# Communication with stakeholders

**MCCG Intended Outcome 11.0**

There is continuous communication between the company and stakeholders to facilitate mutual understanding of each other's objectives and expectations.

Stakeholders are able to make informed decisions with respect to the business of the company, its policies on governance, the environment and social responsibility.

**MCCG Practice 11.1**
The board ensures there is effective, transparent and regular communication with its stakeholders.

The internalisation and application of the content "Why" and "How" should be read in tandem with the line of sight outlined by the Intended Outcome.

## Why — The case for change

The directors of a company are accountable to their stakeholders for the operations and the performance of a company. Stakeholders refer to "any individual or entity who can get benefited or affected by, and/or can benefit or adversely affect, a company's actions in pursuit of its primary objectives"[1]. Apart from shareholders, stakeholders typically include employees, creditors and suppliers, to name a few. Although shareholders are regarded as stakeholders of a company, they differ in many aspects from the other groups as they are owners of the company and they delegate the responsibility of managing the company to the directors.

Each group of stakeholders expect a varying level of interaction from the board based on their differing levels of interest in the company. Stakeholders expect the board to, amongst others, undertake the following:

- communicate in a timely and open manner;
- adopt good corporate governance practices;
- ensure that the company's performance is closely monitored and feedback is provided; and
- engage and interact with stakeholders when making decisions that are significant to the company's direction.

**What could go wrong:**

- Adverse impact on share price due to unsubstantiated rumours and negative press coverage or loss of trust in the company.
- Lack of timely disclosure of material and reliable information resulting in the inability of stakeholders to make informed decisions.

[1] *Effective Co-operation And Communication With Stakeholders,* 2007, Organisation for Economic Co-operation and Development

Stakeholders expect timely and accurate dissemination of information and demand greater transparency from the company on their disclosures for them to form an informed view on the company.

For stakeholders such as shareholders, the AGM has in many instances become the sole avenue to engage the board and gain insights on the company's business activities and financial position. Now, stakeholders are increasingly attempting to engage the board beyond the scope of the general meetings. This has made communication between a company and its stakeholders an integral part of the corporate governance framework.

The need for proper communication between a company and its shareholders has become far more evident with increased shareholder activism. In Malaysia, institutional investors are demonstrating heightened stewardship efforts via engagement efforts with their investee companies. Given the significant stakes that they commonly hold in their investee companies, institutional investors are typically in a strong position to influence the corporate governance practices of their investee companies. The heightened efforts undertaken by domestic institutional investors in engaging their investee companies are well encapsulated in the "Report on Institutional Stewardship and Future Key Priorities" by Institutional Investor Council Malaysia ("IIC") in 2016.

Apart from general meetings, other modes of engagement by institutional investors include written submission of concerns and queries to the boards of investee companies and meeting with the companies centred on the topics of financial performance, strategic direction and long-term sustainability of the business[2].

## HOW The practice in substance

Ongoing communication and engagement with stakeholders are essential to provide stakeholders with a better appreciation of the company's objectives and the quality of its management. **Chapter 9 of Bursa Securities Listing Requirements** requires a listed issuer to have in place good corporate disclosure policies and effective communication channels to ensure thorough and timely dissemination of material and reliable information from the listed issuer to the Exchange, its shareholders and other stakeholders.

### Dos

- ✓ Providing several engagement channels to improve communication with stakeholders.
- ✓ Ensuring information disclosed on the company website is resourceful, informative and kept up-to-date.
- ✓ Conducting periodic and structured engagement sessions with stakeholders.
- ✓ Disclosing the company's stakeholder communication policy.

### Don'ts

The following would render the application of this practice ineffective:

- × Having AGM as the only means of stakeholder engagement.
- × Limiting engagement sessions only to shareholders and not including other stakeholders.

[2] *Investor Stewardship and Future Key Priorities,* 2016, Institutional Investor Council Malaysia

**Paragraph 9.01(4) of the Bursa Securities Listing Requirements**

Continuing disclosure ensures a credible and responsible market in which participants conduct themselves with the highest standards of due diligence and investors have access to timely and accurate information to facilitate the evaluation of securities.

