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Stakeholder Engagement and Creating Shared Value

Diana David

Corporate Governance Definitions

Financial Times definition

Economists have long noted that **publicly traded companies** suffer from **an incentive problem**. The people who run the company (management) are not the same as the people who own the company (shareholders) or who otherwise have a stake in its success (stakeholders)

Managers are paid professionals with their own self-interests. In order to prevent managers from making decisions that benefit themselves but that are detrimental to others, **a system of checks and balances is put in place**. This system is called “corporate governance”

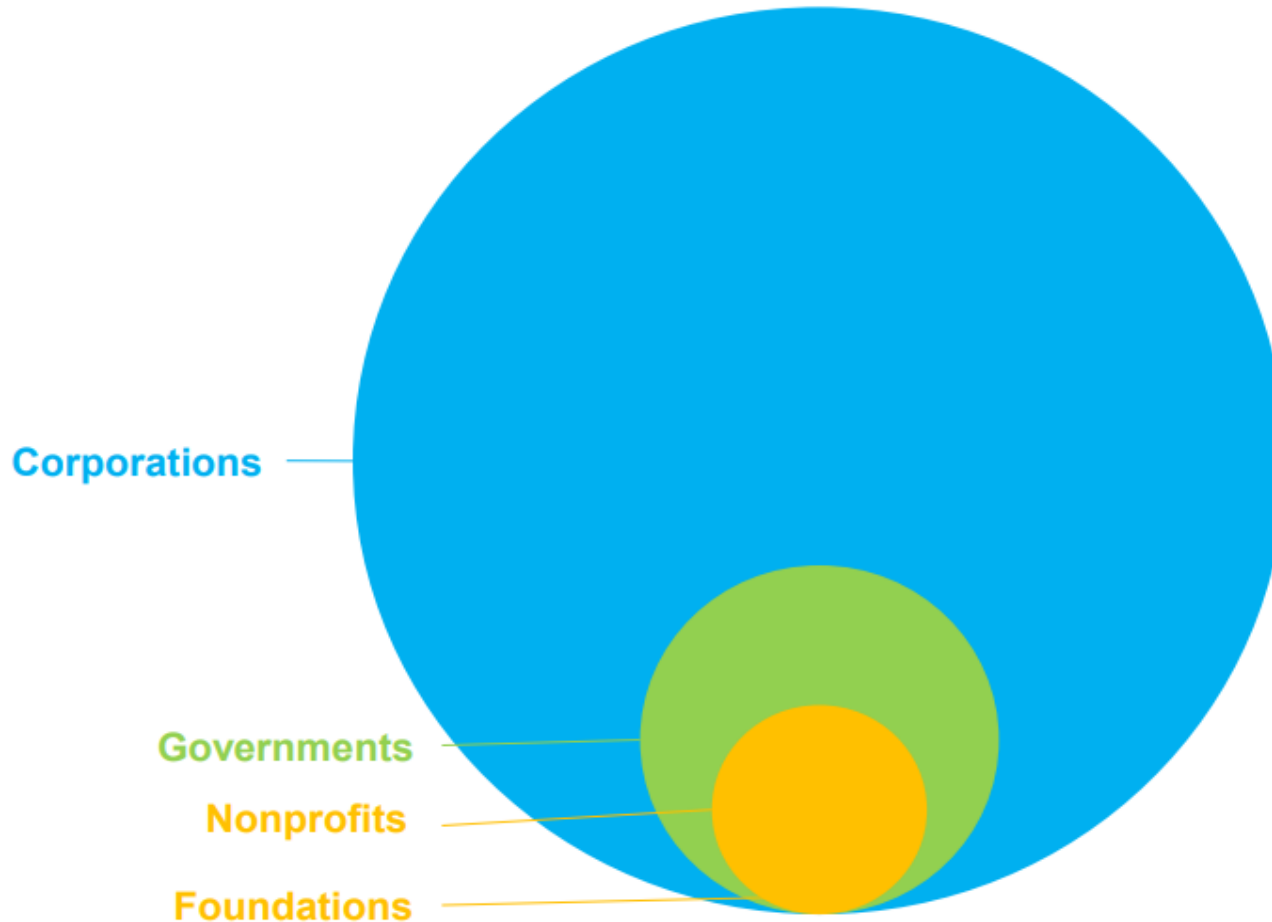
Many lenses for engagement

- Profit and free markets are king. (Milton Freidman. 1962)
- Provide finance for investment in human and physical capital that promotes development
- Lending as a vehicle for policy change and for promoting international goals and standards. Rationalize and strengthen their relationships with the private sector. (Carnegie Endowment. 2001)
- MDB leadership in investing in people, financing sustainable infrastructure (Role of MDB in supporting 2015 Development Agenda)
- Catalytic role: private sector investment to help transition to market economy. (European Bank for Reconstruction and Development)
- Intermediaries of global capital flows (FONDAD)

Constraints vary: risk mitigation, leverage, safeguards, governance

Drivers behind shared value

Who has the resources to solve societal problems?



