

## **The benefits of stakeholder audits**

Edgar Tellez, experienced Head of Compliance in the Latin American Financial Services sector has been working alongside GoodCorporation to conduct a major stakeholder audit for one of our international clients in Mexico,

Update caught up with him to find out his views of the audit process.

### **What are the benefits of stakeholder audits?**

Stakeholder audits can be invaluable. Businesses are increasingly under pressure to be run in a responsible and sustainable way and the only way to know if this is really happening is to ask the people involved, be they employees or customers, suppliers or shareholders. By talking to these stakeholders, as well as neighbours and the local community, a business can gain a real insight into the strengths and weaknesses of the organisation.

Leadership teams can use the feedback to establish what practices and policies, systems and processes are really working. This type of management information should be the basis behind a good and effective business plan. If a company wants a true SWOT analysis of its business it should begin with a stakeholder audit.

### **What do stakeholders think of such a process?**

By involving stakeholders in such a process, businesses can reinforce engagement and provide motivation to those that work there. For customers, suppliers and shareholders, it is an indication that the management team has a genuine interest in feedback about their organisation.

### **How often should they be conducted?**

In an ideal world they should be conducted annually or at least every two years, as they provide senior management with a thorough understanding of the business and how it works.

### **Who should be interviewed?**

Customers and suppliers are generally more than happy to provide an honest and transparent viewpoint of your business, but leadership teams should ensure that all stakeholder groups are consulted to ensure that their assessment of the business is properly comprehensive.

### **Can audits really get to the heart of an organisation?**

Yes, if the business is prepared to hear negative feedback. We can all ask questions to elicit the answer we want to hear, but that is of little value. If an audit seeks to interrogate all areas of responsible business management, then it should reveal how a business really ticks.

### **Do they make a difference?**

Inevitably, an audit will be most effective if you act on the findings. Both the feedback and any resulting changes or new initiatives should be communicated to the relevant stakeholder groups. This demonstrates that the company is taking the audit process seriously and genuinely values the information it receives as a result.

### **Is there a benefit in using an external auditor?**

If a business wants a genuinely objective view of what is going on, then an external audit is the best way to achieve this. Employees in particular are more likely to be honest, rather than say what they think they ought to say, if speaking to an external organisation and it is that honest feedback that will provide senior management with accurate information.

Another advantage of using an external organisation, particularly one with considerable experience, is the opportunity to be benchmarked against leading competitors or an industry standard. Again, this should be essential management information, crucial to any business planning. Not only does this give a company the chance to assess its management practices, it enables the business to track improvement by carrying out subsequent assessments.

### **How should Boards view such an audit?**

A good Board should be thoroughly engaged with such a process, but they should be looking at the information they receive not just to ensure that their company is complying with all relevant regulation and legislation, but to see what changes may need to be implemented. As Boards are increasingly made up of non-executive directors, this type of feedback should be as essential as the profit and loss data from the annual report. With the increase in emphasis on good governance, Board members need to ensure that they really know what is going on in the companies they direct. A comprehensive audit of management practices can help them do this.

### **In the past six months the UK has seen the Bribery Act passed and the Corporate Governance Code issued, will this place a greater emphasis on management practices and controls?**

For businesses operating out of the UK, this will undoubtedly be the case. A well run business will be one that has appropriate policies and practices and knows whether or not they are working. Globally, it is becoming increasingly unacceptable to give or receive bribes. Businesses are refusing to accept the making of facilitation payments as an unpleasant but inevitable part of doing business. We should all welcome this and support any initiatives to stamp out the practice. Ensuring that anti-corruption policies are both robust and effective will become an increasingly crucial part of good governance.

