The Role of Stakeholders in SOE Corporate Governance

Meeting of the OECD Network on
Corporate Governance of SOEs in Southern Africa,
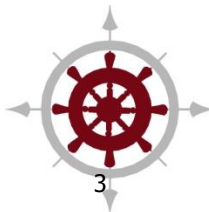*Maputo 26-27 May 2009*

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Recognizing the impact of King, I II, the draft III and the initiatives in Southern African region arising from an inclusive vision, the *ubuntu* culture– is this "bellwether for the" world?

SOEs Responsibilities - Select Points

- The Guidelines imply mapping / prioritization of Stakeholders, compliance with law and fulfilling obligations (under contracts, agreements or trust / expectations created) and acknowledgement of their contribution to the firm's value.

- SOEs responsibilities arise from:
  - mission and strategy that determine the extent of stakeholder engagement and CSR (a chosen role).
  - external compulsions from stakeholders. (sometimes even "stakeholder capture"; "directed engagement" " derived rights").
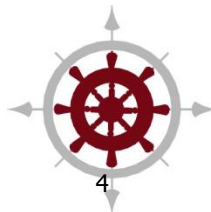
Mechanisms for Promoting Stakeholder rights and active cooperation with them.

- SOEs must sensitively create "appropriate mechanisms" depending on the extent of involvement, criticality, power of the stakeholder. (collective bargaining vs. joint consultative meetings; consumer feedback surveys vs. periodic presentations to CSOs etc).

	Low INTEREST	High
High	Involve	"Partner"
POWER Low	Monitor with minimum effort.	Keep Informed
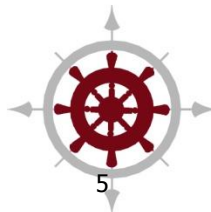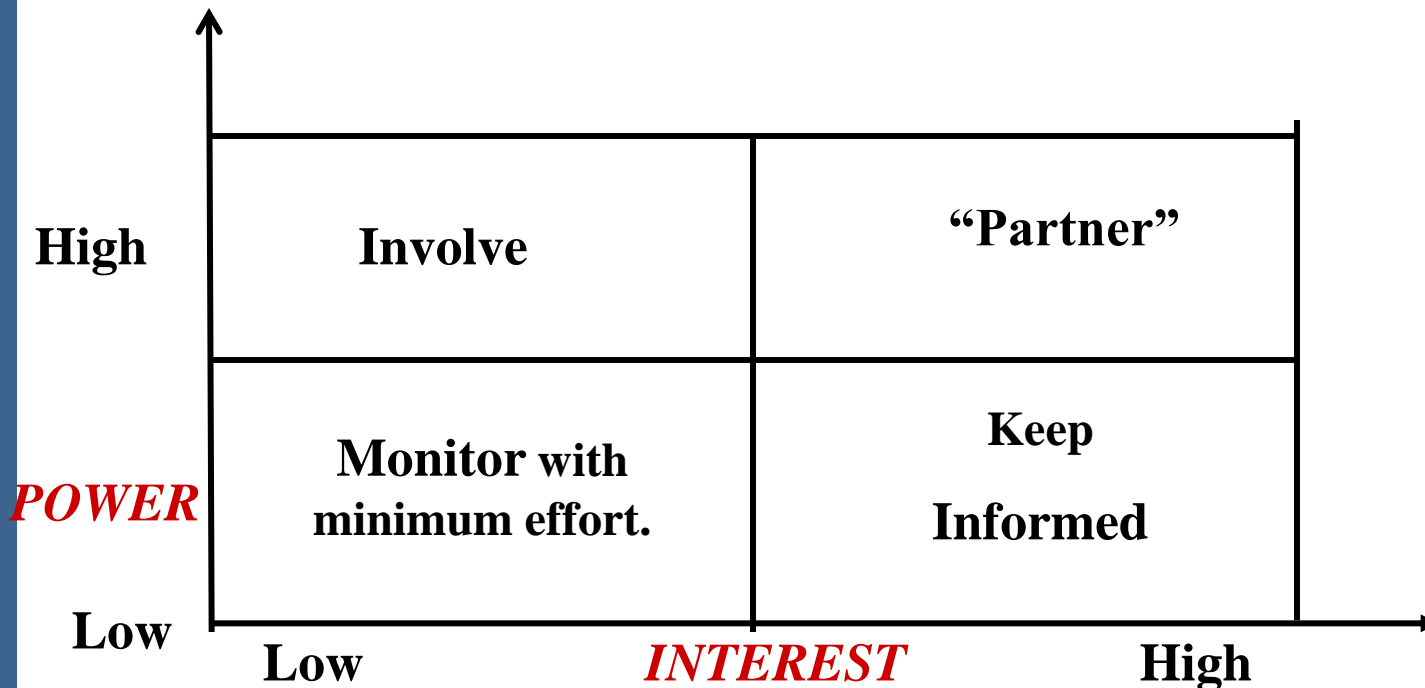
Using stakeholder relations to promote CG

