Boards and their stakeholders:
The state of play

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Foreword

The idea that any business creates or sometimes destroys value for its stakeholders has finally emerged as a central idea in thinking about the board's role in governing the corporation.

From its beginnings in the 1960s from Eric Rhenman in Sweden and a number of business thinkers at Stanford Research Institute, to the recent statement of The Business Roundtable in the US, the history of what has come to be called 'stakeholder theory' has been fraught with controversy. Most of all it has often been juxtaposed with 'shareholders' in a false dichotomy.

Of course, shareholder value is important but we have finally come to realize that it is connected to the value companies create for their customers, suppliers, employees and communities, viz. their stakeholders. Shareholders are stakeholders as well. And, how a company engages with customers, suppliers, etc. determines, in large part, both stakeholder and shareholder value which is why this report can be so helpful to boards and directors.

While it is the main function of executives to engage with stakeholders, the board must have some role here or it cannot fulfill its duty of oversight. Directors can no longer focus all of their attention on shareholders. They need a sophisticated understanding of a company's underlying business model that includes (1) its sense of purpose; (2) how the company creates value for each stakeholder; (3) how creating value for each stakeholder affects the value created for the others; (4) how the pursuit of purpose and stakeholder value affects important societal issues and how those issues affect purpose and stakeholder value creation; and, (5) the company's strategies for those important societal issues.

While each board must design a stakeholder engagement process for its directors that makes sense for that particular company, the guidelines contained in this WBCSD report are an excellent place to begin. While there is still much work to be done, we are on the cusp of creating models of business and capitalism that will be fit for our children. Surely this is a noble task for every board and every director.

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1 Introduction

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In today's complex and uncertain world, focusing on near-term shareholder value alone is no longer enough to ensure long-term business success.

Governance is evolving fast and investors alongside other stakeholders are demanding greater transparency and improved oversight. The legal opinion suggests effective stakeholder governance is an integral part of directors' fiduciary duties.[1] There is also an expectation that board directors not only understand and engage with their key stakeholders, but that they consider the impacts and dependencies they have on those stakeholders when making strategic decisions.

Aligned with the World Business Council for Sustainable Development (WBCSD) recently launched Vision 2050,[2] a world in which 9+ billion people can live well within the planetary boundaries, the COVID-19 pandemic has shone a light on the need for companies to move beyond shareholder primacy and consider the purpose of the organization, its social license to operate and the impacts that it has on both society and the environment.

Research conducted by WBCSD in collaboration with DNV has shown that boards are detached from how the business engages with stakeholders and often their engagement is filtered,[a] one-directional and absent from decision-making. Engaging with stakeholders should support business decision-making, drive transformation and strengthen the business model.

WBCSD and DNV carried out a survey with input from over 100 directors, executive management and functional staff which sought to understand how companies and their boards are engaging with key stakeholders.

The survey was supplemented by one-to-one interviews with board directors and executive management to understand in more detail what is happening in practice. This report is a summary of the findings of both the quantitative and qualitative research. It provides some practical actions for the board of directors to understand the importance of robust stakeholder engagement and to develop a network of relationships that build resilience, support strategic decision-making and drive value creation and long-term growth.

[a] Filtered here refers to whether or not information is primary and direct from the stakeholder and represents the views of the stakeholder group, or whether it has passed through management or a functional team to manage the information shared and as such is secondary information

2 The current landscape

② The current landscape

For some time now there has been a focus on the importance of good corporate governance, purposeful business and the evolving fiduciary duties of directors. The renewed statement by the Business Roundtable[3] on the purpose of the corporation elevated the discussion in August 2019. The response to a model whereby other stakeholders are considered alongside shareholders continues to evolve and demand more from business.[4] What has materialized from this renewed focus on purpose, is a call for companies to 'walk the talk'. Grand statements on purpose that put people and planet at the center of a business strategy don't suffice if there is no supporting action.

Leading academics have also noted the importance of 'Enacting Purpose' by establishing best practice governance globally. This research demonstrates how purpose can inform strategic choices and to provide directors with a suitable framework to govern purpose.[5]

These initiatives support and contribute to the work being carried out by the British Academy on the 'Future of the Corporation'.[6] In 2019, it released a report on the 'Principles for Purposeful Business' which encourages companies to consider the 'purpose of their business to produce profitable solutions to the problems of people and planet, and not to profit from producing problems for people or planet'.[7] The report identifies a series of principles to guide business and policy makers on what can and should be changed.