**Paragraph 9.21(2)(a) and (b) of the Bursa Securities Listing Requirements**

A listed issuer must publish the following information on its website:

(a) all announcements made to the Exchange pursuant to these Requirements, as soon as practicable after the same are released on the Exchange's website; and

(b) a summary of the key matters discussed at the annual general meeting, as soon as practicable after the conclusion of the annual general meeting.

**Paragraph 9.21(4) of the Bursa Securities Listing Requirements**

A listed issuer should ensure that its website is current, informative and contains all information which may be relevant to the listed issuer's shareholders including analyst's briefings.

From a company's viewpoint, it is vital to understand that communication depends on the nature of stakeholders that the company is dealing with. In engaging with stakeholders, companies should consider leveraging on technology as it facilitates the dissemination of information in a more seamless and inclusive manner.

**Hot-button issue**

In Malaysia, it is often noted that institutional investors due to their resources and clout are able to engage boards in private to discuss on the strategic and financial status of the company. On the other hand, retail shareholders commonly gather information from the board only during general meetings or when announcements and media reports are made available[3].

This forms a divide between the different shareholder groups. It is therefore imperative that the board exercises equal treatment to all shareholders and ensures that selective disclosures are not made to any particular group of its stakeholders.

[3] *Investor Stewardship and Future Key Priorities* 2016, Institutional Investor Council Malaysia

Key considerations relating to the application of this Practice are discussed below:

**How does the board improve its communication with stakeholders?**

The board has to first identify its stakeholders and formalise a policy. The board then has to implement and disclose its policies on stakeholder communication to articulate the approaches towards different stakeholders. These polices must be assessed regularly by the board. A policy on communication with stakeholders should at the very least contain:

- purpose of the policy;

  The policy should describe the purpose of the policy to promote effective communication and provide stakeholders with complete and timely information about the company.

- principles used to formulate the policy;

  There should be an explanation on how the communication policy was formulated, including the level of clarity and reliability of information, as well as the application of open, fair, timely and consistent disclosures. The policy should outline measures to ensure compliance with the disclosure requirements as set out in **Bursa Securities Listing Requirements** and other relevant regulatory requirements such as nature of information that can be released so as to avoid instances of disseminating unpublished price-sensitive information. The nature of information that would be classified as price-sensitive should be clearly ascertained. A clear level of authority should be accorded to designated spokespersons or those handling the material information.

- parties responsible for the communication;

  The policy should include details on the parties responsible for communication with stakeholders and whom stakeholders can contact, if necessary.

- methods of communication; and

  The policy must define and provide details on avenues available to stakeholders to communicate with the company and the board such as telephone, mail, email, facsimile, corporate website, in person at the company's office and for shareholders this also includes attendance at the AGMs/EGMs. Communication with stakeholders also includes quarterly and annual reports, press releases and announcements made by the company.

- location where additional information can be found.

  Information on where the policy or further information about the company can be accessed such as the company website, must be provided to stakeholders.

**Investors' perspectives**

Institutional investors are increasingly staking a demand for greater transparency and accountability from their investee companies.

In June 2014, a market driven effort, led by the major institutional investors resulted in the formulation of the **Malaysian Code for Institutional Investors ("MCII")**, which is a set of guiding principles in relation to the stewardship responsibilities of institutional investors. Subsequent to that, the IIC was established to serve as a common platform for institutional investors to raise concerns or views, particularly on corporate governance issues.

It is worth noting that **Principle 3 of MCII** calls upon institutional investors to engage investee companies and undertake proactive measures in this regard.

**What are the common channels of communications?**

In order to communicate with stakeholders, the board must first ensure the proper channels of communication have been established. This would involve the following:

1. Establishing an investor relations function

   Investor relations is the process by which a company organises and conducts itself in an effective two-way communication with its shareholders. Reference can be made to Bursa Malaysia's publication – "Investor Relations – Put Into Practice" which acts as a resource for a company to plan an investor relations programme or review its existing programme. Generally, an investor relations programme includes the activities outlined below.

Scope or activities of an investor relations function[4]:

- Communicate corporate developments, strategy and financial plans to investors/ financial community;
- Analyse market and sell-side sentiment;
- Develop shareholder management strategy; and
- Obtain feedback from investors/financial community.

It is acknowledged that it may not be feasible for all companies to have a stand-alone investor relations department. Companies that are larger in size of operations and market capitalisation, would deal with a larger number of stakeholders compared to smaller companies. This would necessitate a higher number of personnel involved in their activities.