- A wise SOE can use internal analysis and derived mechanisms to establish & deepen stakeholder relations for mutual benefit. A way self-disciplining (for example, using value chain analysis - leading to environment, health and safety standards, effluent control, re-cycling, ethical advertising, affirmative action, community development, ethical pricing, elimination of child labour, waste disposal strategies etc.)
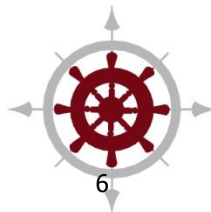
**A few Important Stakeholders can elevate the conditions for better corporate governance standards in SOEs – Example:**

▪**Government – signaling effect:** by setting new standards; enforcement; encouraging public debate and recognition; creating incentive–disincentive mechanisms.

(HIV / AIDS; Malaria interventions; BEE; Promotion of transformation charters; promoting a standard such as GRI, other such.)
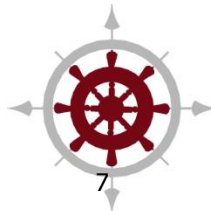
- **CSO++:** Policy stances of trade unions, political parties, industry associations of SOEs, self-regulating bodies, surveys / reporting / ratings by voluntary bodies etc. (degree of engagement by SOEs). Very good examples from Africa - AICC; Africa Corporate Sustainability Forum; BEN Africa; The Centre for Sustainability Investing; Others …Universities, UNISA CCC.

- **Multi-lateral -** World Development Summit; The UN system (E.g. UNEP FI-ATF, Global Compact); The World Bank Group; NEPAD, APRM; Others.
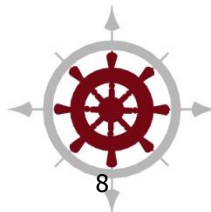
- Progressive SOEs must ideally match the internal opportunities with external positive conditions promoted by stakeholders for effective corporate governance within themselves, subsidiaries, supply chains, and distribution chains.- the core of mainstreaming CSR into strategy (examples Nestle, ITC etc).
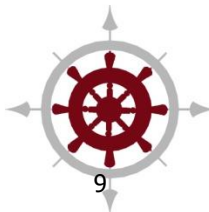
Creditors role in Improving SOE Governance

- Research has validated the important role of finance in promoting CG.
- The policy and approach of the banks / financial institutions / investors are important – how far do they value CG? How far have they integrated CG into financing / investing decisions? Weak evidence still in Africa & Asia – except for the role models.
- Potential for forbearance just because they are government owned?. Potential for state-owned banks / FIs being more accommodative towards lax CG standards?.
- The positive effect of public listing / dilutions of state ownership and public deposit on corporate governance of SOEs?.
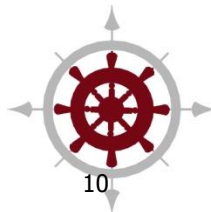
- ***Annexure I & II:*** *(from "Strategy & Society – the link between competitive advantage and Corporate Social Responsibility" Michael Porter & Mark Kramer, Dec. 2006).*
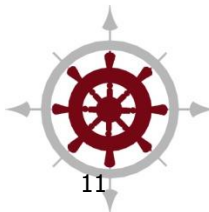
- Relationships with universities
- Ethical research practices (e.g., animal testing, GMOs)
- Product safety
- Conservation of raw materials
- Recycling

- Financial reporting practices
- Government practices
- Transparency
- Use of lobbying

- Education & job training
- Safe working conditions
- Diversity & discrimination
- Health care & other benefits
- Compensation policies
- Layoff policies

- Procurement & supply chain practices (e.g., bribery, child labor, conflict diamonds, pricing to farmers)
- Uses of particular inputs (e.g., animal fur)
- Utilization of natural resources

Support Activities

Firm Infrastructure
(e.g., financing, planning, investor relations)

Human Resource Management
(e.g., recruiting, training, compensation system)

Technology Development
(e.g., product design, testing, process design, material research, market research)

Procurement
(e.g., components, machinery, advertising, & services)

Primary Activities

| Inbound Logistics (e.g., incoming material storage, data collection, service, customer access) | Operations (e.g., assembly, component fabrication, branch operations) | Outbound Logistics (e.g., order processing, warehousing, report preparation) | Marketing & Sales (e.g., sales force, promotion, advertising, proposal writing, Web site) | After-Sales Service (e.g., installation, customer support, complaint resolution, repair) |

- Transportation impacts (e.g., emissions, congestion, logging roads)

- Emissions & waste
- Biodiversity & ecological impacts
- Energy & water usage
- Worker safety & labor relations
- Hazardous materials

