Reporting on stakeholders, decisions and Section 172

July 2021
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Examples used

Our report highlights examples of current practice that were identified by the Financial Reporting Lab (Lab) team and investors. Investors have contributed to this project at a conceptual level. The examples used are selected to illustrate the principles that investors have highlighted and, in many cases, have been tested with investors. However, they are not necessarily examples chosen by investors, and should not be taken as confirmation of acceptance of the company’s reporting more generally.

If you have any feedback, or would like to get in touch with the Lab, please email us at: financialreportinglab@frc.org.uk.
Quick read

There are increasing calls for better information on how companies are having regard for their stakeholders and how key decisions take their perspectives into account. New regulatory requirements, including the introduction of the Section 172 statement and changes to the UK Corporate Governance Code and the Guidance on the Strategic Report in particular, have driven companies to increase reporting on their stakeholders. Discussions with investors on reporting on stakeholders and Section 172 statements highlighted that they are ultimately interested in understanding how a company is progressing towards fulfilling its purpose and achieving long-term success. Information on stakeholders and information on decisions can help with that understanding. With consideration of stakeholders and consequences of decisions being part of the Section 172 duty, the Section 172 statement is then a helpful bridge between the two types of information.

Information that investors need in order to understand how a company is progressing towards its purpose and long-term success includes:

- Information on stakeholders
- Information on decisions
- Section 172 statement

Such reporting may be of interest to a range of stakeholders, but this Lab report sets out what investors are looking for in reporting on these areas and how companies can improve their reporting to better meet their needs. In light of what we have heard from investors, this report has been divided into three sections to address the overarching need for information on how a company is progressing towards its purpose and long-term success:

- In the first section, we highlight that investors view information on a company’s key stakeholders as critical to understanding the company and its prospects. We outline how investors want to see information on stakeholders’ relevance to the business model and strategy, the strength of stakeholder relationships, risks and opportunities, and performance and metrics.

- In the second section, we highlight that investors want to know what the strategic decisions were during the period, how such decisions were made, including how stakeholders were considered in reaching them, the difficulties encountered, and the outcomes of these decisions.

- The final section addresses better practice Section 172 statements, highlighting that the statements are not just about stakeholder engagement, but should reflect all aspects of the Section 172 duty to allow a better understanding of how a company is progressing in its pursuit of its purpose and long-term success.

Each section includes examples which reflect possible helpful ways of addressing some of the aspects highlighted by investors.
Information on stakeholders

Many investors believe they currently do not get sufficient information on stakeholders from companies themselves and, when information is provided, investors are concerned about “social washing” and too much generic information, without sufficient discussion of what really matters to the company and of any negative issues.

Investors we spoke to wanted companies to set out clearly:

• who are the stakeholders relevant to a company’s success and how they influence the operation of the business model and delivery of strategy – this includes information on:
  – who the key stakeholders are, i.e. identify the stakeholders the business model depends on, including those who become more relevant over a longer time horizon;
  – why these key stakeholders are important, including how the business model and strategy depend on them, how they have been considered strategically, and what value is created through the stakeholder relationship; and
  – what is important to the company’s key stakeholders, including the value the company creates for them and what encourages the stakeholder group to maintain a relationship with the company or discourages them from it.

• how the company builds and maintains strong relationships with its stakeholders and understands their interests, needs and concerns to enable it to pursue long-term success – this includes information on:
  – the actions the company is taking to build and maintain strong relationships with its key stakeholders, including how it engages and the feedback mechanisms it uses;
  – the board’s role in engagement, as well as the information the board receives about stakeholders and engagement; and
  – the feedback received and the outcomes of engagement, including the actions the company took in response and how it affected decisions.

• what could affect the company’s relationships with its stakeholders and how these relationships could affect the company’s pursuit of success – this includes information on:
  – market factors and trends or regulatory changes that have affected or could affect the company’s key stakeholders;
  – the risks that could affect key stakeholders and the company’s relationship with them, as well as the risks that the stakeholder relationships give rise to;
  – the mitigating actions taken to address these risks; and
  – the opportunities arising from key stakeholders which the company is considering strategically.

• what is measured, monitored and managed in relation to stakeholders, to understand the strength of a company’s relationships with its stakeholders and how they are contributing to the company’s success – this includes:
  – metrics used by management and the board to monitor and assess stakeholder relationships;
  – prior-years’ comparatives, targets and industry benchmarks to allow trend analysis; and
  – explanations of what affected the performance, whether a trend is likely to continue, and related actions to address performance issues.
**Information on decisions**

To understand how a company is progressing in meeting its purpose and its pursuit of success, investors want information on the decisions taken by management and the board since decisions link directly to the company’s strategy and will have implications for the company’s future. Investors told the Lab they expect decisions, and disclosures on those decisions, to:

- be connected to the company’s purpose;
- be aligned with the business model and strategy;
- take into consideration risks and opportunities; and
- consider how different stakeholders will be impacted.

Investors we spoke to wanted companies to set out clearly:

- the significant decisions taken during the year and how they link to the company’s purpose and strategic priorities, and for each significant decision:
  - how the board or management reached the decision, including information used to back it up and any long-term considerations;
  - how stakeholders were considered in reaching the decision, including consideration of feedback and engagement activities, and the impacts of the decision on different stakeholders;
  - the difficulties or challenges in making the decision, including how different stakeholder needs or concerns are balanced, and any short-term negative consequences which are offset by long-term benefits; and
  - the expected and/or actual outcomes of the decision, including how they are reflected in current performance and metrics, and the long-term implications on the company.

It is also helpful for investors to understand the process undertaken by the board for reaching principal decisions and its oversight when decisions are delegated to management. This helps them assess the board’s role in challenging and overseeing that decisions are conducive to the success of the company.

**Section 172 statements**

The Section 172 statement requirement has led many companies to reconsider how they engage with their stakeholders and has prompted them to specifically discuss significant decisions during the year. With the requirement having come into effect for annual reports published in 2020, investors expect to see companies report more significant and difficult decisions than usual, in light of the COVID-19 pandemic. Investors expect companies not to shy away from discussing thorny issues and to discuss how impacts and consequences on different stakeholders were considered. So far, investors have seen too many statements that just focus on stakeholder engagement and that are process-oriented without a consideration of outcomes. Instead, the statement should tackle what the company is doing to be successful for the long term and highlight the board’s role in this. Section 172 statements should address a company’s route to long-term success and reflect all of the (a-f) aspects of Section 172, with a particular focus on decisions.

The Lab’s tips on Section 172 statements, published in October 2020, provide a basis for what companies need to consider including in the statement and how to present it. In our discussions, investors emphasised that more useful Section 172 statements:

- do not only focus on stakeholder engagement, but consider the other aspects of Section 172;
- discuss principal decisions (linking to the long-term success of the company) and how stakeholders and other factors were considered in making those decisions;
- bridge information on stakeholders and decisions by considering them in a two-way approach, and incorporate both in the statement even if by cross-referencing;
- can be a standalone source of information which is still concise if cross-referencing is used well; and
- fit into a connected narrative linking to business model, strategy and how business is done (through consideration of governance and culture), demonstrating how the company is progressing in its pursuit of its purpose and long-term success.
Conclusion

This project has highlighted that investors are interested in how a company is progressing in fulfilling its purpose and achieving long-term success. Understanding how the company has considered its stakeholders and other Section 172 aspects strategically, including the company’s impact on the stakeholders it relies on, as well as understanding what and how decisions were taken in the interest of the company’s success, will help investors assess this progress. Currently, investors do not typically obtain sufficient insight from companies’ reporting on these areas, which is often considered generic.

Investors also emphasised the importance of a connected narrative throughout, whether the company is reporting on stakeholders, its decisions or its Section 172 duty. Such information is seen in the context of the whole annual report and investors’ knowledge of the company from other sources. Therefore, investors will be looking for consistency of message and alignment with the company’s purpose and discussion of business model and strategy. Companies need to also remember not just to focus on the positives, and to discuss more the outcomes of both engagement with stakeholders and of decisions, for both stakeholders and the company.

Finally, although this report reflects on reporting under UK requirements, these are matters of global interest which provide companies with the opportunity to improve practice across different jurisdictions. In addition, this information, while targeted at investors, may also be of interest to stakeholders themselves.

Examples used in the report

<table>
<thead>
<tr>
<th>Information on stakeholders</th>
<th>Barratt Developments plc, SSE plc, Handelsbanken, Fresnillo plc</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relevance to business model and strategy</td>
<td>Fresnillo plc, National Grid plc</td>
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<tr>
<td>Relationship with stakeholders</td>
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<td>Risks and opportunities</td>
<td>Taylor Wimpey plc, International Airlines Group (IAG), Barclays plc, Safestore plc, First Group plc</td>
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<tr>
<td>Performance and metrics</td>
<td>International Airlines Group (IAG), Next PLC, Spirax-Sarco Engineering plc, Associated British Foods plc (ABF), Pentland Brands</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information on decisions</th>
<th>BAE Systems plc, SSE plc</th>
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</thead>
<tbody>
<tr>
<td>Significant decisions</td>
<td>Fresnillo plc, Taylor Wimpey plc</td>
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<thead>
<tr>
<th>Section 172 statements</th>
<th>BT Group plc, Derwent London plc</th>
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<tr>
<td>Statements addressing (a)-(f) aspects</td>
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<td>Specific aspects of S172 duty: act fairly as between members</td>
<td>Fresnillo plc</td>
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<td>Specific aspects of S172 duty: communities</td>
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</tr>
</tbody>
</table>
Introduction

The requirement for a Section 172 statement introduced by The Companies (Miscellaneous Reporting) Regulations 2018, the UK Corporate Governance Code, the Guidance on the Strategic Report and other recent regulations have driven UK companies to increase reporting on their stakeholders (see Appendix 2 for more detail). In parallel, recent events, including the COVID-19 pandemic, and an increasing interest by investors and civil society alike, have also meant that treatment of stakeholders has been brought into sharper focus.

Calls for “stakeholder capitalism” are not just driven by stakeholder groups or their representatives, but also by investors who recognise that considering stakeholders is in the interest of the company and its shareholders in the long term. Asset managers and asset owners that sign up to the UK Stewardship Code and/or the UN Principles for Responsible Investment (PRI) need to integrate environmental, social and governance (ESG) issues into their investment process and, therefore, need to understand how the companies they invest in consider stakeholders.

“Companies that seek to build long-term value for their stakeholders will help deliver long-term returns to shareholders”
Larry Fink, Blackrock CEO, 2021 letter to CEOs

Given these requirements and developments, and in response to companies’ demand for guidance on reporting that best addressed investors’ needs, the Lab launched this project addressing Section 172 statements and reporting on stakeholders more broadly, i.e. beyond the statements. As part of this project, the Lab spoke to companies of differing sizes across a variety of industries to understand their approach to reporting on their stakeholders and the Section 172 duty. We also spoke to both institutional and retail investors to understand how they currently obtain information on stakeholders and what is missing or could be improved. In the course of our discussions, investors highlighted how they are seeking to understand how a company is progressing towards fulfilling its purpose and achieving long-term success. Besides information on how stakeholders are being considered strategically, they are interested in how the Section 172 duty of promoting the success of the company is being met, particularly the aspect concerning decisions and their consequences for the long term. The discussions further highlighted that the Section 172 statement should be a helpful bridge between information on stakeholders and on decisions.

Recent and upcoming developments

Numerous sustainability and ESG reporting frameworks and initiatives address stakeholders to a greater or lesser extent. As noted in a BEIS report on frameworks for standards for non-financial reporting, these include:

- Task Force on Climate-related Financial Disclosures (TCFD) recommendations, on which research by CDSB on how the four pillars could be applied to reporting on social factors, including stakeholders, is ongoing.
- Sustainability Accounting Standards Board (SASB) standards by industry, which include stakeholder metrics where relevant.

The FRC has already encouraged public interest entities to report under TCFD and SASB.

In 2020, the IFRS Foundation announced the proposed establishment of the International Sustainability Standards Board. Although the initial focus will be on climate reporting, it is expected that any new board will later address broader sustainability reporting with an investor focus. In the meantime, the International Accounting Standards Board has published an Exposure Draft on Management Commentary, which includes guidance on addressing stakeholders through its discussion of resources and relationships.

In October 2020, the FRC published a discussion paper on the Future of Corporate Reporting, where it considered the need to report to a wider set of stakeholders. Responses are being analysed and proposed next steps will be published later this year.

To reflect these discussions, the Lab’s report is structured around these two distinct but interrelated strands of information and Section 172 statements.
Section 1

Information on stakeholders

Investors want to understand:

- who are the stakeholders relevant to the company’s success, and how they influence the operation of the business model and delivery of strategy

- how the company builds and maintains strong relationships with its stakeholders and understands their interests, needs and concerns to enable it to pursue long-term success

- what could affect the company’s relationships with its stakeholders, and how these relationships could affect the company’s pursuit of success

- what is measured, monitored and managed in relation to stakeholders to understand the strength of the company’s relationships with its stakeholders and how they are contributing to the company’s success
Section 1: Information on stakeholders

The investor view

To understand how a company is progressing in meeting its purpose and its pursuit of success, investors need information on stakeholders. While much of this information is currently used for stewardship purposes, an understanding of a company’s stakeholders is critical to an understanding of that company’s business model and strategy, and the likelihood of its success. The COVID-19 pandemic has only further highlighted the importance of stakeholders and companies’ dependency on them and the need to improve reporting in this area.

“It's one thing to report, but it's another thing to actually do. Some companies have poor relationships with stakeholders but this is usually not reflected in reporting. It has to be authentic reporting.” Investor

Investors are looking for an honest dialogue and assessment of where the company stands with its stakeholders. A concern shared by many investors is that there is too much generic information, without sufficient discussion of what really matters to the company and its stakeholders and of any negative issues.

“Stakeholder sections tend to be very descriptive and paint a picture which is acceptable but not enlightening. These sections seem to be more of a policing health check – you won’t read anything that’s bad.” Investor

A few investors commented how the information they seek in order to understand how a company is pursuing success is aligned with the four pillars in the TCFD recommendations that were also found to be a useful structure for workforce reporting as set out in the in the Lab’s report on Workforce reporting. Those four elements (governance, strategy, risk management and metrics and targets) were raised by a range of investors, alongside the importance of a connected narrative across stakeholder issues.

Investors told us that when considering the business and its stakeholders, they are trying to understand and assess the following:

- **Relevance to business model and strategy** – who are the stakeholders relevant to a company’s success and how they influence the operation of the business model and delivery of strategy.
- **Relationship with stakeholders** – how the company builds and maintains strong relationships with its stakeholders and understands their interests, needs and concerns to enable it to pursue long-term success.
- **Risks and opportunities** – what could affect the company’s relationships with its stakeholders and how these relationships could affect the company’s pursuit of success.
- **Performance and metrics** – what is measured, monitored and managed in relation to stakeholders to understand the strength of a company’s relationships with its stakeholders and how they are contributing to the company’s success.

In addition, investors are interested in the governance and oversight that the board and management exercise across all the above elements. Reporting on the processes undertaken in considering and engaging with stakeholders can indicate to investors whether the company has the capability to detect particular issues through its monitoring and engagement, and the level of importance the company attributes to stakeholder matters.

However, while investors are interested in the “how”, what they are truly interested in and would like to see more of in the annual report is the *why* and the *outcomes* of processes, implementation of policies and engagement.

Investors told us they use a number of different sources for information on stakeholders. These include the company’s annual report, website and sustainability report, as well as data aggregators and providers. For some investors, the annual report is the first indication that a company’s board is engaged on stakeholder issues and they will use the information within the annual report, or lack thereof, as an engagement tool to drill for more information.
However, access to management and direct engagement, as well as some information from data providers, is often not easily available to retail shareholders, which is why publicly available information from the company itself, particularly within the annual report, is considered so important.

Yet, some investors believe they currently do not get sufficient information on stakeholders from companies themselves and so they look at external sources such as customer review sites, as well as using AI-driven data scraping tools. Such information is helpful for investors to corroborate what companies are reporting. This is especially relevant due to concerns of “social washing” or that reporting on stakeholders ends up being more of a public relations or marketing exercise.

The company view

Although many companies say that consideration of stakeholders has been part of “business as usual” for many years, the recent wave of new regulations has led companies to reassess, formalise and articulate how they think about and engage with stakeholders. Companies highlighted that in the past some stakeholders were viewed through a corporate social responsibility lens but they are now being assessed more strategically. Some companies have undertaken stakeholder mapping exercises to identify their stakeholders and the issues that matter to them. Companies have updated their board papers and minutes templates to remind both those preparing and those reading the papers to consider stakeholders. Some companies also told us they are seeing a better feedback loop as engagement feedback is now more visible to the board.