It would be advisable for companies that are relatively large in size of operations and market capitalisation as a minimum to consider:

- establishing a separate independent investor relations function;
- providing dedicated investor relations contact on its website and annual report; and
- designing and implementing an investor relations programme.

As for the rest of the companies, it would be advisable for them, as a minimum to consider:

- ensuring there are personnel to oversee the communication with stakeholders;
- heightening efforts in providing information via company website; and
- ensuring matters concerning stakeholder communication are deliberated during board meetings.

[4] *Investor Relations Put Into Practice,* 2007, Bursa Malaysia

2. Conducting engagement sessions with the different types of stakeholders, including analyst and media briefings

   As mentioned above, every stakeholder group is distinct as each group has different interests. Institutional investors would have a different perspective on their investment as opposed to a retail investor. As such, different approaches would be required to communicate with the different groups.

   For example, engagement sessions (e.g. briefing and dialogues) allow shareholders and other stakeholders to better understand the company and make informed decisions on exercising their votes. Concerns regarding the company's performance, strategy, corporate governance practices and future prospects can be raised through briefing sessions, which will provide the company and its stakeholders (e.g. investors, analysts and employees) with a common platform to improve the flow of information.

Common questions asked by shareholders and stakeholders currently

- What is the company's strategy going forward, given the current market conditions?
- Why has the company's share price exceeded/lagged behind the others in the same industry? How has the company's share price performed in comparison to competitors?
- Is the company looking for opportunities for acquisition and/or acquiring assets?
- Why have gross operating margins increased/decreased from prior years?
- Which division/subsidiary/products contributed the most and the least to this year's earnings? Which division/subsidiary/product is expected to be stronger/weaker next year?
- Why is the chairman also the chief executive of the company? Has the company considered separating these roles?
- What events have led to company's impairment charges?
- How does the company plan to increase its market share?
- What was done from funds received from disposals?
- To what extent is the company dependent on short-term financing to operate?
- Are materials used in production sourced in an environmentally efficient manner?
- Has the company given due consideration to the social impact of its supply chain?
- Would the company look into investing in green energy and spaces?
- What are the measures taken by the company to limit the carbon footprint?

### Point for reflection

Institutional investors are increasingly seen to be exerting their influence to bring changes in a company. Recently, many South African companies have proposed to amend their Memoranda of Incorporation ("MOI") to state that only non-executive directors will be subjected to regular re-election by shareholders. The executive directors are excluded.

In this regard, a major institutional investor, BlackRock has taken the position that the ability to elect or re-elect a director to the board is a fundamental right of the shareholders that cannot be compromised.

To this end, BlackRock held several engagement sessions with a financial services company on the proposed amendments to the MOI. BlackRock advised the company that they would not be supportive of the removal of this fundamental shareholders' right.

BlackRock's feedback, and that of other shareholders, encouraged the board of the said company to require all directors, including executives, to retire by rotation and seek shareholders' approval in re-electing them. A new MOI was submitted to reflect this.

*Adapted from the report on Corporate Governance & Responsible Investment Report: Europe, The Middle East and Africa by BlackRock (Q1, 2017)*

3. Ensuring proper and accurate disclosure using available technological means such as the company website and social media

   It is important to note that stakeholders are increasingly active in online forums where latest industry developments and stock performance are shared and discussed. Although they are becoming more informed, there is a risk in them being misled in these forums. By being proactive on the company's website and social media, companies can act to ease the pertinent concerns of stakeholders.

   **Bursa Malaysia Corporate Disclosure Guide**[5] states that a listed issuer should leverage on advances in information technology to broaden its channel for dissemination of information. In tandem with this, the **Bursa Securities Listing Requirements** allows the use of e-communication by the listed issuer to disseminate information to its stakeholders, as outlined on the following page.

