Governing with stakeholder insight

A guide for boards

Australian Institute *of* Company Directors

August 2026

Contents

Case studies

Foreword

Organisations that invest in meaningful stakeholder engagement are better placed to manage risk, navigate complexity and deliver sustained performance.

Boards understand that genuinely engaging stakeholder perspectives is not a concession to outside pressure. It is central to sustainable long-term value. And it is sensible to 'build bridges before you cross them'.

This guide builds on the AICD's original 2021 publication on board engagement with stakeholder groups *Elevating stakeholder voices to the board*, and the distance travelled since then is striking. Stakeholder engagement is now an expectation, reinforced by legal developments, hard-won experience, and a governance environment that has grown considerably more complex. Precarious supply chains, geopolitical instability, workforce expectations and sustainability pressures mean boards must be more responsive – and more deliberate – than ever before.

There is no set formula. Stakeholders hold differing, sometimes competing, perspectives, and boards must exercise real judgement to weigh them against the organisation's purpose and long-term interests. What is clear from experience across sectors is the cost of getting it wrong: organisations that fail to understand or respond to stakeholder concerns have faced serious reputational and strategic consequences.

This guide exists to help boards navigate that complexity. It is designed for boards of all kinds, including large listed and small private companies, for-profit and not-for-profit. It retains the core five-step framework from the original guide, updated to reflect current law and practice. What is new is the depth of understanding of the legal position and real-world insight. The guide draws on a legal opinion commissioned by the AICD on the extent to which boards can consider stakeholder interests and a subsequent AICD Practice Statement, *Directors' "best interests" duty in practice*. The guide also features extensive case studies drawn from organisations across sectors, and perspectives gathered from a wide range of voices.

Established practice has consistently shown boards that approach stakeholder engagement with clarity and discipline are better placed to govern effectively. This guide gives boards the structure to put it into action.

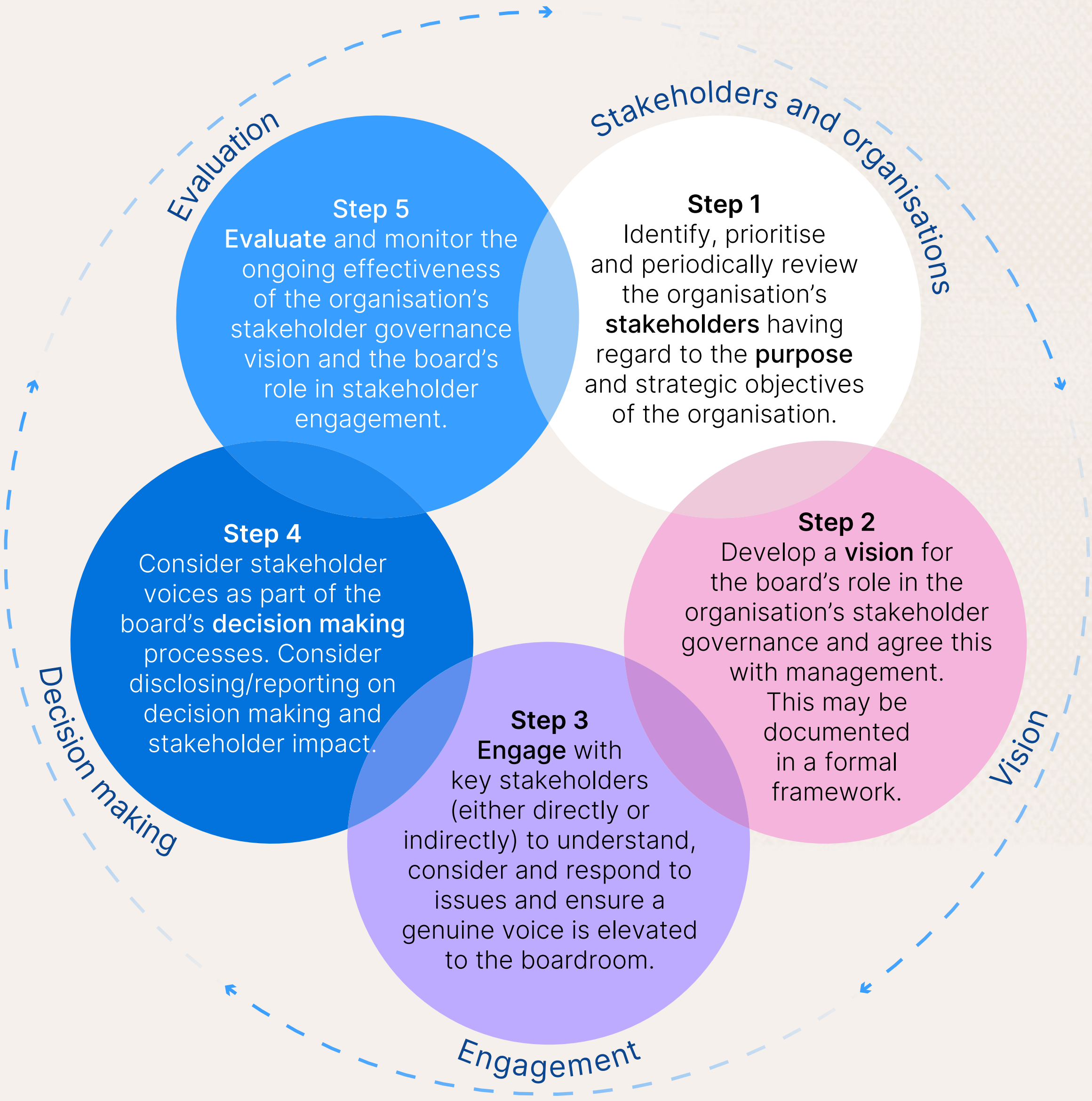
Mark Rigotti
Managing Director & CEO
Australian Institute of Company Directors (AICD)

Executive summary

This guide sets out a practical five-step approach to support boards in overseeing stakeholder governance across key groups, recognising that each organisation's stakeholder mix and priorities will differ depending on its purpose, operating context and activities.

The diagram illustrates the five steps as an interconnected cycle, embedded across core board activities. These steps are explored in detail throughout this guide, alongside practical insights and case studies.

Five steps to effective stakeholder governance



Key questions for effective stakeholder governance

Step 1: Stakeholders and organisations

- Which groups are vital to the organisation's success and what are their interests?
- Which stakeholder groups are likely to be impacted (positively or negatively) by the organisation's actions?
- Which stakeholders are most likely to influence the organisation's operations or strategy?
- Is the organisation's stakeholder map current and periodically reviewed?

Step 2: Vision

- Does the organisation require a formal stakeholder governance framework?
- Do existing governance structures provide sufficient insight into stakeholder perspectives?
- Is the approach to stakeholder governance aligned with organisational purpose and values?
- Is accountability for engaging with stakeholder groups clearly defined?

Step 3: Engagement

- Is the level of engagement with each stakeholder group proportionate to its relevance to the organisation?
- Is the form of engagement tailored to the needs and context of each stakeholder group?
- Is there a role for direct board engagement with particular stakeholder groups or issues?

Step 4: Decision making

- How are stakeholder perspectives reflected in board decision making processes?
- Does the board receive the right information on stakeholder impacts, and allocate sufficient time to consider these issues?
- Are there appropriate structures in place to inform the board of key stakeholders and their issues?
- How are differing views prioritised in decision making?
- How are decisions communicated to impacted stakeholders?

Step 5: Evaluation

- How regularly is the effectiveness of stakeholder engagement reviewed?
- What independent or external data provides insight into stakeholder impacts?
- Is there value in external assessment of stakeholder relationships?

Introduction

This guide considers the systems and processes through which a board oversees and governs an organisation's stakeholder engagement.

This includes how boards and organisations identify, understand and consider stakeholder perspectives in decision making and in the pursuit of value creation.

What is a stakeholder?

Stakeholders are groups that have an interest in an organisation, are likely to affect or be affected by its actions, or whose actions can impact its operations or business model.

This guide focuses on non-shareholder/member stakeholders, who sit outside the fiduciary obligations that boards owe to their owners/members. The focus of this guide is stakeholder groups such as employees, customers, suppliers, local communities, First Nations peoples and specific interest groups relevant to the organisation.

The way organisations engage with stakeholders will vary depending on an organisation's purpose, operating context and unique circumstances.

This guide does not cover engagement with government, regulators or media, which will be subject to separate compliance and board oversight approaches.

The 'best interests' duty

The board is responsible for the overall governance and strategic direction of the organisation, and directors are subject to core legal and fiduciary duties, including the duty to act in good faith in the best interests of the corporation.

To support directors in understanding and meeting this duty, the AICD commissioned barristers Bret Walker AO SC and Gerald Ng MAICD in 2022 to examine its current interpretation by Australian courts (Walker-Ng Opinion). A detailed explanation of directors' legal duties, including the Walker-Ng Opinion, is provided in Appendix 1, with key principles relating to the consideration of stakeholder views summarised in Box 1.

The AICD's Practice Statement Directors' "best interests" duty in practice, which was developed based on the advice, notes that the best interests duty permits, and may require, consideration of stakeholder interests where this supports the organisation's long-term interests, reputation and sustainability.

Box 1: Key aspects of directors' legal duties in a stakeholder context[1]

- The best interests duty requires directors to consider what is in the best interests of shareholders/members as a whole.
- Directors do not owe a duty specifically to non-shareholder stakeholders, as distinct from the interests of the company.
- Directors have considerable discretion to determine the best interests of the company, taking into account relevant facts and circumstances.
- While shareholders' or members' interests are central, directors can, and should, also consider a range of stakeholder interests, as doing so is often necessary to protect an organisation's reputation and ensure its long-term sustainability.
- As a guiding principle, directors should take a long-term view of where the company's interests lie.

