

SECTION 3
PRACTITIONER'S
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**CORPORATE GOVERNANCE AND SAKEHOLDERMANAGEMENT:
THE ING-CASE**

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Abstract

In the highly competitive environment management builds relationships with very different kinds of stakeholders, acting more transparently, providing opportunities for dialogue and involvement and being accountable to all the stakeholders. The paper considers implementation of one of the most challenging instrument to build those relationships named "stakeholder-management". Improvements on corporate governance and stakeholder-management already have been found: in the further professionalising of the Supervisory Board by updating the board-profile, setting up audit- and remuneration-committees, introducing self-assessment (internal board-evaluations) etcetera; more openness and transparency in the annual reports, making mention of board members' remuneration; increasing the influence of shareholders by providing opportunities to certificate-holders for more actively participating and voting at the General Meeting, and intensifying the relationships with investors; developing international employee participation, based on the European Directive on information and consultation and the implementation in Dutch law; intensifying customer relationships by developing a Customer Relationship Management system world-wide, using internet-opportunities (ING Direct), converting call centres to Customer Contact Centres, introducing customer-panels, etcetera; introducing HR-plans on inspiring leadership, performance management and diversity worldwide.

Keywords: stakeholdermanagement, stakeholder-inclusive company, cyclic business-model

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Introduction

One important issue in the current corporate governance debate is the position of the various stakeholders and their relationships with the company (Goodijk, 2001). World-wide enterprises are faced with the challenge of becoming more attractive to their shareholders but also to their employees, customers/clients, suppliers, society etcetera. Stakeholdermanagement is – even in the more Anglosaxon countries – increasingly considered to be a key factor for improving business performance. Many successful businesses are highly committed to maximising stakeholder loyalty (Wheeler et al., 1997).

In this perspective management has to build relationships with very different kinds of stakeholders, acting more transparently, providing opportunities for dialogue and involvement and being accountable to all the stakeholders. Consequently, managers need to mobilise the sense of responsibility of all the relevant stakeholders, create the best organisational context for involvement, organise and manage that involvement, consider all the stakeholder arguments and manage the constantly shifting balance between the interests of stakeholders.

This is also a big challenge for the ING-management. The of Dutch origin ING Group is operating in banking- and insurance-activities in 65 countries all over the world and has to deal with very different stakeholders in quite different circumstances. In accordance with the Dutch law and rules the influence of shareholders on ING-company is rather limited: by the dual governance-system, the certification of shares and other rules of protection. Employees' participation is mainly regulated by the laws on national Works Councils and European information and consultation rights. Clients have the right to get well informed on the price and quality of products and services. And company's responsibility towards the society is formulated in national and international codes of conduct.

Even before the publishing of recommendations on Corporate Governance by the Dutch Peters' Committee in 1997 (Peters, 1997), the ING-ceo presented an internal paper on corporate social responsibility, paying special attention to the relationships with the most relevant stakeholders. "Main basis for ING's continuity and business-perspective is a careful weighing of shareholders', customers' and employees' interests, being fully aware of the company's responsibility towards society" (ING Profile, 1996).

Few years later ING formulated her vision on renewing her corporate governance system, based on the Peters' report (ING Annual Report, 1999). And recently the internal debate on corporate governance and stakeholdermanagement at ING resulted in a further proposal to provide better opportunities for involvement and influence of the shareholders (ING Shareholders Bulletin, 2003).

Purpose of this paper is to describe the current developments at ING and investigate the effects of the proposals on improving the transparency and accountability of the company and the quality of the relationships with the stakeholders.

Stakeholder governance

As mentioned before, companies can no longer ignore the value of stakeholdermanagement. Entrepreneurship and processes of innovation can no longer be successful without the involvement of the most relevant stakeholders. Researchwork shows that the long term value of a company primarily rests on the expertises, abilities and commitment of the employees and the relationships with the shareholders, investors, customers, society etcetera (see Wheeler et al., 1997). Business performance highly depends on loyal, inclusive stakeholder relationships and the creation of added value like quality, service, care for people and integrity.