“Having to report on stakeholders is leading to improved practice and better engagement” Company

Companies noted the following challenges in reporting on stakeholders, including:

- identifying what is most important to report;
- balancing the need to provide useful information with not disclosing commercially sensitive information; and
- distinguishing between what the board and management does.

“There is a new level of transparency – we had to get the necessary buy-in on what needs to be communicated” Company

Tips for approaching stakeholder-related considerations and disclosures

- Assess stakeholders strategically. Whilst some companies felt that they were already doing this, the new regulations forced them to reassess.

- Really consider which stakeholders are most pertinent to the company. Disclosure on other stakeholders may be relevant and useful, but investors want to understand which stakeholders are considered to be most important by the board and management.

- Consider whether board paper templates and discussions need updating. However, this should not be the only way to evidence the company’s consideration of stakeholders. While the Section 172 duty, which includes consideration of stakeholders, is the directors’ duty, investors expect that stakeholders will be considered throughout the company, and not just by the board. Therefore, consider whether other processes and templates need to be updated too.

- There is not one right ‘owner’ of stakeholder relationships and reporting for every company. Integration and coordination is key.

- Consider highlighting key information through use of graphics and tables to help time-poor investors.
What investors want to see reported

In this section, we explore further what investors want to see included in information on stakeholders and identify some examples from current reporting practice which address particular aspects.

Relevance to business model and strategy

Who are the company’s key stakeholders?

Investors want to know who the company has identified as its key stakeholders, that is those stakeholders on which the company’s business model depends. Although there is a general expectation that the workforce and customers are likely to always be key and reported on, investors expect the key stakeholders to vary by company and want companies to reach their own conclusions in identifying the ones that are most important. Some investors told us that they are interested in management’s process for identifying stakeholders and how they decide why particular stakeholders are more important than others. One example of this is reporting on how the company conducted its stakeholder mapping exercise and a review in the current year (Rentokil Initial plc – page 24 of its 2020 annual report). Investors also expect companies to consider the following when identifying their key stakeholders:

- There are many possible stakeholders, not just those listed in Section 172. These could include future generations, lenders, governments and regulators. Some consider nature also to be a stakeholder.

- There are stakeholders that are relevant for the long term and those who become important if there is a problem – these need to be monitored regularly, and as a result, prioritisation of stakeholders may vary over time.

- Key stakeholders will be ones the company impacts, but also ones the company may want to avoid impacting.

- Companies also need to consider the connectivity between stakeholders, for example, employees are future pension holders and communities hold potential customers or future employees.

“Without employees you cannot run the company but without customers you cannot sustain the company.” Investor

“There is no harm in not talking about a stakeholder group if it is genuinely not applicable – companies should set out how they thought about the impacts and explain why they are not key (if they would generally be expected to be).” Investor

Investors also need information to assess who makes up each stakeholder group. Although information about the identity of stakeholders may not be possible due to commercial sensitivity or practical reasons, information about the number of individuals or organisations within a stakeholder group and where the stakeholder is located would be helpful. Such information can be valuable in enabling investors to assess associated risks and how the stakeholders could influence the company’s success.

Companies should also consider whether information about key stakeholders applies across a whole group or whether there are significant differences in regions, business units or segments. Investors want sufficient granularity and disaggregation so that underlying issues cannot be masked.

“Stakeholder relationships are often a key source of value that help to ensure that an entity’s success is sustainable over the longer term. It is important that boards identify [the company’s] key stakeholders and the importance of those stakeholders to the long-term success of the company.” paragraph 8.16, Guidance on the Strategic Report

Why are these stakeholders important?

Investors want to know how the key stakeholders fit in with the operation of the business model and the delivery of strategy, and ultimately, purpose and the company’s long-term success. They want to understand how stakeholders have been considered strategically and what the related strategic long-term priorities are. Information on the implications of loss, damage or reduction of a stakeholder relationship, such as loss of skills or intellectual capital, reputational damage or fines should also be provided. In this way, investors can be reassured that such issues are being considered by management but can also assess the implications on the company’s success.
“There will be instances where it really matters to focus on certain stakeholders – you also need to realise that they impact each other besides also considering them individually.” Investor

“Companies need to consider the circular impact of stakeholders and cannot just focus on one particular stakeholder group, as an emphasis on just customers for example, giving priority to speed of low-cost delivery could be detrimental to employees and suppliers if the counter effect is not considered.” Investor

**To help investors understand who are the stakeholders relevant to the company’s success and how they influence the operation of the business model and delivery of strategy, companies should ask themselves:**

<table>
<thead>
<tr>
<th>Who are the company’s key stakeholders?</th>
<th>Why are these stakeholders important?</th>
<th>What is important to the company’s key stakeholders?</th>
</tr>
</thead>
<tbody>
<tr>
<td>On which stakeholder groups does the business model depend?</td>
<td>How does the business model depend on these stakeholders?</td>
<td>What value does the company create for its key stakeholders?</td>
</tr>
<tr>
<td>Are there different relevant stakeholders for different business units, segments or locations?</td>
<td>What role do these stakeholders play in enabling the company to achieve its strategy?</td>
<td>What encourages or discourages the stakeholder group in maintaining its relationship with the company?</td>
</tr>
<tr>
<td>Are there stakeholders who become more relevant over a longer time horizon?</td>
<td>How does the continuity and strength of the relationship affect the company’s ability to deliver on its strategy?</td>
<td></td>
</tr>
<tr>
<td>Who makes up each stakeholder group and where are they located?</td>
<td>How are these stakeholders considered strategically?</td>
<td></td>
</tr>
<tr>
<td>How does the company identify its key stakeholders and is this appropriate?</td>
<td>What value is created for the company through the stakeholder relationship?</td>
<td></td>
</tr>
<tr>
<td>How often are key stakeholders reviewed, including consideration of whether new stakeholders have emerged or will become key?</td>
<td>Which stakeholders could detract value from the company?</td>
<td></td>
</tr>
</tbody>
</table>

**What is important to the company’s key stakeholders?**

By recognising and providing information on what is important to their key stakeholders, investors can assess how value creation for stakeholders affects value and success for the company. The value created is not necessarily quantifiable. What is important to stakeholders should ultimately link back to why they are important for the company. If these matters affect the continuity of the relationship, they then have an effect on the company’s business model and strategy. A possible way of reporting this is by depicting the company’s materiality assessment.

The examples on pages 13-16 reflect possible ways of addressing some of these aspects, and below we set out some questions for companies to consider when reporting who the key stakeholders are and their relevance to business model and strategy.
What is useful?

For each of its strategic priorities and principles, Barratt Developments outlines the objectives and (qualitative) value created for the relevant stakeholders over the short, medium and long term and the progress so far.

Barratt Developments plc
Annual Report 2020 pg 64

Outcomes from engagement

- Shareholders kept fully informed of the performance of the Group.
- Full understanding of the Board’s decisions as a consequence of COVID-19 and the subsequent business reset and how this impacts them.
- Reassurance that the Group continues to be in a strong position and remains a good investment opportunity.
- Better understanding of shareholder expectations in respect of ESG matters particularly climate change risks and opportunities and how we relate to the UN SDGs.

Effect of engagement with shareholders on Board decisions

- Return of CJRS grant income.
- Review of future office space requirements.
- Cancelled the interim dividend scheduled for payment in May 2020.
- Decided to not recommend a final ordinary or special dividend for FY20 in order to conserve cash.
- Committed to science-based carbon emission targets and disclosures in line with the TCFD.
- Satisfied share schemes via market purchase rather than new issue.

Barratt Developments plc
Annual Report 2020 pg 38-48

What is useful?

As part of its S172 statement, Barratt Developments’ stakeholder engagement section includes Venn diagrams for each stakeholder group’s interests and concerns, highlighting how these have changed from before and during the pandemic, and what they expect them to be after lockdown. For each stakeholder group they also include the outcomes of engagement and the effect on board decisions.
**What is useful?**

SSE’s introduction to the stakeholder engagement section includes a diagram highlighting the inputs and outputs (i.e. a two-way consideration) of the relationships for its key stakeholders, addressing the benefits that the company and stakeholders obtain respectively.

SSE aims to have a two-way constructive relationship with the following six key stakeholder groups. By considering their perspectives, insights and opinions, SSE seeks to ensure outcomes of operational, investment or business decisions are more robust and sustainable.
**Handelsbanken**

Annual and Sustainability Report 2020 pg 42

**What is useful?**

Handelsbanken discloses distribution of economic value creation amongst different stakeholders across five years, allowing for comparison with prior years, and clearly highlights where no distributions (e.g. dividends) were made during the year.

**Distribution of economic value**

<table>
<thead>
<tr>
<th>Year</th>
<th>Salaries</th>
<th>Allocation to profit-sharing scheme</th>
<th>Social security costs</th>
<th>Suppliers</th>
<th>Tax expenses</th>
<th>Fees resolution fund, etc.</th>
<th>Dividend</th>
<th>Reinvested economic value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>9.4</td>
<td>0.2</td>
<td>5.7</td>
<td>8.0</td>
<td>4.5</td>
<td>1.4</td>
<td>-</td>
<td>12.9</td>
</tr>
</tbody>
</table>

The preliminary allocation to the Oktogonen profit-sharing scheme made in 2018 and reversed in the first quarter of 2019, is not shown in the above diagram.

**Economic value creation**

By being cautious in our approach to running a bank, we can support our customers in all financial situations. By sharing our knowledge, we can help improve our customers’ financial abilities. When we meet our undertakings we can make a positive difference in the communities we serve. The Bank’s decentralised ways of working, with trust and respect for individuals, permeates our whole corporate culture. This applies regardless of where we conduct operations. Our staff have great responsibility and authority to make decisions in all kinds of matters that concern our customers.

It is also vital that a bank makes a profit. Not only does the profit generate tax revenue for the community and a return for shareholders, the remaining part can be reinvested in the operations. In this way, economic value can be created and we can grow and meet customers’ future needs, such as for loans. In the same way as a manufacturing company must have sustainability in focus when processing its raw materials, a bank must have a sustainability perspective when working with money – in other words when we invest our customers’ savings capital and when we work with financing.
**What is useful?**

As part of its materiality assessment, Fresnillo identifies issues by stakeholder group or topic and the degree of relevance to the company. Fresnillo provides a materiality map not only for the current year but also for 10 years ahead, showing how issues change in importance.
Relationship with stakeholders

What actions is the company taking to build and maintain strong relationships with its key stakeholders?
Investors want information on the actions that a company is taking to build and maintain strong relationships with its key stakeholders. This is not only about engaging with stakeholders, but also about monitoring the relationship and how management and the board use information to understand the stakeholders’ interests, needs and concerns.

When it comes to reporting on engagement, investors note that companies tend to discuss the engagement mechanisms in detail, particularly for employees. However, many companies do not sufficiently discuss the outcomes of the engagement, including the feedback received, how the company responded to it, and what implications it has on strategy and decisions. As highlighted in the FRC’s 2020 Annual Review of Corporate Governance Reporting, there needs to be a two-way process of engagement which ensures that stakeholders’ views are being heard (and reflected in reporting), as some engagement seems to be more about just informing stakeholders. See Fresnillo for a discussion of actions and outcomes as a result of engagement.

“Companies are good at saying what engagement they’ve done but not what they’ve learnt from it.” Investor

Investors also highlighted that discussion of feedback or outcomes often did not sufficiently address negative feedback or problems. Investors expect honest disclosure on disappointing feedback which then includes the actions that the company is taking to address such issues.

“Negative news needs to be presented with how the company is planning to address it if it is reasonably significant – it is important to reassure stakeholders that it’s a problem under control and that there are plans in place.” Investor

Investors recognise that the majority of engagement is undertaken by management, but they do expect the board to engage where relevant (including through designated non-executive directors and committees). They also expect the board to have oversight of the engagement and receive insights, which together are considered in decision-making and in assessing whether any actions are needed to improve stakeholder relationships. Disclosure which distinguishes between engagement at a company/management level and the board’s role, including assigned director responsibilities, board oversight and direct engagement, is helpful (e.g. by Fresnillo). National Grid also distinguishes between board and company level, and breaks down the latter at regional level where relevant.

Especially in light of the COVID-19 pandemic, investors are also interested in actions that a company is taking to support its stakeholders to ensure a continuing relationship and sustain the pursuit of the company’s success. Evidence of supporting stakeholders in difficult circumstances, and doing the right thing by them, indicates that the company is more likely to in turn have supportive stakeholders enabling it to create value and be resilient and successful.
To help investors understand how the company builds and maintains strong relationships with its stakeholders and understands their interests, needs and concerns to enable it to pursue long-term success, companies should ask themselves:

**What actions is the company taking to build and maintain strong relationships with its key stakeholders?**

- How does the company engage with its key stakeholders?
- Does engagement differ across business units, segments or locations?
- What is the board’s role in this engagement?
- Where the board does not engage directly, what information does the board receive about the stakeholders and the engagement with them?

**What feedback mechanisms are used?**

- What was the feedback received from stakeholders?
- What are the outcomes of this engagement?
  - How did the company respond to feedback received?
  - What actions has the company taken to address the feedback or in response to other information about the stakeholder group?
  - Has the company made any changes to its strategy in response to stakeholder feedback?

**How do management and the board get comfort that appropriate and sufficient engagement is taking place and that the company is acting on feedback received?**

**How do management and the board get comfort that appropriate policies around stakeholder relationships are in place and that these have been reliably followed?**

**Has the company taken any actions to support stakeholders in view of difficult circumstances or other factors?**
In its section “Relationships with key stakeholders”, Fresnillo distinguishes between what management does and what the Executive Committee and Board do in terms of engagement. In addition, they include governance activities and, where relevant, highlight the designated non-executive director and their activities. The section also discusses actions taken during the year and what’s planned based on the engagement undertaken.
### What is useful?
National Grid’s S172 statement distinguishes between company and board-level engagement and, where relevant, it also distinguishes engagement at a divisional level (UK and US).

<table>
<thead>
<tr>
<th>Stakeholder group</th>
<th>How we engage and communicate</th>
<th>How stakeholder interests have influenced decision-making and the execution of our strategy</th>
</tr>
</thead>
</table>
| **Company engagement**<br>**UK** - regular interactions with Ofgem and the Health and Safety Executive. The Company also organises stakeholder fora and consultations with stakeholders, including members of the public, our suppliers and customers around specific projects and proposed business plan submissions for RIIO-2.<br> We work with other networks and organisations outside of the energy industry to identify good practice.<br>**US** - regular interface with both federal and state regulators and customers on an ongoing basis, as well as the pre-filing stakeholder engagement programme in the build-up to and during any rate case process. Specific engagement was undertaken regarding the decarbonisation pathways and the Niagara Mohawk Power Corporation advanced metering infrastructure. | In the UK, discussions with our regulators have contributed to the productive outcome of key business issues such as:<br>• the 9 August 2019 power outage: the Company had regular engagement with Ofgem and the UK government, and the Board regularly discussed the outcome of investigations and reports focused on this, including the response to Ofgem on the findings from the investigation. In January 2020, the Board welcomed Ofgem’s report on this incident which confirmed that our actions did not cause the outage.<br>• the future of our ESO business, which will be reviewed by Ofgem following legal separation last year.<br>• RIIO-2 business plans: for the development of the RIIO-2 business plans, we have followed Ofgem’s enhanced stakeholder engagement process, which is based on greater engagement with our industry and end consumers to prioritise their needs in our RIIO-2 business plans. Three independent groups were established to provide challenge throughout this process – two independently Chaired User Groups, one for the ESO and one for the transmission businesses) and an Ofgem Challenge Group. Regular discussions were held at the Executive Committee and the Board on progress with stakeholder engagement, the development of the RIIO-2 business plans and on interactions with the challenge groups. On invitation, the Chairs of the Chaired Independent User Groups met with the Board in 2019. Following a period of engagement with Ofgem, we submitted our final business plans for RIIO-2 in December 2019. Thereafter, engagement has continued with Ofgem evidencing various aspects of the Company’s RIIO-2 business plans such as the formal question and answer process to explore our RIIO-2 business plan submission ahead of its draft and final determinations later in 2020. In the US we refined the Company’s regulatory strategy and business planning for rate cases and other US regulatory priorities. The Company’s rate case pre-filing stakeholder engagement programme has become a major contributor to the Company’s successful rate case outcomes. The external reviews conducted on the gas moratorium have highlighted lessons and recommendations which are already being implemented. In the short term, all affected customers have been contacted and plans are in place to make sure that they are connected to a gas supply in the near future. Medium- to long-term solutions that are in the best interests of our customers and regulators continue to be progressed. The Board is closely monitoring the output of these developments. |**Our regulators**

The Board met with the Chair, CEO and incoming CEO of Ofgem in November 2019. The topics of conversation included our net zero ambition, with a focus on practical solutions to move the agenda forward. The discussions also covered RIIO-2.