Commissioner Kenneth Hayne observed in the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry: "The longer the period of reference, the more likely it is that the interests of shareholders, customers, employees and all associated with any corporation will be seen as converging on the corporation's continued long-term financial advantage."

1 AICD Practice Statement Directors' "best interests" duty in practice

The board's role in practice

The board can work with management on the 'rules of engagement' that delineate between the roles of the board and management in stakeholder governance. In most organisations, management leads the vast majority of day-to-day stakeholder engagement. The board's role is to set expectations, receive accurate, timely and, where necessary, independent information about stakeholder perspectives, and engage directly with stakeholders where appropriate.

Chairs have a particularly critical role, including communicating the organisation's views, in conjunction with the CEO, to broader stakeholders and the public.

The chair may lead engagement with key stakeholders where necessary, for example through one-on-one meetings with regulators or large shareholders. In considering information flows to the board, the chair will also have regard to whether:

- the board is receiving appropriate information about stakeholders;
- sufficient time is allocated to considering stakeholder perspectives in decision making; and
- directors have adequate knowledge of emerging stakeholder issues.

This assessment can then lead to whole-of-board decisions on how current stakeholder governance arrangements are working and where they can be enhanced.

Management v board considerations around stakeholders

Management perspective	Board perspective
How does management understand the needs of key stakeholders? How does management inform the board of important stakeholder developments and issues?	How does the board assess the organisation's relationships with key stakeholders? Does the board receive periodic reporting on engagement with stakeholders? What role does the board play in engaging with stakeholders?

There is no 'one size fits all' approach to stakeholder governance. A board and organisation's approach will depend on the purpose, size and nature of the organisation, and the stakeholders involved. Hallmarks of good stakeholder governance and effective, meaningful engagement are set out in Box 2.

> "Companies have to make a big effort on this – when you are the director of a big company it is really important to make sure that you step outside of the bubble, to make sure that you are talking to staff, to customers and to the broader community, ideally sometimes without management present."
>
> **– Louise Davidson AM, Chief Executive Officer, ACSI**

> "Directors do not have to agree with the views of stakeholders being put forward. It is not a black and white exercise. Directors need to simply inject themselves into the issues being raised and thoroughly consider and think them through."
>
> **– David Gonski AC FAICD*Life***

Building value through stakeholder engagement

Organisations that embed stakeholder governance effectively, can see tangible benefits in decision making, performance and risk management.[2]

Maintaining a structured dialogue with stakeholders equips organisations to better understand the operating environment, build trust, make informed decisions and ultimately, enhance performance. The need for effective stakeholder engagement is particularly acute in an era where rapid information flows mean issues can escalate quickly, intensifying reputational risk.

Effective stakeholder governance can deliver a range of outcomes, including:

- **Shared learning opportunities**. Stakeholder engagement creates opportunities for two-way knowledge sharing. For boards, it can provide a valuable temperature check on how the organisation is perceived and stakeholders' needs. For stakeholders, it offers a more contextualised understanding of the organisation.
- **Effective decision making**. Stakeholder insights can inform board decision making and may prompt an evaluation of the organisation's strategy.
- **Mutual trust**. Engaging with stakeholders helps build mutual trust and respect, which over time can strengthen an organisation's reputation.
- **Reducing costs and creating value**. While addressing stakeholder concerns may involve additional costs in the short term, these may be offset over time through faster resolution of issues, and opportunities for product and service improvement and innovation.
- **Driving culture**. By demonstrating strong stakeholder governance, the board sets the 'tone from the top' and models the importance of valuing stakeholders.
- **Risk management**. Understanding stakeholder expectations provides directors with a broader view of internal and external risks, enabling the board to identify and address potential vulnerabilities.
- **Accountability**. Board-led engagement can send important signals about the values and behaviours it expects to see employees demonstrate when interacting with stakeholders.

Shareholders, as well as other stakeholders, are expecting greater accountability from organisations and their boards. Depending on the organisation, this can extend beyond financial performance to also cover employee welfare, environmental impacts, and risks in supply chains; considerations that now form part of contemporary board oversight.

> "It is a false dichotomy between shareholders and stakeholders. It's not an 'either/or', it's an 'and'. If shareholder primacy really is your motivation, stakeholder management is how you get there."
>
> **– Ann Sherry AO FAICD**

2 Jeffrey Pfeffer, Shareholders first? Not so fast, Harvard Business Review (July-August 2009).

Box 2: Hallmarks of effective stakeholder governance

Undertake purposeful inquiry into the broader environment in which the organisation operates

Through purposeful inquiry into the perspectives of employees, suppliers, customers and other stakeholders, boards that are engaged with stakeholder issues are better placed to make informed decisions about the long-term future of the organisation.

Look for ways to build authentic and sustained engagement

Have regard to the following principles for engagement:

- **Engagement is respectful and authentic**. Acknowledge the expertise, perspective and needs of stakeholders, and enter into engagement with an open mind.
- **Engagement is enduring and timely**. Engagement with key stakeholders should be ongoing, not limited to when the organisation needs something.
- **Engagement recognises differences in power and capability** between an organisation and a stakeholder group, including cultural, mobility and language barriers, and other power imbalances.
- **Engagement is transparent**. Organisations should be clear on what they are promising and follow through on agreed next steps.
- **Engagement is embedded in strategy**. Stakeholder engagement should be part of strategic decision making and stakeholder perspectives should inform the development of an organisation's strategy.

"You certainly come across corporate cultures and board cultures, where what they seem to be seeking to do is to manufacture a plausible story of stakeholder engagement, rather than actually engage in authentic stakeholder engagement which can include hearing uncomfortable things. A plausible story of stakeholder engagement looks and sounds great, but it doesn't actually deal with the underlying risks, and in fact, it accentuates them."

David Ritter, CEO, Greenpeace Australia Pacific

"Stakeholder engagement is more than a mapping exercise - it is about leadership and culture. Directors should ask themselves: Do we engage with stakeholders from a position of hierarchy or one of genuine curiosity? Are we defensive or adaptable? And critically, are we combative, adversarial, and closed to challenge - or are we open, constructive, and willing to listen?"

Taleen Shamlian, Managing Director, Advisory Street

Five steps to effective stakeholder governance

Stakeholder governance is effective when it is tailored to the purpose, size and nature of the organisation, and type of stakeholders involved. It should also be a deliberate and ongoing exercise.

Boards of smaller organisations may not have a formal framework for stakeholder governance, nor have undertaken a deliberate identification exercise. However, even the smallest organisations will have important stakeholder relationships and can benefit from applying the five-step framework.

Step 1: Stakeholders and organisations

Identify, prioritise and periodically review the organisation's stakeholders, having regard to the purpose and strategic objectives.

Key points

- Stakeholders are groups with an interest in the organisation, who are affected by its actions or whose actions can impact the organisation's operations or business model.
- Identifying and prioritising stakeholders forms the foundation of effective stakeholder governance. This is a dynamic process, requiring regular review to ensure the organisation's stakeholder focus remains current.

Investing time in identifying and prioritising stakeholders, and understanding their interests, provides a strong basis for effective stakeholder relationships and better organisational outcomes.

Beyond shareholders/members, most organisations will consider their workforce, customers and suppliers to be key stakeholders. Communities in which the organisation operates will also feature, including First Nations peoples and local communities.

Stakeholders are not siloed groups, and there may be shared or competing perspectives and interests. At times, this may require a flexible approach and a balancing exercise. For example, First Nations peoples and local communities may have converging interests with activist groups on human rights or cultural heritage issues. Conversely, some sections of local communities may support a project for its potential to generate employment, while other groups may oppose due to potential environmental impacts.

Complex stakeholder perspectives and incentives will inherently involve tensions and different views: boards will need to consider what is in the best interest of the company to determine their strategy in these circumstances.

> "You can't be everything to everyone. When you do your periodic strategy review you need to be really clear, and align as a board on who your key stakeholders are and what your position is as regards to each of them. That is, where they fit in your strategy and how you are going to deliver to them. And you should communicate that to them because it sets the bar as to what they should expect from you."
>
> **– Rebecca McGrath AM FAICD**

"Not-for-profits have to do so much with limited funding, few people and stretched resources. They are the sector that benefits most from disciplined stakeholder mapping, because it forces a board to decide where scarce resources will deliver the greatest mission impact."

– Christine Holman FAICD

Stakeholder mapping

Boards, together with management and with management's advice, should identify the groups that are affected by the organisation's operations. This is often referred to as 'stakeholder mapping' and a range of tools and technologies can support this exercise.

When undertaking or reviewing stakeholder mapping, have regard to the following groups:

- those that are vital to the organisation's short-, medium- and long-term value;
- those likely to be impacted, positively or negatively, by the organisation's actions; and
- those whose behaviour or actions can affect the organisation's operation or business model.

This requires consideration of the organisation's purpose and strategic objectives as well as stakeholders that may not be directly affected but are influential.

In most cases, stakeholder mapping is undertaken by management. The board retains a role in reviewing the stakeholder map. As stakeholder priorities and organisational circumstances evolve, boards and management should periodically revisit and update the map as necessary.

The most important stakeholders for not-for-profit organisations (NFPs) are typically its members, volunteers and the people that the organisation exists to benefit. Other stakeholders may include donors, funders, government, and broader society.