The focus on corporate purpose has prompted many discussions and a shift to a more stakeholder inclusive model of capitalism. The World Economic Forum (WEF) set out The Great Reset, a response to the global COVID-19 crisis as an opportunity to shape the recovery and reduce the 'inconsistencies, inadequacies and contradictions of multiple systems – from health and financial to energy and education'.[8] In January 2021, the WEF issued a report on the 'Future of the Corporation' in collaboration with Baker McKenzie, which further underscores the imperative of good stakeholder governance, the importance of business resilience and the need to align on 'values and outcomes at the boardroom level' to enable 'prosperity for all'.[9]

Sustainable business models depend on the quality of relationships between a company and its key stakeholders. It is not an adjunct to running a successful business but an essential element. Creating and capturing value relies on good relationships with employees, customers, suppliers, capital providers, governments and civil society.

It is no longer a matter of trading off one group of stakeholders against another. Rather, the focus has shifted towards enhancing value for all. What counts is the interdependencies between stakeholders for value creation and it is that network of relationships that build resilience and identify new opportunities for growth.[10]

At the heart of good corporate governance is sound and informed decision-making, both in the boardroom and across the company. Decisions that do not take account of the voice of key stakeholders and societal concerns could be later proven bad decisions.[11] Directors have a duty to act in the best interest of the company, and by implication this means its long-term success. While existing laws have not changed, practice is evolving. In light of the potential magnitude of environmental, social and governance (ESG) -related issues, failure to take these risks into account could be viewed as a breach of fiduciary duty.[12]

Fiduciary duties are classified into three categories: 'the board has a duty to take care of the company and of the long-term interests of the company, it has a duty to exercise due diligence and reasonable care and a duty to comply with external disclosure requirements.'[13]

Investors are demanding more transparency from companies, particularly when it comes to their governance arrangements and robust stakeholder governance.[14] They expect material quantitative and qualitative disclosures that present a clear and full view of the performance of the company. This should naturally include the extent to which the business is engaging with its key stakeholders and how those stakeholders impact on the business model.

Regulation is also driving changes. In the UK, for example the requirement to publish a statement on Section 172 of the Companies Act (2006) outlines directors' duties to promote the success of the company and in doing so have regard to material stakeholders.[15] Guidance issued by the Financial Reporting Council (FRC) outlines that corporate section 172 statements should explain the board's reasoning for identifying key stakeholders, whether engagements were effective and what decisions have been taken in light of these engagements. The statement should link to the strategy, be consistent, and reflect the board's role of oversight and how it is challenging management on the company stakeholder engagement process.[16] The Institute of Directors and a number of companies are challenging whether S172 goes far enough and argue that it should undergo further reform to also expect directors to promote the purpose of the company.[17]

Developments continue at the European Union (EU), as the Sustainable Corporate Governance Initiative aims to improve the regulatory framework on company law and corporate governance.[18] The purpose is to better align the interests of the company, shareholders, stakeholders and society. This initiative fits into the broader work being conducted by the EU as part of the European Green Deal.

It is clear that business is at a point of inflection, and the response and recovery from COVID-19 demands that business build forward better. WBCSD's work on Vision 2050 highlights the need for a mindset shift in business to drive the transformation needed.

'A safe, sustainable and prosperous future depends on systems transformations that will require enormous, determined and enduring effort from all corners of society, including business... but we also need to shift our mindsets – about the purpose of businesses, about what it means to be resilient, and about how we can operate regeneratively, rather than destructively – so that we can generate long-term value and therefore future success'.[19]

③ Defining key stakeholders

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A stakeholder is defined as a person or group that has an interest in a company and can affect or be affected by its activities.

'Stakeholder engagement is an open dialogue process with people or groups who actively engage with an organization and are influenced or impacted by its activities, now and in the future.'[20]

'The most important characteristic of the stakeholder model today is that the stakes of our system are now more clearly global. Economies, societies, and the environment are more closely linked to each other now than 50 years ago'.[21]

The building blocks of the ´new story of business´ are formed by understanding that business can have both profit and purpose, that operating activities are embedded in society and that both stakeholders and shareholders can benefit from company value creation.[22] R. Edward Freeman discusses the traditional view that only shareholders are important to the company and offers an approach known as 'stakeholder theory' which illustrates that successful businesses should focus on the relationships that it has with all stakeholders including investors, employees, customers and suppliers.[23]

Identifying stakeholders is an activity that should be undertaken alongside the company business model and strategy by understanding the resources, relationships, impacts and dependencies that the business. This allows the business to determine which groups or individuals are material to it.