The outcomes of engagement activities are reported to the appropriate forum and ultimately to the Executive Committee and Board. In the US, any rate case engagement is reported up to the Executive Committee and the ordering of Executive Committee and Board as appropriate.

The Board met with the Governor of Massachusetts and a member of the Governor’s office in March 2019. Recognising the severity of the adverse reaction of various stakeholders to the gas moratorium that was enforced by the Company in downstate New York, the Board commissioned two external reviews to understand how the US business had made the original decision. Long-term solutions are being implemented. |**Views of other stakeholder groups considered**

Customers, Investors, Communities and governments, Suppliers, Our colleagues. |
**Risks and opportunities**

**What could affect key stakeholders and how do they affect the company?**

Investors want information about what could affect a company’s relationships with its stakeholders and how these relationships could affect the company’s pursuit of success. Investors will be aware of trends and factors that could affect a company’s stakeholders and will be forming an opinion on related risks and opportunities. However, they want to understand the board and management’s own assessment. They want information on:

- how management makes its risk assessment and monitors risks, which is in part addressed by how management understands who its stakeholders are and what their concerns are;

- factors that are affecting or could materially affect stakeholders, such as market trends, economic factors, technological change, social movements and new legislation and the resulting risks or opportunities;

- what are the risks and opportunities associated with stakeholders and how the company is responding to them.

The COVID-19 pandemic highlighted that certain risks affecting stakeholders, particularly customers and suppliers, were not sufficiently considered and disclosed. Investors hope that this increased awareness will lead to better practice and reporting, including an honest depiction of the uncertainties and consequences for the business model. Some investors are concerned that disclosures can still be too positive, even when discussing implications of new government-imposed restrictions and changes in people’s attitudes which could drastically affect the way stakeholders interact with a company and how a company operates.

"It’s a shame it took a pandemic to bring certain stakeholders and risks into focus.” Investor

This information could be included either in the risk section or in the stakeholder section in the annual report – what is important is that there is good linkage between the different sections where these issues are relevant, including discussion of business model and strategy. We set out some helpful examples of reporting on trends and opportunities on pages 22-23. Disclosures of risks and opportunities will be addressed in the Lab’s upcoming project report on reporting of risks and uncertainties, which will be published later in the year.
Uncomfortable Truths and Difficult Decisions
In many ways the last ten years have been about adapting to the simple truth that, initially, we did not want to believe: Retail stores were, and will remain, at a fundamental and irreversible disadvantage to online competition. This is not being driven by price or even home delivery, but by the scale of the choice websites can offer relative to any physical store. The annual decline in Retail like-for-like sales has become the new normal, and looks set to remain that way for many years.

The moment we reconciled ourselves to that fact was, in some ways, a new beginning. Managing the transition was harder than fighting it, but much more productive. It allowed us to follow the new money rather than defend the old.

Following the money can be uncomfortable, because new ideas often pose a threat to existing businesses. The decision to compete with ourselves through selling third-party brands and, more recently, the opening up of our sourcing skills to other brands through licensing were not entirely uncontroversial. We have learned to embrace these and other opportunities nonetheless.

Our view is simple: there is nowhere to hide on the internet, and we are better to collaborate with other brands to our mutual benefit, than cling on to past advantages in the vain hope our customers will not find the competition. And of course, the broader our product offer, the more relevant our website becomes to an increasing number of customers.

OUTLOOK FOR THE YEAR AHEAD

Uncertainty on Many Levels
It is hard to think of a year where the outlook has been so uncertain. The health of the consumer economy, the future course of the pandemic and the prospects for Retail stores remain unknown. It also remains to be seen how many of the product preferences and shopping trends induced by the pandemic will persist once life returns to normal. The following paragraphs set out our thinking on the main uncertainties facing the business and our guidance for the year ahead.

Assumptions About the Consumer Economy and Future Lockdowns
Our best guess is that the consumer economy, at least in the short term, will be healthier than many presume. It seems likely that a combination of pent-up demand along with a healthy overall increase in personal savings will serve to keep the consumer economy moving forward.

Whether or not there will be further lockdowns this year is impossible to predict. We have (perhaps optimistically) assumed that the rollout of COVID vaccines will result in stores remaining open for the year, once the current lockdown has passed. If this assumption is not correct, it is unlikely we will meet our central guidance for sales and profit.

Structural Change and the Future of Retail Stores
There remains a big question mark over the level of sales our stores will achieve when they reopen. The pandemic has served to accelerate a pre-existing social trend - the move to more online shopping. History has been given a shove and, having moved forward, seems unlikely to reverse.

That said, the steady reduction in Retail occupancy costs, the continued relevance of our stores to online shopping through collections and returns and (perhaps) the closure of competing shops, mean that the battle to keep our stores relevant in an online world is far from over.

So our base case for the year ahead is that store sales will decline, on a like-for-like basis, by -20%. At this level (after reversing out the effects of the current lockdown) our store network would remain marginally profitable (see page 49).

Next PLC
Annual Report January 2021 pg 11, 13, 16

What is useful?
Next discusses the difficulties and uncertainties affecting the company because of the pandemic and changing customer behaviours affecting retail, particularly its store strategy. Next also provides an analysis of online customer ordering patterns and insight into sales opportunities.
Diageo includes a detailed discussion of market trends and consumer behaviours (including interest in the company’s treatment of other stakeholders), which addresses how each trend affects the company and what the related response is. The trends are also linked to relevant strategic priorities. In discussing the strategic priority, which is linked directly to market dynamics and consumer behaviour, Diageo provides further detail on its response and future goals.

Diageo plc
Annual Report
June 2020
pg 14-16, 24-25

Market dynamics
- Consumers want to think better
- A complex regulatory environment
- Consumers expect businesses to act responsibly
- Consumers are changing how they buy
- Consumers are increasingly choosing spirits
- An emerging middle class who can afford International-style spirits

Strategic outcomes
Credibility and trust, Engaged people

Alignment to UN SDGs

Progress in 2020
- Met our 2025 target on reaching 200m people with moderation messages from our brands
- Responded to Covid-19 through online resources combating underage drinking, tooling, drinking and promoting moderation in lockdown

Looking ahead to 2021
- Continue to promote positive drinking by promoting moderation and reducing underage drinking, drink driving and heavy drinking
- Go beyond our 2025 targets as we develop our strategy for 2026

Promote positive drinking
We want to change the way the world drinks for the better, by promoting moderation and addressing the harmful use of alcohol. Our goal is for people to ‘drink better, not more’ – because we are proud of our brands and we know that the best way for them to be enjoyed is responsibly.

Our brands have been part of people’s celebrations for generations. We take huge pride in them and we want people to continue enjoying them responsibly in the future.

We want everyone at Diageo to be an advocate for positive drinking and we have long campaigned to reduce alcohol-related harm. We know that for most people who drink alcohol, drinking responsibly is common sense – but we also know that harmful drinking causes significant issues for individuals and for society.

Promoting moderation is the right thing to do, and it’s an essential part of our Performance Ambition. Our commercial success depends on us creating a positive impact on society, wherever we live, work, source and sell.

We aim to lead our industry in reducing underage drinking, drink driving and heavy drinking. We are working to empower our people and brands to make moderation the norm and we advocate improved laws and industry standards around the world.

Promoting moderation
We aim to reinforce the message of moderation in everything we do.

We want our people to be ambassadors and we are using the reach and influence of our brands to carry moderation messages to consumers. For example, we continued to build on the success of our “Guinness Clear” moderation campaign in the United Kingdom and Ireland through television and video on demand. Further campaigns bringing home the message of moderation to sports fans were run by Bundaberg, Captain Morgan and Crown Royal.

Our goals for positive drinking
- Change the way the world drinks for the better
- Lead the industry in reducing underage drinking, drink driving and heavy drinking
- Empower our people and brands to advocate moderation

We have set ourselves stretching targets to reach by 2025.

These campaigns enabled us to meet our target of reaching 200 million people with moderation messages from our brands five years early. We are proud of this achievement and we look forward to building on this commitment.

Addressing underage drinking
We have a longstanding commitment to tackling underage drinking. It is never acceptable for people underage to drink alcohol and we welcome the fact that fewer young people are drinking under age in many countries. Our programmes aim to ensure that this downward trend continues and they have reached more than 375,000 people this year, across 20 countries.

They include our flagship “Smashed” education programme, which combines a live theatre production presented by professional actors with interactive workshops, evaluation and reaching resources for schools. In May 2020, we launched an online version of Smashed in the United Kingdom, making it available to more than a million school children.

Preventing drink driving
We have a longstanding commitment to addressing drink driving through a range of interventions. We invest in partnerships with police, local authorities and other agencies that support enforcement; we provide education for drivers and law enforcers; and we support safe rides and public transportation.

One of our key partnerships is with UNITAR, the United Nations Institute for Training and Research. The partnership supports road safety events aimed at reducing traffic accidents and injuries and improving road safety globally. It has a particular focus on high-visibility enforcement in Latin America, Asia and Africa. In April 2016, in response to Covid-19, we collaborated with UNITAR as it launched a series of online training resources in English and Spanish for government officials responsible for road safety and law enforcement.

73% of consumers believe it is not enough for brands to be environmentally responsible – they should be socially responsible too.

Section 1: Information on stakeholders

23
Performance and metrics

As part of this project, investors reiterated their desire for information about performance and progress against strategic objectives and targets. In respect of stakeholders, this will primarily be non-financial information but could also relate to financial metrics, such as spending on employees or revenue from customers. Performance information is useful where it helps investors assess the strength or otherwise of a relationship with a stakeholder and see how that affects the pursuit of strategy, and ultimately the company’s success. Investors also want to understand the metrics that management and the board are using to monitor, understand and manage their stakeholder relationships and assess where improvements are necessary.

The principles for reporting metrics identified in the Lab’s report Performance metrics – principles and practice are still relevant and apply to metrics in relation to stakeholders too:

**Aligned to strategy:** Investors want to know how metrics tie into the strategy, reflecting what is being monitored by the board and management for their assessment on the delivery of strategy, but they also want the metrics which give insight into the capability of meeting and delivering the strategy. These should ultimately be the same, which is why it is useful for companies to explain why the key performance indicators (KPIs) and metrics chosen are important to the company (e.g. Taylor Wimpey). An alternative presentation is a dashboard view such as Barclays’ table of KPIs by key stakeholder group, which in turn are linked to strategy and the business model. Linking to remuneration is another way of highlighting the importance of KPIs but as noted in the FRC’s May 2021 research on remuneration reporting, although many companies used non-financial KPIs such as diversity or health and safety KPIs in executive pay formulas, they often did not explain why these were chosen or how they were formulated. More granular metrics can indicate the current success of strategy and plans, e.g. customer and employee satisfaction scores, and/or provide insight into the future “health” of the drivers of value and any related risks, e.g. diversity, training and turnover metrics. We noted reporting that included detailed breakdowns of employee departures, including dismissals, by country, and average remuneration by categories of seniority, age and gender. While these disclosures can be helpful as data builds up over subsequent periods, companies should provide their interpretation of the results and discuss any actions to address related performance issues or stakeholder matters reflected by the metrics.

**Transparent:** Transparency in metrics is achieved through genuine explanations of what is driving the performance and through consistent application. This is particularly relevant in the context of COVID-19 where there is the potential to either use the pandemic as an excuse for poor performance or to ignore its effect if the result is positive. An example of where the effects of COVID-19 have been addressed is IAG’s discussion of its net promoter score. A consistent concern we hear from investors is over-emphasis of the positives and insufficient discussion of the negatives. Providing a trend analysis for a metric is undeniably helpful in identifying whether something has gone wrong, but companies need to be transparent and upfront on the reasons why. It is also helpful to explain what went wrong, even when it is not evident within the KPI or there has been an improvement in the year.

**In context:** Context can be provided through clear definition of the metric and the target and objective to be achieved (e.g. Safestore). Providing market background or an industry benchmark or sector average (e.g. First Group) is also helpful in contextualising the company’s performance.

**Reliable:** Investors recognise that some areas of stakeholder reporting and relevant metrics are still in their infancy and developing, which is why it is important to include descriptions of how the metrics were measured. Information on whether the metrics were subject to assurance or to board oversight are helpful. Using or corroborating own metrics with third party measures is another way of enhancing reliability. More investors are using review sites as supporting evidence on stakeholder performance. Therefore, recognition by companies of this external information in support of their stated performance is useful. Safestore uses a variety of customer review sites, depending on which is prevalent in a particular market, while Rentokil Initial plc includes extracts from employee reviews across different divisions and its rating from Glassdoor also notes that the board reviews the ratings as part of its monitoring of culture.
Consistent: Investors want consistency in metrics to be able to track them over time. Depending on when the data starts being collected and monitored, the ideal track record would be over 5 years (e.g. First Group). Consistency does not mean that metrics cannot change if new ones become more relevant, but if a change takes place, the reason why and the new definition needs to be explained. As internationally recognised ESG standards start to develop and be required, investors will eventually expect consistency against those standards.

Taking these principles into account, we set out some questions for companies to consider when reporting performance and metrics on stakeholders.

Some stakeholder metrics that investors told us they want:

**Customers:**
- Net promoter scores
- Satisfaction metrics
- Churn rates

**Employees:**
- Turnover/attrition
- Satisfaction scores
- Remuneration/wage differentials
- Health and safety metrics
- Diversity
- Training

**Suppliers:**
- Due diligence (undertaken and findings)
- Payments

There are other stakeholders and other metrics that investors will be interested in, depending on the company. Metrics should be reported if relevant to the industry and material to the company. Breakdown of metrics by location or business units should be provided where possible.

To help investors understand what is measured, monitored and managed in relation to stakeholders, as well as understand the strength of a company’s relationships with its stakeholders and how they are contributing to the company’s success, companies should ask themselves:

**What are the metrics used by management, including risk management, to monitor and assess relationships with stakeholders?**

- Which metrics on stakeholders link to the achievement of strategic priorities and objectives?

For the metrics presented, consider:

- What affected the performance in the year? Is this a trend that is likely to continue? If it is not the desired performance, what steps are being taken to rectify the situation?

- Are the metrics representative of the whole company’s performance? Should metrics by division be presented?

- Are there quantified targets against which to compare performance in the year?

- Are there industry or market measures or benchmarks against which to compare the company performance?

- Are there third party data points or measures which can corroborate performance measured internally? Are these reviewed by the board?

- Are the metrics subject to assurance?

- Are there consistently-applied definitions for the metrics? Are prior-year comparatives, ideally presenting a 5-year trend, available?
Taylor Wimpey plc links its performance and KPIs to its strategic priorities and relevant stakeholders. Each associated KPI includes a track record, definition, objective/target and its importance to strategy. The strategic priority is also linked to the principal risks which could affect the performance.
What is useful?

IAG links its KPIs to its strategic priorities to which stakeholders are also mapped. When explaining its Net Promoter Score, it highlights that although the score has risen favourably, this cannot be compared to past performance and is unlikely to be comparable to future performance due to the pandemic. However, IAG explains the trend for the proportion of the year that would have been comparable (i.e. pre-pandemic).

