Board role: Transition from Shareholders Management to Stakeholders Management

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Introduction:

'Ubuntu' is a popular African term which emphasizes that an individual cannot exist in isolation. Individual and the Society around him are interdependent on each other. Extending this, an organization cannot exist in isolation. 'Ubuntu' is a very pertinent term for Boards in the current scenario where as they are under increasing pressure to engage with wider stakeholders like Employees, Customers, Suppliers, Communities, etc., than only with shareholders.

> Ubuntu: I am because we are and because we are, you are.

Recent Corporate Governance failures in both public and private companies have not only eroded shareholders' wealth but also have adversely impacted key stakeholders viz., loss of employment/erosion of pension funds, unhealthy products to customers, non-payment to suppliers, polluting the community within which it operates, etc.,In many instances, dissatisfied customers, angry employees, adversely effected communities have aired their complaints in various platforms like digital media adversely impacting the organization like loss of reputation, reduction in market share and consequential erosion of shareholders' wealth.

Grant Thornton's international survey of 2500+ executives from 35 economies has also indicated that there is growing pressure to collect and respond to the views of wider stakeholders. Emphasis on Diversity, not just gender diversity, in Board and Leadership is also high as a Board with diversified experience, skill, competency can understand the expectations of wider stakeholders and build those into the strategy of the organization.

Even regulators are also emphasizing the need for wider stakeholder management:

- The beefed-up requirements on UK Corporate Governance code mandate detailed disclosure on how directors are making sure they take account of wider interests, suppliers, customers and society.
- The Kotak Committee recommendations accepted by Securities and Exchange Board of India (SEBI) in April 2018has further emphasized Board diversity agenda which is not just gender diversity but also cover skills expertise, competency, etc.,

Boards are shifting from the traditional shareholder value focused corporate governance to a structure that seeks to protect the interest of wider stakeholders.

Recent publication of Grant Thornton titled **Engagement beyond the boardroom: What do your stakeholders expect?**[1] identified following as the top three methods used by companies to seek out the views of wider stakeholders:

- Structured/regular face-to-face meetings with suppliers
- Employee surveys
- Customer satisfaction surveys

Grant Thornton recommends the following techniques for effective stakeholder engagement:

1. **Know your target group:**

   Identify who your key stakeholders are, what impact you have on them and what impact they have on you(eg influencing your reputation or ability to operate). It's important to determine which community leaders to engage with directly, what concerns they may have and how you can address them. What data do you need to back this up? How can you develop and strengthen the relationship?

   Communication is key in effectively addressing concerns of stakeholders. You should engage stakeholders to manage expectations and minimize surprises. You should stay connected with customers to understand market disruptions and fast shifting customer expectations.

2. **Structure the feedback and response:**

   It is important to develop effective mechanisms for inviting stakeholder feedback and acting on this information.

   Clearly set out who should take the lead in communicating with different stakeholders and how the dialogue will be built into decision making. The biggest risk is that the feedback gets lost or is ignored.

   In case of crisis, an honest response, readiness to take responsibility and accept the consequences are the first steps to winning back trust. Avoiding comment, massaging the truth or sending out junior people to speak for the organization when leaders should front up will only compound the crisis.

3. **Broaden your management and external reporting:**

   Integrated Reporting provides a good starting point for assessing and communicating your social impact, environmental impact and other data of relevance to your business and its stakeholders.

   What information do you need to run your business and assess emerging threats and opportunities? Are you getting this information in the format you need? What information do stakeholders need to judge your impact on them and how are you responding to their feedback?

4. **Determine the right composition for your board:**

   Diverse boards bring fresh ideas, challenge assumptions and enable your business to better reflect the breadth of perspectives within your customer base. More diverse boards improve performance, drive value creation on the one side and also help to curb the risks of complacency and 'group think' on the other.

   Board diversity goes much further than gender diversity. One of the key principles of governance is that the board should have enough experience and expertise to manage the full range of risks facing the business. The global financial crisis is a clear example of the dangers when boards do not sufficiently understand their products and the associated exposures.

   If technology is the biggest opportunity and the biggest risk within most sectors, then it's important to ensure enough 'digital diversity' within the make-up of your board.

   You don't necessarily need a tech expert or a chief information officer on the board – a board member with experience of managing technology is sufficient. Similarly, you don't need to be an innovator to direct innovation. But you do need to be open to change and know the right questions to ask.

5. **Validate and challenge:**

   As a board member, you're on the hook for what your business does. How much do you trust the information you use to run the business? Is it subject to sufficient validation and challenge?

   A useful way to check whether the information coming from inside your business is sufficiently credible and relevant is to compare it against the 'control' of what third parties including your key stakeholders are saying about your organization. The biggest risk is a 'good news culture' in which your employees feed you with the information they think you want to hear.

Conclusion:

Good governance is about doing the right thing. The long-term viability and success of the enterprise are significantly attributed to being fair to key stakeholders – customers, employees, investors, suppliers, communities and wider society ■

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