

How to Develop Sustainable Activities in the Field of Public Awareness and Increased Training Capacities: Experiences from Serbia

A company with good corporate governance standards will usually benefit in two ways. First, it will have improved performance. Second, it will have access to cheaper capital or debt. Although some companies need only one of the two benefits, most in the Balkans need both. This is because markets in Southern Europe are developing fast, and most companies are often targets for takeovers due to their proximity to Western Europe.

Local companies realize that the new entrants are better organized and have large amounts of capital that allow them to be more competitive. Therefore, local companies perceive the need to improve their corporate governance to survive. With this in mind, IFC has been using market approaches to promote corporate governance services in the Southern European marketplaces where the concept of corporate governance is still limited. To enhance this process, IFC has developed an insurance scheme offered to the suppliers of corporate governance services. This innovative approach of providing financial risk coverage in a nascent market has enabled IFC to work with local partners in a sustainable way.

BACKGROUND: HOW DO YOU DEVELOP A MARKET WHEN ONE DOES NOT EXIST?

One of the main challenges at the beginning of the program was that corporate governance was an almost unknown concept in the Balkans. As a result, demand and supply in this field were limited. When you could find them, the buyers were not ready to pay for what the suppliers were offering. One of the objectives of the program is to help companies improve their standards in corporate governance, and another is to improve training capacities of educational institutions in corporate governance in a sustainable manner.

In order to cope with these very valid but nonetheless complex factors, we developed a seven-step approach. Even though this has been tested for less than a year and with slightly fewer than ten clients and partners, results from these tests have so far been very satisfactory, with high levels of sustainability. Local institutions have taken ownership of corporate governance programs and are offering training

programs on their own. That these training programs have been profitable is a promising sign of increasing demand for the product and its potential for sustainability.

LESSONS LEARNED

1) Understand the demand side.

- Who are the buyers?
- What are the expectations of each of the buyers?
- What are the products/services that would match supply and demand?
- What is the level of quality needed to match the price that buyers are ready to pay?

Companies are the main targets for corporate governance. They include several stakeholders, such as the shareholders, the directors, the executives, the employees, the suppliers, the clients, the workers, and, ultimately, the authorities that govern the daily life of the companies. Even though all have certain

interests in better corporate governance standards in their companies, not all would be ready to pay for the related services or have enough power to implement the recommended changes in governance structure. For example, even though employees have a clear interest in being in a company in which executives and directors follow good standards of corporate governance, they have almost no power to influence the adoption of such standards unless they are represented on the boards of the companies. The same would apply to minority shareholders, who will not be able to influence the board as to the direction of the company. Therefore, certain stakeholders will not be ready to pay for corporate governance services.

In our case, we focused on what we call key decision makers. In Southern Europe, markets are structured so that the companies are characterized by concentrated ownership of majority owners. These majority owners often play the role of chief executive officer at the same time. Therefore, these key decision makers are our primary target as potential buyers. These CEOs are also surrounded by a small number of internal trusted advisors who have a high level of influential power. They are our secondary target.

Under them, fall our third target: middle managers who are instructed by their superiors. They need training in order to implement the new practices. Details on identifying the right targets and matching them with appropriate suppliers are described below.

2) Understand the supply side.

Corporate governance embraces legal concepts; thus, we had to work with lawyers. But corporate governance is also about organization and strategy, so we also had to work with consulting firms offering expertise on this subject. Finally, corporate governance is also about financial reporting, so we had to consult financial experts.

As such, we drew up a list of potential suppliers in the broad sense. In this exercise, we were looking not at what exists in the market, but more ideally at what would be the needed attributes to supply the demand.

This would allow us to assess the gap, if any, between our needed attributes and the reality. This would also allow us to consider the source of the suppliers.

3) Analyze your demand and match it with the right supplier.

In some cases, this step may be unnecessary, because the demand is homogenous. In other cases, different demands come from different levels of management, depending on the respective target groups (as in our case), and the suppliers have to be identified accordingly.

Several types of demand were identified in the process. CEOs, who had limited knowledge of corporate governance, needed sufficient information to be able to communicate internally and decide on the next steps to be taken by their subordinates. Based on the approaches used by top business schools to train executives, we then developed short training courses. Consulting firms would be the best suppliers for this target group to deliver training to the CEOs. Since they have experience in advising companies on very practical topics, they could also be the trigger to sell the concept to the CEOs. Because these top leaders maintain very busy schedules, their training sessions need to be concentrated, packed within the time frame of only a few days.

Executives directly under the supervision of CEOs also lacked understanding. Because they were more involved with the implementation, they needed more specific training, focusing on technical and practical tools as opposed to broad concepts and ideas. We therefore had to work more at the level of long-term executive training programs. Associations would be best suited to provide long-lasting training to their members and to middle managers focusing on day-to-day practical problems.

Middle- and lower-level managers, who still would have the ability to implement changes at their level, would need longer-term, educational, and academic programs. Universities are well-suited for this.

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4) Assess the willingness and capacity of each potential supplier to become a corporate governance specialist.

At this stage, we made a presentation of the project to the potential suppliers. We realized that if the activity is to be sustainable, the supplier has to have the following minimum attributes:

- Human resources or capacity to grow in this field
- Knowledge or capacity to become a trusted corporate governance specialist
- Willingness to enter this field with a long-term approach or, in other words, to have other than a purely financial interest in entering this market segment

5) Agree on a common goal, and set the strategy to reach this goal.