### Strategic priority

#### Unrivalled customer proposition

<table>
<thead>
<tr>
<th>Our activity in 2020</th>
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</thead>
<tbody>
<tr>
<td>In the wake of the COVID-19 pandemic, the Group’s portfolio of brands focused on supporting the wider community in tackling the impacts of the pandemic. In order to aid the COVID-19 relief efforts, the Group has flown critical equipment and essential medical supplies across the world, and each of the Group’s airlines offered repatriation flights to bring customers safely home after the introduction of COVID-19-related travel restrictions and border closures. Each brand and operation also focused on supporting their local communities through charitable work such as volunteering at local hospitals, donating supplies and delivering care packages. IAG’s airlines have adapted the customer journey by introducing a range of measures to support consumer confidence. With the COVID-19 pandemic resulting in variable and unpredictable travel rules, the Group’s airlines have implemented commercial reassurance measures for customers, such as extending flexible booking policies and guaranteeing flights that will operate. In addition, IAG supported the development of a COVID-19 insurance product aimed to support and protect customers against travel restrictions and health concerns. The Group has influenced and trialled industry guidelines for safe travel, such as IATA’s Council Aviation Recovery Taskforce (CART) ‘Take-off’ Guidance. IAG has also been working with government and industry bodies to call for an effective COVID-19 testing procedure which could be used to reduce or remove quarantine requirements and enhance passenger safety onboard. In support of this, British Airways, together with its joint business partner American Airlines and the oneworld alliance, has trialled COVID-19 testing on routes from the USA to London Heathrow. All brands have also updated their customer communications to provide clear guidance on the new airport and onboard procedures, COVID-19 specific entry requirements for relevant destinations and an overview of the enhanced cleaning measures adopted by the airline.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Our performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our performance in 2020 on the Net Promoter Score (NPS) was 36.7 (+10.9 pts v/y). This is a significant change for the customer experience and the data shows a positive trend. The NPS measures customer satisfaction and how likely customers are to recommend the airline.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KPI or Industry measure</th>
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</thead>
<tbody>
<tr>
<td>Net Promoter Score (NPS)</td>
</tr>
<tr>
<td>2020</td>
</tr>
<tr>
<td>36.7</td>
</tr>
<tr>
<td>+10.9 pts v/y</td>
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</table>

**Definition and purpose**

NPS is a non-financial metric which measures the customer’s sentiment and loyalty to a brand. At IAG a transactional NPS is measured: customers respond about their likelihood of recommending an IAG operating carrier no more than seven days after taking a flight. Including NPS targets in the Group’s workforce bonus scheme has driven a stronger focus on improving the customer experience, which together with customer advocacy drives competitive advantage, leading to faster organic growth.

**Performance**

IAG’s NPS in 2020 increased 10.9 points versus 2019, achieving record levels of customer satisfaction and growth across all IAG airlines. However, this score must be viewed in the context of the pandemic. The COVID-19 pandemic has altered customer expectations and demanded a significant change in the flying experience. IAG has adapted the customer journey by introducing a range of reassurance measures to protect the safety and wellbeing of our customers, including revised service routines to promote social distancing, increased levels of aircraft cleaning and the provision of complimentary personal protection packs to all customers on board. The customer response to these and other reassurance measures has been overwhelmingly positive.

At the same time, the reduced flying schedule in 2020 has helped deliver improved on-time performance whilst the decrease in customer demand has contributed to lower load factors, both of which have historically been closely correlated with customer satisfaction.

The impact of the COVID-19 pandemic on the flying experience makes comparisons with prior and future periods challenging, however the Group’s NPS performance in the first two months of 2020 (when customer demand was similar to that of the prior year) exceeded equivalent 2019 levels, suggesting a continuation of the positive customer satisfaction trends exhibited in recent years in the absence of the COVID-19 pandemic.
Barclays PLC
Annual Report 2020 pg 22-23

What is useful?
 Barclays provides the key measures it monitors on each of its stakeholder priority groups in one location, after its S172 statement and descriptions of dialogue with those stakeholders. The metrics have a comparison allowing for an understanding of trends. Further detail on the stakeholders and additional measures can be found in the cross-referred pages.

Customers and clients
 We aim to build trust by offering innovative products and services, with an excellent customer and client experience, such that customers and clients are happy to recommend us to others.

Colleagues
 We promote and maintain a diverse and inclusive workforce in which colleagues of all backgrounds are treated equally and supported to achieve their potential within a positive, values-based culture.

Society
 We manage the environmental and societal impact of our business, making decisions that provide all our stakeholders with access to a prosperous and sustainable future.

Investors
 Our ambition is to generate attractive and sustainable returns through the economic cycle. We measure our progress through our Group financial targets.

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Barclays UK Not Promoter Score (NPS)**

<table>
<thead>
<tr>
<th>Year</th>
<th>NPS</th>
</tr>
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<tbody>
<tr>
<td>2020</td>
<td>68</td>
</tr>
<tr>
<td>2019</td>
<td>74</td>
</tr>
<tr>
<td>2018</td>
<td>68</td>
</tr>
</tbody>
</table>

This NPS is a view of how willingness customers and recommend our products and services to others.

Consumer, Cards and Payments US customer digital engagement %

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>71.4</td>
<td>75.0</td>
<td>65.4</td>
<td></td>
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</tbody>
</table>

Metric shows percentage of digitally active CLAB* US customers.

Barclays UK complaints excluding PPI %

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>186</td>
<td>5</td>
<td></td>
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</table>

We received a significant volume of PPI-related claims leading up to the FCA deadline of 28 August 2019. As such, the underlying trend provides a more meaningful comparison.

Colleague engagement %

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>86</td>
<td>77</td>
<td>78</td>
<td></td>
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</table>

This is a measure derived from our one engagement questions in the Full Year survey.

Females at Managing Director and Director level %

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
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</thead>
<tbody>
<tr>
<td>9</td>
<td>7</td>
<td>6</td>
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</table>

Metric reflects % females at Managing Director and Director level within Barclays.

*I would recommend Barclays as a good place to work* %

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>67</td>
<td>60</td>
<td>63</td>
<td></td>
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A question in the Full Year employee survey that measures colleague advocacy.

Social and environmental financing £m

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.6</td>
<td>24.8</td>
<td>28.3</td>
<td></td>
</tr>
</tbody>
</table>

Financing in support of social and environmental segments aligned to Barclays sustainable impact framework.

Operational carbon emissions tonnes CO2 equiv

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>82,071</td>
<td>113,569</td>
<td>206,099</td>
<td></td>
</tr>
</tbody>
</table>

Intensives generated from Barclays’ branches, offices and data centres, including indirect emissions from electricity consumption.

Lif/Skills – Number of people upskilled in the UK per year million

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.53</td>
<td>2.33</td>
<td>2.35</td>
<td></td>
</tr>
</tbody>
</table>

Number of people participating in the Barclays Lif/ Skills programme focused on employability skills.

---

Common Equity Tier 1 (CET1) ratio %

<table>
<thead>
<tr>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
</tr>
<tr>
<td>2019</td>
</tr>
<tr>
<td>2018</td>
</tr>
</tbody>
</table>

Group target: CET1 ratio in the range of 13-14%.

Operating expenses** £m

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>13.7</td>
<td>13.6</td>
<td>15.9</td>
<td></td>
</tr>
</tbody>
</table>

Group operating expenses comprises £12.5m (2019: £12.5m) of loss provisions, including £3.4m of exceptional reserves and additional COVID-19 severance costs. Cost discipline and increasing efficiencies remain a priority.

Cost: income ratio%

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2019</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>63</td>
<td>63</td>
<td>63</td>
<td></td>
</tr>
</tbody>
</table>

The Group targets a cost: income ratio below 65% over time.
### What is useful?
Barclays provides granular diversity metrics, including age diversity and ethnicity by location. In its Board Nominations Committee Report, Barclays explains its diversity targets and the actions it is taking to reach them, therefore providing context to the detailed metrics.

### Ethnicity split

<table>
<thead>
<tr>
<th>Globe</th>
<th>% 2020</th>
<th>White</th>
<th>Asian</th>
<th>Black</th>
<th>Other ethnically diverse colleagues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>56</td>
<td>13</td>
<td>39</td>
<td>1.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>United Kingdom</th>
<th>% 2020</th>
<th>White</th>
<th>Asian</th>
<th>Black</th>
<th>Other ethnically diverse colleagues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>81</td>
<td>14</td>
<td>13</td>
<td>2.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>USA</th>
<th>% 2020</th>
<th>White</th>
<th>Asian</th>
<th>Black</th>
<th>Other ethnically diverse colleagues</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>49</td>
<td>32</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

### Multi-generational split

<table>
<thead>
<tr>
<th>Age of employees</th>
<th>% 2020</th>
<th>% 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;20</td>
<td>21.8</td>
<td>22.8</td>
</tr>
<tr>
<td>20-25</td>
<td>38.5</td>
<td>38.4</td>
</tr>
<tr>
<td>26-30</td>
<td></td>
<td>22.9</td>
</tr>
<tr>
<td>31-35</td>
<td></td>
<td>22.6</td>
</tr>
<tr>
<td>36-40</td>
<td></td>
<td>13.7</td>
</tr>
<tr>
<td>41-45</td>
<td></td>
<td>13.1</td>
</tr>
<tr>
<td>46-50</td>
<td></td>
<td>2.8</td>
</tr>
<tr>
<td>51-55</td>
<td></td>
<td>2.6</td>
</tr>
<tr>
<td>&gt;55 years</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Diversity

We believe that diversity at Board, ExCo and senior management level – of gender, ethnicity, cognitive and personal strengths and social backgrounds – is an essential element in maintaining a competitive advantage and effective governance, as well as mitigating the risk of ‘group think’. The Board Diversity Policy, which has been adopted by the Board, confirms that the Committee will consider candidates on merit against objective criteria with due regard to the benefits of diversity when identifying suitable candidates for appointment to the Board.

At the end of 2019, we had met our Board gender diversity target of 33%. Following changes in Board composition in 2020, as at 31 December 2020 the Board's gender diversity was 25%. With the appointment of Julia Wilson (effective 1 April 2021) and Sir Ian Cheshire stepping down from the Board, at the conclusion of the 2021 AGM, this will increase to 33%, in line with both the Board Diversity Policy and the Hampton Alexander Review target. In 2020, the Committee reviewed whether the level of the Board gender diversity target was still appropriate, given that it was set in 2018, and concluded that it should remain at 33%.

Group-wide, Barclays has set a number of targets focused on creating more gender diversity in its wider workforce, including its ambition to achieve 28% female Managing Directors and Directors by the end of 2021. You can read more about gender diversity at Barclays, including data on the percentage of females at Managing Director and Director level, on Group ExCo and within ExCo direct reports and in Barclays’ wider workforce in Our people and culture section on pages 33 to 34.

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Section 1: Information on stakeholders

Safestore Holdings plc
Annual Report 2020 pg 44-45

What is useful?
Safestore reports externally gathered customer review scores, such as Trustpilot, against its performance target. The reporting of more than one external score with similar results, reflecting a consistent trend across markets and different review sites, increases credibility.

First Group plc
Annual Report 2020 pg 56, 57

What is useful?
First Group provides KPIs, including customer satisfaction, by its market divisions, not a group average.
Section 1: Information on stakeholders

Spotlight on suppliers

Recent events, from the pandemic to the blockage of the Suez Canal, have shown how easily supply chains and the associated business models can be disrupted, leading to a recognition of the importance of strong and varied supplier relationships. Other recent news such as the discovery of poor labour and wage practices, and concerns over working conditions and potential slavery in factories, have increased reputational risks for particular industries, highlighting the need for companies to know their suppliers well. As per our discussions with investors, these events highlighted that disclosures on suppliers and supply chains have tended to be weak and more is needed. The Lab is considering more focused work on supply chains, but in this section we highlight how information on suppliers aligns with investors’ reporting expectations and include some examples which reflect this. Some examples are from outside the annual report. Companies should consider whether such information is material to be included within the annual report based on their dependence on suppliers.

<table>
<thead>
<tr>
<th>Stakeholder consideration</th>
<th>Application to suppliers as a key stakeholder group</th>
<th>Examples</th>
</tr>
</thead>
</table>
| Who is the stakeholder and why are they important? (How do they link to the strategy and business model?) | • Who are the company’s suppliers, or what type of companies make up the supply chain?  
• How many suppliers does the company have for each critical component?  
• Where are they located?  
• Why are suppliers important to the business?  
• Which aspects of the business depend on suppliers?  
• What is needed from suppliers to achieve the strategy? | IAG, Next |
| How is value created through and for this stakeholder group? | • What practices and standards of quality are expected from suppliers, for example Code of Conduct or standards? | Spirax-Sarco, Next |
| What actions is the company taking to build and maintain strong relationships with this stakeholder group? | • How well does the company know and keep track of its suppliers?  
• How does the company engage with suppliers? Is it a two-way process?  
• What actions has the company taken to support its suppliers, including through its payment practices? | IAG, ABF |
| What are the risks and opportunities that could affect the stakeholder or arise from the stakeholder relationship? | • What are the risks that could affect the supply chain and the company’s suppliers? What mitigating actions, such as having multiple suppliers, have been taken?  
• What factors could improve how the company works with its suppliers? | Pentland |
| What are the metrics used to measure the strength of the relationship with the stakeholder group? | • What metrics are used to monitor whether to continue the relationship or make changes to it?  
Note: We came across a few examples of supplier metrics, usually related to supplier audit results or supplier satisfaction, and typically found in sustainability reports rather than in the annual report. However, companies did not discuss the implications of what the results meant and what actions were being taken as a result. | See note |
Section 1: Information on stakeholders

International Airlines Group (IAG)
Annual Report 2020 pg 16

What is useful?

IAG’s S172 statement discusses how the group is dependent on suppliers and the engagement and actions taken during the year, particularly in light of COVID-19. It names its critical manufacturers and discusses the potential adverse impact of delays of delivery in usual circumstances and links to its business continuity plan. It then discusses how it has been collaborating with its suppliers and making arrangements for revised requirements up to 2025 to meet the challenges brought about by the pandemic.
Section 1: Information on stakeholders

Next PLC
Annual Report January 2021 pg 81

What is useful?
Next discusses the broad range of suppliers it works with and how they support the business in providing an extensive product range, links that fact to a heightened risk and explains the mitigating steps it takes to support ethical practice. Next highlights the number of audits undertaken and provides a breakdown of the issues found and how these were remediated, including termination of the supplier relationship where they did not rectify non-compliance.
What is useful?
Spirax-Sarco explains how it is working with its suppliers to sign up to its Supplier Sustainability Code and outlines the expectations the suppliers should meet. It also notes where it has stopped working with suppliers, as well as its plans for monitoring suppliers’ sustainable practice in the coming year.

Supplier Sustainability Code
Our Supplier Sustainability Code (Code) is central to our commitment to ethical and sustainable sourcing. The Code outlines the expectations that we have for suppliers and enables us to embed sustainability into our purchasing processes. The requirements of the Code fall within five broad categories:

- **Ethics**: Suppliers are required to comply with all applicable trade laws and regulations and commit to international ethical business conventions, including compliance with competition laws, the rejection of bribery and corruption, a commitment to trace the origin of materials, the maintenance of records to demonstrate compliance with regulations, and the use of anonymous grievance and whistle-blowing mechanisms.

- **Human Rights**: Suppliers are expected to comply with international Human Rights conventions and, amongst other requirements, prohibit the use of child labour, eliminate discrimination in their employment practices, comply with laws regulating wages, working hours and working conditions, allow their colleagues freedom of association, and comply with the UK Modern Slavery Act and the US Dodd Frank Act.

- **Health & Safety (H&S)**: Suppliers must operate a safe working environment, with a suitable H&S Policy and management system, and the products produced by suppliers must comply with all applicable environmental, health and safety regulations.

- **Environmental Sustainability**: Suppliers should implement initiatives that contribute to the preservation of the environment and mitigate their impact on natural resources, complying with all legal environmental requirements and demonstrating continuous improvement in environmental performance.

2020 Performance and actions
Supplier Sustainability Code roll-out
Our targets for 2020 were for 97% of Phase 1 (direct suppliers of our Spirax Sarco and Watson-Marlow manufacturing companies), Phase 2 (direct suppliers of our Spirax Sarco and Watson-Marlow sales companies) and Phase 3 (direct suppliers of our recently acquired companies Axiom Controls, Axiom Rose, Gasta and Chemos) suppliers to have signed the Supplier Sustainability Code, and for over 90% of Phase 4 (suppliers to Thermosta) to have signed the Code. Despite the disruption caused by the global pandemic, which required resources to be redeployed to manage the situation on both our own and our suppliers’ sites, we achieved our Phase 1 to 3 target with 97% of suppliers having signed the Code. We fell slightly short of our Phase 4 target but made good progress with 86% of suppliers having signed the Code. Overall, 96% of Company suppliers have now signed the Code.

Our supply chain
End-to-end supply chain
Overview
Throughout our operations, we seek to improve the sustainability of our end-to-end supply chain by focusing on sourcing materials, ethically, manufacturing responsibly and distributing efficiently, with the aim of providing high levels of customer service, whilst managing our social and environmental impacts. We have 30 manufacturing sites globally and manufacture close to the point of sale to shorten lead times, produce to local specifications, reduce transportation of finished goods, provide local employment, improve customer service and strengthen our competitive advantage.

Spirax-Sarco Engineering plc
Annual Report 2020 pg 75

Section 1: Information on stakeholders
**What is useful?**

In its S172 statement, ABF provides a timeline for the decisions and steps taken in relation to how Primark store closures due to the pandemic would affect its suppliers and how it supported them during this period.