"Ten years ago the only stakeholder was the shareholder, and the board rarely if ever discussed other stakeholders apart from customers. Today, it is the complete opposite. We have strategic objectives and comprehensive plans around multiple different stakeholders, including targeted strategic approaches for individual groups of important stakeholders."

– John Mullen AM FAICD

> Part of the annual board calendar should be a discussion about who are the key people we want to be focusing on this year, because it changes year to year, depending on what is going on in the organisation's life."
>
> **– Louise Davidson AM, Chief Executive Officer, ACSI**

Prioritising stakeholders in mapping

As part of stakeholder mapping, it is good practice to consider the relative impact on, and importance of, different stakeholders to the organisation. Risk issues, as well as contribution to growth and value are all relevant factors. This will often be a complex and dynamic process, given that the relative importance of different stakeholders will change depending on the organisation's operating environment and circumstances.

The prioritising and ranking of stakeholders should be periodically reviewed, to ensure that it is current and aligned with organisational strategy.

Key questions for the board

- Which groups are vital to the organisation's success and what are their interests?
- Which stakeholder groups are likely to be impacted (positively or negatively) by the organisation's actions?
- Which stakeholders are most likely to influence the organisation's operations or strategy?
- Is the organisation's stakeholder map current and periodically reviewed?

Case study: AGL Limited

AGL has a comprehensive stakeholder engagement plan for the board and board subcommittees, which allows board members to directly engage with a broad range of stakeholders.

In the past, the board or the board subcommittees have met with all the following groups: employees across a variety of sites, key suppliers, community representatives, customer advocates, investor groups, government officials and regulators. These sessions are seen as an opportunity for unfiltered, organic feedback to be presented directly to board members.

AGL director Christine Holman says: "This coordinated stakeholder engagement allows directors to understand the perspectives of AGL's relevant stakeholders' first-hand. This requires investment, commitment and a genuine willingness to listen and understand. When people feel that you are there to listen, a collaborative and robust discussion on concerns and opportunities is possible, which allows directors to better serve the company."

Step 2: Vision

Develop a vision for the board's role in the organisation's stakeholder governance. This may be documented in a formal framework.

Key points

- A clear framework for stakeholder governance enables consistent consideration of stakeholder perspectives in decision making, oversight and risk management.
- Such a framework is most effective when aligned with the organisation's purpose and values and reviewed over time. The level of formality of the framework will vary across organisations.

The development and adoption of a formal framework to guide stakeholder engagement supports boards and management. The objective is for stakeholder perspectives to be appropriately considered in decision making, governance processes and overall strategy.

In most organisations, stakeholder engagement will be principally driven by management. The organisation's stakeholder engagement framework can define and clarify the board's oversight role. A formal board-approved framework can also demonstrate that effective stakeholder engagement is a core organisational priority, linked to strategy and value creation.

A well-designed stakeholder governance framework for many organisations will address topics such as:

- why stakeholder engagement is important for the organisation;
- the vision for stakeholder governance and its connection to the organisation's values;
- the board's information needs in relation to stakeholder perspectives for its decision making, oversight of management and risk management;
- resourcing and accountability for engagement activities, including the roles of the board, the chair, senior management and business units;
- internal policies and procedures documenting effective stakeholder engagement, including mechanisms for stakeholder feedback; and
- key performance indicators (KPIs) for stakeholder engagement and satisfaction, as a means of supporting accountability.

It is important that each organisation tailors its approach to its circumstances, including the nature of its stakeholders, as well as its resources, purpose and culture. For smaller organisations, a formal framework may not be necessary. However, directors can still consider the elements set out above to support effective stakeholder governance.

Board composition, diversity and training

Board composition can support effective stakeholder governance.

In appropriate cases, boards may consider appointing directors with an understanding of a particular stakeholder group. Boards may also consider stakeholder expertise as part of the overall mix of skills, experience and perspectives sought in board composition and succession planning.

Elevating stakeholder perspectives to the board

It is increasingly common for organisations that provide human and social services, particularly in care sectors, to have mechanisms for elevating the client voice to the board.[3] These mechanisms are often formally incorporated into governance processes. In aged care, for example, it is a regulatory obligation to establish a consumer advisory body that provides direct advice to the board.[4]

Incorporating a particular stakeholder perspective or 'client voice' into governance may include appointing a direct representative on the board as a director. This could be facilitated by reserving or requiring a board position be appointed from a particular stakeholder group, such as an employee-elected director or, in an NFP context, a beneficiary of the organisation's services. In other cases, a board may make special provision to allow stakeholders to be board members.

There is a level of complexity in this exercise: under Australian law, directors must exercise their powers and discharge their duties in good faith in the best interests of the organisation and for a proper purpose. This means that all directors, regardless of who appoints them or who they are seen as 'representing', must act in the best interests of the organisation.

Board induction and ongoing development

New directors will benefit from an understanding of the organisation's stakeholders and how they relate to the organisation as part of their induction process.

The induction process could involve meetings with key stakeholders and their representatives, site visits, and management and external briefings on the organisation's impact on the broader community. Ongoing education on stakeholder issues is also necessary.

Key questions for the board

- Does the organisation require a formal stakeholder governance framework?
- Do existing governance structures provide sufficient insight into stakeholder perspectives?
- Is the approach to stakeholder governance aligned with organisational purpose and values?
- Is accountability for engaging with stakeholder groups clearly defined?

Case studies: ACON and Suicide Prevention Australia

ACON, a leading HIV prevention organisation, contains a provision expressly contemplating that the board itself can appoint a person living with HIV to sit on the ACON board. The President of ACON, Justin Koonin FAICD comments that "having stakeholders on the board is a valuable way to ensure stakeholder input on every board decision."

Suicide Prevention Australia has in its constitution the requirement that one of the directors must have 'lived experience of suicide.'

3 Elevating the client voice – Resource for NFP boards
4 Governing for quality aged care – A director's guide

Step 3: Engagement

Engage with key stakeholders to understand, consider and respond to issues, and have these perspectives reported back to the board.

Key points

- Most stakeholder engagement occurs at the management level. Effective oversight relies on timely, accurate and relevant information flowing to the board.
- At times, direct board engagement, including dialogue and, as required, action, may be appropriate.
- The nature and frequency of engagement will vary by stakeholder group and issue, and are most effective when tailored to the stakeholder.

Form of engagement

While most engagement occurs at the management level, effective oversight involves the board setting clear expectations that management provides timely and accurate information on stakeholder perspectives. Boards should clearly communicate to management the circumstances in which stakeholder issues should be escalated to the board. This information can be included in board papers and may take the form of reports, metrics and assessments of stakeholder perspectives.

> "A good director has to have a high degree of scepticism about the information presented to the board and the courage to ask probing questions of management if they have concerns."
>
> **– Graham Bradley AO FAICD**

However, directors need to be aware of the limitations of quantitative data that can hide important challenges faced by stakeholders, such as vulnerable customers.

To overcome this, boards might consider requesting information from management about purported 'outlier' cases and seeking qualitative data such as verbatim customer and employee feedback. As Sue Vercoe, Managing Partner, SEC Newgate notes: "We're seeing more and more boards keen to ensure they have access to an independent robust assessment of how stakeholders see the organisation. They don't want it filtered – they want the full report and time to ask questions to make sure they understand what actions will have the most impact on reputation and quality of relationships going forward. Some boards are co-commissioning stakeholder research with management, with the board giving direction on the insights they're looking for and hypotheses they're keen to test in the first round, leaving management to refine and execute going forward."

At times, effective stakeholder engagement will require direct board involvement, with frequency determined by need. This may arise in response to specific issues (such as managing an acute challenge or risk), or where the board seeks an unfiltered stakeholder perspective, for example, to inform strategic planning.

Situations where board engagement may be appropriate include:

- responding to civil society campaigns that impact corporate reputation;
- engaging with key customers, business partners or industry peers where board-to-board dialogue can build trust or provide strategic insight; and
- where it is culturally respectful, undertaking senior-level engagement with First Nations groups. In these contexts, board involvement can enhance transparency, demonstrate commitment, and support alignment on complex or contested issues.

In some circumstances, it may be beneficial for stakeholder interactions to be facilitated by an external party. The A Day in the Life case study illustrates how this form of engagement has been used in the financial services sector.

Where the board engages directly, it should consider what form of engagement is most effective and convenient for the stakeholder group – not just the board.

Directors can also supplement formal engagement with stakeholder monitoring, including media and online tracking. Some directors report monitoring the organisation's social media channels to access unfiltered employee and customer feedback. Boards need to be cautious when looking at social media, particularly given the potential for one-sided opinions and the ability of algorithms and AI-enabled tools to amplify, manipulate or generate viewpoints. While some commentary may be unreliable, these sources can surface issues that warrant further inquiry with management.

'Stakeholder days' are another useful mechanism for enabling stakeholders to meet and interact directly with the board. Figure 1 outlines a range of stakeholder engagement options, including stakeholder days.

