

SOE Network for Southern Africa

Maputo
Mozambique
June 2009

The Role of Stakeholders in SOE Corporate Governance

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**Second Meeting of the Network on Corporate Governance on
State-Owned Enterprises in Southern Africa**

**Maputo, Mozambique
27 May 2009 - 28 May 2009**

The Role of Stakeholders

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Introduction

Evolving trends

- Corporate entity led to a split in 'control' and 'ownership'
- Limited liability for shareholders led to protection for third parties
 - Company Law
 - Governance requirements
- Evolved from autocratic institutions to more participative
- Importance of stakeholders recognised
- Latest thinking encapsulated in notion of sustainability or the triple bottom line
 - Economic, social and environmental performance

Introduction

Tomorrow's global company

“Tomorrow's Global Company needs to “expand its view of success and redefine it in terms of lasting positive impacts for business, society and the environment”.

(Tomorrows Global Company: Challenges and Choices,
www.tomorrowscompany.com)

Introduction

- **Transparency inextricably linked to accountability**
- **Transparency concerns the ‘obligation to account’ to stakeholders**
- **Inclusivity requires engagement with stakeholders**

Who is a Stakeholder?

- Who is a stakeholder?
 - *“... those whose relations to the enterprise cannot be completely contracted for, but upon whose co-operation and creativity it depends for its survival and prosperity.”*
[King Report 2002 - quoting Slinger and Deacon]
 - *“...those groups who affect and / or are affected by the organisation and its activities”* [AA 1000]
- King Report classifies stakeholders as follows:
 - Shareowners
 - Parties with a contractual nexus
 - Parties with a non-contractual nexus
 - The State

“Business is not just about making sound investment decisions, taking management risks, and dealing with economic uncertainties. Today, it is about social responsibility, putting all our actions under public scrutiny, and responding to the concerns of those among whom we conduct our business in an open and accountable way. It is important for us all to remember that good governance, like personal integrity, is no longer the luxury of the virtuous; it has become a global business necessity” [Aziz 2002]

Stakeholders in the Context of SOEs

- SOEs have a significant impact at a national level
- Performance likely to impact economy
- Usually have a mandate to serve the national interest
- Do the leaders bother to find out what that interest is, how it should be served, what the role of the SOE should be, how it should fulfil that role?

