Report

Stakeholder engagement
values, business culture
& society

A contribution to the Financial Reporting Council's Culture Coalition Project

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Executive Summary

This report is a contribution to the Financial Reporting Council's Culture Coalition project. It focuses on how companies relate to external stakeholders but should be read in the context of the overall project. The relationship between companies and the society from which they derive their licence to operate is critical to their long term future. Yet, as with everything else the company does, it will reflect the values and culture it has chosen to adopt from the outset.

External relationships cannot therefore be considered on their own. A company which seeks to build a positive relationship with a wide range of external stakeholders must be clear what its values are, and its own behaviour must be consistent with the message it gives to stakeholders. A company which claims values which it does not adhere to will be found out and exposed quickly by social media. Openness is critical, especially in a crisis.

This report makes a clear distinction between engagement between companies and their shareholders and relations with non-financial stakeholders. The former are a board matter because boards are directly accountable to shareholders. Relations with other stakeholders are also critically important, but the board's role is more generally an oversight one.

Dialogue between companies and shareholders on culture and long-term strategy has been improving, but there is a long way to go to open up discussion. Shareholders are heavily focused on performance, often but not exclusively on the short term. Moreover they do not believe that they can change a 'bad' culture from the outside. Yet they are becoming more aware of the risks of a flawed culture. Both sides need to work on ways of improving the dialogue. Among other things, sell-side analysts need to be less focused on short term financial results; the tendency should be resisted for the governance discussion to be swamped by remuneration; and there is a need to calibrate reporting to give more prominence to indicators, such as staff turnover, which have a bearing on corporate culture.

As to non-financial stakeholders, a key relationship is with customers. A healthy corporate culture will invariably involve giving their needs and expectations are real priority. A business model focused on delivering real value to customers is likely to be sustainable. One that seeks to extract value will not. The way in which companies engage and motivate their staff to deliver value is critical. This can have an important impact on results.

Other important stakeholders singled out are suppliers and regulators. In both cases long term relationships based on openness and trust pay off. Companies must treat their suppliers fairly, for example by paying them promptly, but they must also demand and promote standards of behaviour they would impose on themselves. A narrowly self-interested approach to regulation leads to confrontation and prescription. A more socially aware company can deal with regulators and other stakeholders by identifying shared objectives of benefit to all.