Figure 1: Examples of mechanisms for boards to obtain stakeholder perspectives

Type and frequency of engagement

Direct board/stakeholder engagement

- Direct meetings between the board and stakeholders
- Board committees and designated directors responsible for issues
- Stakeholder reps attending board meetings

Forums to involve and consult stakeholders

- Advisory Committees and Forums
- Stakeholder days
- Board/stakeholder dinners
- Stakeholder/ management presentations
- Site visits and 'town hall' meetings
- Customer advocates

Periodic reporting on stakeholder impact

- Board papers that include the 'stakeholder impact', metrics and unfiltered information (e.g. NPS scores, complaints and verbatim customer feedback)
- Surveys of employees or customers, including verbatim comments
- Committee reports that outline stakeholder perspectives
- Case studies presented by management on projects/issues, outlining differing stakeholder perspectives
- Social media reports
- Reviewing Glassdoor

Increasing frequency of engagement

Intermediaries such as peak bodies, representative groups and advocacy groups can also be a valuable channel for stakeholder engagement. These groups can have a close ear to the ground and may identify serious issues of harm or misconduct well before they are widely known, including to management or the board.

Stephanie Tonkin, CEO of the Consumer Action Law Centre notes: "Boards and advisory committees actively listening to stakeholders, such as the Consumer Action Law Centre, is good, sound risk management, because we can feed up the sorts of things that we see on our frontline services in real time – we're speaking to over 15,000 people a year who are sharing with us their problems engaging with business. Without our services, many of these experiences would never reach the business or boardrooms, but they could be the canary in the coalmine for a business' risk outlook."

Regulatory obligations and expectations in certain industries and sectors, such as financial services and aged care, can directly or indirectly set requirements and expectations for how organisations engage with stakeholders.

The ASIC inquiry into the ASX provides a clear example of where engagement with stakeholders is a regulatory expectation. That inquiry highlighted shortcomings with how the ASX had engaged with, and considered the perspectives of stakeholders, including how market outages impacted a wide range of stakeholders.[5] Stakeholders also raised concerns about transparency, particularly regarding how feedback was considered and incorporated into ASX decisions.

Key questions for the board

- Is the level of engagement with each stakeholder group proportionate to its relevance to the organisation?
- Is the form of engagement tailored to the needs and context of each stakeholder group?
- Is there a role for direct board engagement with particular stakeholder groups or issues?

Case study: BlueScope

In March 2024, steel supplier and manufacturer BlueScope committed to enhancing its disclosure on plans to reduce scope 3 emissions from iron ore processing. This followed engagement with investors and civil society organisations, including consideration of a proposal from the Australasian Centre for Corporate Responsibility (ACCR).

At that time, BlueScope reported that its analysis of customer targets and government commitments indicated a trajectory for processing emissions approaching net zero by around 2060. It also committed to partnering with customers and suppliers to bring this forward by a decade – targeting net zero by 2050.

BlueScope committed to disclose:

- actual and forecast expenditure on steel decarbonisation over a three-year period (presented as a range);
- capital expenditure on Rio Tinto-led steel decarbonisation projects, and financial contributions to such partnerships (subject to commercial agreements);
- known milestones and timelines, anticipated expenditure and potential abatement opportunities associated with announced projects and partnerships (subject to joint venture partner approvals); and
- potential abatement opportunities aligned to industry abatement curves and net zero decarbonisation scenarios.

BlueScope also committed to ongoing engagement with ACCR in developing these disclosures, including industry-appropriate frameworks and enabling policy settings.

5 Inquiry into the ASX Group Final Report March 2026

Step 4: Decision making

Consider stakeholder perspectives as part of the board's decision making processes, including how decisions and impacts are disclosed or reported.

Key points

- Stakeholder perspectives inform board decision making. This can be supported by including stakeholder considerations in board papers and discussions, and by establishing structures that enable deeper insight where required.
- Decision making will often need to consider competing or conflicting stakeholder perspectives.
- Effective communication of decisions with affected stakeholders can also support engagement and outcomes.

Boards will derive the greatest value from their stakeholder engagement by using insights to not only inform decision making, but more broadly to deepen understanding of the organisation's operating environment.

The chair, together with their fellow directors, may wish to consider the following:

- request that management explicitly address stakeholder perspectives and impacts in board papers;
- allocate time (either as standing items or on an ad hoc basis) at board meetings for presentations from board committees, advisory committees or individual directors/management tasked with considering certain stakeholder issues;
- allocate regular time to review information that provides a 'temperature check' on key stakeholder groups (e.g. whistleblowing complaints, customer feedback, employee engagement scores). These mechanisms can also assist a board to assess organisational culture;[6]
- at the end of a board item, or alternatively at the end of the meeting, consider whether any matters discussed require further stakeholder input; and
- schedule meetings with key stakeholders, either as part of regular board meetings, board strategy days or specific programs, including site visits or stakeholder days.

Board committees and advisory committees

Boards often delegate detailed examinations of certain matters to board committees or advisory committees. While ultimate responsibility sits with the board, it may be appropriate to delegate authority in relation to particular stakeholder groups or issues.

Stakeholder matters are sometimes considered within the risk committee (for example, as part of non-financial risk management) or in some cases an ethics committee. They may also fall under the broader rubric of sustainability and be managed through a sustainability committee.

Importantly, subject to their charter, these committees will not usually have the board's decision making authority, although in practice they may exert more influence within their delegated subject matter.

Committees may comprise board members only (board committees) or be management-led with directors as members or observers. Some management committees may also include stakeholder representatives (for example, customer and community advisory committees or reference groups).

When delegating responsibility, the board may wish to consider whether the committee will undertake direct stakeholder engagement and how it will report to the board.

6 For further guidance on board oversight of organisational culture, see the AICD's resource, Governing culture in a complex world (2026).

These committees can provide a valuable forum for a deep-dive analysis of key stakeholder issues, concerns and questions ahead of board meetings. They also provide comfort to the board that sufficient time has been allocated to considering important issues.

Advisory committees that include stakeholder representatives, with directors as observers, can allow management to take the lead on engagement while enabling directors to hear the stakeholder perspectives directly. Advisory committees can be a useful mechanism for providing insights and advice to inform board decision making, without having formal decision making authority. These committees can be formal and ongoing, or convened on an ad hoc basis for specific issues or projects.

If the board, together with management, decides to establish an advisory committee, the organisation must consider:

- the purpose of the engagement;
- the stakeholders to be engaged;
- whether engagement will occur directly with the board or via management; and
- how frequently the committee should meet.

In some cases, it may be appropriate to compensate stakeholders for their time, particularly where they face resource constraints. It is also important boards review the composition of such committees periodically to ensure the committee is hearing fresh perspectives.

Balancing competing viewpoints

Stakeholders will often present different and even conflicting viewpoints on what the organisation should do or prioritise. Reaching decisions necessarily involves consideration of competing perspectives and interests. This exercise will be determined by organisational strategy and priorities, and may change over time.

Reporting and communicating to stakeholders

It is appropriate for the board to provide feedback to stakeholders, particularly after interactions where the stakeholder has contributed their time and insights.

> “Stakeholder engagement requires accountability; you need to say that you have not only seen or heard these stakeholders but there is evidence of some impact.”
>
> **– The Hon Bruce Billson GAICD, Australian Small Business and Family Enterprise Ombudsman (2021–2026)**

The board, with advice from management, may also consider how decisions on relevant matters are communicated to stakeholder groups. Some stakeholders may expect direct communication from the board, while others may prefer engagement through management or require no direct feedback at all.

Boards may wish to also consider whether the organisation is reporting adequately on its stakeholder engagement. While the annual report remains a primary channel for reporting to shareholders and stakeholders alike, other disclosures, such as sustainability reports or corporate responsibility reports, can play an important role in communicating performance and impact.

Key questions for the board

- How are stakeholder perspectives reflected in board decision making processes?
- Does the board receive the right information on stakeholder impacts, and allocate sufficient time to consider these issues?
- Are there appropriate structures in place to inform the board of key stakeholders and their issues?
- How are differing views prioritised in decision making?
- How are decisions communicated to impacted stakeholders?

Case study: Carriageworks

Carriageworks is a contemporary multi-arts organisation located in the Carriageworks historic railway workshop in Sydney's Eveleigh and Redfern. It is known for its cultural events, performances, and exhibitions, as well as a weekly farmers' market.

Carriageworks is part of a significant cultural precinct in Sydney that the state government is actively considering for redevelopment options. This offers unique growth and development opportunities.

Michael Gonski, Chair of the Carriageworks board says that for Carriageworks "Stakeholder management is everything. Our strategy is to be audience-led, we need to be connected to our community in the broadest sense. That means everyone from First Nations people, who are the traditional owners of the land, through to the professional people who have more recently moved into Redfern."

In recognition of the importance of understanding its stakeholder environment, the Carriageworks board established a dedicated stakeholder management subcommittee, which acts as an advisory committee to the board.

Andrew Maiden, a board member who chairs the subcommittee, reflects that the need for the subcommittee was driven by the fact that "Carriageworks sits in the middle of a precinct that is going to be developed by government, and we didn't want to be a passenger in that process." He also highlights the importance of the fact that Carriageworks sits in a predominantly residential environment and can have significant impacts on that environment: "We want to grow, and activate the site more, but we want to do it in a way that's consultative."

The subcommittee's purpose is to identify and build relationships with key stakeholder groups whose support and advocacy will enable Carriageworks to prosper. The subcommittee provides advice to the CEO and board, with a particular focus on residents of surrounding neighbourhoods, government and local schools, universities, businesses and similar entities.

The committee was deliberately set up to include directors with community relations and communications expertise. These directors sit alongside the Chair, the CEO and an external member with extensive urban development experience. This enables different perspectives and expertise to inform decision making.

