Regulation of stakeholders’ interests in corporate governance through negotiations

Abstract. Purpose. Regulation of stakeholders’ interests is still a major goal for corporate governance worldwide. The regulative process gives an opportunity to develop competitiveness and investment attractiveness of corporations. By analysing the place of stakeholders in the Mendelow matrix, we offer to use a dialogue between stakeholders to assert their interests in the corporation.

Methods. The authors used the following methods to conduct the present research: logical and semantic analysis, methods of systematisation and generalisation to identify external factors and interests of stakeholders. Methods of statistical analysis and expert assessment were used to determine the impact of stakeholders’ interests on corporate governance. Graphical methods were used to visualize the stakeholder’s benefit in the Mendelow matrix. The article is based on the study of the corporate governance and statistical data of the State Statistics Service of Ukraine. The database of the UN, OECD, IMF, World Bank Group, WTO, Eurostat, reports of automobile building companies and own research materials of the 2014-2016 period were used in the article. Results. The authors have analysed the impact of external factors, such as investment climate, development of stock market, development of commodity market, legal regulation of corporate relations and studied interests of corporate members. The place of stakeholders in the company was assessed by experts. This method was tested at the automobile building Corporation JSC «Bogdan Motors». The authors have used negotiations between stakeholders as a tool «to make the company better», which unlike the debate allows stakeholders to come to a mutual decision on the strategic development of the corporation. Discussion. The effectiveness of the corporate governance will be higher when different groups of stakeholders understand each other. Corporate dialogues will improve corporate reputation and productivity. The corporation where corporate dialogues are conducted will be more socially responsible, innovative than those corporations where only corporate debates take place.

Keywords: Corporation; Corporate Governance; Factors Influencing the Corporation; Stakeholders’ Interests; Corporate Negotiations; Corporate Debate; Corporate Dialogue

JEL Classification: G34; D74

Регулирование интересов стейкхолдеров в корпоративном управлении путем проведения корпоративных переговоров

Аннотация. Целью статьи является обоснование проведения корпоративных переговоров как метода привлечения стейкхолдеров в деятельность организации, что будет способствовать повышению конкурентоспособности, инвестиционной привлекательности и обеспечит стабильный рост компании. Методы. В статье использовались такие методы научного исследования: логико-семантический анализ, систематизация и обобщения – для идентификации факторов внешней среды и интересов стейкхолдеров; методы статистического анализа, анкетирование, экспертных оценок для определения влияния интересов участников на систему корпоративного управления; графические методы – для отображения интересов участников корпоративного управления на матрице Менделоу. Информационной основой исследования являются работы ученых в сфере корпоративного управления, статистические материалы государственной статистики Украины, базы данных организаций в составе ОЭСР, ООН, Евростат, Всемирного Банка, ЕВРОСТАТА, нормативно-правовые акты, отчетность машиностроительных предприятий и материалы собственных исследований в 2014–2016 годах. Результаты. В статье определено влияние факторов внешней среды, таких как инвестиционный климат, развитие фондового рынка, развитие товарного рынка, нормативно-правовое регулирование корпоративных отношений на деятельность корпорации. Исследованы интересы основных участников корпоративного управления. На основе метода экспертных оценок разработана методика оценки, которая позволяет определить место стейкхолдеров в деятельности корпорации. Такую методику апробировано на машиностроительном предприятии. На основе анализа практического опыта машиностроительного предприятия предложено использование корпоративных переговоров как инструмента регулирования интересов заинтересованных сторон. Такой метод в отличие от дебатов стейкхолдеров позволяет прийти к общему решению по стратегическому развитию компании. Дальнейшее развитие. Эффективность достижения цели корпоративного управления путем проведения переговоров будет выше за счет повышения понимания участниками взаимных интересов и проблем корпорации. Кроме того, в результате повышения корпоративной репутации предприятия корпоративные переговоры будут способствовать повышению понимания их положительного влияния на деятельность компании. Корпорации где, проведенные эффективные корпоративные переговоры будут более социально ответственными, инновационными, чем те корпорации, где проводятся дебаты.

Ключевые слова: корпорация; корпоративное управление; факторы влияния на корпорацию; интересы; заинтересованные стороны; корпоративные переговоры; корпоративные дебаты; корпоративные переговоры.

