The Role of Stakeholders in SOE Corporate Governance

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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”).
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).
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?.
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<th>Factor (Input) Conditions</th>
<th>Related and Supporting Industries</th>
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<td>Presence of high-quality, specialized inputs available to firms</td>
<td>The local availability of supporting industries</td>
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<td>The rules and incentives that govern competition</td>
<td>The nature and sophistication of local customer needs</td>
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- **Factor (Input) Conditions**
  - 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

- **Related and 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

- **Context for Firm Strategy and Rivalry**
  - 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)
  - Meritorious incentive systems (e.g., antidiscrimination)

- **Local Demand Conditions**
  - 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 (Urban’s housing financing, Unilever’s “bottom of the pyramid” strategy)