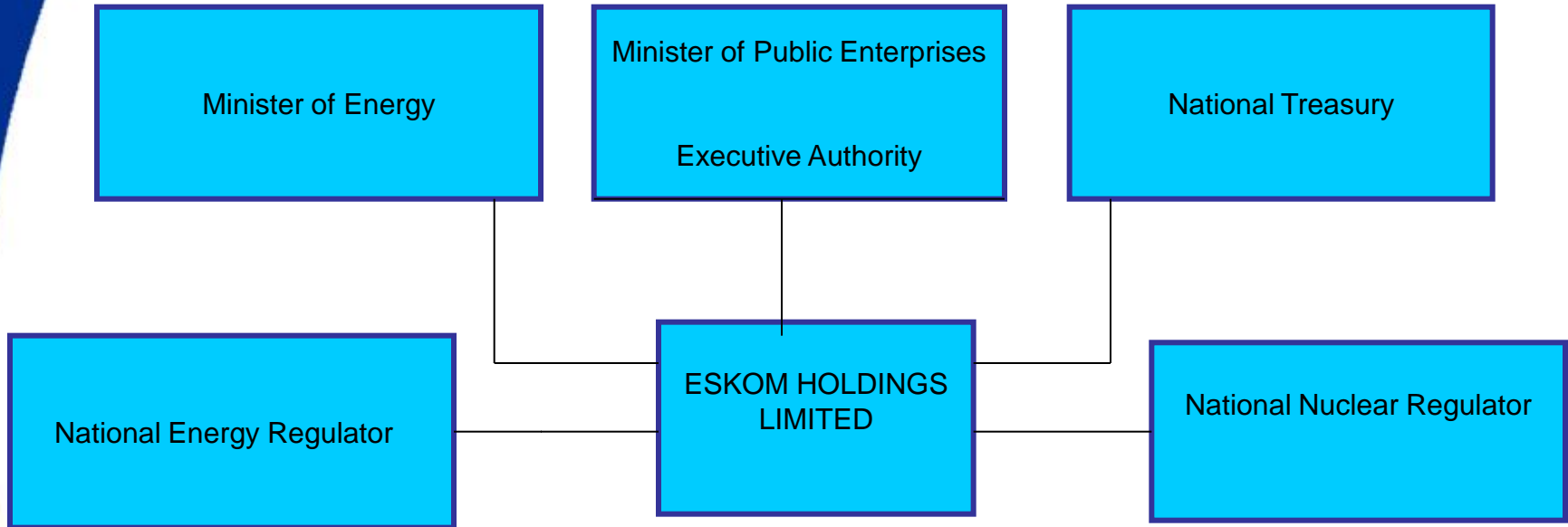
Stakeholders in the Context of SOEs

- SOEs are seen as having a greater obligation to stakeholders

“Government has a special duty of transparency and accountability in respect of its stewardships of national assets in pursuit of the national interest” (King Report on Corporate Governance 2002: p212)

- Obligations relate to:
 - Interaction with government
 - Communication and Engagement with all stakeholders
 - Disclosure and reporting to all stakeholders

Government as a Stakeholder

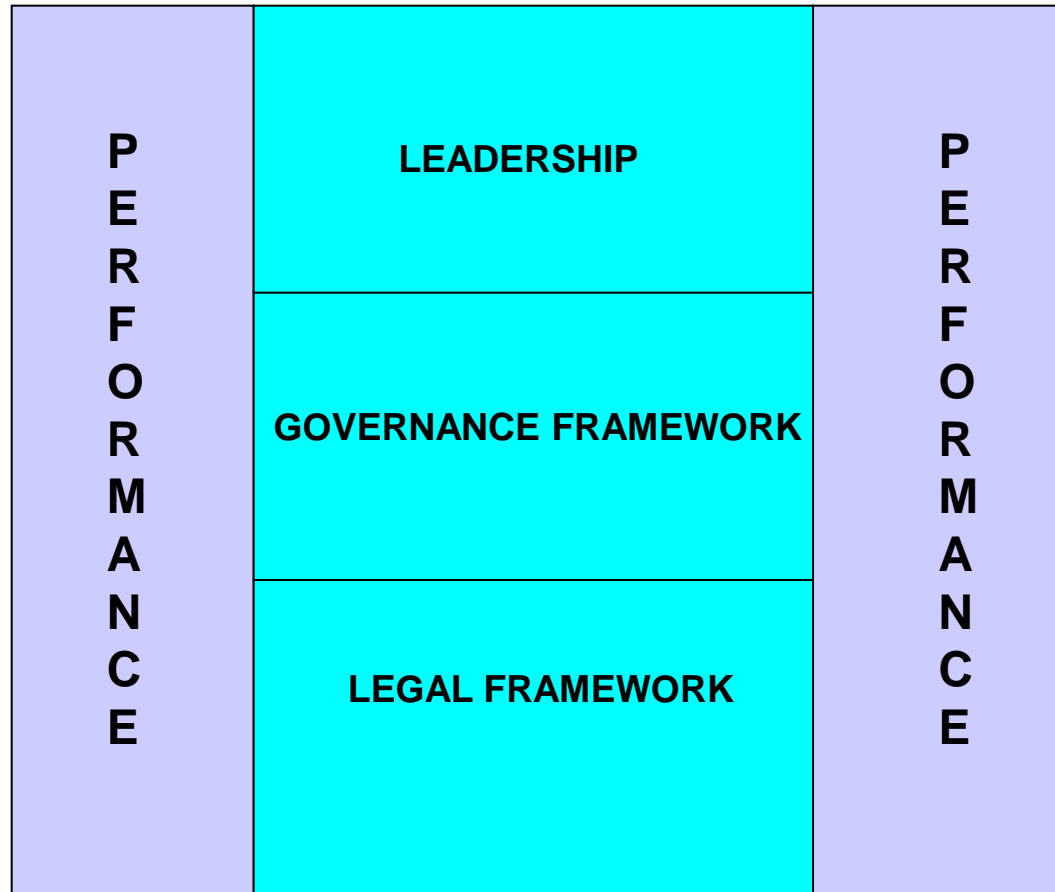


Eskom – The Lessons Of 2008

Engaging Stakeholders

- Corporate Governance is essentially about leadership
 - Ability to integrate
 - Defining the nature of the stakeholder model
 - Understanding the impact of stakeholders in shaping direction