[5] **Paragraph 3.26, Bursa Malaysia Corporate Disclosure Guide**

**Paragraph 2.19B of Bursa Securities Listing Requirements**

**Issuance of documents by electronic means by a listed issuer to its securities holder**

A listed issuer may send any document required to be sent under these Requirements to its securities holders ("**Documents**") by electronic means, if the following conditions are complied with:

(a) the constitution of the listed issuer –

  (i) provides for the use of electronic means to communicate with its securities holders;

  (ii) specifies the manner in which the electronic means is to be used; and

  (iii) states that the contact details of a securities holder as provided to the Depository shall be deemed as the last known address provided by the securities holder to the listed issuer for purposes of communication with the securities holder;

(b) if the listed issuer publishes the Documents on its website, the listed issuer must separately and immediately notify the securities holders of the following in writing:

  (i) the publication of the Document on the website; and

  (ii) the designated website link or address where a copy of the Document may be downloaded;

(c) if the listed issuer sends the Documents or notification through electronic mail, there must be proof of electronic mail delivery;

(d) where a securities holder requests for a hard copy of the Document, the listed issuer must forward a hard copy of the Document to the securities holder as soon as reasonably practicable after the receipt of the request, free of charge; and

(e) where it relates to Documents required to be completed by securities holders for a rights issue or offer for sale, the listed issuer must send these Documents through electronic mail, in hard copy or in any other manner as the Exchange may prescribe from time to time.

*Note: **Sections 319, 320 and 612 of Companies Act 2016** allow companies to deploy technology to engage and communicate with its shareholders.*

**What are symptoms of poor communication efforts by the company to reach out to stakeholders?**

Examples of poor communication efforts in this regard are as follows:

- the board does not provide sufficient time and information to engage with its stakeholders;
- investor relations activities are not conducted in accordance with the directions of the board and management; and
- an improperly maintained company website (i.e. not updated regularly).

**How can a company's website (on communication with stakeholders) be enhanced and be made user-friendly?**

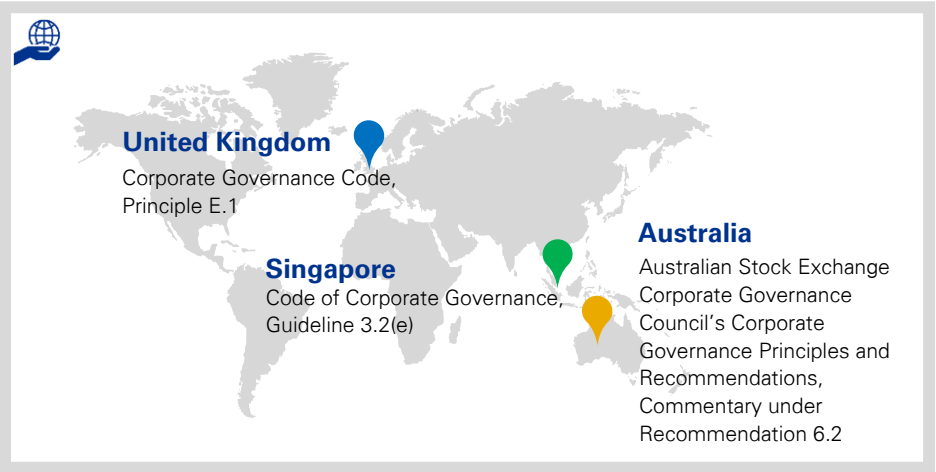
Suggested measures to enhance the content of a company's website are outlined below:

- ensure the website contains a calendar which sets out the important dates for stakeholders such as general meetings, upcoming engagement sessions, release date of financial statements, entitlement dates and other business updates;
- ensure corporate governance documents and policies (e.g. company's constitution, board charter, terms of reference of board committees, remuneration policies and procedures) are regularly updated and easily accessible to stakeholders;
- ensure announcements made to the Exchange are published on the company's own website and such announcements should be maintained as long as reasonably practicable for stakeholders' information;
- publish the presentation slides and announcements made to the media as well as analysts, on the company's website; and
- provide an investor relations contact to facilitate quick response to stakeholders' queries.

Where

## Regional/international perspectives

As in the case of Malaysia, countries such as Australia, Singapore and United Kingdom have enumerated provisions (through their respective codes of corporate governance) that aim to foster transparent communication between the board and stakeholders.




| Country | Provision |
|---|---|
| United Kingdom | There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place ***(Principle E.1)***. |
| Australia | A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors ***(Recommendation 6.2)***. |
| Singapore | The chairman should ensure effective communication with shareholders ***[Guideline 3.2(e)]***. |