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For whom shall boards govern?
By Lawrence Loh

It is hard to debunk the thinking that boards of directors should, first and foremost, serve the interests of shareholders; after all, it is from shareholders that boards receive their mandates. Indeed, this is the economic-legal model of business that has prevailed for a long time.

Yet, the clarion call for boards to cater to a broader range of stakeholders cannot be ignored. In particular, good practices in corporate governance now require companies to engage stakeholders such as employees, customers, suppliers, creditors, and the community at large.

The importance of the role of stakeholders has been spelled out in global codes, particularly the G20/OECD Principles of Corporate Governance. This set of principles has also become the basis for the Asean Corporate Governance Scorecard, an assessment framework for the larger listed companies in six Asean countries (Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam).

Changing thinking

With the growing trend of embracing broader stakeholders in corporate governance thinking and its assessment systems, a natural question is: "Has the traditional shareholder-centric viewpoint been supplanted by the emerging focus on stakeholders?"

There are two ways to address the question.

The first is the "pragmatist" view, which argues that the promotion of stakeholder interest will also (indirectly) benefit shareholders. However, this is like missing the elephant in the room, as it does not tackle the question of whether the shareholder is still the central concern.

The second is the "revisionist" view, which insists that businesses have to consider the interests of all relevant stakeholders beyond just the shareholders. This is essentially a more fundamental relook at what a business is all about.

For too long, we have been charmed by the economic doctrine that the only "business" of business is to make a profit. But it is precisely due to the breakdown of the market economy that we have to rewrite the basic economic rationale of business. Free markets are found in utopia; for the rest of us, we need to guide businesses to do the right thing.

If left to their own devices, businesses will maximise shareholder return above all else. Shareholders will gain inordinately while environmental, social and governance costs escalate; in other words, someone else pays while the shareholder happily reaps the returns. We should therefore move to a more socially responsible system where wider stakeholder consideration must be prevalent.

Changing practice

So how do we go about doing it?

A good start is to look at the G20/OECD Principles. In essence, these recommend the active cooperation between corporations and stakeholders. The Principles recognise the rights of stakeholders, particularly in their access to timely and regular information as well as their entitlement to seek redress for any violations.

But why should we care about these Principles, especially in Singapore?

The Principles have gained traction in many markets internationally and not just in the developed world. Originally spelt out by the Organisation for Economic Co-operation and Development in 1999, they have been revised and were adopted also by the Group of 20 in September 2015. This gives them greater emphasis and impact.

Best practices of companies in the globalised world of business have converged. Given the inter-connectivity of companies, it is necessary for many corporate processes and procedures to be inter-operable across jurisdictions.

For one thing, Singapore is a participant in the Asean Corporate Governance Scorecard under the auspices of the Monetary Authority of Singapore. The Scorecard was conceived by the Asean Capital Markets Forum and was endorsed by the finance ministers of the Asean countries. It is aligned with achieving an integrated Asean capital market and branding Asean as an asset class.

In Singapore, the annual Scorecard assessment is conducted jointly by the domestic ranking bodies - SID and the Centre for Governance, Institutions and Organisations at NUS Business School.

As the Scorecard criteria are based on the G20/OECD Principles with one key component being the role of stakeholders, it will be good to see how the different types of stakeholders are considered in practical terms.

For consumers, this may include attention to their welfare as well as health and safety. For suppliers, there must be proper selection criteria and processes; in addition, the value chains must be environment-friendly. For creditors, their rights must be safeguarded, and likewise for employees. Within the company, there must be training and development as well as performance systems that go beyond short-term financial yardsticks. Companies must also demonstrate concern for the community.

The list goes on in the full Asean Scorecard.

With the emergence of stakeholders' interests, does that mean that shareholders should now take a back seat? Certainly not. If nobody buys a company's shares, the stakeholder role is a moot point because there may not be a company to begin with. There must be a purposeful balance. Both groups are the two sides of the same coin. What is good for stakeholders can also be good for shareholders, and vice versa. A whole new look at all stakeholders is thus needed beyond the traditional primacy of shareholders. The next step forward for companies must be based not on exclusivity, but inclusivity.

The writer is a member of the Asean Corporate Governance Scorecard Committee of the Singapore Institute of Directors. This article first appeared in BTInvest, http://www.btinvest.com.sg/specials/boardroom/for-whom-shall-boards-govern/