1. Introduction
Corporate governance is application of knowledge, skills, tools and techniques to regulate stakeholders' needs. Today, at the dawn of the 21st century, knowledge and understanding of corporate governance has matured and corporations recognize the importance of corporate governance for business development. In fact, with the increasing complexity of a company, which requires more complex and extended corporate governance to regulate stakeholders' needs, its effective regulation is a critical success factor.

2. Brief Literature Review
There are many scientists who study corporate governance, namely: A. Berle (Berle, 1932) [1], M. Blair (Blair, 1995) [2], G. Broni (Broni, 2010) [3], I. Velentzas (Velentzas, 2010) [3], R. Vishny (Vishny, 1997) [4], G. Means (Means, 1932) [1], A. Hart (Hart, 1995) [6], A. Sheilfer (Sheilfer, 1997) [4] and others. A. V. Astapova (Astapova, 2006) [6], T. V. Motmot (Motmot, 2006) [7], G. V. Nazarova (Nazarova, 2010) [8], O. E. Popov (Popov, 2009) [8] and others investigated the development of the Ukrainian corporate enterprises.

3. Purpose
To research current practices of corporate governance and communication among Ukrainian corporate stakeholders applying the Mendelow matrix and propose ways of their engagement into dialogue.

4. Results
Governance sets the tone for corporations, defining how power is exerted and how decisions are reached. Corporate governance portrays it as an open system of laws and of financial accounting, where environmental factors are accorded a high priority (Figure 1). In other words, one of the important processes of corporate governance is the analysis of the external factors and market monitoring. The Analysis of external factors helps to develop the company’s decisions that provide algorithms of interaction with the environment in the short and long term.

Fig. 1: Interaction between the corporation and the environment
Source: [1-19]
the readiness to take care of the company (ability to make the company better) Stakeholders with the strongest combination of power and interests will be those that have the greatest impact on the organisation’s objectives (Figure 2).

Let us take Automobile Building Corporation JSC «Bogdan Motors» to assess the stakeholders’ impact on the corporation. The economic crisis of the last few years has had an adverse impact on the business of one of the largest Ukrainian engineering companies and the industry as a whole.

A considerable decrease in the population income impacts the reduction in the growth rate of the automobile market and, consequently, on the decline in the volume of production of JSC «Bogdan Motors». Hence, it reduced its production facilities. The production fell by 83.7% (from 83,316 units to 14,393 units).

To improve the situation and increase volumes of production, JSC «Bogdan Motors» attracted new partners and expanded product portfolio with new brands of cars, such as the Great Wall and JAC.

Today, the company’s dependence on suppliers is an essential risk factor which determines the fall in output. The influence of this factor decreases with signing long-term contracts with major counterparties. The main contractors and suppliers for the plant are LLC «Hyundai Motor Ukraine» and «Bogdan-Auto Holding» (about 25 trade companies).

The corporation is looking for more promising markets, which would give it a chance to save its position under such circumstances because of a significant deterioration in the financial condition. The main sales markets for the corporation are Belarus, Azerbaijan, Poland and others.

The level of stakeholders’ interests of the corporation was assessed on a scale of [-2; 10]. The higher the index is, the stronger impact on the corporation is observed. If the indicator is set below zero, it will affect the activity of the company in a negative way. The level of power was assessed on a scale of [0; 10] according to a similar principle (Table 2).

As it can be seen from figure 3, the group of «Defenders» (the level of interest [4; 10], the level of power [0; 5]) includes minority shareholders and employees. The group of «Key players» (the standard of interest [4; 10], the level of power [5; 10]) includes the board of directors, majority shareholders, and investors. The group of «Latents» (the standard of interest [-2; 4], the level of power [5; 10]) includes the government, society, competitors, consumers, and suppliers.

Thus, the corporation should use a method, which motivates the stakeholders to improve the company. In other words, such a method should help to involve the members of the groups marked as the «Aphasics» and the «Latents» make the company better.