This is the most rational and difficult step to ensuring a successful long-term relationship. Our goal was to ensure an improvement in corporate governance knowledge that would translate into better corporate governance practices. We created a tailor-made strategy in each case. With each of the partners, we discussed their needs as suppliers and their agendas so as to help them to develop

customized services and products to meet the market demands, instead of using a cookie-cutter approach. This was done to ensure buy-in and identification from the suppliers.

6) Develop an action plan and agree on a budget.

Once the goals and strategies were set, decisions were made on the next steps to translate the strategy into concrete deliverables. For this it is necessary to set a precise agenda and answer the following questions:

- What kinds of activities will there be, and when will they take place?
- What will be the role and responsibilities of each supplier?
- How should the work of each supplier be coordinated?
- How often is there a need to supervise what is being done?

For each supplier, we developed a specific agenda based on the specific strategy. Once each activity is agreed on, it is necessary to develop a budget that includes all costs—namely, staff costs, public relations and advertising, all logistics, fees for speakers if any, etc. In our case, we also included the cost for IFC's staff that would be involved in preparing or advising on the activity. The idea was twofold. First, we determined that in order to be sustainable, the activity has to be profitable. This meant we would always draw our suppliers' attention to the fact that sponsorships or donations of all kinds, including subsidies from international organizations and nongovernmental organizations, were not a sustainable replacement for fees paid by participants. If at this stage simulation does not show profit from the fees paid by participants, then it makes no commercial sense to deliver it.

Second, since we were aiming to have sustainable activities, this meant that at a certain moment, IFC and our program would withdraw from the activity

FINANCIAL RISK COVERAGE THROUGH INSURANCE PLAN

Because we are pushing potential suppliers to enter into new markets with new products, we are aware that this involves uncertainty that translates into potential financial risks for the suppliers. In the worst-case scenario, the event could attract no or not enough participants, and this would translate into a financial loss. This alone can act as a strong obstacle to suppliers entering a new market. This is why we adopted an approach in which we would act like an insurance company. The idea is that, once the budget is set, we insure up to 75 percent of the total costs and agree with our supplier that if revenues are not reached to cover all expenses, we will cover the difference to put our supplier in a break-even situation. Our supplier would only have to cover the remaining 25 percent of the costs. This setup gives the supplier a financial incentive to test new markets, because it reduces the financial risks on his side. It also ensures his commitment, since part of his money is at stake if the event is not managed correctly.

If the event is profitable, the profits are shared, with the supplier receiving 75 percent of the profits and IFC the remaining portion. Of course, before sharing the profits, each party is reimbursed from any payment made before the event. This allows us to maintain a certain control on the cost components of the activity, because if our supplier is tempted to inflate the costs,

doing so will automatically reduce the amount of profit that will be realized and will at the same time increase the reimbursement that has to be paid to IFC at the end of the event.

CHALLENGES:

The concept of paying for services: Both suppliers and buyers were skeptical of IFC's promoting the idea of selling services to be profitable. Because of IFC's mission, all the parties thought that services from IFC should be provided for free. Changing this mind-set and getting the involved parties to accept and internalize the idea of paid services was challenging.

Internal issues with handling reimbursement: Because this is an unusual arrangement of doing business—IFC giving cash to the clients beforehand to execute the program and getting reimbursed later after the clients sell their services—there was confusion at IFC about how to handle these payments and reimbursements. Because the supplier is our partner and is not hired by IFC, we had to figure out how to treat advance payments to cover costs related to the event. The same happened at the end of the event for the payments to and reimbursements from our partners. In that case, we circumvented the problem by sending invoices to our partners for the amount to be paid.

to let the suppliers work by themselves. Therefore, each activity with our suppliers had to be designed accordingly.

Once the budget was set, we decided on how many participants we needed and how much they would have to pay. Setting the price is also an important part. Because we are talking about buyers who are not aware of the concept of corporate governance, the price has to be in line with what they are ready to pay

to hear about this new concept. However, the price also has to act as an entry barrier or selective tool to allow for better targeting of participants. In other words, a price that is too low will bring in all types of audiences, and a price that is too high may close the door to potentially interested participants.

In our events, the prices ranged from €200 (\$268) for a three-hour conference to €1,500 (\$2,012) for three days of training, whereas a nine-month executive

course could cost around €900 (\$1,207).

In addition to careful financial planning, there was the feature of financial risk coverage that IFC provided (see box), which encouraged and assured the suppliers that they could offer corporate governance services in the nascent market.

7) Deliver the training and assess the situation.

Once all elements are determined, the activity is ready to be delivered. In all our activities, we always place our supplier at the forefront; and we ourselves act as supporters but not organizers of the event. This is done with the purpose of giving greater visibility to the suppliers and allowing them to promote their brand and reputation in this new market while ensuring sustainability. We also use each event to gradually withdraw our presence and increase our supplier's level of effort.

If all is done correctly, the following benefits can be gained:

1. High commitment from local suppliers
2. Clear strategy to develop sustainable activities
3. Increased chances of successful exit for programs
4. Leverage from suppliers to reach targeted audiences

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