



The 2007 Asian Roundtable on Corporate Governance
*Network on Corporate Governance of
State-Owned Enterprises in Asia*

Theme V: Effective Co-operation And Communication With Stakeholders

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Effective Cooperation and Communication with Stakeholders

by

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Draft Version

Key Elements of this part of the OECD Guidelines are:

- Recognizing and respecting stakeholder rights.
- Reporting on stakeholder relations, especially by listed SOE's.
- Boards to develop, implement and communicate Compliance Programmes for internal codes of ethics.

The Idea of a Stakeholder:

- Popular definition:

“A stakeholder is any group or individual who can affect, or is affected by, the achievement of an organization's objective”

(Freeman, 1984)

In the context of Corporate Governance my definition is:

“ A stakeholder is any institution, group or individual who can get benefited or affected by, and/or can benefit or adversely affect, a corporation`s actions in pursuit of its primary objectives”

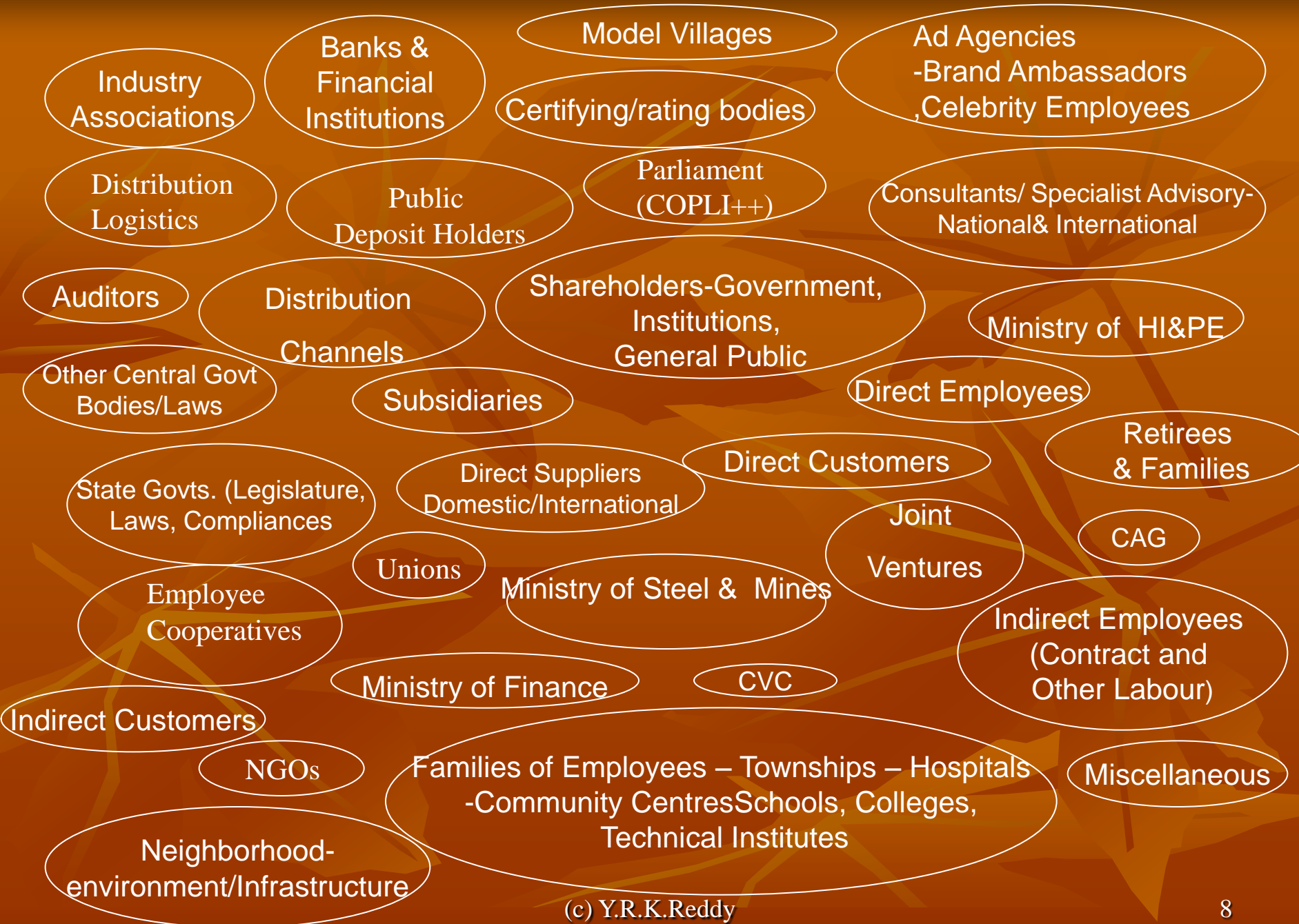
A mouthful but may still be useful!