Respondents in our study highlighted, perhaps unsurprisingly, investors, customers, employees, governments and local communities as their key stakeholders. Suppliers and NGOs were considered lower in priority. Often in reality the primary focus is on investors and the board are focused on delivering returns and meeting short-term targets. Whilst for many leading companies the mindset is shifting, there is still a cohort for which the Friedman Doctrine of shareholder primacy holds strong.

When conducting this research, considering how to incorporate nature or the environment was a challenge. Whilst the environment is a key stakeholder for many organizations, and natural resources continued to be exploited as free and unlimited, the environment is often not considered an entity or stakeholder in decision-making in the boardroom. In recent years, there have been cases where natural resources have been given what is known as environmental personhood, where legal status is granted to rivers, forests or species to improve their chance of survival.[24]

How an organization defines its key stakeholders is specific to that organization, but the board should take an active role in identifying those key stakeholders and consider those stakeholders when making strategic decisions.

Sustainability managers are often more engaged with the company's stakeholders day-to-day, but it is important that this interaction percolates up to senior management and eventually to the board so that those making the decisions are informed and aware of the expectations and impacts on those stakeholders. The business model is dependent upon stakeholder relationships and the board needs to understand the importance of these relationships and emphasize these relationships in the decision-making process.

4 Why and how are boards engaging with stakeholders?

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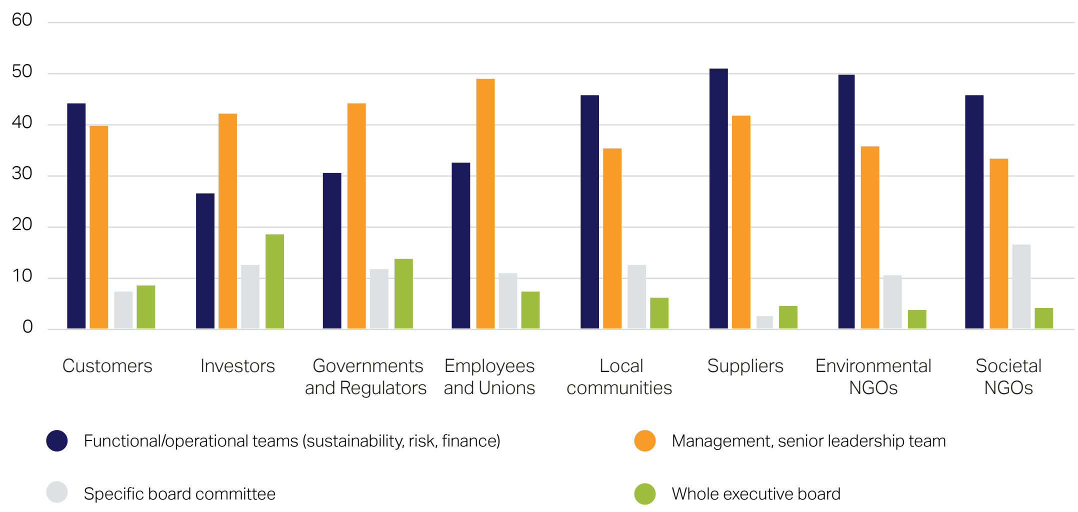
Although practice is still in its infancy, there is acknowledgement that this is an area of growing importance and improving engagement with stakeholders serves as an opportunity to increase business resilience and long-term success. The evolving landscape continues to shift expectations and increases the prominence of stakeholders, forcing companies to adopt a more inclusive approach.

Our research showed that functional teams and senior management engage with key stakeholders most commonly. Board-level committees or the whole board rarely engage with stakeholders, with the exception of investors where close to 20% of respondents indicated that the whole board is engaged. The percentage remains low despite interviewees highlighting that investors are increasingly asking for evidence of stakeholder engagement themselves as part of their wider ESG analysis. This raises the question on the role of the board versus that of management when engaging with stakeholders beyond the investor community.

Some interviewees felt that the process of stakeholder engagement should sit with management and functional teams, and the board should provide challenge, oversight and direction. However, a changing attitude from some was apparent, as it was suggested that to have a clear and well-informed overview of a business, board members need to have more direct contact with stakeholders and be more present in the process of stakeholder engagement activities to understand and manage the business risks and opportunities.

It is apparent that 'boards need better engagement, expertise and to ask for more information on ESG topics'. This is also the case when it comes to stakeholders; 'boards are being educated by management and experts rather than taking a proactive approach' to engagement and understanding of material topics. It was clear from our research that functional teams and management are conducting the majority of direct engagements.