We make a distinction between companies with structural developed relationships with the stakeholders, being convinced of the advantages of such relationships for the company

(stakeholder-inclusive companies), and stakeholder-reactive or even stakeholder-exclusive companies with a reactive (or even non-existing) attitude towards the stakeholders. In some companies the stakeholdermodel is presented as a wheel, with the company positioned in the centre and the individual stakeholders at the end of the spokes. This concept only works if the company can approach the different stakeholders isolated from each other. Mostly there are several relationships between the stakeholders themselves. In that case the company has to approach the stakeholders as a network (see Donaldson & Preston, 1995).

types of stakeholder-relationships	individual stakeholders	stakeholders considered as network
no relationships	stakeholder-exclusive company	
incidental relationships	stakeholder-reactive company	
structural relationships	stakeholder-inclusive company	

Figure 1. Different types of stakeholder-relationships

We expect that stakeholder-inclusive companies in the longer term will perform significantly better than stakeholder-exclusive companies. Much more research is needed to verify this hypothesis.

Companies are challenged to become more attractive, and stakeholder-inclusive companies recognise the importance of involvement of both internal and external stakeholders.

Several companies for instance had extensive experience that top-down imposed reorganisations and cost reductions without bottom-up employee-involvement can lead to a great deal of resistance and a lot of irritation. Processes of change need to be prepared, organised and implemented with the involvement and support of the managers and workers concerned. Human talents have to be turned into account (Human Strategy as a highly appreciated managementtool). Many best practices (GITP, 2001) teach us how much energy companies are investing in mobilising the human factor to change the organisation's culture and manage the innovation process.

Other companies have become more and more convinced of the importance of a good dialogue with external stakeholders like shareholders, customers or pressuregroups, to avoid shareholder-activism against the company, image-problems or boycott-actions. They invest their energy in organising special roadshows for shareholders and developing tools for customer relationship-management; and also in practising their corporate social responsibility, because entrepreneurship nowadays is considered to be a societal activity, and enterprises are considered to be value-creating entities (SER, 2001).

Stakeholder-awareness behaviour however, mostly requires a cultural turn around, a change in management-attitude from control towards dialogue and value-creation.

Management has to take stakeholder-involvement seriously into account in all the company's functioning and to integrate the involvement in the cyclic business planning.

A cyclic stakeholder-inclusive business model can be described in terms of diagnose, selection, choice, auditing and improvements:

- diagnose: identifying the most relevant stakeholders, stakeholder-mapping, determining which business-activities are most important for which stakeholders, investigating what kind of stakeholder-relationships already exist or have to be improved to create value for the company etcetera,
- selection: investigating the opportunities for improving the stakeholder-relationships, diagnosing best practices (benchmarking), selecting the best fitting stakeholder-involvement models for the company,
- choice: choosing the 'best' model of stakeholder-involvement,

- auditing: periodically and systematically evaluating the stakeholder-involvement,
- improvements: determining aspects of stakeholder-involvement that should be improved.

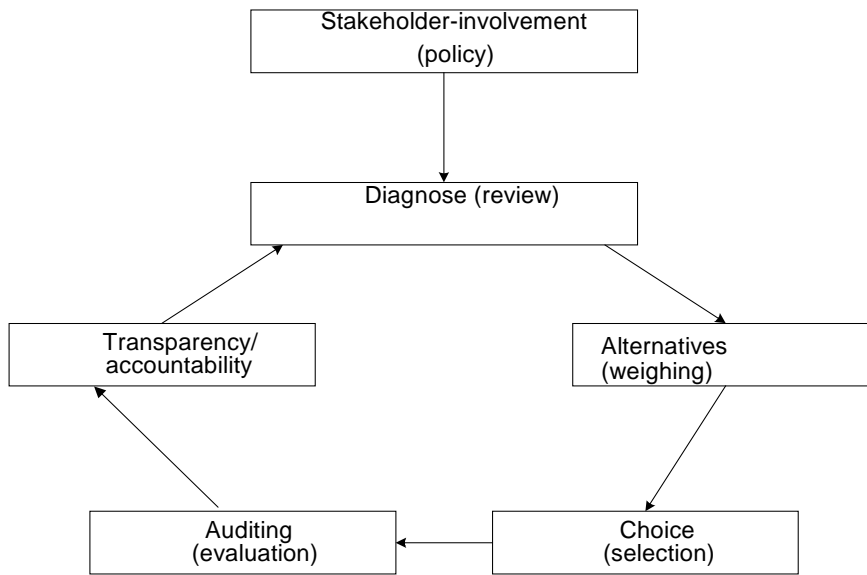


Figure 2. The cyclic stakeholder-inclusive business-model

Taking stakeholders into account requires a lot of openness and sensitiveness towards interests, expectations, signals and behaviour of the stakeholders: what do stakeholders expect?, how do they react?, how to balance the interests? and how to deal with diversity? By managing (developing, organising and stimulating) this stakeholder-involvement, the company has to find a ‘dynamic balance’ between;

- necessary innovation and sufficient commitment,
- enough dynamics and a certain amount of stability.