Michael Gonski reflects on the importance of the subcommittee in Carriageworks' operating environment: "It means that stakeholder considerations can be dealt with by people who are specialists, and it gives the board advice from the experts." He also emphasises that the need for the subcommittee is driven by the special nature of the development focus at Carriageworks, and that its composition does not dilute the obligation on the board: "Considering stakeholders is and will continue to be a fundamental part of the board's obligations."

Case study: Good Sammy

Good Sammy is a Western Australian not-for-profit that creates employment opportunities for people with disability. Good Sammy has established a *Lived Experience and Happiness Advisory Committee* to ensure the perspectives of its clients are formally embedded in governance and are provided to the board.

The advisory committee reviews staff feedback, surveys and policies and key insights are escalated through established reporting pathways to the board. Board members are also scheduled to attend meetings throughout the year. Advisory committee outputs have directly informed board papers, policy development and organisational decisions, including the adoption of a *Statement of Lived Experience of Disability* that is formally acknowledged at board meetings and major organisational events, ensuring the client's voice remains visible and influential at the highest level.

Step 5: Evaluation

Evaluate and monitor the ongoing effectiveness of the organisation's stakeholder governance framework, as well as the board's role in stakeholder engagement.

Key points

- Periodic evaluation provides insight into the effectiveness of stakeholder engagement and supports continuous improvement. Management typically leads this work, with board oversight and, where appropriate, external input.
- As an organisation's strategy or operating environment changes, its stakeholder profile and priorities may also evolve.

As with all governance processes and relationships, it is important to assess the effectiveness of stakeholder governance and adjust as necessary.

While management will typically lead the evaluation of stakeholder governance, the board can play an active role in the review. As with other aspects of stakeholder governance, this might not always be a formal process and may instead form part of broader risk management activities. It may also involve:

- directors having informal conversations with stakeholders to understand their perspective on strength of the relationship and the effectiveness of the organisation's engagement; and
- cross-checking insights with other stakeholder groups (e.g. speaking with government or advocacy groups to understand how the organisation's approach to stakeholders is being perceived).

In some circumstances, the board may wish to commission an external party to undertake an evaluation, which can provide an objective assessment and a baseline for future monitoring.

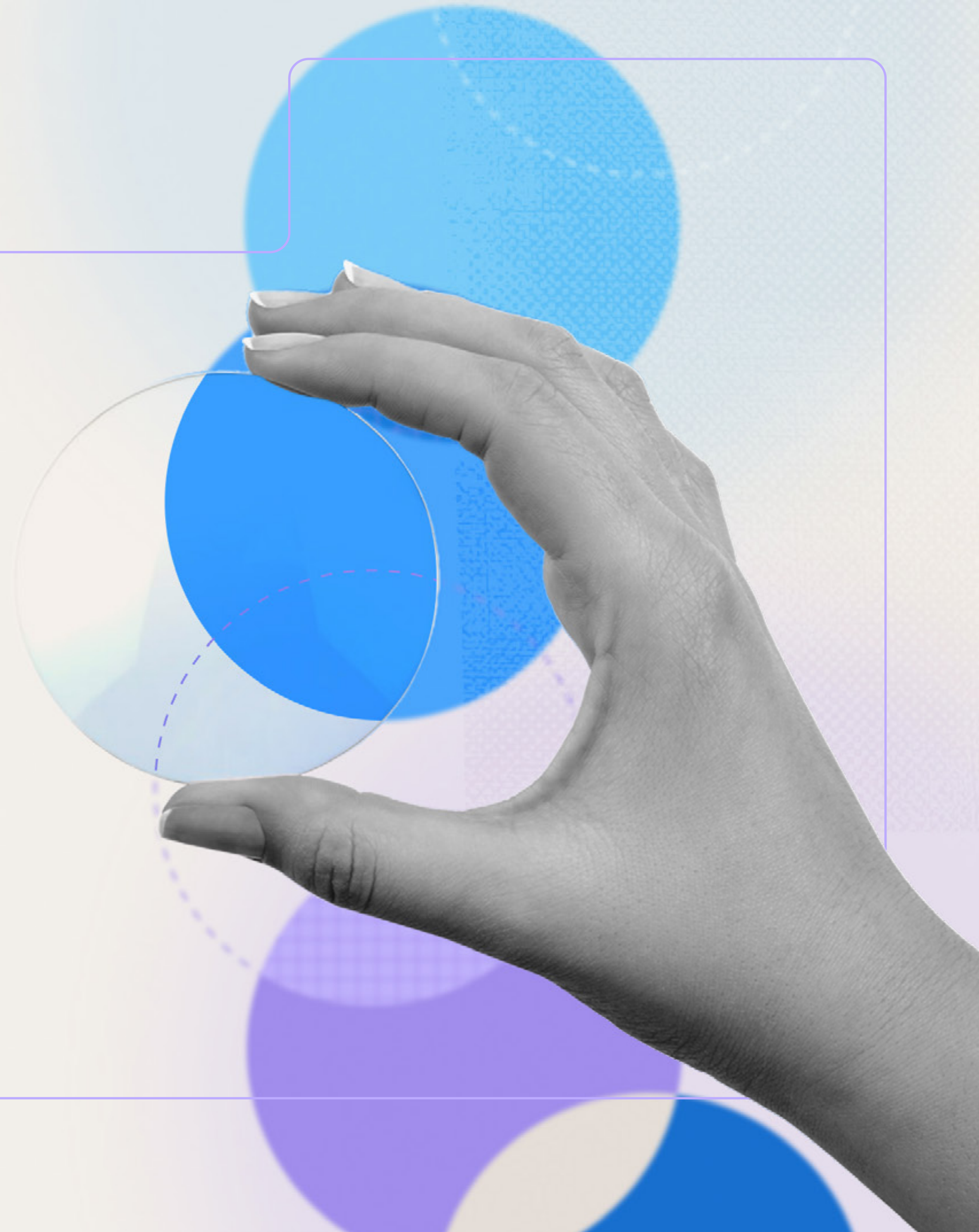
Key questions for the board

- How regularly is the effectiveness of stakeholder engagement reviewed?
- What independent or external data provides insight into stakeholder impacts?
- Is there value in external assessment of stakeholder relationships?

Stakeholder perspectives: Turning engagement into board insight

Developed in consultation with directors and stakeholder representatives, this section highlights how boards are adapting and tailoring their engagement across key stakeholder groups – customers, employees, suppliers, First Nations peoples, and the community – to inform board decision making.

These approaches demonstrate the hallmarks of meaningful engagement and how stakeholder perspectives can be translated into insights that support better outcomes for the board, the organisation and its stakeholders.



Customers

Effective customer engagement helps organisations gain and retain customers. Serving customers' long-term needs should be at the forefront of directors' minds.

Ann Sherry AO FAICD observes: "Customer focus is no longer a differentiator – it's a prerequisite for relevance, resilience and results. Across industries, the most successful organisations are those that have embedded customer-centricity into their DNA. They don't just serve customers; they co-create with them. They don't just resolve complaints; they anticipate needs. And they don't just talk about purpose – they live it, visibly and authentically, in every touchpoint. Customer focus is not a soft skill or a marketing slogan. It's a strategic lever for growth, innovation and shareholder value."

Limitations of metrics and data

Customer experience is often understood through metrics, but although useful, these can obscure underlying issues. Insight can also frequently be found in the most challenging customer experiences and in qualitative feedback.

Direct engagement with customers can humanise these issues and reconnect the board with the organisation's purpose. Boards may draw on mechanisms such as customer advisory groups, engagement with advocates, customer net promoter scores (NPS), customer complaints (including raw data) and response times, online reviews, social and other media monitoring, listening to customer calls, AI scraping for themes, and the use of real customer experiences in board discussions.

The tail of a distribution (particularly complaints data) is often where vulnerabilities emerge. In addition, customers' ability to articulate complaints can distort how issues are categorised (e.g. being charged for a service not provided may be recorded as a 'billing issue'). Vulnerable or disadvantaged customers or clients may struggle to make a complaint, and so will be excluded or underrepresented in the data. Boards should be asking: who are our vulnerable customers and does how we provide our products and services to these customers meet their best interests?

To build a more complete picture, boards can request data that helps to understand the worst customer experiences, and any systemic issues that may not be visible in topline information. Requesting more qualitative information from management – such as detailed analysis of complaints – can help contextualise underlying issues. In some sectors, such as financial services, boards have established customer committees to support deeper analysis, including reviewing specific complaints to increase non-executive directors' understanding.

It is also important to recognise that under-investment in systems and processes can contribute to poor consumer outcomes, highlighting the need for ongoing vigilance and attention.

Direct engagement with customers and clients

Boards can benefit from creating opportunities to engage directly with customers and clients where practical. This form of engagement helps to humanise issues and reinforces the organisation's core purpose, particularly where the organisation has a limited number of customers or its customers are vulnerable people.

For example, some organisations in the healthcare sector start their board meetings with a client story or invite a client to share their experience with the organisation directly with the board. This helps to keep the board focused on the people it serves and reminds directors of their organisation's impact.

Case study: A Day in the Life

Financial Counselling Australia and the Consumer Action Law Centre facilitated a joint project called 'A Day in the Life'. The project invited senior decision makers, including directors, to spend time with a financial counsellor to better understand the work they do and the issues that people face.

By listening to calls on the National Debt Helpline, participants could hear directly from customers experiencing financial distress. This provided valuable first-hand insight into the challenges individuals face.

Clients or beneficiaries

For NFPs, the most important stakeholders are often the people the organisation exists to benefit. In many cases, these beneficiaries may be vulnerable.