Corporate negotiations are communicative, multi-directional, multi-dimensional communication mechanisms helping stakeholders to improve the formation and integration of strategic directions of the corporation. Tools that enhance corporate negotiations include a clear presentation of the material and its understanding by all participants. Corporate negotiations should be used to create public information channels between the top managers, shareholders, investors, and other interested parties. These talks will help to understand the strategic role of corporate governance and allow for a complete understanding of corporate opportunities.
5. Conclusions

External factors, such as the investment climate, the development of the stock market, the development of the commodity market, and the legal regulation of corporate relations, impact the corporation. In many cases, they promote the effective development of the corporation. Nevertheless, we have a negative trend towards those factors, which complicates the situation with regard to the development of corporations in Ukraine. Stakeholders, such as investors, suppliers, customers, competitors, majority shareholders, minority shareholders, the audit committee, the board of directors and employees, influence the corporate governance. We have taken JSC «Bogdan Motors» to assess stakeholders’ influence on the corporation. Stakeholders with the strongest combination of power and interests will be those who have the greatest impact on the goals of the organisation. Thus, the corporation should use a method which helps stakeholders to improve the company.

Source: Formed by the authors using [13-16]

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**Tab. 2: Assessment of stakeholder influence on the Automobile Building Corporation JSC «Bogdan Motors» in 2014-2016**

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Main interest in the company</th>
<th>Power and influence</th>
<th>Evaluation of the impact</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<tr>
<td>Majority shareholders are persons or entities that own more than 50% of the company’s outstanding shares [13].</td>
<td>Profit growth, the growth of the market value of shares, increasing o dividends.</td>
<td>10</td>
<td>Participation in the election of the board of directors, indirect control of the corporation.</td>
</tr>
<tr>
<td>Minority shareholders are persons or entities that own less than 50% of the company’s outstanding shares [13].</td>
<td>Wage growth, growth of the market value of the shares, good will.</td>
<td>6</td>
<td>Corporate management.</td>
</tr>
<tr>
<td>The board of directors is a group of individuals that are elected as, or elected to act as, representatives of stockholders to establish corporate management related policies and to make decisions on major company issues [13].</td>
<td>Wage growth, good will.</td>
<td>3</td>
<td>Corporate control.</td>
</tr>
<tr>
<td>The audit committee is an operating committee of company’s board of directors that is in charge of overseeing financial reporting and disclosure [13].</td>
<td>Wage growth, right motivation.</td>
<td>6</td>
<td>Impact on turnover, quality of product and service.</td>
</tr>
<tr>
<td>Employees are individuals who work under a contract of employment [16].</td>
<td>Regular payment for the loan.</td>
<td>5</td>
<td>Contract compliance.</td>
</tr>
<tr>
<td>The investor is a person or entity that invest to the corporation [16].</td>
<td>Long-term contracts, regular payments for resources.</td>
<td>3</td>
<td>Increasing (decreasing) resource prices, the quality of raw materials.</td>
</tr>
<tr>
<td>The supplier is a person or entity that provides the corporation with resources under a contract [16].</td>
<td>Growth of product and service quality, an optimal price-quality ratio.</td>
<td>3</td>
<td>Creation of public opinion about product.</td>
</tr>
<tr>
<td>The consumer is a person or entity that consumes products of the corporation and/or uses its certain services [16].</td>
<td>Decreasing income of the corporation, creation of an unfavourable price-quality ratio.</td>
<td>-2</td>
<td>The growth of the product and service quality, creation an optimal price-quality ratio.</td>
</tr>
<tr>
<td>The competitor is any person or entity which is a rival against another person or entity. In business, a company in the same industry or a similar industry which offers a similar product or service [16].</td>
<td>Benefits to society, environmental protection.</td>
<td>2</td>
<td>Creation of public opinion regarding the product.</td>
</tr>
<tr>
<td>Society is an organised group of persons united by religious, benevolent, cultural, scientific, political, patriotic or other relations [16].</td>
<td>Legal activities, tax payments, creation of new jobs.</td>
<td>2</td>
<td>Regulation of tax payments and subsidies.</td>
</tr>
<tr>
<td>Government is a system by which a state or community is controlled [16].</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>

Source: Formed by the authors using [13-16]

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**Fig. 3: Mendelow’s matrix of JSC «Bogdan Motors»**

Source: Own processing
The corporation can reach it through corporate negotiations. The effectiveness of the corporate governance will be higher when stakeholders understand the concerns of each other. We studied the differences between debates and dialogues with stakeholders. Corporate dialogues are more effective than corporate debates. That will improve corporate reputation and productivity. A company where corporate dialogues are conducted will be more socially responsible, innovative than those corporations where corporate debates take place.

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