### Stakeholder views/interests and impact on decision making

Primark’s product and sourcing teams were in close and regular contact with suppliers. Those teams then reported through to the CEO of Primark, the Director of Primark Ethical Trade and the Director of Primark Supply Chain, Sourcing and Quality, including on any concerns raised by suppliers.

The CEO of Primark, Director of Primark Ethical Trade and Director of Primark Supply Chain, Sourcing and Quality liaised closely with the executive directors of the Company, who updated the Board on a weekly basis throughout the period in which all shops were closed.

Stakeholder views were taken into account by the Board, alongside weekly reports of group cash flow, in making various decisions throughout the period from stores closing through to their reopening including:

- the decision, announced by Primark on 31 July 2020, to commit to pay its garment suppliers in full for all outstanding finished garments and to utilise or pay for any finished fabric liabilities; and
- the decision, announced by Primark on 31 July 2020, to place some £1.2bn of orders for coming seasons, reflecting the trading performance of stores after reopening.

The above actions reflected the decision to prioritise more funds to support the supply chain, as costs began to be mitigated and a reopening timetable could be seen. They also recognised the longer term need for there to be a healthy, thriving retail environment (which is also in customers’ interests) in order to underpin a healthy, thriving supply chain.

### Associated British Foods plc (ABF)

**Annual Report y/e 12 Sept 2020 pg 18**

**What is useful?**

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Assessing the risks

Our Supplier Agreement sets out our expectations around human rights, governance and the environment. In September 2019, we piloted our Supplier Agreement with four of our second-tier suppliers that provide our materials and components. We plan to roll this out further in 2020.

We use a risk assessment tool, developed in collaboration with the University of Lancaster, to comprehensively evaluate risks of modern slavery across our supply chain. This helps us build a modern slavery profile for the regions in which we source.

The data shows us:

+ The prevalence of forced labour in the region
+ The strength of government action to combat it
+ The overall vulnerability of the region to modern slavery

Alongside the tool, we use our supplier questionnaire and social audits to provide a comprehensive risk assessment. We’ve reviewed and made improvements to our supplier self-assessment questionnaire to evaluate risks in our factories.

Risk profile by region

Very high risk
- Pakistan
- Cambodia
- Myanmar

High risk
- Thailand
- China
- Turkey
- Philippines
- Vietnam
- India
- Malaysia
- Bosnia and Herzegovina
- Indonesia

Medium risk
- Sri Lanka
- Romania
- Italy

Low risk
- Taiwan
- Spain
- Portugal
- Japan
- Belgium
- United Kingdom
- New Zealand

Pentland Brands
Modern Slavery Report 2019 pg 21

What is useful?
Pentland explains its supplier risk assessment process and rates the level of risk for each of its 22 manufacturing locations.
Culture and stakeholders

Culture is intrinsic to how businesses treat their stakeholders. As discussed in the FRC’s 2016 report on corporate culture and the role of boards, and further emphasised in the 2018 UK Corporate Governance Code, culture is intertwined with the purpose the company seeks to achieve and the strategy to deliver long-term success. Culture should also align with how directors perform their Section 172 duty. Company behaviours driving the strategy then need to be consistent with the desired values and culture which are influenced by the tone at the top. Relationships and engagement with stakeholders will reflect a company’s culture. Our discussions indicated that investors are increasingly interested in culture and companies typically associate this with an assessment of their employee relationships and composition and diversity. Investors confirmed their interest in these areas, but highlighted that culture is not just about how a company engages with its internal stakeholders but also its external stakeholders such as customers and communities. A few investors highlighted cases where a company’s culture was focused on a particular stakeholder group without considering the implications on other stakeholders, which may have led to short-term profitability but adversely affected longer-term value and eventually necessitated a change in culture. Again this shows that culture needs to be consistent with the company’s purpose.

“We are looking for information on stakeholders that can be a proxy for insights into how companies behave.” Investor

Investors are looking for indicators into a company’s culture. Reporting on how stakeholders are considered and engaged with can be a reflection of the culture, but information on outcomes, stakeholder metrics and the actions management takes based on the resulting information is particularly insightful. The FRC’s report on culture includes a number of indicators which boards can use to assess, measure and monitor culture, such as:

- external sources of insight, including customer complaints and satisfaction data, supplier feedback and third party ratings like Glassdoor; and
- behavioural indicators, such as attitudes to regulators and actions taken to deal with poor behaviour.

While investors are interested in understanding what information boards are using to monitor culture, they also want to see such information reported to be able to make their own assessment of the company’s culture. The information they want to see on stakeholders, particularly on performance and metrics, as discussed on pages 24-25, helps provide these insights into culture.

“Is the reporting compliance or is it culture? Were requirements an afterthought and a duty of the company secretary or were they well understood by the board?” Investor

In addition, investors told us that, while companies need to comply with the increasing number of reporting requirements on stakeholder matters, the reporting needs to be reflective of what is important to the company and what is embedded in its culture. Investors hope that this reporting is not treated as a compliance or tick-box exercise, but that the board and management understand and follow the spirit of the requirements in their dealings with stakeholders. Investors can then assess the authenticity of the reporting and whether it genuinely reflects the company’s culture when they are engaging directly with the company’s board and management or through corroboration with external sources such as surveys, the press and social media.

“The board has a role in ensuring that a business is sustainable in the long term. This includes embedding the desired culture. Culture is a combination of the culture of the values, attitudes and behaviours demonstrated by a company in its activities and relations with stakeholders.” paragraph 8.30 of the Guidance on the Strategic Report
Overarching considerations for information on stakeholders

In summary, when providing information on stakeholders, companies should consider the following:

- Consideration of stakeholders, including the actions and outcomes as a result of stakeholder engagement, is pertinent to all the different elements of reporting which represent the drivers of performance and ultimately the company’s success:
  - purpose and culture
  - governance and management
  - business model and strategy (including decisions)
  - risks and opportunities.

- Information on performance, including metrics, both of the company and specifically related to stakeholders, provides a feedback loop as it indicates whether changes are necessary in how stakeholders are considered across the different drivers in order to promote the success of the company.

- Companies should provide information about the actions and outcomes that the board and management consider necessary following their analysis of performance and engagement with stakeholders.

- A consistent and connected narrative on stakeholders is key and should flow through the different elements of reporting.

- Companies need to consider whether the information presented on stakeholders is truly applicable across the whole group or whether there are differences in certain regions, business units or segments – such differences should not be masked.

- There needs to be a two-way consideration of stakeholders, in terms of:
  - engagement – companies need to ensure that they are hearing from stakeholders and responding to feedback as informing stakeholders of policies or what the company is doing is not enough.

  - impact and value – investors need to understand how stakeholders affect the company: that is how they affect the business model and strategy and what risks and opportunities they give rise to; but they also need to understand how stakeholders are affected by the company’s strategy, its decisions and its activities. Similarly, there needs to be a consideration of how stakeholders contribute to value creation for the company, but also how the company creates value for its stakeholders – the latter is what helps ensure strong and continuing stakeholder relationships which support the company in pursuit of its success.
Section 2

Information on decisions

Investors want to understand:

- what the principal decisions were and how they contribute to the company’s success
- how and why the board and management reached those decisions
- how stakeholders were considered in those decisions
- difficulties and challenges in making the decisions
- the expected and/or actual outcomes of the decisions
Section 2: Information on decisions

The investor view

To understand how a company is progressing in meeting its purpose and its pursuit of success, investors also need information on the decisions taken by management and the board since decisions link directly to the company’s strategy and will have implications for the company’s future. Investors we spoke to highlighted that decisions should be connected to the company’s purpose with the long term in mind.

“Decisions should be rooted in the company’s sense of purpose and mission.” Investor

Investors commented that whilst decisions may be ‘assigned’ to a specific reporting year they cannot be standalone and considered only in the context of that particular financial year. Instead, they should also be explained in the context of the strategy and impacts on the future success of the company. Similarly, disclosures on decisions need to be part of a connected narrative on the different drivers of long-term success. Investors expect principal decisions to:

• be aligned with the business model and strategy;
• take into consideration risks and opportunities; and
• consider how different stakeholders will be impacted.

Investors noted that typically there may be few significant decisions in a year, but in light of the COVID-19 pandemic, they expect to see more decisions disclosed than usual. Many will have been prompted by the pandemic, such as decisions on whether to furlough staff or make redundancies, shortening payment terms to support suppliers, or cutting or pausing dividends. All these decisions directly impact at least one stakeholder group and may have indirect consequences on other stakeholders – investors want to understand the impact assessment conducted by the board and management and what trade-offs were necessary. If particular stakeholders’ interests were given priority over others’, they want to understand the rationale and how it links to the company’s long-term interest and success. Investors said they will be paying particular attention to decisions on dividends and on remuneration, particularly in the context of other pandemic-related decisions such as furlough and redundancies.

Undoubtedly, many difficult decisions were taken in the last year and investors expect companies not to shy away from discussing thorny issues. Some investors noted how case studies on particular decisions were often presented as if they were in all stakeholders’ interest, without acknowledgement of difficulties and negative consequences. While investors understand why companies may be reluctant to discuss negatives, companies that are ready to report on difficult decisions and issues are viewed more positively. This is especially the case if companies provide the reasons why the decision was considered the best course of action.

“If you report problems or difficulties, you show that you’re doing something about the issue, and this elicits more trust that management is taking the difficult but necessary decisions.” Investor

“Companies are still in the mindset that they present everything in a positive light, even when talking about difficult decisions.” Investor

“Decisions are about doing the right thing and not taking the easy route – directors should then be able to respond to potential criticism.” Investor

Some investors told us they are not only interested in the decisions themselves, but how management and the board came to the decision. This links to how feedback from stakeholder engagement informs the decision. Investors told us they focus on the board’s decision-making as the board is accountable to shareholders. They recognise that boards delegate some decision-making to management, but non-executive directors are there to challenge and oversee that these decisions are conducive to the success of the company. That is why information on the decision-making process, and not just the decisions, is helpful to investors.
The company view

Companies have different approaches to how they define a principal or significant decision. From our discussions, these include decisions that are:

- mapped to strategic ambitions or priorities;
- capital allocation decisions, such as dividend decisions and acquisitions;
- expected to significantly impact a stakeholder group;
- expected to result in a significant change or to have an impact on the business for five years or more;
- addressing a key regulatory change; or
- over a stipulated threshold.

For some companies there is a tiered level of decision-making with delegation to committees or business unit management, with the board being the final “gatepost” for approval of significant decisions. In some cases, any decisions delegated to management were not considered to be principal decisions and therefore, not disclosed as such – for example, some highlighted that acquisitions were only discussed by the board if over a certain size. This delegation of decision-making has led to some concern about disclosures on decisions by the board, particularly to address the Section 172 duty. However, companies are recognising the importance of reflecting the board’s oversight of the decision-making process, particularly the role of non-executive directors in challenging management on ensuring the right decisions are being made and that stakeholders are being considered appropriately.

Companies agreed that stakeholder consideration is now, more than ever, an important part of decision-making. As noted in Section 1, the process is now more formalised, including training and briefings for board members and management alike, to ensure stakeholders are considered.

“It is no longer just about the financial implications; people now understand they won’t get approval for decisions from the board unless they make these [stakeholder] considerations.” Company

A challenge for subsidiaries?

While some companies expressed concern on how to discuss decisions at a board level when decision-making is delegated to management or business units, others are concerned about how to report decisions at a subsidiary level when decision-making is centralised or the subsidiaries are not operational. For these companies, the same issue arises on stakeholder engagement and, ultimately, what to include in their Section 172 statement.

However, irrespective of the structure and function of a subsidiary company, directors of that company are still required to comply with the Section 172 duty. Issues that may be relevant for subsidiaries to consider include:

- Which central decisions affected the company and how did the directors consider their implications?
- Which stakeholders are relevant to the company and how have they been considered in the company’s activities or plans during the year?
- Where cross-referencing to group disclosures, are there any differences due to local laws or other contextual reasons?

Investors told us that they expect consistency within a group, particularly in terms of how stakeholders are considered, due to the culture across the group. However, they recognise that there may be differences due to local laws or what is in the interest of the company. When it comes to disclosures, subsidiaries should report what is material to them.
What investors want to see reported

We now explore further what investors want to see included in information on decisions and identify some examples from current reporting practice which address particular aspects.

Tips for approaching disclosures on decisions and decision-making

- In identifying which decisions to disclose, focus on the strategically important ones which have implications for the company’s long-term success. It is easier to then discuss the relevant stakeholder considerations for each decision disclosed, rather than trying to identify relevant decisions for each stakeholder group (as this risks being an artificial exercise).

- Consider whether templates for papers on board decisions require reminders on the Section 172 duty and consideration of stakeholders. This is helpful for both those preparing the papers and for the board to approve it. In addition, the papers can be useful evidence of the decision-making process for both reporting and possible assurance.

- Some years entail fewer significant decisions, so for those that are more ‘business as usual’, focus on discussing the board’s oversight and monitoring of previous decisions and how it links to the delivery of strategy.

- Similarly, where decision-making is delegated to management or business units, consider the board’s role in oversight, including in the lead-up to decisions. Consider what reports were received and what discussions committees held.

Principal decisions

Investors want to know about those strategically important decisions that management and the board took during the year. They want to understand how they link to strategy and the company’s long-term success, which is best addressed by explaining the rationale and providing context for the decision (e.g. BAE and Fresnillo). Although principal decisions seem to be most frequently presented in Section 172 statements, some companies reported decisions in the discussion of strategy (e.g. SSE) or in the corporate governance section (e.g. Taylor Wimpey). Wherever a company chooses to report its decisions, it is important to ensure a connected narrative and consistency between sections – cross-referencing can be helpful to show connected thinking.

In some cases, companies tend to present a case study and focus on one or two decisions. However, companies should consider whether it is more helpful to provide a full narrative of all the principal decisions. Also, companies tend to just present principal decisions that were made during the financial year, but they should consider whether there were any significant decisions in the intervening period up to the publication of the annual report (see Persimmon plc – page 77 of its annual report).

Board oversight and the decision-making process

In addition to information about the decisions themselves, it is helpful for investors to understand the process undertaken by the board for reaching principal decisions and its oversight when decisions are delegated to management.

Consideration of stakeholders

As part of understanding how a decision was reached, investors want to know how relevant stakeholders were considered. This includes how feedback from stakeholder engagement was considered and how the company expects stakeholders to be affected. Fresnillo’s table of decisions includes the different considerations by relevant stakeholder group. Taylor Wimpey highlights which stakeholders were relevant to different decisions and includes a discussion of the interdependencies between different stakeholders.
“The interests of one group of stakeholders may not always be aligned with the interests of other stakeholders or with the interests of shareholders. Where there are conflicts, or where in the interests of one group have been prioritised over another, the [company] could explain how the directors have considered the different interests and the factors taken into account in making that decision.”
paragraph 8.24 of Guidance on the Strategic Report

**Difficulties in making decisions**

As part of understanding the board's and management's process of making a decision, investors also want information about challenges and difficulties encountered in reaching the conclusion on the best course of action. They want information on any prioritisation of one stakeholder group over another or trade-offs and how different stakeholder needs or concerns were balanced. Such considerations do not only apply to decisions which are difficult or negative by their nature, such as dividend cuts or deferral (e.g. Taylor Wimpey and BAE) or store closures (e.g. ABF), but also to decisions such as acquisitions and new strategies.

**Decision outcomes**

Investors also want information about impacts and outcomes of the decisions. Providing information about expected outcomes (e.g. Fresnillo) is helpful, especially where there are long-term implications and benefits. Companies should consider both positive and negative effects on both the company and its stakeholders, and whether the outcomes are measurable and included in reported metrics.

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**To help investors understand what the company’s principal decisions were and how they contribute to the company’s success, companies should ask themselves:**

<table>
<thead>
<tr>
<th>What were the decisions of strategic significance during the year?</th>
<th>How were stakeholders considered in reaching the decision?</th>
<th>What are the expected and/or actual outcomes of the decision?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• How do they link to the company’s purpose and strategic priorities?</td>
<td>• How did stakeholder views from engagement activities feed into the decision?</td>
<td>• What are the long-term implications for the company?</td>
</tr>
<tr>
<td><strong>For each principal decision:</strong></td>
<td>• What are the impacts of the decision on different stakeholders?</td>
<td>• How are the outcomes of the decision being tracked?</td>
</tr>
<tr>
<td><strong>How and why did the board or management reach the decision?</strong></td>
<td><strong>What were the difficulties or challenges in making the decision?</strong></td>
<td></td>
</tr>
<tr>
<td>• What information did the board receive to make or approve that decision?</td>
<td>• How were the different needs or concerns of different stakeholders balanced?</td>
<td>• How are the different aspects of Section 172 considered?</td>
</tr>
<tr>
<td>• What were the long-term considerations?</td>
<td>• Are there any short-term negative consequences which are offset by long-term benefits?</td>
<td></td>
</tr>
</tbody>
</table>
Overview of the year

The COVID-19 pandemic had a significant impact on business and communities in 2020, and that was also the case for BAE Systems and the Board. At the start of the pandemic, a great deal of Board and executive time was focused on understanding what was required to safeguard our employees, our local communities and support our defence and national security customers in the vital roles they play. During this period of uncertainty, the Board took important decisions to manage cash outflows in the near term, until the risks to the business were better understood.