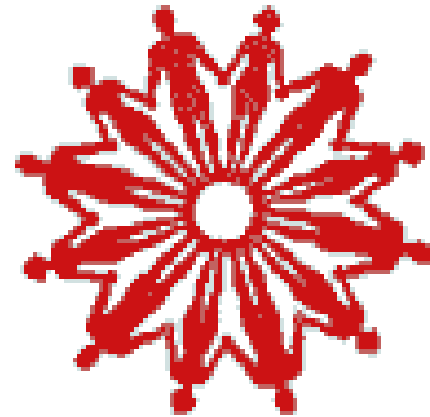
< U.S. Size of Sectors in 2012 >

Ending poverty without further exacerbating climate change will only be possible if the private sector takes a leading role in supporting green economic growth and creating quality jobs.

- VP Gupta, ADB

Issues and stakeholders being addressed

- **Development**
- **Sustainability**
- **Social progress**
- **Diversity**
- **inclusive business**



From Shareholders to Shared Value

Shared value is defined as the practices that enhance the competitiveness of companies while improving social and environmental conditions in the regions where they operate.

To qualify as shared value, there must be an identifiable economic benefit to the company as well as measurable impact on a social or environmental issue.

Mark Kramer and Professor Michael Porter in the original Harvard Business Review article 'Creating Shared Value' (January/February 2011).



Creates measurable **social value**



Creates measurable **business value**



Is **linked** – business value creation relies on social outcomes improving



Is **scalable**



Improves **competitive positioning** – a different approach to competitors

Case study: Digicel

Digicel

Reconceiving Products and Markets

Around 90% of the PNG population is currently not connected to the electricity grid, severely constraining their participation in the digital economy. As the leading provider of mobile voice and data services in PNG, **Digicel's Solar Power Lamps** project provides access to affordable and reliable solar energy solutions to off-grid households and small businesses.

Digicel



Business Outcomes

- Increases revenue
- Expands customer base – Phase 1: 40,000 new households & businesses
- Diversifies business & product offering

Social Outcomes

- Improved safety & livelihood
- Access to financial services
- Households save time on travelling to distant market towns to buy kerosene or charge phones
- Increases 'daylight hours'
- Increases educational performance

Case study: National Australia Bank

National Australia Bank

Redefining Productivity in the Value Chain

In 2009 NAB responded to the number of NAB customers who were enduring financial hardship. **NAB Assist** provides financial advice and loan repayment options for struggling customers. Loan officers are trained to recognise and manage financial hardship, and rewarded for proactively managing customers' financial health.



Business Outcomes

- **Retain customers & prevent defaults** - generated **business savings of \$70 million** per annum
- Approx 90% of customers back on track with financial commitments within 30 days
- **Expanded customer base** by partnering with other financial inclusion initiatives

Social Outcomes

- In 2016 alone, NAB Assist supported over 20,000 customers (up from 5,000 in 2014)
- **Over 40% of NABs customers now voluntarily seek advice** before defaulting
- Partnering with mental health agencies to address root causes of financial hardship

A sunset over the ocean with silhouettes of people on a pier. The sky is a mix of dark blue, purple, and orange. The water is dark, and the pier is a dark silhouette in the foreground. People are standing on the pier, looking out at the sea. The overall mood is contemplative and hopeful.

***“Shared value holds the key
to unlocking the next wave of
business innovation and growth”***

Michael E. Porter and Mark R. Kramer, 'Creating Shared Value', *Harvard Business Review* (January-February 2011)

Concerns: measurement and monitoring

Diversity, Risk, ESG are all stakeholder issues for which there is little way to be accountable

Defensive or reactive positioning. E.g., how do we avoid criticism, not how do we best run the business

What stakeholder engagement models are working or not working for ADB and its partners?

Why?