

Stakeholder Capitalism: A Vital Pandemic Agenda

Insights sharing & discussion by:

Professor Uantchern Loh
CEO,
Black Sun Group (Asia Pacific)

Sharmila Sekarajasekaran
Independent Non-Executive Director,
Top Glove

Devanesan Evanson
Chief Executive Officer,
Minority Shareholders Watch Group (MSWG)

Wong Su-Yen
Board Director, Professional Speaker & Entrepreneur

Shinbo Won
Director, Head of Asia ex-Japan, Australia,
BlackRock Investment Stewardship



INTRODUCTION

Advocacy Dialogue by Institute of Corporate Directors Malaysia (ICDM)
25 November 2020, Kuala Lumpur, Malaysia

This Advocacy Dialogue aims to provide some insights and thoughts on the value creation from stakeholder engagement and stakeholder capitalism as well as, the importance of balancing the voices of the stakeholder groups in ensuring the long-term viability of the company.

The rise of stakeholder capitalism gains its momentum when the Business Roundtable issued a statement with a new definition of the “purpose of a corporation” back in August 2019. The reimagined idea of a corporation drops the age-old notion that they function first and foremost to serve their shareholders and maximise profits. Shareholder value is no longer the only focus for the organisation but rather, investing in employees, delivering value to customers, dealing ethically with suppliers and supporting outside communities are now at the forefront of business goals. In stakeholder engagement, **trust** is the key component while **purpose** is the company’s fundamental reason for being. In **servicing the purpose**, it creates the animating force for **achieving profits** for the stakeholder groups, the organisation, and for the **long-term value creation**. To survive in these uncertain times, businesses need to rethink the way they are serving their purpose for their stakeholder groups.

This executive summary captures the salient points presented by each speaker at the Advocacy Dialogue.

KEY INSIGHTS & DISCUSSIONS

- 1 Boards today are now looking at their stakeholders with an enlightened self-interest. **Covid-19 has highlighted the interconnectedness of stakeholders** and **rewired organisations and boards for the future**. It brought a lot of issues to the surface - what we think about, what is important, the way we do business and the processes. Stakeholders are also more aware and vocal with what is happening and will not be letting the organisation go easily either.
- 2 **Stakeholder capitalism is not at odds with shareholder value creation - particularly if we take a long view**. Both can coexist and need to be considered together in parallel. The **board needs to learn to balance between both** and manage the competing issues rather than considering them as opposing to each other.
- 3 **What gets measured gets managed**. Value creation can be owned by the company by holding directors and management accountable for a defined set of **value creation performance metrics**, such as the **balanced scorecard**. Indicators such as the SDG and ESG need to be tracked, assigned with a value and linked to executive remuneration and KPIs while also **looking out for perverse incentives** to avoid unethical behaviour and outcomes.
- 4 The pandemic served as **the litmus test for many organisation, explicating its policies and procedures** such as its business continuity plan, supply chain management, and risk management plan, and rewired the thinking of many leaders in **ensuring that such plans are indeed in place and working in real crises** situation.
- 5 Organisations need to **identify their material risks, map out their key stakeholder groups** and come up with a robust stakeholder engagement mechanism. It needs to understand their **concerns**, take into account their voices and **embed it into their strategy, module, and business plan** to ensure the **long-term** viability of the organisation. The board should balance the voices of the stakeholders without foregoing any of the stakeholder group's voices.
- 6 **Maintaining good relationships and trust with each stakeholder group** is vital to the organisation. It equates to the **organisation's social license to operate**. The board needs to manage these relationships and ensure that it has been embedded in their daily risk management practices and long-term strategies.
- 7 The **3Cs of stakeholder engagement** per Black Sun's research '*Stakeholder Engagement in Turbulent Times*':
 - **Consult** - soul searching process and aligning what is important to both organisation and stakeholder
 - **Commit** - setting the tone from the top and embedding stakeholder engagement in policies and framework
 - **Communicate** - talking about the commitments and having a champion for continuous communication with the stakeholders
- 8 **Reporting matters**. To ensure **transparency** and **accountability**, institutional investors such as BlackRock has asked that companies report on how they have identified their key stakeholders and considered their interests in business decision-making, demonstrating the applicable governance, strategy, risk management, and metrics and targets. This approach should be overseen by the board, whose job it is to ensure that the approach taken is informed by and aligns with the company's purpose. The merger of the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standard Board (SASB) into a unified organisation may also see major ramifications for corporate reporting in Malaysia in the coming years.

ACTIONABLE OUTCOMES

MOVING FORWARD



1 Rethink the purpose of the organisation in the broader sense as the organisation embrace Industrial Revolution 4.0.



2 Embed value creation into your strategy and have a structure in place to ensure the purpose is being implemented into daily tasks.



3 Re-examine the metrics and scorecards to drive desired behaviours and tracking performance indicators.



4 Institutionalise the role of a lead independent director to engage with the stakeholders and report back to the board.



5 Be more compassionate towards the well-being of your stakeholders and increase engagements during the crisis.



6 Showcase the organisation values, performances, and strategies to create awareness among the investor community about the organisation.



7 Map out your key stakeholder groups and the engagement mechanism to strike a balance between short- and long-term strategies.

“The pragmatic approach to these balancing issues among the stakeholder is to start from the premise of ‘do no harm’ to any category of the stakeholder.”

Devanesan Evanson, CEO of Minority Shareholders Watch Group (MSWG)

Of other interest:

- [Podcast on the 10 things you should know about stakeholder capitalism](#)
- [WEF guide on how to measure your stakeholder engagement](#)
- [BlackRock Investment Stewardship’s Global Principles effective January 2021](#)
- [MSWG Key Principles and Voting Guideline](#)
- [BlackSun report - Stakeholder engagement in turbulent times](#)