Figure 1: Survey results - Who is involved in directly engaging with your organizations' stakeholders? (%)

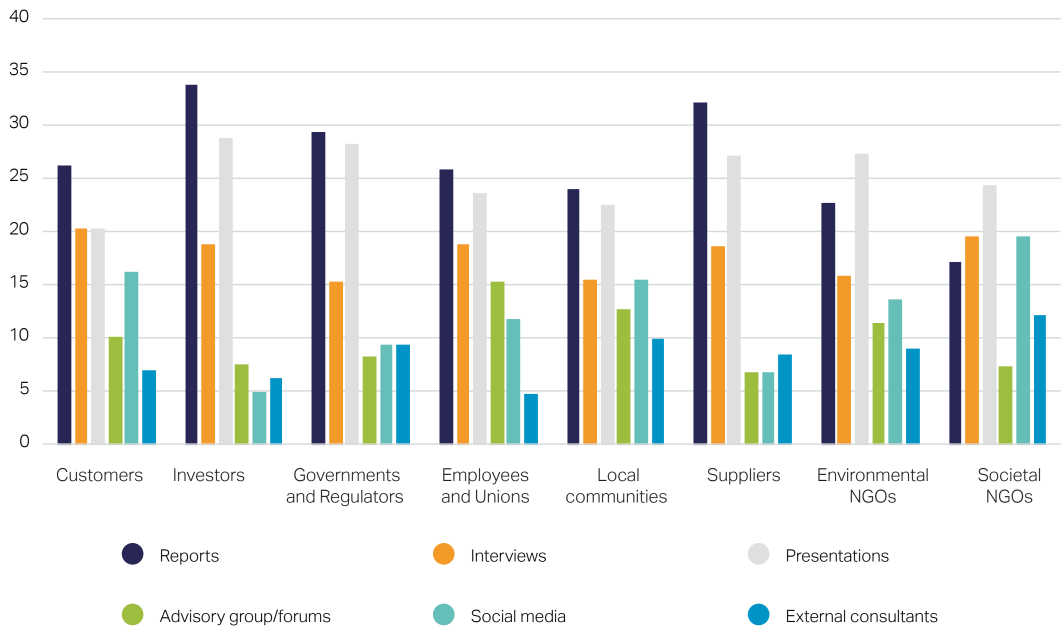


When it comes to how the engagement takes place, the key channels identified were reports, presentations and interviews. Our study highlighted that for customers, investors, governments, employees, local communities and suppliers, the main method of engagement was through reports. Whilst our research did not dive into this in any further detail, examining where the reports come from, who prepares them and if they have been filtered in any way would improve our understanding of how engaged these stakeholders are with businesses. Our interviews suggested that often these reports are prepared by management and presented to the board. Advisory groups or forums were much less common, with the highest percentage of engagement (15%) through this channel with employees and unions. In some countries, investors and employees are viewed as 'inner stakeholders' that are critical to the business and other voices fall outside of this central scope.

There is anticipation that board engagement with employees is likely to increase as companies acknowledge the importance of this critical stakeholder group. In the UK, the FRC recently issued a report on workforce engagement and the UK corporate governance code.[25] This report looks closely at corporate reporting and practice, and concluded that workforce engagement is evolutionary. Although 68% of companies in the UK have adopted one of the recommendations in the Corporate Governance Code (designated non-executive director, advisory group, or a worker director) there is still more integration required to ensure engagement is effective, aligned to corporate purpose and embedded in the culture of the organization.[26]

Our interviews highlighted that the interaction with investors was often direct through large meetings such as annual general meetings (AGMs) or through public disclosures, and in those interactions, investors are asking for 'more evidence of stakeholder engagement'. Employee and supplier engagement with the board was either through management or site visits. The actual mechanism for board engagement with government and regulators was less clear, though meetings, reports and analysis were the typical responses. Local community engagement was varied but included social media and townhall meetings.

Figure 2: Survey results - How do you ensure that management and the board understand the needs and expectations of stakeholders? (%)



Our survey asked respondents what they foresee as the potential consequences of not taking stakeholder views into account in decision-making. Unsurprisingly, failure to manage reputational risks (75%) and missing opportunities (68%) were considered the most common. Other consequences included loss of customers, talent and investment as well as being unable to deliver on the purpose of the company.

These views were echoed in our interviews, where respondents indicated that the board needs to have a good understanding of ESG if they want to understand new and emerging risks; 'it's not about looking at risks with a backwards view, it's about understanding what might be coming your way and incorporating that into your decision-making and strategy'.