Engaging Stakeholders



Engaging Stakeholders – Lessons Learnt

- Eskom experience
- Lessons learnt
 - Trust is essential
 - Transparency leads to trust
 - Understanding and alignment follow trust
 - Stakeholders are capable of understanding and making rational decisions
 - Engagement and dialogue with stakeholders can lead to better decisions/implementation
 - An investment of time is necessary for effective dialogue

Reporting and Disclosure

- Proactive and regular
- Information should be:
 - Integrated
 - Material
 - Relevant
 - Timely
 - Understandable
 - Comparable

Reporting on Compact

Performance in terms of the shareholder compact

| Key performance area | Key performance indicator | Unit of measure | Target 2007 | Actual 2007 | Actual 2006 | Comment | Page |
|--|--|-----------------|-------------|--------------------|-------------|--------------|------|
| Maintain capital and financial efficiency | • economic operating profit | Rm | ≥ 7 173 | 9 834 | 9 433 | Exceeded | |
| | Invest in infrastructure | | | | | | |
| | • generation capital expenditure ¹ | Rm | ≥ 6 058 | 7 056 | 2 304 | Exceeded | |
| | • transmission capital expenditure ² | Rm | ≥ 1 000 | 1 170 | 530 | Exceeded | |
| | • generation capacity installed and commissioned | MW | ≥ 1 041 | 1 360 ³ | 190 | Exceeded | |
| | • transmission lines installed | km | ≥ 410 | 430 ⁴ | 237 | Exceeded | |
| | • transmission MVA installed | MVA | ≥ 500 | 1 000 ⁵ | 1 090 | Exceeded | |
| | • distribution capital expenditure | Rm | ≥ 2 888 | 3 430 | 2 755 | Exceeded | |
| Maintain operating efficiency and effectiveness | • major incidents (system minutes lost) | number | ≤ 1 | 2 | 5 | Not achieved | 37 |
| | – severity degree one (>1 but less than 10) | number | ≤ 1 | 1 | 3 | | |
| | – severity degree two (>10 but less than 100) | number | ≤ 0 | 1 | 2 | | |
| | – severity degree three (>100) | number | ≤ 0 | 0 | 0 | | |
| | • system minutes lost (<1 system minute) | number | ≤ 3,90 | 3,67 | 3,59 | Exceeded | 37 |
| | • unplanned capability loss factor | % | ≤ 4,50 | 4,30 | 4,60 | Exceeded | |
| | • system average interruption duration index | hours per annum | ≤ 52,80 | 51,40 | 48,50 | Exceeded | 38 |
| • operating cost per megawatt hour (before embedded derivatives) | R/MWh | ≤ 167,26 | 160,90 | 142,50 | Exceeded | | |
| Focus on skills development | • Eskom trainees and bursars | number | ≥ 4 000 | 5 136 | 2 163 | Exceeded | 62 |

1. Spent by capital expansion department on behalf of Generation division.

2. Spent by capital expansion department on behalf of Transmission division.

3. Reflects the conservative nominal capacity installed which may differ from the official capacity.

4. Includes lines installed but not yet in commercial operation.

5. Includes transformers installed but not yet in commercial operation.

Reporting and Disclosure – Eskom

- Reports in integrated manner on triple bottom line
- Engages with stakeholders on what should be reported on
- Requests input and review after annual report
- Reporting is largely annually to broader public but it is an area being reviewed
- Includes information of key performance indicators and targets and to what extent they have been achieved
- Processes for access to information required by the parties are in place
- Established code of ethics communicated to all stakeholders

Conclusion

- Success requires a change in paradigm by the leadership
- This change should encourage effective dialogue and communication with stakeholders - not just ticking the box
- Effective stakeholder interaction enhances performance.