The first few months of the year provided additional insight as to the culture and underlying values of our people and our businesses, and our ability to adapt. As the year progressed, and after a tremendous effort by all involved, the Board was able to focus once more on longer-term decisions, including how best to incorporate what had been learned from how the company had dealt with that initial crisis. As a result of the various global restrictions, the Board was unable to complete its planned programme of non-boardroom activities, which originally included dialogues and the associated face-to-face engagement with employees, customers and stakeholders. Where possible, the programme was adapted to seek stakeholder feedback and engage virtually, as best as could be managed. This did not entirely replicate the richness of the in-person engagement.

The second half of the year, with the financial plan and the strategy in place, allowed us, the Company’s performance stabilised and the Board was able to consider the longer-term trends in defence and the changing technology that are driving them. This deep understanding of future trends in order to inform how the Board allocates capital and invests to secure the long-term success of the Company.

The work of the Board

The directors of BAE Systems and those of all UK companies – must act in accordance with a set of general duties. These include a duty under Section 172 of the Companies Act to promote the success of the Company, and in doing so the directors must have regard (amongst other things) to certain stakeholders and other factors. In this statement, we highlight some of the key decisions and discussions undertaken by the Board during 2020.

April – July

Dividend decisions

As with many businesses, the lockdown measures used to manage the COVID-19 pandemic required the Board to understand and urgently the possible stresses that a lengthy shutdown of operations would have on finances. Facilitated by the Group Finance Director, the Board reviewed the output from a scenario-based exercise, which modelled potential impacts of the pandemics. These spanned from moderate disruption to activity and supply chain effectiveness, through to severe operational disruptions for an extended period of time. Cash flow was the key consideration in all the scenarios, and measures were taken immediately to conserve cash.

The Board held a special meeting at the beginning of April to consider the potential impact the pandemic could have on BAE’s employees, customers, suppliers and its finances, and take any short-term actions as may be necessary to protect the Company and promote its success in the longer term. Given the level of uncertainty at the beginning of April, the Board considered whether it would be prudent to defer the payment of the final dividend for 2019, due to be paid in June and resulting in a cash outflow of approximately £4bn. It considered the various stakeholders that had an interest in the long-term success of the Company – including employees, customers and suppliers. The Board was equally conscious of the importance of the dividend to shareholders. Having weighed up the various factors, and taking into account the high level of uncertainty at the time, the Board believed that it was in the best interest of all stakeholders to defer the final dividend in the short term and review the matter later in the year when there would be greater clarity as to its impact on the pandemic.

The Board reconvened the payment of dividends at the end of July, when the half-year results were published. The Board believed that such a decision had been achieved at the four months since the dividend declaration decisions, and many of our defence operations had well over 50% of our employees working in a challenging environment.

We engaged widely with many of our larger shareholders, and also had a series of virtual sessions with key shareholders, and understood the importance of ongoing communications with the wider employee and individual stakeholders for whom this was a significant part of their income.

Having considered what was in the best long-term interests of the Company and having had regard to shareholder and broader stakeholder interests, the Board agreed that the deferred dividend should be paid in September. Based on the performance of the Company in the year to date, it also decided that an interim dividend should be paid in November, in line with our usual dividend timetable.

December

Retention of the Chief Executive

After the last quarter of 2020 our Chief Executive received an unsolicited offer of a role in another major international company. Given his commitment to the Company, prior to making a decision, he chose to share details of the opportunity with the directors. The Board valued the significant contribution he has made since his appointment and recognised the importance of his leadership at a critical time in the development of the Company. Accordingly, the directors decided that steps should be taken to secure his leadership of the Company.

In the three years that he has been in post, considerable progress has been made in the strategic, development and operational performance of the business. The directors considered the risks to the Company and its stakeholders that could result from the loss of a high-performing Chief Executive and the difficulties in replacing him given the current environment.

As part of its long-term succession plans, the Board had successfully managed changes to other key board-level executives and leaders. However, given those recent changes, and the current position of the business, the directors agreed that it was in the best interests of the Company to continue to maintain the continuity of leadership and experience provided by the Chief Executive.

The Board concluded that the offer would result in a serious risk to the business, and have a potential impact on the performance of the Company.

Based on previous feedback from our investors, the directors also believed that continuity in leadership was crucial in maintaining customer relationships and in sustaining the progress made in the execution of major defence programmes and the performance of the Company in the year to date. It also decided that an interim dividend should be paid in November, in line with our usual dividend timetable.

What is useful?

BAE System’s S172 statement centres around the work of the board and includes detailed descriptions of the major decisions during the year including pension funding, employee support, dividend decisions and ensuring the retention of the CEO. This section reflects the board’s decision-making journey through the year. For each decision, BAE explains the rationale for why it was taken, including feedback from stakeholders.

BAE Systems plc
Annual Report 2020
pg 30-33

Section 2: Information on decisions

44
What is useful?
SSE has a “Strategy in Action (Promoting SSE’s Long-term success)” section within the strategic report in which it discusses the decisions and developments of strategic importance during the year. Stakeholder considerations are included for each decision/development.

RESHAPING THE GROUP

COMPLETING THE SALE OF SSE ENERGY SERVICES

Key development
In September 2019 SSE entered into an agreement to sell its SSE Energy Services business to OVO Energy Ltd at an enterprise value of £500m. The transaction was completed in January 2020.

Objective
Securing the best future for SSE Energy Services, taking account of stakeholder considerations, outside the SSE Group.

Strategic and stakeholder considerations
In its Annual Report 2019, SSE confirmed that while its strategic focus was on regulated energy networks and renewable energy, its commitment to securing the best future for SSE Energy Services outside the SSE Group was clear.

SSE Energy Services supplies energy and related services to household customers across Great Britain and in 2019 employed around 8,000 people.

In the summer of 2019, SSE entered into discussions with OVO to see if a transaction could be agreed that would be consistent with the strategic focus of the SSE Group on regulated energy networks and renewable energy; in the interests of SSE Energy Services’ customers and employees; and in the interests of shareholders.

SSE concluded that by becoming part of OVO, SSE Energy Services would have new opportunities to help transform the GB energy supply market for the benefit of customers. It also concluded that while it would clearly bring significant change for employees, OVO had recognised credentials as being a good employer. SSE also recognised completing the sale of Energy Services would be in line with its key strategic objectives.

In December 2019, the Competition and Markets Authority cleared the proposed sale, confirming that the transaction would not result in a substantial lessening of competition. This underlined SSE’s belief that a dedicated, focused and independent energy supplier would ultimately best serve key stakeholder groups of the business.

SSE Finance Director Gregor Alexander said: “Completing this transaction was an important milestone for SSE in reshaping the Company, and was the result of outstanding work of all of the teams of people involved, both within Energy Services itself and in key Group-wide functions as well. The commitment and skills shown in completing successfully the Energy Services sale will stand SSE in good stead in the future.”

SSE Energy Services enterprise value
£500m
What is useful?

Fresnillo’s S172 statement focuses on principal decisions, with each set out in a table with headings and considerations by each relevant stakeholder group. The context for each decision includes long-term implications. The section includes the decisions’ expected outcomes or outcomes achieved.
What is useful?

In its Corporate Governance section, Taylor Wimpey links its principal decisions to its S172 duty, and in presenting the principal decisions throughout the year, it highlights the interrelationships between stakeholders and the short-term consequences of some decisions with justification for why the board felt the decision was necessary.

Corporate governance: Board leadership and company purpose continued

How the Board considered stakeholders during the year

The Directors are required by law to act in a way that is most likely to promote the success of the Company for the benefit of shareholders as a whole. In doing so, the Company must, in accordance with Section 172 of the Companies Act 2006, also have regard to a number of responsibilities, including the interests of employees, the need to foster the development of responsible business behaviour, such as having due regard to the interests of, and actively engaging with, its employees, the need to encourage and foster business relationships with suppliers, customers and others, and the need to act fairly as between members of the Company. The Board considers any decision in the long term, the desirability of maintaining a reputation for high standards of business conduct, and the impact of the Company’s operations on the community and the wider environment.

The Company’s Section 172 (1) statement of compliance can be found on page 38 and further details on how the Directors have fulfilled their duties can be found on the next six pages.

The Directors consider that shareholders are set out on page 28. The Board understands the importance of shareholder engagement and continues to engage with each stakeholder on a regular basis. Further information on how the Board engaged with shareholders and members (and communities and outcomes as a result of that engagement) during the year is noted on pages 28 and 29. The Board issued an update from the Executive Directors on this engagement on a regular basis.

During the year, the Board was Slowly involved in all key decisions of the Company. As the Company considered an independent and challenging to maintain strong governance, the Directors also used shareholder engagement to inform each decision. The Board is aware that in some situations, shareholder interests will be conflicted, however, the engagement enabled them to fully understand the key issues relevant to each stakeholder. Further details on how the Board considered stakeholders during the decision making process, and how the stakeholder engagement input was processed, are set out on the next three pages.

Read more about stakeholder engagement on pages 29 to 41.

Details of how the Directors have fulfilled their duties can be found throughout the Strategic and Governance reports on the following pages:

- The Directors’ consequences of any decision in the long term – Pages 11, 12, 13, 14 and 19 and 27 to 75.
- The interests of the company’s employees – Pages 24 to 30, 34 and 35, and 72 to 75.
- The need to foster the development of responsible business conduct – Pages 28 to 29, 41 to 43 and 73 to 75.
- The impact of the company’s operations on the community and the wider environment – Pages 28 and 29, 39 to 41 and 74 to 75.
- The desirability of maintaining a reputation for high standards of business conduct – Pages 10, 21 and 23.
- The need to act fairly as between members of the company – Pages 26 to 28, 31 to 32 and 72 and 75.

Taylor Wimpey plc
Annual Report 2020 pg 72-75

Closure of construction sites and sales offices

March 2020

The Board took the proactive decision to be the first major housebuilder to close construction sites and sales offices. This also impacted on our principal suppliers.

In making this decision, the Board considered the following stakeholders:

- The health and safety of our customers, employees and partners were always a non-negotiable priority at Taylor Wimpey.
- The Chief Executive wrote to all customers when we closed sites. As a result of this engagement, we continued to support new and existing customers and conducted all business by telephone or digitally. To give added reassurance we extended our two-year warranty for all customers in the UK, for any period in the test national lockdown, by two months.
- The Board identified that closing our show sites and sales offices would not impact our investors. The Board felt strongly that it was important to ensure the enhanced safety measures were put in place to protect the health and safety of all our stakeholders that visit our sites.

For further information see page 4.

Dividends and executive pay

March 2020

To protect the long term financial stability of the company the Board considered the decision to cancel the 2019 final dividend and the 2020 special dividends. The Remuneration Committee also considered the application of the Remuneration Policy for 2020.

In making this decision, the Board considered the following stakeholders:

- Most people working on our sites are subcontractors and their support and loyalty was vital to ensure we were able to re-start work on sites as soon as possible, with new working protocols to be COVID-secure. The Board considered that the interest-free loan would be a real difference to our self-employed subcontractors when they otherwise would not be able to earn during the worst national lockdown.
- In addition, we remained in constant dialogue with our partners and nominant committee to pay them promptly.

Taylor Wimpey Pay It Forward Scheme

April 2020

Taylor Wimpey Pay It Forward Scheme (the Scheme) by the Geoff and Internal Audit.

- The Board considered that the Scheme would protect the business in the short term whilst also strengthening the business for the future and increasing shareholder returns.
- Many of our subcontractors live in the communities in which we build, so the Scheme directly benefits the communities by ensuring job security.
- The Board is aware that over 65% of all our employees are also subcontractors in the business and this decision directly impacted them in the same way.

For further information see pages 36 to 37.

Remobilisation

May 2020

Following the UK Government’s announcement to restart the housing market, the Board oversaw the development of the processes and plans to ensure that work could start on site in a safe and sustainable manner, whilst at all times complying with the relevant UK Government guidelines.

In making this decision, the Board considered the following stakeholders:

- To ensure that customers who had already reserved homes were able to move in as soon as possible with minimum delay.
- The Board ensured that the COVID-19 Code of Conduct and adapted COVID-safe working practices protected our employees and partners.

In addition, the Board also restructured the working environment using remote working to continue to maintain social distancing.

Equity raise

June 2020

The Board approved the decision to raise £500 million through issuing new shares in order to take advantage of attractive opportunities in the land market.

In making this decision, the Board considered the following stakeholders:

- To ensure that customers who had already reserved homes were able to move in as soon as possible with minimum delay.
- The Board considered that the interest-free loan would be a real difference to our self-employed subcontractors when they otherwise would not be able to earn during the worst national lockdown.
- In addition, we remained in constant dialogue with our partners and nominant committee to pay them promptly.

The Board ensured that the COVID-19 Code of Conduct and adapted COVID-safe working practices protected our employees and partners.

The Board considered that the Scheme would protect the business in the short term whilst also strengthening the business for the future and increasing shareholder returns.

Many of our subcontractors live in the communities in which we build, so the Scheme directly benefits the communities by ensuring job security.

For further information see pages 10 and 11.
Section 3

Section 172 statements

Investors want Section 172 statements that bridge information on stakeholders and decisions, and reflect how the company is progressing in its pursuit of its purpose and long-term success.
Section 3: Section 172 statements

The Section 172 duty to promote the success of the company by considering consequences of decisions in the long term and the interests of different stakeholders, among other matters, means that the Section 172 statement can be either the conduit for, or a bridge between, information on stakeholders and information on decisions within the annual report. Irrespective of where a company chooses to include this information, many of the considerations and tips throughout the report are applicable to Section 172 statements and are consistent with the tips previously published by the Lab. We now explore in more detail investors’ views on the statements, as well as companies’ practical experience.

The investor view

Investors told us that while the Section 172 duty has been a requirement for directors for a long time, the introduction of the requirement to produce a statement to explain how that duty is being exercised had only further stimulated their interest in this area. They also thought the requirement was beneficial by prompting companies to improve how they consider stakeholders.

“Stakeholder interests cannot be boxed as singular interests, but they are interlinked across different issues.” Investor

“The benefit of the Section 172 statement requirement is to shine a light on the quality or lack thereof of how companies consider stakeholders.” Investor

However, investors emphasised that the statement should not focus only on stakeholder engagement. A narrow focus on individual stakeholder groups often reflects engagement that is not set in the context of the company’s success and strategy. The statement needs to address the company’s route to long-term success and consider the (a)-(f) aspects of Section 172 strategically. In their view, the statement should tackle what the company is doing to be successful for the long term, and consideration of stakeholders needs to be embedded across different drivers of value creation and the other Section 172 aspects, such as maintaining a reputation for high standards of business conduct.

Investors commented that some statements tended to be boilerplate and not connected to the business model or strategic issues. There is an expectation that the statement should cover areas of board concern – this then reassures investors that the company is tackling or rectifying an issue. The statement is seen in the context of the whole annual report and should be consistent with the discussion elsewhere in the report. Investors noted that it can be helpful for the statement to be a standalone source of information, but while they might initially view it in isolation, they will reconcile it to other information they know about the company.

The Section 172 statement is a strategic report requirement, but many companies choose to include it in the corporate governance section and incorporate it in the strategic report by cross-reference. While some investors did not have a preference where the statement was located, others did highlight that where the company chose to locate it could indicate the importance given to the statement or how the directors considered the Section 172 duty. Also, while it is about directors’ duties and therefore linked to governance, the board’s oversight and involvement in principal decisions drives strategy across both the short and long term, and therefore the statement should have a clear strategic link.

One concern that a few investors raised was that since Section 172 was a UK Companies Act 2006 requirement, some statements were very UK-focused. Investors expect that the Section 172 duty applies across the whole group, whichever jurisdiction business units are found in. As highlighted in relation to information on stakeholders, any significant differences in relevant stakeholders, approaches to engagement or relevance of decisions between regions should be explained.
The company view

“As an international group, the need to enhance UK disclosures was an opportunity to enhance disclosures and practice across the group – there was a ripple effect across different jurisdictions for best practice.”