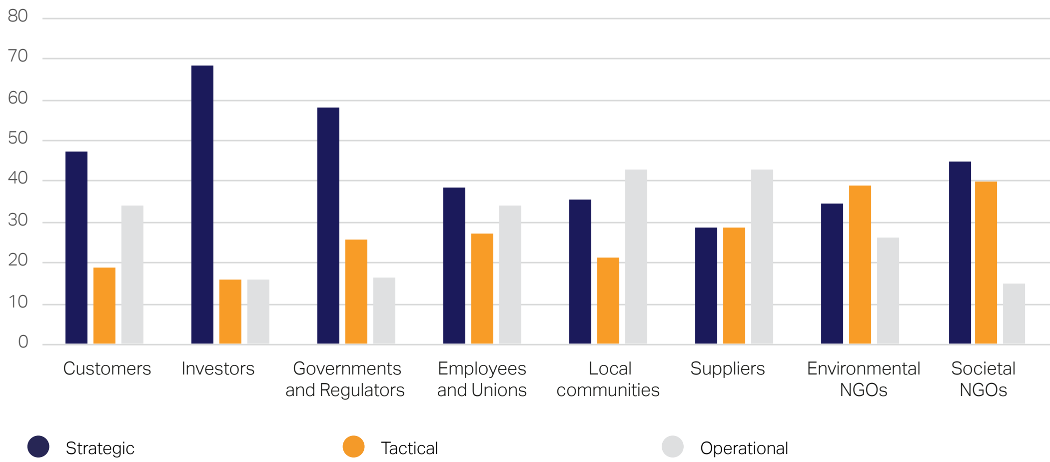
Figure 3: Survey results – What consequences do you foresee for failing to take account of stakeholder views? (%)

This is aligned more than 70% of respondents who felt stakeholder engagement was important to their organization to '[identify] issues and manage reputation' and 'satisfy stakeholder expectations'. Other reasons for improved stakeholder engagement were to inform future decision-making (65%), co-create solutions and solve problems (55%) and gather unfiltered views and perspectives (51%).

Though most boards do not engage directly with their stakeholders, they were primarily given the information provided by management. Less than 50% of engagements with stakeholders (excl. investors and governments) inform strategic decision-making.

As Figure 4 shows, the impact of engaging with stakeholders currently has a limited impact on board-level strategic discussion, with the exception of investors, who have traditionally been seen as very influential in the boardroom. Our interviews also stressed that investor views are highly valued by the board, but there was a trend towards incorporating other stakeholders' views, with greater emphasis placed on boards' responsibility to oversee stakeholder engagement. The growing prominence of concepts such as stakeholder capitalism,[27] inclusive capitalism[28] and conscious capitalism[29] are highlighting the importance of stakeholders in strategic and tactical decision-making.

Figure 4: Survey results – How do stakeholder views currently inform board-level decision-making? (%)



5 The challenges of stakeholder engagement

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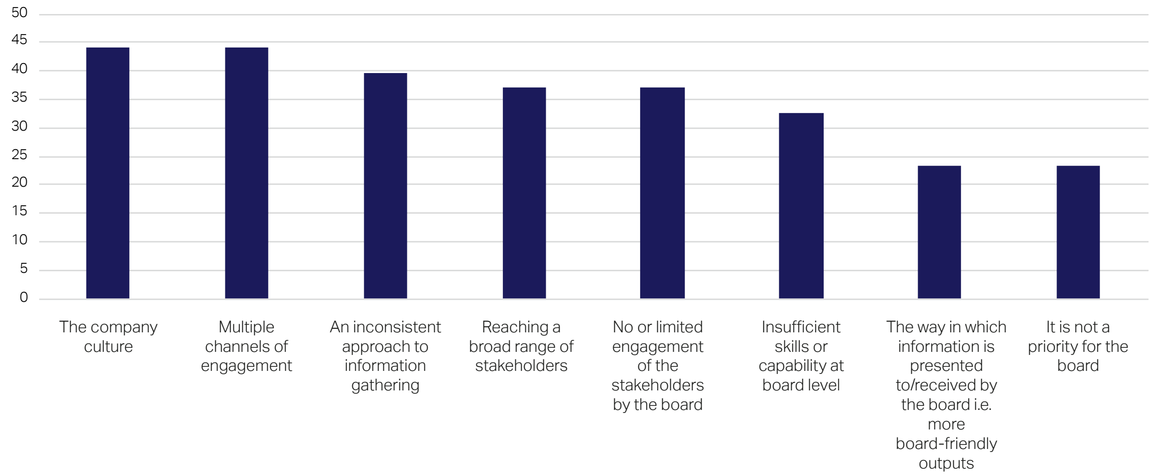
Our research identified company culture as one of the most significant barriers to effective stakeholder engagement. If the company's historical internal culture and priorities do not include a broader range of stakeholders, this makes a shift toward stakeholder engagement challenging as the necessary mechanisms must be put in place.