Some NFPs elevate the client voice by having client representatives attend board meetings and present on specific topics. Boards may ask representatives to consider a particular topic and may also engage with other client groups to determine how they feel about the organisation's service provision. This can be a valuable way for client representatives to feel empowered and heard. Equally, it can have profound impact on the board and decision making. This form of engagement requires representatives to be appropriately resourced and well supported. A number of NFPs also make use of advisory committees to hear from clients and beneficiaries.

Refer to the AICD's Not-for-Profit Governance Principles, Principle 8 for further details about stakeholder engagement in the NFP sector. The NFP principles also includes a specific client resource: Elevating client voice to the board.

Case study: The Royal Women's Hospital

The Royal Women's Hospital in Victoria (The Women's) has implemented a range of initiatives for patient and family voices to be heard at board level.

Committees

In recognition of the vital role patients and families play in bringing lived experience to the table, The Women's has established committees that report directly to the board. These arrangements are designed so patient perspectives inform efforts to improve patient experiences. Consumer members across committees are remunerated and provided with training and support, enabling them to contribute more effectively and confidently to board discussions.

Board Quality and Safety Committee

This committee includes both board members and patient representatives. It advises the board on clinical governance, safety and quality of care, with the intent of ensuring services meet the highest standards and reflect patient needs.

Patient and Consumer Experience – Community Advisory Committee

This committee promotes improved outcomes for patients and the broader community. With a strong focus on diverse representation, it is intended to bring different perspectives and cultures into decision making and in setting strategic priorities.

Director Dr Marie Bismark FAICD: "There is a real skill in partnering effectively and authentically with patients and consumers. It should be done in a way that adds value to them and to the organisation by informing decisions that are made around the board table. We work hard to ensure our consumer experts feel as supported, valued and as skilled as they can be to really optimise their contribution."

Additional mechanisms

These committees exist alongside other mechanisms for ensuring consumers' voices are heard, including focus groups, research, management committees, steering groups, clinical review panels and surveys.

Patient voice

In addition to these initiatives, every board meeting begins with the board listening to a recorded interview with a patient or a family member who has had an experience at The Women's. "This sets the tone for the board meeting and centres the focus on the communities that the board is serving," says Dr Bismark.

Employees and volunteers

Direct insight into the perspectives of employees and volunteers can strengthen board decision making, inform strategy and support oversight of organisational culture.

Boards generally have greater opportunities for engaging directly with employees than with other stakeholder groups and should look for ways to make the most of this access. Employees may also have longer tenures than board members and are often closest to the needs and opinions of other key stakeholders, such as customers, suppliers and the broader community.

Employees can provide an early indication of emerging risks and offer insights into the perspectives of other stakeholder groups.

Direct employee-board engagement

The CEO and management can support the board to develop a regular cadence of board engagement with employees at the executive level and beyond. This can include employee surveys, town hall meetings, site visits and floor-walks, all of which provide visibility of workforce issues and dynamics.

Boards can also usefully establish regular, independent opportunities to engage with employees and gain a perspective on culture, safety and other workplace issues. Ideally, these interactions should occur outside structured forums that may be overly curated by management. For example, inviting employees to attend board meetings to present and respond to questions on operational issues, projects and initiatives can help a board understand the day-to-day workings of the organisation.

It may be appropriate for staff liaison or workplace advisory committees (made up of employees from different levels and functions) to report to, and present before, the board or its committees on specific issues. The effectiveness of these committees depends on them being formalised, appropriately resourced, and offering a safe forum for open and frank discussion.

Social media and online platforms have become a key forum by which some employees share perspectives on their organisations. In an increasingly digital environment, employees can be their organisation's strongest advocates or harshest critics, and their views may carry more weight than official communications.

Ideally, boards will work with management to promote a 'speak-up' culture, where employees and other stakeholders feel safe raising concerns about misconduct, ethical breaches, or legal non-compliance. Of critical importance is the existence of safe channels for employees to report misconduct or cultural concerns without fear of retaliation, and in accordance with applicable legal requirements. Having more than one channel to do this can be particularly helpful for employees.

Whistleblowing is an important component of a speak-up culture. Ensuring the organisation has a robust whistleblower policy[7] and reporting mechanism is a fundamental way to enable the board to have an appropriate line of sight. While not all organisations are required to have a whistleblower policy,[8] organisations should consider whether adopting such a policy is appropriate, given its benefits.

7 AICD Whistleblower Tool

8 The requirement to have a whistleblower policy applies to public companies, large proprietary companies and proprietary companies that are trustees of registrable superannuation entities. Not-for-profits and charities with an annual consolidated revenue of less than $1 million are not required to have a whistleblower policy unless they are trading or financial corporations.

Engagement with trade unions

Depending on the nature of the organisation, its size, industry and level of unionisation, it may be appropriate for a level of board engagement with senior trade union representatives.

In the view of Joseph Mitchell, Assistant Secretary at the Australian Council of Trade Unions (ACTU), best practice is demonstrated when boards are willing to engage constructively with trade unions: “Unions have really similar objectives to companies. We want industry and the company to succeed, and we want workers to have good, sustainable, long-term, secure jobs as a result of it. Where we do have really good relationships with a company, we do engage with boards at that strategic level.”

Unions and other workplace representatives can provide insights into key risks, for example around safety issues, workforce morale and wider cultural challenges.

Director feedback suggests that industrial relations matters tend to be reported to the board for visibility and stress testing, but that senior management would generally retain responsibility for engagement and dispute resolution. There is scope for a greater role to be played by the board where, for example, employee relations issues pose a significant threat to the organisation’s risk profile and there is a need to support management to find a circuit-breaker.

Volunteers

Volunteers are essential for the success of many NFPs and charities in Australia. They contribute their time, skills, energy and passion to support the purpose, vision, and strategy of the NFP.

Given the critical role volunteers play in many NFPs, boards should ensure they are appropriately trained, supported and resourced. Boards should also maintain a clear line of sight to volunteers’ experiences and how they are treated. This is particularly important where volunteers undertake responsibilities that might otherwise be performed by employees. Where volunteers are a core stakeholder group, they may warrant the same level of board attention and oversight as employees.

Further guidance on best practice employee engagement can be found in the AICD resource Governing culture in a complex world, particularly in Principle 4: Governance and oversight.

Case study: Therapy Focus

Therapy Focus is a not-for-profit community service organisation that delivers disability support services and works with people who have very complex and multi-disciplinary support needs.

During a period of voluntary administration, (now completed following a Deed of Company Arrangement with APM) the board and executive adopted a deliberate strategy to maintain strong employee engagement, recognising the heightened uncertainty such processes create for staff. Rather than outsourcing communications, the organisation designed and delivered its engagement approach internally, using regular town hall meetings and direct messaging from the chair and CEO to explain developments, implications for employees and customers, and areas of unavoidable uncertainty. Communications were crafted to be as authentic and transparent as possible.

This approach ensured employees felt informed and respected, and was later recognised by the external administrators as an example of good practice in employee engagement during financial distress.

"As the national carrier it is our duty to make sure we always act in the best interest of stakeholders and hold ourselves to the highest level of accountability. The changes we've made are driving better decision making from the Board and Management down, allowing us to get the balance right between customers, employees, and shareholders. There is always more to do, but we're pleased with the progress being made."

– John Mullen AM FAICD

Case study: Qantas

Following 12 months of fractured relations with employees and customers, Qantas commenced an independent review of key governance matters in October 2023. The review scrutinised the board's decision making and governance processes that contributed to a loss of trust among stakeholders.

The review, undertaken by Tom Saar and released on 8 August 2024, found that mistakes by both the board and management contributed to significant reputational and customer service issues. It also found that Qantas often adopted an 'adversarial approach' to stakeholder engagement.

The review recommended Qantas invest more time in understanding stakeholders, strengthen board oversight through a comprehensive stakeholder management framework, and commit to more 'open and empathetic' two-way communication. Further recommendations included increasing the board's direct exposure to customers, enhancing and expediting customer insights reporting, and establishing board oversight of a comprehensive customer management framework.

The board committed to implementing all 32 recommendations from the review.

Implementing the recommendations

According to Qantas Chair, John Mullen AM FAICD, instituting an immediate, comprehensive process to address each recommendation had a profound impact on stakeholder relations.

The Qantas board now:

- receives detailed reporting on customer metrics and employee engagement to better capture non-financial risks (such as reputational risk) and the stakeholder impacts of proposed decisions;
- has developed targeted strategic approaches to identify and proactively engage key stakeholders, and to consider the interests of stakeholders in decision making; and
- takes opportunities to engage directly with internal and external stakeholders to hear firsthand feedback.

As a result:

- customer satisfaction for both Jetstar and Qantas increased significantly;
- the Qantas Group's overall reputation index improved materially; and
- employee engagement rose sharply.

Box 3: Artificial Intelligence (AI)

Organisations are increasingly deploying AI in their operations to streamline, improve efficiency and deliver more timely and effective products and services. Realising these potential benefits depends on how they are adopted and used in practice, including a board understanding potential impacts on stakeholders.

Focus – engagement with employees

One of the most significant impacts of AI relates to employees. There is a growing understanding that employee engagement on AI is vital to ensure that the AI supports meaningful organisational transformation.[9]

Engagement with employees assists organisations to better understand the opportunities and challenges associated with AI. Ideally, these engagements should occur before an AI solution is purchased and implemented and then continue through the AI lifecycle.

In addition, under industrial relations laws in the *Fair Work Act 2009* (Cth), organisations have consultation obligations that are likely to be relevant to AI deployment, and which will apply in the circumstances of 'major workplace changes' (e.g. changes to roles, hours, skills requirements or job loss).