Most companies highlighted that while the requirement to prepare the Section 172 statement was new, the duty and the consideration of stakeholders was ingrained in the way they conducted business. However, many recognised the benefit of having reassessed their processes and made improvements as a result of the new requirement.

Some companies noted that a challenge in preparing the statement is identifying what to include and avoiding duplication with the strategic report since that entire report should be reflective of the Section 172 duty. Companies typically address this by focusing on the board’s role and on principal decisions within the Section 172 statement. Although approaches vary by company, the majority of statements of participating companies were prepared by company secretarial teams, but with involvement from across the company.

What investors want to see reported

Structure and content

In our review of Section 172 statements, we noted the following approaches:

- (a) to (f) approach – the statement addresses all (a)-(f) aspects of Section 172;
- hybrid approach – the statement combines two or three of the preceding approaches; generally, one or two decisions are selected as case studies;
- cross-referencing – this approach varies from a list of links or references to other parts of the annual report (sometimes presented as addressing (a)-(f) of Section 172) to more detailed cross-referencing with context provided;
- other – approaches have included using the Chairman’s Statement or a Q&A with the CEO as the statement.

While the investors we spoke to did not generally express a specific preference for one type of format, they emphasised that statements should not be just about stakeholder engagement. Statements that addressed decisions in detail, such as BAE and Fresnillo, were viewed favourably. Both these statements then cross-referred to the sections on stakeholders.

BT’s Section 172 statement combines a concise section on principal decisions with addressing the aspects (a)-(f) of Section 172. This is helpful in ensuring that all aspects are addressed and preventing omission, as long as a tick-box approach is avoided and only relevant information is provided. Derwent also addresses (a)-(f) in a concise manner but by using cross-referencing combined with useful background (e.g. how directors perform their duties) and a table indicating how different stakeholders were considered in principal decisions.

Detailed narrative can provide useful insight, but a concise approach which is focused but still informative can be just as helpful. Companies need to consider which approach works best to tell their company’s story of its pursuit of long-term success.

Some investors highlighted that Section 172 statements often do not address (d) the impact of the company’s operations on the community […] and (f) the need to act fairly as between members of the company. Two examples below provide helpful detail on consideration of community (e.g. Fresnillo) and shareholders (e.g. Man Group).
Location

As noted earlier, where a company chooses to locate its Section 172 statement could indicate the importance attributed to the statement. However, the location also contributes to the narrative flow of the annual report and should link to strategy. Many statements are at the end of the strategic report and just before the corporate governance section – arguably this reflects how the Section 172 duty straddles both strategy and governance. However, when the statement is included early on in the strategic report, for example following on from business model and strategy and introducing the stakeholder section, or within the Chairman’s Statement as done by SSE plc (2020 Annual Report pages 4-5), this can better highlight the board’s strategic role. The sequence of sections can also be helpful in directing investors to relevant information in an efficient way. Barclays’ stakeholder KPI dashboard was not formally part of its Section 172 statement but followed straight after – this helped provide a connected narrative.

Conclusion

In summary, better Section 172 statements, which are more useful to investors:

- Do not only focus on stakeholder engagement, but consider the other aspects of Section 172;
- Discuss principal decisions (linking to long-term success of the company) and how stakeholders and other factors were considered in making those decisions;
- Bridge information on stakeholders and decisions by considering them in a two-way approach, and incorporate both in the statement even if by cross-referencing;
- Can be a standalone source of information which are still concise if cross-referencing is used well; and
- Fit into a connected narrative linking to business model, strategy and how business is done (through consideration of governance and culture) demonstrating how the company is progressing in its pursuit of its purpose and long-term success.

Tips for approaching Section 172 statements

- Consider whether the templates for board papers, agendas and minutes need prompts on all aspects of Section 172, and not just consideration of stakeholders. These can then be used for evidence to compile the statement.
- As much as possible, the person or team responsible for drafting the Section 172 statement should attend board and/or committee meetings to facilitate the process of drafting and better reflect the board’s priorities and actions. However, the Section 172 duty is the responsibility of each director, and the board should ensure that the statement is an authentic reflection of its key considerations of stakeholders and other factors during the year.
- The Section 172 statement should be a reflection of how the Section 172 duty is met throughout the year – similarly, consider gathering information throughout the year to compile the statement rather than rolling forward and tweaking the statement at the end of the year. This helps avoid boilerplate, but also facilitates the reporting process.
- Consider where best to include the Section 172 statement within the annual report so that it clearly reflects links to strategy and other parts of the report. It should be part of a connected narrative. Do not let the location of the statement, or ordering of information within it, be a function of design and pagination, rather than a correlation with strategic prioritisation. The statement should be clearly labelled and included in the contents page of the annual report.
- Consider bi-directional cross-referencing where the Section 172 statement links to where various components of the annual report provide more detail on highlights provided in the statement, and those sections then link back to the statement.
**Section 172 statement**

In their discussions and decisions during the year ending 31 March 2021, the directors of BT Group plc have acted in the way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to stakeholders and the matters set out in subsections 172(1)(a)-(f) of the Companies Act 2006 (the 2006 Act)).

The Board considers the matters set out in section 172 of the 2006 Act in all its discussions and decision-making. That includes:

- The likely consequence of any decision in the long term;
- The directors recognise that the decisions they make today will affect BT’s long-term success. During the year, the Board had particular regard to the long-term success of its subsidiaries. The Board has discussions on the evolution of the company’s purpose and strategic framework, which are set out in the Board’s activities section on pages 74 to 77. Our purpose and strategy demonstrate how we will realise our ambition and grow value for all our stakeholders. This in turn guides the Board’s decisions, specifically the balance between short- and long-term investments (more details on page 43).

The third pillar of our strategy (lead the way to a bright, sustainable future) incorporates our aim to identify and grow new business opportunities that will help us operate sustainably in the long term. More information on our strategy can be found on page 19.

The impact of BT’s operations on the environment and society:

- The Digital Impact & Sustainability Committee monitors progress on the digital impact and sustainability strategy and supporting goals for digital skills, responsible tech and human rights, and climate change and environmental impact. During the year, the committee reviewed progress on our impact snapshot programme and its pivot to become ‘digital-first’ during the Covid-19 pandemic. Our strategy and sustainability strategy incorporates responsibilities and obligations that arise under our activities and our sector-leading approach to climate action, with a target to become net zero carbon emissions business by 2025, as well as our two related group KPIs (see pages 30 to 33).

- We are also committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). See page 67 for our response to TCFD.

The desireability to maintain a reputation for high standards of business conduct:

- The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the company. Our colleagues are central to achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the Board considered BT’s culture in its decision-making and discussions; further details on this can be found on page 79. The Digital Impact & Sustainability Committee reviewed and endorsed BT’s new responsible tech and human rights approach which aims to develop, use, buy and sell technology in a way that benefits people and minimises harms (see page 80 for more details on the activities of the Digital Impact & Sustainability Committee and page 36 for our digital impact and sustainability strategy).

- The Audit & Risk Committee also received and considered regular reports from the group ethics and compliance director on BT’s ethics and compliance priorities, including Speak Up, our confidential, whistleblowing hotline (see page 85).

We set out our commitment to high standards of business conduct in ‘The BT Way’ (our Ethics Code, see page 33).

The interests of our colleagues, and the need to foster business relationships with our key stakeholders:

- The Board and its committees understand the strategic importance of stakeholders to BT’s business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders, but the Board therefore has to balance competing interests in making its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of BT’s stakeholder groups means that stakeholder engagement often happens below Board level. However, the Board considers information from across the organisation to help understand how our operations affect our stakeholders’ interests and views. There are more details on how we engage with key stakeholders (including customers and suppliers) on pages 34 to 41 and on the chief executive’s role in reporting engagement feedback to the Board through his chief executive’s report on page 75. For further details on how the Board operates and makes decisions, and its activities this year, see pages 71 to 77.

Our colleagues are key to our success and they are always considered as part of the Board’s discussions and decision-making. Their well-being, especially during the Covid-19 pandemic, as well as diversity and inclusion, our culture, transformation programme and employee relations, have been prominent focuses of Board discussions this year (see page 76 for more details on our diversity and inclusion initiatives). Discussions with colleagues primarily through the channels of our colleague magazine, BT Insider, and our designated non-executive director for workforce engagement, Isabel Hudson, our designated non-executive director for workforce engagement (see pages 35 to 36 for more details on the Collogue Board), Isabel provides support to the Board through BT Collogue Board meetings and also discusses any topics raised by members at relevant Board and committee meetings.

Our other employee communication channels are set out on page 34. As an example, our annual Collogue Secretarial Report also discussed with HR and the chief executive and endorsed the Skills for Tomorrow strategy, which has clear target setting will also help support cultural shifts and to drive more inclusive workforce, and more inclusive decision-making.

The need to act fairly as a business BT’s shareholders:

During 2020/21, the Board, the chief executive and chief financial officer, other executives and the executive committee, in their discussions, have regard to our stakeholders, including our shareholders. The Board approved proposals to enhance our consumer fairness governance framework during the year.

In considering these proposals, the Board had regard to the importance of BT places on consumer fairness, especially for customers, as well as Ofcom and the UK Government’s expectation to see greater commitment to a culture of consumer fairness at all levels in the organisation and communications providers. This enhanced governance in relation to consumer fairness is aligned with BT’s purpose and ambition. The Board’s broader recognition of the importance of practical actions for improving our customers’ interests is set out on page 86.

We set out our commitment to high standards of business conduct in ‘The BT Way’ (our Ethics Code, see page 33).

The benefits of our activities to our stakeholders:

- We are also committed to implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). See page 67 for our response to TCFD.

The desireability to maintain a reputation for high standards of business conduct:

- The Board acknowledges its responsibility for setting and monitoring the culture, values and reputation of the company. Our colleagues are central to achieving our ambition and we are building a culture where our colleagues can be their best. During the year, the Board considered BT’s culture in its decision-making and discussions; further details on this can be found on page 79. The Digital Impact & Sustainability Committee reviewed and endorsed BT’s new responsible tech and human rights approach which aims to develop, use, buy and sell technology in a way that benefits people and minimises harms (see page 80 for more details on the activities of the Digital Impact & Sustainability Committee and page 36 for our digital impact and sustainability strategy).

- The Audit & Risk Committee also received and considered regular reports from the group ethics and compliance director on BT’s ethics and compliance priorities, including Speak Up, our confidential, whistleblowing hotline (see page 85).

We set out our commitment to high standards of business conduct in ‘The BT Way’ (our Ethics Code, see page 33).

The interests of our colleagues, and the need to foster business relationships with our key stakeholders:

- The Board and its committees understand the strategic importance of stakeholders to BT’s business. When making decisions, the directors have regard to the interests of colleagues, and the need to foster business relationships with other key stakeholders. We acknowledge that not every decision we make will necessarily result in a positive outcome for all our stakeholders, but the Board therefore has to balance competing interests in making its decisions.

While the Board engages directly with stakeholders on some issues, the size and distribution of BT’s stakeholder groups means that stakeholder engagement often happens below Board level. However, the Board considers information from across the organisation to help understand how our operations affect our stakeholders’ interests and views. There are more details on how we engage with key stakeholders (including customers and suppliers) on pages 34 to 41 and on the chief executive’s role in reporting engagement feedback to the Board through his chief executive’s report on page 75. For further details on how the Board operates and makes decisions, and its activities this year, see pages 71 to 77.

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We set out our commitment to high standards of business conduct in ‘The BT Way’ (our Ethics Code, see page 33).

The benefits of our activities to our stakeholders:
The Board of Directors confirm that during the year under review, it has acted to promote the long-term success of the Company for the benefit of shareholders, while having due regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

Issues, factors and stakeholders

The Board has direct engagement principally with our employees and shareholders but is also kept fully apprised of the material issues of other stakeholders through the Executive Directors, reports from senior management and external advisers. On pages 26 and 27 we outline the ways in which we have engaged with key stakeholders and the material issues that they have raised with us.

What is useful?

Derwent addresses different elements of S172 in different parts of the annual report and uses cross-referencing to keep its S172 statement concise, but provides sufficient detail and context to allow it to stand alone as a statement. Derwent also highlights the board’s consideration of different stakeholders across its principal decisions.

Methods used by the Board

2020 was an unprecedented year. In addition to the main methods used by the Board described above, we sought to engage with the uncertainty and difficulties facing our stakeholders, the board responded by:

- Holding additional meetings to ensure effective oversight of management decisions and policies, particularly in respect to:
  - financial support being offered to our customers;
  - our ability to safely operate our buildings;
  - supporting the local community and NACO;
  - providing clear communications and support to our employees;
- Seeking independent verification that the business is responding proactively and effectively as:
  - RSM internal audit in our response to Covid-19 (page 138);
  - Occupier and employee pulse surveys (page 103) and;
  - Capgemini in cyber security audit in response to the increase in home working (page 144).

The main methods used by the Directors to perform their duties include:

- the board sets the Group’s purpose, values and strategy and ensures they are aligned with our culture (see page 111);
- the Responsible Business Committee monitors the Group’s corporate responsibility, sustainability and stakeholder engagement activities and reports to the Main board on its progress (see pages 164 to 168);
- the board utilises a stakeholder impact analysis to assess the potential impact of significant capital expenditure decisions on our stakeholders (see page 116);
- the board’s risk management procedures include the potential consequences of decisions in the short, medium and long-term so that mitigation plans can be put in place to prevent, reduce or mitigate risks to our business and wider stakeholders (see pages 108 and 140);
- a strategy review which assesses the long-term sustainable success of the Group and our impact on key stakeholders;
- Derwent’s use of stakeholder surveys and reports from brokers and advisors, and;
- specific training for our Directors and senior managers.

Public interest statement – 2020

As a business that designs and manages offices, we are exposed to a wide range of obligations and responsibilities. As a business, we are a business partner to our occupiers and within the communities in which we operate. As such, we are impacted by a wide range of obligations and responsibilities which we are proactive in managing and seeking to ensure that we meet our S172 obligations.

As we extend our obligations beyond the statutory requirements to add value and build long term mutually beneficial relationships, our obligations are increasing. Our commitment to our purpose, which strongly influences our values (see page 13), we have detailed on pages 12, 13, 26, 27 and 50 how we have acted in the public interest during 2020.

Principal decisions in 2020 and how we have met our public interest obligations

The key activities and principal decisions undertaken by the Board in 2020 are detailed on pages 122 and 123. We detail below how the Board considered the impact of the decisions on the long-term financial and non-financial impacts and had due regard to the other matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

When making each decision, the Board carefully considered how it impacted on the success of the Group, its long-term financial and non-financial impact and had due regard to the other matters set out in section 172(1)(a) to (f) of the Companies Act 2006.

The Board has approved the reduction of the service charges for the March and June quarter by 20%. This was a fair cost to the Company, and subsequent savings in our occupiers’ expenses of £4.1m.

S172: Financial and non-financial impacts

The directors noted the financial impact of the COVID-19 pandemic on our business and the wider industry; the measures implemented by the business to support our occupiers; the uncertainty faced by our occupiers, and the impact of the pandemic on the quality of the business environment.

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Suppliers

The Finance team worked hard to improve our average payment days from 30 days in 2019 to 25 in 2020. The directors noted the significant reduction in the ratio of our payables compared to the Board and agreed to continue this approach.

Shareholders

The Directors considered the financial strengths of the business and agreed to continue to make an additional dividend payment of 2.5 pence, at an interim (2020 dividend) of 6.25 pence.

Employees

The COVID-19 pandemic and different circumstances, caused an understandable concern around job security, ability to successfully work from home and safety at work when returning to the office. Direct feedback from employees was taken into consideration in our decision making and the Board restructured the way we work in 2020. In February 2020 and in this respect, was shared with the Board and the Directors.

NHS

Through community engagement, and our close relationship with University College Hospital, we were made aware that there was a lack of storage facilities to house a large number of staff who were being housed in hotels as they were unable to stay with their families during the height of the pandemic.

The Directors responded by:

- providing use of furniture from charitable donations, tower blocks and secure accommodation (see page 137); and;
- contributing to the MRC, Medical Student Support Fund and the 100 Project.
**Man Group plc**  
Annual Report 2020 pg 42, 43

**What is useful?**
In its S172 statement case study, Man Group specifically addresses "the need to act fairly as between members of the company", recognising conflicting priorities between shareholders.