Available Leads for Stakeholder Engagement

- Several guidelines, case studies, international standards for assessment / reporting – especially as part of CSR (Stakeholder engagement may be larger than CSR).
- Noteworthy: IFCs Stakeholder Engagement – good practice manual; IFCs EHS guidelines; OECD's guidelines for MNEs; Dow Jones Sustainability Index, FTSE4Good Index, SA 8000 / 14000, AA1000, GRI et al + principles such as Caux.
- Not specific to SOEs.

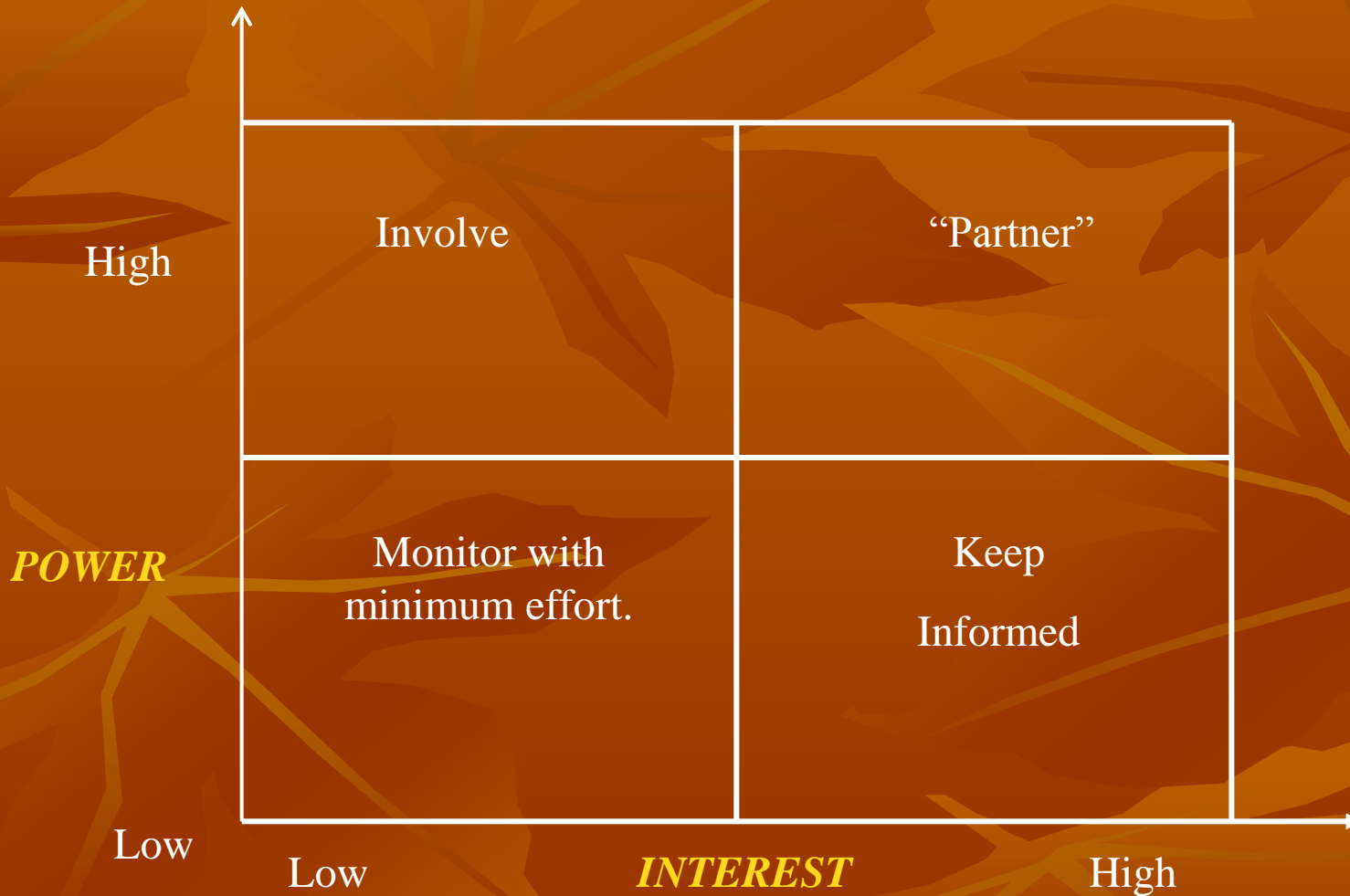
Stakeholder Map of an SOE

- Is far more complex than normally assumed in management literature or general experiences in stakeholder mapping (attached as a rough example for a SOE in steel industry).
- Includes parliament and its bodies. Supreme Auditing Institutions; multiple ministries; central planning/budgeting agencies. By being subjected to “Right to Information Laws”; “Public Interest”, “Writ Jurisdiction”- their canvas for stakeholder engagement widens and deepens.
- Being relatively large and mostly of critical areas where markets may have failed, impact on environment and society significant.



Rights, Reporting, Ethics

- Recognizing / Respecting Rights: Warrants a deliberate process of mapping – to recognize existing and evolving rights of each stakeholder, their powers, and their levels of interest in the firms activities.
- Stakeholder engagement Implies a strategic action by the company to meet some process-smoothing; decision legitimizing; reputation objectives.
- However in some legacy systems, the challenge is to gain / regain that discretion and fight stakeholder capture.



- Stock ownership/option schemes As A Mechanism: (or even “proximate shareholding” – Ref Jeff Gates) by important stakeholders as a mechanism.
 - structuring it to add value.
 - will it become an “added burden”.(example regarding PMS in an SOE).

- Reporting Issues: Need for using objective mechanisms such as Feedback Surveys, focus group discussions for assessing, reporting and monitoring stakeholder policy and actions.
- Need for a policy and standardization on scientific/accurate assessments and reporting – on environmental impacts, budgets for important stakeholders / CSR, appropriate accounting for subsidies for each segment.