This is aligned with another key barrier: the lack of priority placed on stakeholder engagement at the board level. More than 30% of respondents felt that there was limited or no engagement by the board with key stakeholders and that the board had insufficient skills and capability to effectively engage with stakeholders. Over 20% of respondents felt that stakeholder engagement was not a priority for the board. The top-down influence of company culture and a lack of board engagement with stakeholders are linked as company culture starts with the board and flows down to management. Having a 'directive' from the board could help drive better engagement and some interviewees highlighted that the support of the board in engaging with stakeholders was needed to further the work of management.[30]

Some companies have processes to oversee stakeholder engagement, using tools such as stakeholder mapping and materiality assessments (though these materiality assessments may only be conducted every few years), but often the board relies on management to have the day-to-day interface with stakeholders. It was generally felt that the board has oversight of ensuring sufficient stakeholder engagement. It was unclear how much direct contact the board is required to have with stakeholders.

Figure 5: Survey results – What do you see as potential challenges or barriers to effective engagement with stakeholders? (%)



The regularity of engagement with stakeholders was another area where there was a great disparity between different stakeholder groups (see Figure 6). Investors and employees were engaged with at least quarterly according to 59% of our survey respondents whereas other stakeholders such as local communities or environmental and social NGOs were engaged with biannually, annually or less (64% of respondents). Although there is a range in the frequency of engagement with different stakeholders, interestingly over 65% of survey respondents agreed that they had effective and satisfactory engagement with all their stakeholders. Understandably there is a variation in the amount of necessary engagement with each stakeholder, especially across different businesses.

Our research also highlighted that management may have concerns about the board engaging on an ad hoc basis with stakeholders so they may prefer to manage the interactions. Management may be cautious of the board setting expectations among stakeholder groups that the company may later find it difficult to fulfill. The CEO and executive management are responsible for the board agenda and how their time is spent, so engagement opportunities may be filtered by the CEO. At the same time, a lack of time given to this issue on board agendas is a barrier to engaging. However it is important that if this is a business priority and these stakeholder groups are material to the business model, the agenda should allow time for discussion, and integration of the impact on these stakeholders should be part of the strategic decision-making that takes place during those board meetings.

The board themselves may be resistant to hearing challenging views, and often this is supported by the mindset of existing directors who have perhaps been in the position for a long time and can be averse to change. A recent example in the appointment of three new directors to the Board of ExxonMobil by activist investor Engine No. 1 (supported by Exxon's larger investors including BlackRock, State Street and Vanguard) demonstrated the investor power when a company is not acting fast enough in response to ESG-related risks such as climate change.[31]

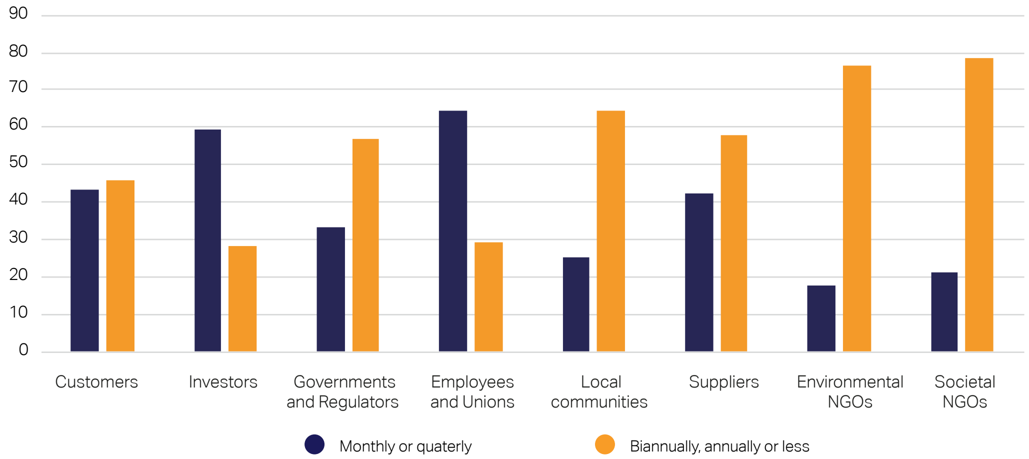
The multitude of engagement channels is also challenging the effectiveness of engaging with stakeholders. There are a number of ways that companies receive information and engage with key stakeholders. This may pose a risk to the organization if it is not engaging with a stakeholder group through the most appropriate channel. The ideal would be that functional and operational management have sufficient engagement with the business' key stakeholders allowing for crises to be managed at the appropriate level without the need to be addressed by the board as a matter of urgency.