**Asset reunitification and share forfeiture programmes**

Man Group instructed EQ, its share registrar, to conduct a review of its share register with the aim of re-engaging with its ‘lost’ shareholders and reuniting them with their Man Group plc shares together with any unclaimed dividends attached to those shares.

As a result of the share register review, a total of 110 shareholders were identified as ‘lost’ with an aggregate holding of 279,803 shares. A ‘lost’ shareholder is classified as a holder who has not claimed or cashed a single dividend payment from the Company over a period of at least the last 12 years.

Upon identification of the ‘lost’ shareholder population, the Board agreed that an asset reunitification programme and a subsequent share forfeiture programme would be undertaken by EQ. Approval was sought at the Company’s 2020 Annual General Meeting to amend its Articles of Association (the Articles) to help facilitate these programmes.

Following receipt of shareholder approval to amend the Articles, the asset reunitification programme commenced and ProSearch (a specialist tracing company) was appointed to help trace the Company’s ‘lost’ shareholders and reunite them with their assets. Following completion of the tracing exercise, the Company was able to successfully reunify 187,663 shares and associated dividends, worth £304,000, with its shareholders.

After adhering to the requirement set out in the Articles, the remaining 92,140 unclaimed shares were forfeited and sold by the Company in the market in November 2020. The Board decided that the net proceeds from the sale of the unclaimed shares and the associated dividends, having a combined net value of approximately £250,000, would be used to fund the Man Group plc Charitable Trust (the Charitable Trust). Further information on the activities of the Charitable Trust can be found on page 61.

The Board undertook the asset reunitification exercise programme to maximise its engagement with shareholders and considered it to be in the long-term best interests of the Company and its shareholders as a whole. The decision to allocate the funds from the share forfeiture programme to the Charitable Trust was centred around the Board’s commitment to making a positive impact to the wider community in which Man Group operates. The Company will also be conducting a separate exercise for unclaimed dividends which are over 12 years old in the first half of 2021.

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**Fresnillo plc**  
Annual Report 2020 pg 105

**What is useful?**
Besides addressing the impact on communities, where relevant, in its discussion of principal decisions in its S172 statement, Fresnillo links its discussion of communities as a strategic stakeholder to its S172 duty and includes its framework for community engagement in its business lifecycle. This shows how Fresnillo considers and engages with communities at different stages of its business model and therefore, different time horizons.
Appendix 1: Tips on Section 172

Section 172 statements
How to make them more useful

The Financial Reporting Lab spoke to institutional and retail investors and other stakeholders about what they consider useful reporting on how directors have regard to the matters set out in section 172(1)(a) to (f) of the Companies Act 2006 when performing their duty under section 172 to promote the success of the company. We also spoke to companies to understand the challenges they are facing in preparing the related statement. The following tips reflect those views and help companies consider what content to include, how to present it, and how to facilitate the process of preparing the statement.

Section 172 statements as a tool to better insight and more accountability
Section 172 statements were introduced by the Companies (Miscellaneous Reporting) Regulations 2018 and were first applied to the reporting periods of relevant companies for financial periods beginning on or after 1 January 2019. A parallel recommendation was also included in the 2018 UK Corporate Governance Code. The Guidance on the Strategic Report was also updated to strengthen the link between the purpose of the strategic report and the director’s section 172 duty to promote the success of the company. It also includes guidance on how to prepare the statement. In May 2020, the FRC issued a clarification about which companies should prepare such statements. These requirements were introduced following concerns that boards were not paying sufficient attention to their responsibilities towards both shareholders and stakeholders. Some companies told us that the new requirements have indeed made boards and management think more deeply about stakeholders.

Building in useful content

• **Be specific and genuine, avoiding box-ticking** – The section 172 statement should not be just a compliance exercise where the company duplicates the section 172 requirements and states compliance. Instead, it should reflect on how the company met the requirements, explain what is relevant to it and what happened during the year and, where applicable, what the board and management plan to do in future. The statement should be an authentic reflection of what happened and what is material to the company.

• **Explain the why** – Explain the board’s reasoning behind why:
  - particular stakeholders are identified as key;
  - particular engagement methods were effective;
  - key decisions were taken in light of engagement and feedback which may have accumulated over time.

• **Link to strategy** – Discuss how stakeholders and other matters are considered strategically, how they are relevant to the business model, and how they affect the development and implementation of strategy.

• **Include difficulties not just positives** – Provide information on where trade-offs and decisions have been made in the short-term to benefit the long-term, and to the benefit of one stakeholder group over another.

• **Reflect the board’s oversight** – Investors recognise that management is responsible for the majority of engagement with stakeholders and the formulation of strategy, but they want to understand how the board challenges and oversees this, and what stakeholder management processes are in place, e.g. how issues are escalated to the board, the extent of training of the board on stakeholder issues, and how the effectiveness of complaints/grievance mechanisms is assessed.

• **Include material KPIs on key stakeholders** – Information such as key performance indicators on key stakeholders monitored by the board, e.g. net promoter scores, should be included in the statement or by cross-reference to where that information can be found elsewhere in the annual report, where material.

• **Address future consequences and planned actions** – When setting out the engagement undertaken and decisions made, companies should disclose the implications of the feedback received, the impact of decisions on relevant stakeholders, and what actions have been taken or are planned as a result. Where the statement highlights issues or concerns raised by a stakeholder, it should be clear how they have been or are going to be addressed.

• **Be consistent** – Reporting on section 172 should be consistent with the rest of the annual report and considered in the context of the company’s story, as a whole, without contradictory information.
Presented in a way that makes sense

- **Think of the flow and context** — The regulations require a section 172 statement within the Strategic Report, or elsewhere by cross reference. Although investors expressed no clear preference for the location of the statement, it should reflect the strategic link and be clear about the board’s role. Companies should think how it fits within the context of stakeholder engagement and how the statement itself can provide context to other areas. For example, the board’s decision-making can provide a framework for how stakeholders are considered, and therefore sequencing the statement ahead of a section on stakeholders can be helpful for investors’ understanding and ease of finding information.

- **Make it visible** — The section 172 statement should be clearly labelled and referred to in the contents page of the annual report.

- **Use cross-referencing to enhance understanding** — Cross-referencing, where used, should expand upon points made in the statement and provide further context. It should not be used to make the statement a contents page or list of links. While cross-referencing is helpful, the statement should still provide a coherent message by itself. Where cross-referencing is used, be specific and clear about what you are referring to, rather than refer to a whole section. Include hyperlinks for ease of navigation.

- **Include case-studies** — Examples and case-studies of significant strategic decisions taken during the year, explaining how stakeholders were taken into account, can bring the statement to life. Consider including them within the statement itself or cross-referencing to them.

Supported by process

- **Start early** — During the year, highlight those key decisions and engagement activities which could be considered for inclusion in the statement as they happen, rather than just compiling information at the end of the year. This can also help the company and the board consider the extent of their direct involvement and activities, and whether a change or more is needed.

- **Include prompts on stakeholders and Section 172 responsibilities** — Consider tailoring templates for board agendas, papers and minutes to include reminders for both the board and management to consider which stakeholders are relevant for decisions. Consideration of stakeholders should form part of a business’ activities, and these prompts can lead to better evidence, as well as making it easier to assess what to include.

When framing your Section 172 statement, remember:

- It is not about stating compliance with the Section 172 requirements, but about reflecting the board’s consideration of stakeholders in pursuit of the success of the company.

- It is not just about stakeholder engagement; the statement should consider all the requirements of section 172, and investors are particularly interested in the promotion of the success of the company and the consequences of decisions in the long term.

- It needs to reflect what is relevant to the company — therefore, the board should explain how they have exercised their duty and considered stakeholders and the long-term success of the company, even where decisions or engagement may have been carried out centrally by the group in the case of some subsidiaries.

- Section 172 should be embedded in the directors’ strategic decision-making and supported by the company’s culture — it is important that boards set the tone at the top, and companies should report on what they do.

“Section 172 [...] recognises] that companies are run for the benefit of shareholders, but that the long-term success of a business is dependent on maintaining relationships with stakeholders and considering the external impact of the company’s activities. The section 172(1) statement should explain how the board has had regard to the broader matters in their actions, behaviours and decisions”

**Guidance on the Strategic Report**

These tips are part of a broader Lab project on reporting on stakeholders. Interested parties are still welcome to share their views and experience. More information can be found [here](#), and you can contact us on: [financialreportinglab@frc.org.uk](mailto:financialreportinglab@frc.org.uk)
In recent years, a range of new requirements have been introduced in the UK, which require consideration of stakeholders in reporting. While this report is not about how to apply these requirements, below we highlight the main regulations and guidance which provide valuable context for this report.

**Companies Act 2006 (‘Companies Act’)**

There are various parts of the Companies Act that require reporting on, or at least consideration of, stakeholders or specific stakeholder groups such as employees. The strategic report’s purpose, as articulated in Section 414C, is to enable users to “assess how the directors have performed their duty under Section 172 (duty to promote the success of the company)” and requires quoted companies, “to the extent necessary for an understanding of the development, performance or position of the company’s business”, to include information about the company’s employees and social, community and human rights issues. The section also includes requirements for quoted companies to provide employee gender diversity breakdowns.

The FRC’s Guidance on the Strategic Report provides further detail on how to address Section 414C and how to include information on stakeholders in the annual report.

“The strategic report’s purpose, as articulated in Section 414C, is to enable users to “assess how the directors have performed their duty under Section 172 (duty to promote the success of the company)” and requires quoted companies, “to the extent necessary for an understanding of the development, performance or position of the company’s business”, to include information about the company’s employees and social, community and human rights issues. The section also includes requirements for quoted companies to provide employee gender diversity breakdowns.” Paragraph 3.4, Guidance on the Strategic Report

In addition, Section 414C of the Companies Act requires companies to report on principal risks and key (non-financial) performance indicators, including information relating to environmental matters and employee matters, and quoted companies to report their business model and strategy. These are reporting areas in which a consideration of, and reporting on, stakeholders may be relevant.

**The Companies, Partnerships and Groups (Accounts and Non-Financial Reporting) Regulations 2016** (Sections 414CA and 414CB of the Companies Act) introduced the requirement for public interest entities with more than 500 employees to prepare a Non-financial information statement for in which companies should include a description of policies, related due diligence, outcomes of policies, principal risks and key performance indicators in relation to matters including employees, social and community matters, respect for human rights and antibribery. These requirements, as part of the implementation of the EU’s Non-Financial Reporting (NFR) Directive, were reflected in the revised Guidance on the Strategic Report. The FRC also published a Frequently Asked Questions covering the NFR requirements, including what is meant by the impact of a company’s activities and the interaction with the strategic report disclosures.

**The Companies (Miscellaneous Reporting) Regulations 2018** introduced a number of new requirements for the annual report, including:

- Section 172 statement (Section 414CZA of the Companies Act) – in which companies describe how the directors have had regard to the matters set out in Section 172(1) (a) to (f) when performing their duty under Section 172:
  
  (a) the likely consequences of any decision in the long term,
  
  (b) the interests of the company’s employees,
  
  (c) the need to foster the company’s business relationships with suppliers, customers and others,
  
  (d) the impact of the company’s operations on the community and the environment,
  
  (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
  
  (f) the need to act fairly between members of the company.

**Appendix 2: Regulatory background**

Appendices
Section 8 of the Guidance on the Strategic Report provides guidance on how to prepare this statement and clarifications on which companies should prepare it can be found here. The Department for Business, Energy and Industrial Strategy (BEIS) also published a Q&A on the regulations, including preparation of the statement.

- Amendments to the directors’ report on engagement with employees, suppliers, customers and others (Part 4 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008) – which augmented existing disclosures on how, amongst other things, the company informs and consults employees so that their views are taken into account in making decisions, encourages their involvement by requiring disclosure of how directors have had regard to employee interests and the need to foster the company’s business relationships with suppliers, customers and others in decision-making. As noted in the BEIS Q&A, some of these requirements overlap with those of the Section 172 statement but having a directors’ report requirement ensures that company reports include information about these important aspects of the Section 172(1) duty even where the directors do not judge the information to be of sufficient strategic importance to be included in the strategic report that year.

As noted in the Guidance on the Strategic Report, these different requirements overlap and therefore, some of the disclosures may be included in the relevant statement by cross-referencing to other parts of the strategic report.

The UK Corporate Governance Code (‘The Code’)

“To succeed in the long-term, directors and the companies they lead need to build and maintain successful relationships with a wide range of stakeholders. These relationships will be successful and enduring if they are based on respect, trust and mutual benefit. Accordingly, a company’s culture should promote integrity and openness, value diversity and be responsive to the views of shareholders and wider stakeholders.” Introduction to the Code

The Code has two principles which relate directly to stakeholders: Principle D, which is about ensuring effective engagement with and encouraging participation from the company’s stakeholders and Principle E, which is about workforce policies and practices. The related ‘comply or explain’ Provision 5 is about how the board understands stakeholders’ views and how their interests and the matters set out in Section 172 have been considered in board discussions and decision-making. It then describes possible methods for engagement with the workforce. Provision 6 is about ensuring that the workforce is able to raise concerns in confidence.

The FRC published a report on Improving the quality of ‘comply or explain’ reporting and noted how transparency can be improved with regard to Provision 5. Further detail on the FRC’s expectations on application of the Code, including on stakeholder engagement, can be found in the FRC’s 2020 Annual Review of Corporate Governance Reporting. In May 2021, the FRC published Workforce Engagement and the UK Corporate Governance Code: A Review of Company Reporting and Practice, which reviews the approaches taken on workforce engagement.

Other requirements

In 2015, the UK introduced a requirement for companies to publish a Modern Slavery Statement in which a company sets out how it prevents modern slavery in the business and supply chain. This relates to a number of stakeholder groups, including workforce, suppliers and distribution partners. The Home Office’s statutory guidance recommends that companies report on 6 areas, including organisational structure and related supply chains, policies, due diligence and risk management in relation to slavery and human trafficking and related KPIs. In 2020, the UK government issued a consultation on transparency in supply chains in a move to strengthen reporting in this area.

Other reporting requirements related to stakeholders include:

- the duty to report payment practices and performance (in relation to suppliers); and
- gender pay gap reporting.
Appendix 3: Process and participants

Process

Participants join projects by responding to a public call or being approached by the Lab. An iterative approach is taken, with additional participants sought during the project, though it is not intended that the participants represent a statistical sample. References made to views of ‘companies’ and ‘investors’ refer to the individuals from companies and investment organisations that participated in this project. Views do not necessarily represent those of the participants’ companies or organisations.

Views were received from a range of UK and international institutional investors, analysts and retail investors through a series of in-depth interviews and roundtables. We also heard from a range of companies through FRC-led roundtables, one-to-one interviews or roundtables with other agencies.

Participants

The Lab received a great deal of support from a wide range of organisations throughout this project, particularly those organisations that have been working in this area for a number of years. This assistance has been invaluable, and we thank these organisations for giving so generously of their time.

Thank you to all of the participants for contributing their time to this project.

Companies
3i Group plc  
Assura plc  
BHP Group  
Blanco Technology Group  
BP plc  
Burberry Group plc  
First Group plc  
Franklin Templeton  
Halma plc  
Howden Joinery Group plc  
Ibstock plc  
InterContinental Hotels Group plc  
IP Group plc  
ITV plc  
Legal & General Group plc  
Man Group plc  
Mizuho International plc  
Nationwide Building Society  
Natwest Group plc  
Polymetal International plc  
Rathbone Brothers plc  
Refrinitiv Limited  
Rio Tinto Group  
Shell International Limited  
Smith & Nephew plc  
Spirax-Sarco Engineering plc  
SSE plc  
Tesco plc  
Thames Water Utilities Ltd  
Wellcome Trust

Investors and other users
Blackrock  
Brunel Pension Partnership  
Castlefield Investment Partners LLP  
Church Commissioners and the Pensions Board of the Church of England  
Deborah Gilshan, Advisor, Investment Stewardship & ESG  
Federated Hermes International  
Jupiter Asset Management  
Legal & General Investment Management  
LGPS Central Limited  
Moody’s  
Retail investor representatives (4)  
RPMI Railpen

We would also like to thank the following agencies for hosting company roundtables, where the Lab gathered further views:

Black Sun  
Emperor  
Falcon Windsor  
Luminous
The Lab has published reports covering a wide range of reporting topics, including ones which are relevant to the topic of stakeholders:

- Business model reporting (2016)
- Business model reporting – implementation study (2018)
- Workforce-related corporate reporting
- WM Morrison Supermarkets PLC case study – Supplier relationships and emergent issues reporting
- COVID-19 – Resources, action, the future
- COVID-19 – Resources, action, the future – a look forward

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