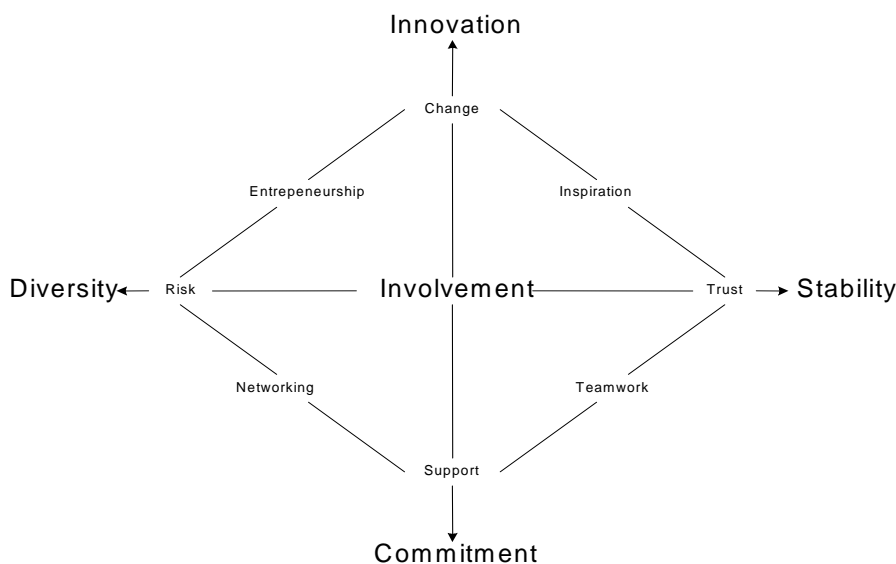


Figure 3. Stakeholder-involvement and managing the balance

In this paper we shall investigate the way ING Group tries to improve her stakeholder-management.

Improvements at ING Group

As mentioned before, last few years ING Group intensified her internal discussions on good corporate governance and stakeholder-management, recognising that a longer term business performance only could be realised by ‘openness’, ‘trust’ and accountability.

Main principles for ING (ING in the Society, 2000) are the further improvement of the Dutch dual governance system and the balancing and weighing of the stakeholder-interests. ING sets much value on having the Dutch system of separated boards (a board of directors and an independent supervisory board), taking into account the cultural diversity of the other countries concerned. And ING stresses the well-balanced weighing of shareholders’, employees’, customers’ and societal interests: “stakeholders expect that we are a good corporate citizen in the many countries and regions we are operating”.

Improvements on corporate governance and stakeholder-management already have been found in:

- The further professionalising of the Supervisory Board by updating the board-profile, setting up audit- and remuneration-committees, introducing self-assessment (internal board-evaluations), having more frequently meetings with employee-representatives etcetera. Since a few years the board evaluates its own functioning and reviews the performance of the members of the board of directors.
- More openness and transparency in the annual reports, making mention of board members’ remuneration.
- Increasing the influence of shareholders by providing opportunities to certificate-holders for more actively participating and voting at the General Meeting, and intensifying the relationships with investors.
- Developing international employee participation, based on the European Directive on information and consultation and the implementation in Dutch law (1994 resp. 1997).
- Intensifying customer relationships by developing a Customer Relationship Management system world-wide, using internet-opportunities (ING Direct), converting call centres to Customer Contact Centres, introducing customer-panels, etcetera.
- And introducing HR-plans on inspiring leadership, performance management and diversity worldwide.

But ING realised that extra improvements are needed to satisfy the still increasing demands of transparency and accountability towards all the stakeholders concerned. Especially the shareholders are still and even increasingly claiming for more influence on strategic decision making, and pressure has been made to abolish the system of certification.