The 2021 Edelman trust barometer reports that business, governments, NGOs and media are 'in an environment of information bankruptcy' with a 'mandate to rebuild trust'.[32] The pandemic has put 'trust to the test' but business among the four institutions is perceived as the most trusted, with expectations that it will step in where governments have failed. With this trust also comes expectation on CEOs who are expected to address societal issues in the same way they lead and deliver on profits.

Edelman report 'the top trust-building action for business is now guarding information quality, ensuring that reliable, trustworthy information goes out to their employees, and, by extension, the community.'

Trust remains a key building block of lasting relationships. As business emerges from the health, social and financial challenges of 2020, it should reinforce the relationships that it has with key stakeholders to continue to grow the trusting relationships that it has relied upon over the past 18 months.

Figure 6: Survey results – How often does your board engage with your key stakeholders? (%)



6 Opportunities for improving engagement

⑥ Opportunities for improving engagement

Recent actions by the owners of major European football clubs seeking to create a Super League highlighted the importance of considering stakeholders in decision-making and the shift away from shareholder primacy.[34]

In this instance the owners of the clubs failed to consider the impact on their key stakeholders, players, fans, communities and the government, in pursuit of financial success. Earth on Board[b] hail this event a 'teachable moment for corporate boards', outlining that 'shareholders own shares, not the company, and that improving the effectiveness of engagement with stakeholders will serve corporate boards well in their decision-making processes.[35] This example demonstrates the importance of purpose, fiduciary duties and the expectation that stakeholders are considered in both of these endeavors. It also reinforces the mindset shift required to ensure that companies do not make decisions that could lead to catastrophic environmental and social impacts.

Stakeholder engagement is an opportunity and a business imperative. Sustainability functions and departments regularly engage with stakeholders on business activities that may impact or depend upon their stakeholders. However, this information does not necessarily percolate up to the board to drive and support decision-making, representing a key potential challenge. Our interviews and research have identified several ways of engaging with stakeholders across the company and at board level.

There is no one-size-fits-all approach to stakeholder engagement and companies in different sectors, industries and geographies will manage this differently. Some examples of current practice include stakeholder advisory panels, materiality assessments, understanding the macro landscape to identify risks and opportunities, presentations, external consultants, engagement with employees/ unions or suppliers in site visits (see Figure 7).

Businesses need a social license to operate in their community and trust among stakeholders is important. Although the uptake of stakeholder engagement practice and integration into decision-making varies from company to company, there is a consensus that boards need better engagement, expertise and to be asking for more information on stakeholder opinions and how this should direct company strategy.

Figure 7: Interview insights – Ways of engaging with stakeholders

[b] Earth on Board is an ecosystem of leading organisations and individuals working at the highest levels of corporate governance in the field of business and sustainability, https://www.earthonboard.org/

One interviewee highlighted: 'stakeholder mapping is an important step to take, to do that, you need to look at the business model. Once you know those stakeholders you can start engaging'.

The voice of employees continues to be important for companies, particularly when it comes to attracting and retaining talent, and taking corporate decisions that impact employees. Millennials will make up 75% of the workforce by 2025 and want to work for companies with a purpose that aligns to their values and that are socially and environmentally responsible.[36]

Workforce representation in the boardroom is a complex but important issue, and companies should consider the best way to ensure that employee views are heard at management and director level.

It is important for boards to understand why they are engaging with stakeholders, and how that engagement can build relationships and networks that support the delivery of the organization's objectives and contribute to the operating model. Failure to manage the relationships with key stakeholders will likely prove detrimental to the business.

The pandemic has amply illustrated that companies that have invested in building strong and effective relationships with their stakeholders have been more resilient and generally performed better than those with weak relationships and where the board has not seen the strategic connections. For example, WBCSD members have generally outperformed major indices during the pandemic.[37] It demonstrates that there is still considerable scope for business models to be reviewed and adapted to reflect the value-creating potential of stakeholder relationships.

7 Looking ahead

It is clear that there is no single approach to engaging with stakeholders. There is no one successful method or action(s) that the board can take, many boards take different approaches and have successes in their own business context.

The points below provide some practical ways to improve the effectiveness of engaging with stakeholders and to ensure that any dialogue or communication is two-way and used to inform decision-making. It is important to understand how stakeholder engagement flows through the organization from the operational relationship management through to boardroom strategic discussion.

Good stakeholder governance is a business imperative and this should extend through subsidiaries and up to the group. Practices and policies need to encompass both local and global perspectives and should provide clear roles, reporting and accountability.