- Code of Ethics: Most listed companies are required to state and affirm on code of conduct / ethics, establish and operate whistle blower policy – and there are anti-corruption laws applied to SOEs. Operational effectiveness is the issue.
- An innovative initiative of an affirmative statement from the company's management/board that none of its employees has either received or paid bribes or other inducements in the course of business.

Some Connected Issues & Challenges

- Most SOE's are legacy systems with set stakeholders, set expectations and most importantly, entrenched interests. Very few would be new businesses (exceptions of new facilities, expansions, joint ventures and diversifications by profit making ones).
- Important stakeholders of SOEs would have acquired rights evolved not only by law and agreements, but also by custom and precedence. They have special significance if they have a history from the halcyon days of command & control, “commanding heights” assumptions – communication will be demanded.

- Need for reassessment of current levels of preferential treatments to some – & better communication - to the detriment of other stakeholders (purchase preferences / price).
- Need (in some cases) for refraining from using the clout of the State to gain undue advantage of regulatory and statutory forbearance (especially relating to environment and safety).

- Sometimes, the extent or quality of established rights may be directed by “public policy”. (Union / employee rights, absorption of project / contract labour, rights as rehabilitation / resettlement, price / vendor / retailer preferences etc).
- Consequently, need for some redistribution of responsibilities/ re-assessment of stakeholder engagement to ensure that the value and sustainability of the company is balanced well with value creation for stake-holders. (example: disengage a bit in community involvement that may have political overtones and increase *customer/supplier/logistics* segments). Review “participation, involvement, consultation or information”.