- Packaging use and disposal (McDonald's clamshell)
- Transportation impacts

- Marketing & advertising (e.g., truthful advertising, advertising to children)
- Pricing practices (e.g., price discrimination among customers, anticompetitive pricing practices, pricing policy to the poor)
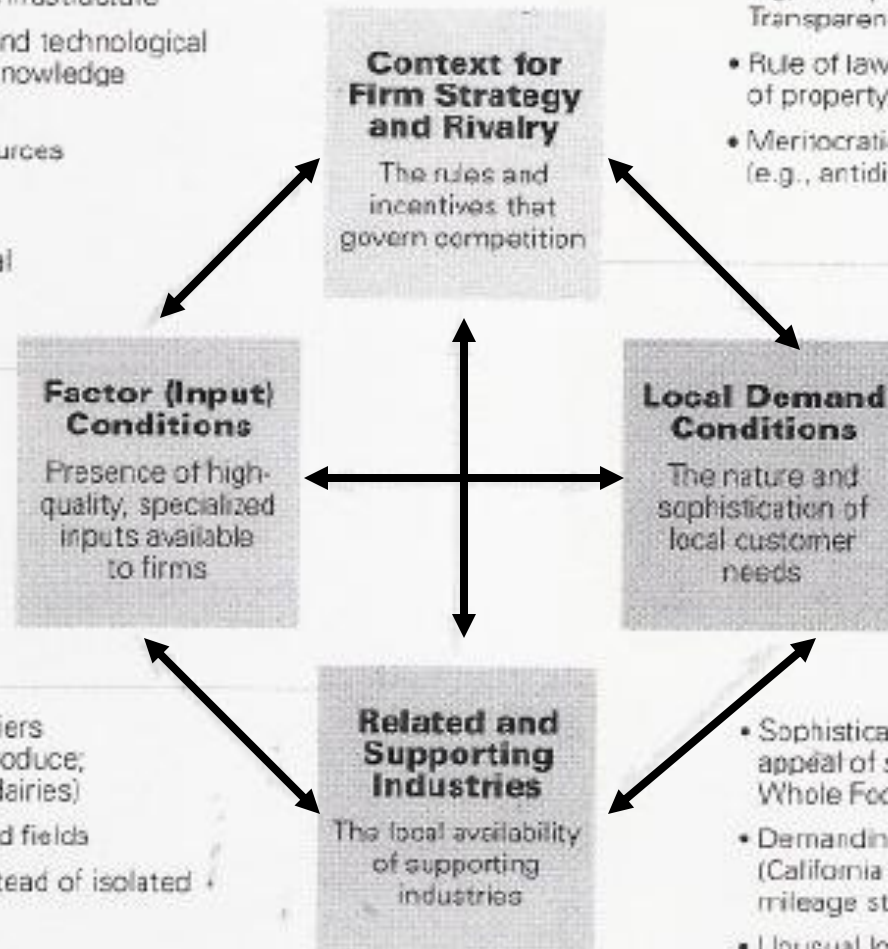- Consumer information
- Privacy

- Disposal of obsolete products
- Handling of consumables (e.g., motor oil, printing ink)
- Customer privacy

Source: Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985

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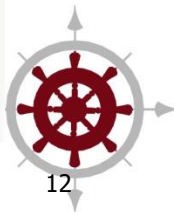
- Availability of human resources (Marriott's job training)
- Access to research institutions and universities (Microsoft's Working Connections)
- Efficient physical infrastructure
- Efficient administrative infrastructure
- Availability of scientific and technological infrastructure (Nestlé's knowledge transfer to milk farmers)
- Sustainable natural resources (GrupoNueva's water conservation)
- Efficient access to capital

- Fair and open local competition (e.g., the absence of trade barriers, fair regulations)
- Intellectual property protection
- Transparency (e.g., financial reporting, corruption: Extractive Industries Transparency Initiative)
- Rule of law (e.g., security, protection of property, legal system)
- Meritocratic incentive systems (e.g., antidiscrimination)

Context for Firm Strategy and Rivalry

The rules and incentives that govern competition

Factor (Input) Conditions

Presence of high-quality, specialized inputs available to firms

Local Demand Conditions

The nature and sophistication of local customer needs

Related and Supporting Industries

The local availability of supporting industries

- Availability of local suppliers (Sysco's locally grown produce; Nestlé's milk collection dairies)
- Access to firms in related fields
- Presence of clusters instead of isolated industries

- Sophistication of local demand (e.g. appeal of social value propositions: Whole Foods' customers)
- Demanding regulatory standards (California auto emissions & mileage standards)
- Unusual local needs that can be served nationally and globally (Urbi's housing financing, Unilever's "bottom of the pyramid" strategy)

Source: Michael E. Porter, *The Competitive Advantage of Nations*, 1990

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