1 Know your stakeholders

Identify the key stakeholders that will influence and are influenced by your business model and strategy. Many organizations already undertake materiality assessments or stakeholder mapping exercises where groups of stakeholders are considered to understand the interest and impact that they may have on the business. Those that have a high influence and high interest should be considered material. The business should also consider the stakeholders that it directly impacts by conducting its operations, for example local communities or the environment.

2 Understand the expectations of and impact on those key stakeholders

Identifying your key stakeholders is only the first step. The organization must then consider what expectations those stakeholders have of the organization and how they are impacted by decisions taken by the management on the organization. Once the key stakeholders are known, discussions can take place on how best to engage with those groups as well as identifying potential risks and opportunities for the organization.

3 Ensure key stakeholders are consulted in decision-making

Oftentimes boardroom discussions fail to take into account key stakeholder groups when making strategic decisions. Necessary stakeholders should be consulted through the appropriate mechanisms, for example focus groups, AGMs, advisory panels, dialogues or site visits, on decisions that are likely to impact them.

4 Establish appropriate governance mechanisms to formalize operational relationships with stakeholders

The board should work with management and the appropriate functions to understand the formal operational relationships that management and functional departments within the organization have and ensure the board has appropriate governance over the mechanisms that formalize this process. The board needs unfiltered views and opinions from key stakeholders when those views may impact or inform the decision-making process. Continuous dialogue and exchange may be conducted by management.

The role of the board versus the role of management when it comes to stakeholders, depends on the importance of that stakeholder to the business model. This distinction is something for an individual organization to consider.

5 Embed important stakeholder discussions into the board agenda

Board directors often refer to having insufficient time during meetings to dedicate discussion time to ESG or sustainability topics. But board meetings are scheduled months in advance, it is important that time is taken to consider material sustainability topics alongside other key agenda items. The agenda and time of the board is managed by the CEO, therefore management should ensure it is utilizing director time in the most effective way. The agenda is set in advance and as a group the board should be focused on the long-term. Sustainability should not be considered or discussed outside of existing business strategy and risk management.

Integrate ESG considerations into the existing boardroom discussions and decision-making.

6 Trust the views of stakeholders

Trust presents a challenge. The board and management want to trust the views and opinions of stakeholders, but often the view of the representative may not be reflective of the collective view of the stakeholder. Consider how more effective engagement and more robust relationships can support the trust and confidence that the board has in the views of the key stakeholder groups.

7 Act in the long-term interest of the company

Fiduciary duties dictate that directors should act in the long-term interest of the company. When arbitrating stakeholder tensions and managing dilemmas, the board should consider the interest of the company as a whole, rather than the interest of the individual stakeholder group.

8 Acknowledge existing tools and resources that can further embed sustainability

Activities and exercises such as the materiality assessment, risk management, data collection and reporting can be used to further support the board in understanding stakeholder views. The board may also consider the role that external consultants, advisors and experts can play in improving education and knowledge of material sustainability topics and the impact of business activities on key stakeholder groups.

8 Conclusion

Our research and this report conclude that whilst the ideal of a more stakeholder inclusive approach to value creation exists, in practice, many companies are still just beginning their journey to evolve towards this model.

There is acknowledgement from companies and their boards that the integration of ESG considerations and stakeholder views in decision-making is necessary to help build resilience, manage risk and explore opportunity for long-term value creation paired with the recognition that more needs to be done in this area to strengthen the integration in pursuit of enhancing value for all. The board needs to be aware of material risks to the business and challenge management on the extent to which they are addressing those risks and opportunities through the operational business activities. For investors, the level of engagement, oversight of that engagement and challenge is in many cases at a suitable level. However, for other stakeholder groups, business needs to be doing more. In short, it is how good businesses do business and work to find a solution.

Business needs to recognize the interconnectedness of its operations with key stakeholders to move beyond the model of shareholder primacy. In order to do this, a mindset shift is required on the purpose of business, resilience and operating regeneratively to create long-term sustainable growth.

'*The 21st Century is one of "Managing for Stakeholders." The task of executives is to create as much value as possible for stakeholders without resorting to tradeoffs. Great companies endure because they manage to get stakeholder interests aligned in the same direction.*'[38]

To further support board directors in embedding ESG consideration into their decision-making, WBCSD developed a suite of resources designed to increase awareness and support the integration of environmental and social considerations into boardroom decision-making and existing governance responsibilities.[39]

Endnotes

[1] World Economic Forum in collaboration with Baker McKenzie (2021). The Future of the Corporation, available at: http://www3.weforum.org/docs/WEF_The_Future_of_the_Corporation_2021.pdf

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