of an organisation, or whose actions can impact the operation or business model.

Investing time in identifying and prioritising stakeholders and assessing their interests forms the basis for effective stakeholder governance.

Identifying and prioritising stakeholders is a dynamic process – stakeholder groups may be in conflict and their priority may evolve over time. The board and management should regularly review the stakeholder map and determine who they consider to be material and relevant stakeholders.

STEP 2: VISION

Boards should consider overseeing the development and adoption of a formal framework to guide the company's stakeholder engagement activities. This will identify why stakeholder governance is important and ensure that the board considers stakeholder perspectives in its decision making and other governance processes.

SMEs and NFPs may not need a formal framework but should be asking themselves these questions.

STEP 3: ENGAGEMENT

The majority of stakeholder engagement occurs at the management level. To provide effective oversight of management, the board must ensure it is receiving timely and accurate information about stakeholders.

There may be circumstances where the board determines that it should engage directly with stakeholders. The frequency of such direct engagement will vary from stakeholder group to stakeholder group and issue to issue.

The board must consider what form of engagement is most appropriate for the stakeholder group, not just the board.

STEP 4: DECISION MAKING

Boards will derive the greatest value from their stakeholder engagement by using that information to inform decision making.

The board can take practical steps to ensure sufficient consideration is given to stakeholder perspectives, including requesting that board papers address stakeholder perspectives and impact, schedule meetings with stakeholders as part of regular board meetings or strategy days and delegate responsibility for understanding specific stakeholders/issues to board or advisory committees.

The board should also consider if it is necessary to communicate decisions with an impacted stakeholder group and how best to do so.

STEP 5: EVALUATION

It is important to assess the effectiveness of the organisation's stakeholder governance and adjust as necessary.

This should be led by management with board oversight. Directors may consider commissioning an external party to undertake an evaluation of the health of stakeholder relations.

Key questions for the board to frame board conversations about stakeholder governance

Regardless of organisation size, set out below are some key questions for the board to ask:

- Does the board understand who the organisation's key stakeholders are?
- Is it clear how, when and why the organisation engages with stakeholders? Does this match board expectations?
- Does the board, independent from management, engage directly with critical stakeholders in a governance framework?
- How does the board's decision-making process reflect stakeholder perspectives? Do board papers include consideration of stakeholder impacts and perspectives?
- Does the board receive adequate information about stakeholder engagement and impacts from management?
- Does the board consider expert views and external data points in its consideration of stakeholder interests and impacts?
- Does the Board receive adequate information on impacts on vulnerable consumers and communities (if relevant)?

Adapting the board's engagement to the stakeholder

The AICD asked representatives from diverse stakeholder groups for guidance on the steps that directors should be taking to elevate stakeholder voices to the board.

These representatives highlighted that boards need to design their stakeholder engagement programs around the interests and needs of each stakeholder group, rather than adopt a standardised approach.²

CUSTOMERS

Boards must understand the limitations of customer experience metrics. Taking steps to understand the worst experience customers have via qualitative data may help boards uncover hidden issues.

Boards may gain valuable insights through direct engagement with customers.

It can humanise the challenges that some customers may face and reconnects the board with the organisation's purpose.

Customer engagement at the board level often includes customer advisory committees, briefings with customer advocates/advocacy groups and starting a board meeting with a 'customer moment'.

FIRST PEOPLES

Boards should ensure an organisation fosters genuine, ongoing connections with First Peoples, mindful of the historical actions of their organisation and broader injustices suffered by Aboriginal and Torres Strait Islander peoples.

Where possible, the board should engage with leaders 'on Country' and minders should be left behind.

Boards should be ready for raw and direct feedback.

First Peoples advocates suggest organisations have regard to the UN Declaration on the Rights of Indigenous People, which calls for free, prior and informed consent.

EMPLOYEES

Boards often have greater opportunities for engaging directly with employees than other stakeholder groups.

Directors should make the most of this access, particularly to get their own lens on culture. Employees can be a conduit to understand the needs of other stakeholder groups such as consumers, suppliers and the broader community. Most fundamentally they may be able to alert boards to latent risks well before senior management is aware of them.

Types of employee engagement include 'town hall' meetings, site visits, inviting employees at various levels to meet with directors and workforce advisory committees.

ESG ISSUES

The board should ensure the organisation has taken steps to understand if human rights risks exist in the organisation or its supply chain. Similarly, the board should ensure that environmental issues are given serious consideration. Management should be empowered and resourced to do this work.

Consultations with communities or 'rights-holders' should consider language, cultural and other potential barriers to effective engagement.

Engagement should take place early in any decision-making process.

SUPPLIERS

Respectful relationships with suppliers can have a significant impact on an organisation's profitability over the longer-term.

Boards should remain alive to the significant power imbalances between big business and small suppliers, particularly around unfair contract terms and payment terms.

Boards should set expectations for reporting and probe management on supplier complaints and outstanding payables.

COMMUNITY

Community encompasses a wide range of stakeholders, ranging from local charities and community groups to local business and government authorities, as well as communities of interest.

The board should remember that engaging with this vast group of stakeholders can improve an organisation's decision making, reputation and competitiveness.

Boards should bear in mind that the community may have a sceptical view of the organisation and efforts to engage with them may be dismissed as disingenuous public relations.

2. AICD, 2021, *Elevating stakeholder voices to the board: A guide to effective governance*, Appendix One: Adapting the board's engagement to the stakeholder, p 29.

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