Very recently ING did some new proposals for modernising the ‘stakeholder-governance’:

- The re-structuring of the board-system because of the further internationalising of the ING Group: the separation of the local Dutch and the international boards of directors (executives) and supervisors (non-executives), the convert of the Dutch law-based structure-regime to the local Dutch entity, the introduction and composition of both the supervisory boards at local and international level (ING has chosen for maintaining the dual board-system also at the international level) and the further development of employee participation at both the levels.
- The convert of the existing Foundations ‘Administration-office’ (established for the administration and control of share-rights by certification) and ‘Cumulative Preference Shares’ into the new Foundations ‘ING Shares’ and ‘ING Continuity’. ING Shares, with an independent board, gets the opportunities and right to improve the relationships with the share-/certificate-holders (via a special foundation ‘Communication with Shareholders’) and to operate and vote on behalf of the share-/certificate-holders.

- The further improvement of the monitoring function of the Supervisory Board by installing a corporate governance committee for periodically evaluating the ING- governance in practice.

These new proposals have to result into stimulating the more intensively and longer term involvement of the shareholders and improving the dual governance system at both the national and international board-level.

Current challenges for ING

Our research-work shows that re-structuring the board-system and improving the processes of transparency and accountability do require clear appointments on dividing the tasks and responsibilities between the existing and new institutions. It also requires an upgrading of communication-systems and investor-relationships, new forms for preparing and structuring General Meetings, activating the new foundations, organising and professionalising the employee participation at the international level and developing a trustworthy external communication on the proposed measures.

For creating links between all the different issues and developing a more integrated stakeholder-management concept, ING management is challenged to:

- inter-relate the communication and involvement of all the stakeholders concerned (especially the shareholders, employees and customers),
- improve the link between the corporate governance and the internal governance (the operationalising of good (transparent, accountable) governance into new forms of leadership and management inside the organization),
- integrate new ideas of stakeholder-management into the concepts of strategic human resources and corporate social responsibility.

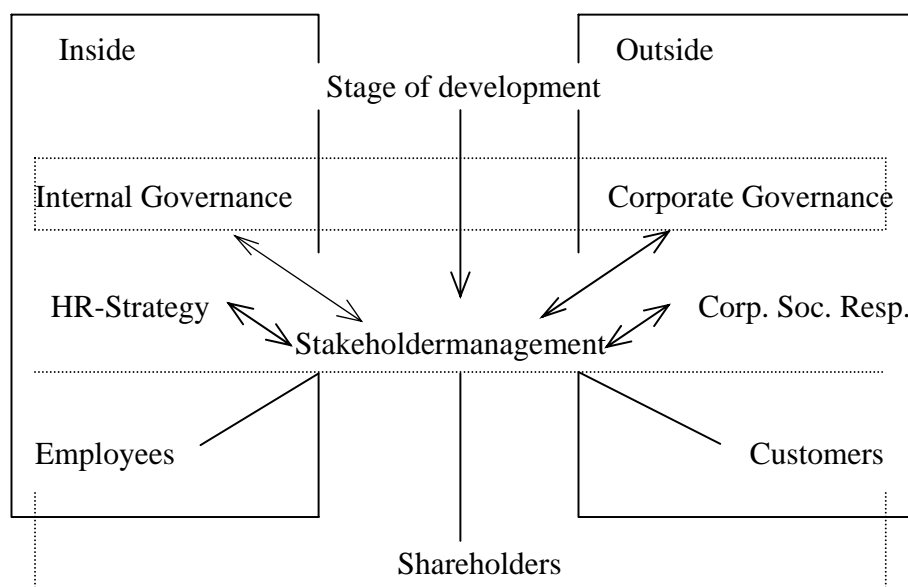


Figure 4. The integrated stakeholdermanagement model (ISM)

ING-management has to develop longer-term relationships with all the different stakeholders, to relate their interests to the corporate strategy and to integrate the company's policies on corporate restructuring, human resources and corporate social responsibility.

Management-tools for developing the longer term and more sustainable relationships with the stakeholders are for instance (already partly developed by ING):

- shareholder-bulletins, external and internal social reports, mission statements, business-principles etc., for providing information and inviting responses,
- roadshows, panels, symposia et al. for intensifying investor and customer relations,
- proxy voting, proxy solicitation and other tools for activating shareholders at the General Meetings,
- involvement/representation of shareholders in the existing or new foundation-boards,
- monitoring-instruments for measuring customer- and employee-satisfaction,
- internet-opportunities (click, call, face), customer contact centres and other tools of customer-relationship,
- professional employee-participation, etcetera.

Much attention already has been paid by ING-management to develop the longer term stakeholder-involvement, but more attention is needed to develop the integrated stakeholder-management (ISM-) model. Stakeholders should become more sensitive and accessible to each others' interests and jointly responsible for the balancing act.

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