Benefits of engaging:[10]

- **Better outcomes**. Worker involvement in the design and implementation of the AI system makes sure their knowledge is fed into systems that perform effectively and address the organisation's needs.
- **Trust in AI**. By helping design the AI systems, employees have greater visibility into functionality and influence how the technology is used. This gives the employees confidence that the AI is fair, reliable and aligned to organisation's values.
- **Trust in management and the organisation**. Employees have confidence that their interests have been considered when AI solutions are implemented and have a sense of ownership of the process.
- **Stronger governance**. Engagement with workers highlights instances where AI is misused, misunderstood or is creating new risks, allowing these issues to be addressed in governance frameworks.
- **Increased AI literacy**. Engagement strengthens employee knowledge of AI, making its use more efficient and accurate.

Suggested board steps

1. Oversee how management identifies and engages with employees on AI's impact and employee expectations of AI use and governance.
2. Request that management demonstrates to the board the results of employee engagement, including how employee engagement has affected choice and deployment of AI systems and outcomes.
3. Request that management confirms that the organisation has met its relevant obligations under industrial relations legislation.

While this box focuses on employees, AI creates both risks and opportunities for engagement with all stakeholders. Further guidance on this can be found in the AICD and HTI publication, A director's guide to AI governance Version 2.

9 Human Institute of Technology (June 2025) From Invisible to Involved: A Guide to Worker Engagement on AI.

10 Ibid, page 9

Suppliers

Boards should have visibility over key supplier relationships, particularly in an era where supply chain disruptions are becoming more prevalent.

Establishing mutually beneficial relationships with key suppliers can support longer-term value creation, including fewer issues with availability, improved quality and reduced supply delays. Where organisations have traditionally approached supplier relationships through a predominantly cost-based, transactional or adversarial lens, boards may wish to consider whether a more collaborative, value-based approach could better support long-term outcomes.

While supply chain and creditor relations are principally operational matters, the board has a role in setting expectations for management to maintain fair and sustainable supplier and creditor relations. This extends to expectations around reporting to the board on legal compliance, particularly in relation to contract terms and payment times, as well as fairness in dispute resolution. Organisations may also consider surveying suppliers to better understand how they regard the organisation and their experiences with it.

From a small business supplier perspective, a persistent challenge is navigating bargaining power imbalances with large organisations. This is particularly evident in relation to unfair contract terms and payment times, issues that boards may have limited visibility of unless they actively seek insight.

To help address supplier concerns, the *Payment Times Reporting Act 2020* (Cth), which commenced on 1 January 2021, introduced requirements for large organisations with revenue over $100 million to report on their payment terms and practices in relation to small business suppliers. These reports must be provided to the board, and the Payment Times Reporting Regulator has the power to 'name and shame' non-compliant entities.

Changes to the Australian Consumer Law will commence on 1 July 2027 and prohibit unfair trading practices that manipulate consumers or unreasonably distort consumer decision making.

First Nations peoples

Depending on the organisation and its operations it may be appropriate for engagement with First Nations peoples to be reflected in the organisation's stakeholder governance vision. A 'tick-box' approach to engagement is insufficient and risks being perceived as disrespectful or tokenistic.

Engagement with First Nations stakeholders requires an authentic, relationship-based approach that recognises historical context and prioritises respect, continuity and cultural understanding. Taking time to understand the First Nations peoples' protocols and timelines for consultation is also critical for effective engagement.

The destruction of ancient Aboriginal rock shelters at Juukan Gorge in the Western Pilbara by Rio Tinto is a stark example of what can occur when First Nations stakeholder voices are ignored. In this instance, the site was of profound cultural and spiritual significance to the Traditional Owners, the Puutu Kunti Kurrama and Pinikura (PKKP) peoples.

Cultural awareness training can support a board, while signaling the organisation's commitment to respectful relationships. As with other stakeholder groups, engagement should be ongoing and genuine, not limited to moments where approval is needed. There should be a foundational and ongoing connection that demonstrates a strong relationship and recognises historical legacies.

Insights from stakeholders for this guide suggest that First Nations people value direct board-to-board engagement, ideally conducted on Country. Such engagement need not be frequent but should be authentic, avoiding overly formalised structures and, where possible, the presence of 'minders' (corporate affairs or legal intermediaries). For boards, this provides an opportunity to move beyond 'the bubble' and engage more directly with communities.

Boards should also be prepared for the reality that engagement may surface difficult or confronting perspectives. As one First Nations Leader told us: "Boards must acknowledge that there is still a lot of trauma in the room and be accepting of and ready for the rawness of the feedback."

Karen Mundine, CEO of Reconciliation Australia has observed some recent signs of board progress, although she notes a levelling off in engagement following the unsuccessful Voice referendum in 2023 (Box 4).

> "In the lead-up to the Voice referendum, we had a number of first-time organisations inquiring or engaging with us around Reconciliation Plans. I think it's fair to say we've seen a bit of a plateau since then."
>
> **– Karen Mundine, CEO, Reconciliation Australia**

Box 4: Reconciliation Action Plans

One practical measure for embedding First Nations perspectives is through a Reconciliation Action Plan (RAP). RAPs provide a structured framework for organisations to strengthen relationships, foster respect and create opportunities for First Nations peoples.

There are four stages of RAPs, reflecting increasing levels of maturity:

- **Reflect** – steps for an organisation to take in preparation for future reconciliation initiatives.
- **Innovate** – focus on developing and strengthening relationships with First Nations peoples.
- **Stretch** – implement longer-term strategies, defining measurable targets and goals.
- **Elevate** – actively champion initiatives to empower First Nations peoples and to create societal change.

Among other things, RAPs provide a way to formalise an organisation's commitment to reconciliation, implement a framework of practical actions and demonstrate corporate governance practices.

Ultimately, leadership commitment is critical. Boards and senior executives must ensure RAPs are embedded and not treated as a compliance exercise – having a RAP without activating the RAP can be more detrimental than beneficial. A key question for boards is: How do we meaningfully incorporate and honour the voices of First Nations peoples in the way we operate?

Karen Mundine says that: "Our experience is that organisations with RAPs, and particularly those that have been in the program for longer, are being more ambitious and are achieving the actions and outcomes that they want to see."

Community

When considering the community, boards should be mindful that particular interest groups may not always reflect broader community sentiment.

The definition of a 'community' stakeholder group is broadening and can now encompass a range of groups that affect, and are affected by, an organisation's activities, including local charities, community organisations, residents, businesses, councils and elected officials.

Careful engagement with these stakeholders can improve an organisation's decision making, reputation and competitiveness by tapping into local knowledge, reducing conflict and building trust. To realise these benefits, engagement should be sustained, authentic and responsive, recognising that communities may be sceptical of approaches that appear transactional or driven by reputational concerns.

> Society's expectation is that organisations are going to lean in, mitigate their impacts and contribute to a functioning cohesive society - it's no longer appropriate to rely on government anymore to deliver everything."
>
> **– Sue Vercoe, Managing Partner, SEC Newgate**

Community expectations and standards are high and can change quickly. As these shifts can rapidly influence the expectations of governments and regulators, organisations need to remain responsive and alert to emerging concerns. This is particularly evident in sectors experiencing rapid technological change, where customer and community expectations can evolve faster than organisations' investment and operating cycles.

Craig Dunn, the Chair of Telstra, reflects that "Organisations need to stay relevant to deliver value for shareholders. A good example is rapid advances in telecommunications technologies, and their equally rapid take-up by consumers and businesses alike. As the dependency on new technologies becomes more significant, expectations of the quality of that telecommunication's experience can become incredibly high, pretty quickly. The opportunity and challenge for companies in this exponentially changing landscape is how to match those expectations and move with it, especially when investing in telecommunications infrastructure and technologies with long investment cycles."

Box 5 details some evidence of the Australian community's expectations for boards and their perception of businesses.

Minority and marginalised groups

In certain circumstances, boards may also need to consider the way that decisions they make can impact marginalised or minority groups either within the customer/client base or in the broader community. This will most often occur when:

- decisions have a direct or disproportionate impact on the group – for example, during workplace changes or operations that impact particular groups;
- a decision could create unfair or discriminatory outcomes due to pricing or product/service design and distribution decisions;
- conducting risk oversight – minority groups often signal emerging risks early, and the potential for stakeholder harm can escalate quickly. A particular risk area is poor treatment of customers or employees due to discriminatory beliefs held by employees of the organisation; and
- customer and market data demonstrates the particular influence of a group – in this circumstance, considering the group's needs can improve competitiveness.

As with all stakeholder engagement outlined in this guide, consideration of minority or marginalised groups can reduce legal and reputational risk, support directors' duties to act with due care and diligence and provide alignment with stakeholder governance expectations.

Balancing viewpoints

It is important for the board to recognise that the community will often have diverse views, and it will not be possible to reconcile all the different views. An organisation needs to decide on how it prioritises views that may come from engagement with the broader community.

While social media is an important reference point, organisations need to ensure that they are not overweighting reliance on social media to gauge broad community expectations.

Box 5: 2025 SEC Newgate Impact Monitor – Managing reputational risk and opportunity in a fragmented world

SEC Newgate's Impact Monitor annually tracks global community sentiment towards how corporates and governments are responding to ESG-related challenges, and how their actions are shaping community perceptions. The 2025 study surveyed 20,213 people across 20 countries and territories, including 1,016 Australians.

Support for stakeholder-oriented business models

One key finding of the 2025 monitor was that stakeholder-oriented business models continue to be preferred by the community. Four in five Australians (80%) believe businesses should act in the best interests of all stakeholders, not just shareholders. This includes making investments in local communities and sourcing from responsible suppliers.

The monitor found that the community sees business success as being defined not only by financial performance, but also by integrity, fairness and community contribution. This is reflected in strong support for businesses prioritising the interests of all stakeholders, using reputable suppliers and supporting local communities.

Many feel large businesses are falling short on social responsibility

Four in 10 or fewer respondents believed large businesses in their country were doing the right amount in relation to socially responsible behaviours. Looking after the interests of employees, supporting local communities and considering social issues in business decision making were identified as the areas where businesses were falling most short.

Box 6: Community in focus – Environmental, social and governance (ESG) issues

Many stakeholder groups have a strong interest in contemporary governance issues such as climate change, nature, modern slavery and broader human rights matters. These issues can affect an organisation's reputation, social licence to operate and long-term performance, making effective stakeholder engagement an important aspect of board oversight.

As David Ritter, CEO of Greenpeace Australia Pacific, observes: "When making decisions with a significant environmental impact, boards need to make sure that the comforting story that they are hearing from their executives is not the only story they are hearing. It is not enough to get assurances from your executives – boards need critical information from outside the bubble of their own institution."

Similarly, Leanne Smith, Chief Executive of the Australian Human Rights Commission, notes: "Boards also need to understand how taking a human rights-based approach to an organisation's work can not only reduce risk but increase impact."

Relevant AICD resources include:

- Climate, nature and environment – Climate Governance Initiative Australia resources, including newsletters, articles, publications and practical tools for directors. Key resources include Nature enters the boardroom, Governing the net zero transition: leading practice insights and A director's guide to mandatory climate reporting | Version 2
- Modern slavery law – AICD resources and articles on modern slavery obligations, governance and compliance.

Appendix 1: The duties of a director

Under both the common law and *Corporations Act 2001* (Cth) (Corporations Act), directors owe duties to the company as a distinct legal and commercial entity to:

- act with care and diligence and for a proper purpose;
- act in good faith in the best interests of the company; and
- not use their position or information as a director to gain an advantage or cause detriment to the company.

Similar duties are owed by directors of State-based incorporated associations and other non-Corporations Act entities.

Directors of registered charities owe similar duties under common law and equity.[11] The Australian Charities and Not-for-profits Commission (ACNC) Regulation Governance Standard 5 – Duties of Responsible People requires charities to take reasonable steps to make sure that the duties apply to Responsible People and that they follow them. The duties require Responsible People to act honestly and fairly in the charity's best interests, manage conflicts of interest and ensure the charity's resources are used to further its charitable purpose.[12]

The duty to act in the best interests of a company requires directors to consider what is in the best interests of shareholders. However, the law does not assume that shareholder interests are best served by having no regard to other stakeholders, particularly over the longer term.

Taking stakeholder perspectives into account – current position

There has been debate over whether the current formulation of the 'best interests' duty appropriately reflects community expectations regarding the extent to which stakeholders can be factored into decision making. The AICD obtained a legal opinion from Bret Walker AO SC and Gerald Ng MAICD to provide greater clarity around this core duty.

The Walker-Ng Opinion identifies that directors have considerable discretion to identify the best interests of the company. Directors can – and often should - consider stakeholder perspectives.

Key principles:[13]

- Directors have considerable discretion to determine what the best interests of the company are.
- Shareholders are a central consideration in discharging the duty.
- There is no duty owed specifically to stakeholders.
- There is no duty on directors to maximise profits.
- Community standing and maintenance of corporate reputation are legitimate interests.

11 In other respects, Corporations Act directors' duties are largely 'switched off' for directors of registered charities.

12 Australian Charities and Not-for-profits Commission Regulation 2013, standard 5.

13 AICD Practice Statement 'Directors' best interests duty in practice.'

The application of these key principles means that employees, customers, suppliers, First Nations peoples and broader communities are legitimate concerns of company directors, tied back to the long-term interests of the company, including its interest in avoiding reputational harm.[14]

This does not mean there is a duty owed specifically to stakeholders, as distinct from the company. Rather, stakeholder interests are legitimate concerns of directors. Acting in a responsible and ethical manner towards stakeholders is consistent with, and is often necessary for, promoting the company's interests and sustainability.

Directors should also note the law commonly imposes specific obligations on the company with respect to the interests of customers, employees, suppliers and the community, which may necessitate the prioritisation of those interests. For example, obligations relating to environmental protection, modern slavery, sex discrimination or employee safety. In these circumstances, directors are required to comply with those obligations in the course of decision making, even if that jeopardises returns that might otherwise be enjoyed by shareholders/members.[15]

Consideration of the long-term interests of the company

The Walker-Ng Legal Opinion should provide directors with comfort that stakeholder interests are a legitimate concern of directors, and that courts will not, except in egregious cases involving clear self-interest or acting contrary to the company's interests, seek to question their judgement with hindsight.

As this guide makes clear, boards operate in an increasingly complex environment, and directors' decisions can have a significant effect on a range of stakeholders beyond shareholders. Directors should take a long-term view of where the company's interests lie, while seeking to maintain a respectful and transparent relationship with stakeholder groups.

Additional resources

- Directors' 'best interests' duty in practice 25 July 2022
- Director Tool – General duties of directors 14 May 2020
- Ethics in the boardroom second edition (2026)

14 Walker-Ng Legal Opinion, at pg. 16.

15 Ibid, at p.16.

Appendix 2: Methodology and acknowledgements

The AICD conducted individual interviews with stakeholder representatives and leading directors operating in various sectors. Interviews lasted 30–60 minutes. The discussion was framed by open-ended questions to explore the experience and perspectives of the interviewees. The semi-structured interview process was used flexibly in each of the interviews. Prompts were used to elicit deeper information in some of the interviews while in others, participants drove the discussion themselves.

We wish to acknowledge the following stakeholder representatives, directors and contributors for their insights and reflections.

Stakeholder perspectives

- **Hon Bruce Billson GAICD,** Former Australian Small Business and Family Enterprise Ombudsman
- **Louise Davidson AM,** Chief Executive Officer, ACSI
- **Joseph Mitchell,** Assistant Secretary, Australian Council of Trade Unions
- **Karen Mundine,** Chief Executive Officer, Reconciliation Australia
- **David Ritter,** Chief Executive Officer, Greenpeace Australia Pacific
- **Taleen Shamlian,** Managing Director, Advisory Street
- **Leanne Smith,** Chief Executive, Australian Human Rights Commission
- **Stephanie Tonkin,** Chief Executive Officer, Consumer Action Law Centre
- **Sue Vercoe,** Managing Partner, SEC Newgate.

Director perspectives

- **Dr Marie Bismark FAICD,** Director of the Royal Women's Hospital Victoria; Summerset Group Holdings; and the Medical Council of New Zealand
- **Graham Bradley AO FAICD,** Chair Infrastructure NSW; Virgin Australia International Holdings Pty Ltd; Waveconn Group Holdings Management Pty Limited; Shine Justice Limited; Ensemble Theatre and Symphony Infrastructure Partners Pty Limited; and a Director of Tennis Australia
- **Craig Dunn,** Chair Telstra; CMi Merryck; and RedKite; and Director, MLC Life Insurance; Lion Pty Limited; and Lion Global Craft Beverages Pty Limited
- **David Gonski AC FAICD*Life*,** Chair, Sydney Airport Corporation; and Barrenjoey Capital Partners Group Holdings Pty Limited
- **Michael Gonski,** Chairman of Carriageworks; and ReachOut Australia; and Director of the Gonski Foundation; and Silicon Quantum Computing
- **Christine Holman FAICD,** Director of AGL Ltd; Collins Foods Limited; Indara Pty Limited; McGrath Foundation; and State Library of New South Wales Foundation
- **Justin Koonin FAICD,** President, ACON
- **Andrew Maiden GAICD,** Director Carriageworks; Kindred Coaches; and Maiden Advisory
- **Rebecca McGrath AM FAICD,** Chair, Investa Wholesale Funds Management Ltd; and Investa Commercial Property Fund; and Director of Macquarie Group; Macquarie Bank Ltd; Unisuper; and Djerriwarrh Investments Ltd
- **John Mullen AM FAICD,** Chair Qantas; Brambles Ltd; and Treasury Wine Estates
- **Fiona Payne FAICD,** Chair Good Sammy Enterprises; Non-Executive Director Therapy Focus; and Stan Perron Charitable Foundation
- **Ann Sherry AO FAICD,** Chair, UNICEF Australia; Queensland Airports Limited; Circa; Super Members Council; Non-Executive Director, NAB; and Chancellor, Queensland University of Technology

We would also like to thank the AICD advisory bodies, including the Corporate Governance Committee, the Not-for-profit Chairs' Forum, the Law Committee and the Division Councils for their contributions.

Australian Institute *of* **Company Directors**

Acknowledgement of Country
The Australian Institute of Company Directors (AICD) acknowledges the Traditional Custodians of the Lands on which we are located and pay our respects to the Elders, past and present. We acknowledge the First Nations people across this Country and recognise their unique cultural and spiritual relationships to the Skies, Land, Waters, and Seas and their rich contribution to society.

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The Australian Institute of Company Directors (AICD) is committed to strengthening society through world-class governance. We aim to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. Our membership includes directors and senior leaders from business, government and not-for-profit sectors.

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