The Corporate Accountability Debate:

Is there a Christian Perspective?

by William Henry

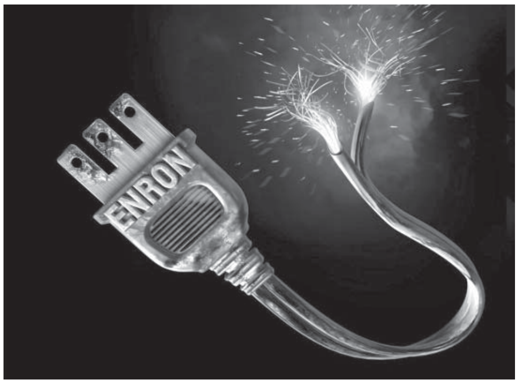
Many companies subscribe to an 'instrumental' view of stakeholders, whereby shareholder value determines how stakeholders are treated. William Henry explores the possibilities of accountability *for* rather than *to*, in order to bring a Christian perspective to the debate

Historically, the main aim of a public listed company has been seen as growth in shareholder value, usually achieved through the pursuit of profit maximisation. The shareholders, who provide equity capital for a company's operation, are regarded as its 'owners', and they are entitled to its profits after all liabilities have been met. These shareholders also bear the residual risks of the business, being the last to be paid out if the company is liquidated. For these reasons, it is argued, the directors should primarily be accountable to them; pursuit of any other aim has been viewed as inappropriate. In addition, the free marketability of shares (within certain limits), the use of share options for directors and liberal takeover laws have provided a means for shareholders to discipline directors who under-perform. It is not surprising, therefore, that boards are locked into the mindset of feeding the share price to the exclusion of all other considerations.

However, there is a growing body of opinion that this approach is no longer tenable. As companies have expanded, their influence on society has greatly increased and the potential for damage to those affected by corporate activity is enormous. It is argued that if companies are to become more integrated into society they have a duty to behave in a responsible way. In particular they should address the concerns of a wider range of stakeholders. In recent years, global businesses have, in fact, given increasing attention to the interests of other stakeholders. In the UK, the 2006 Companies Act has recognised this shift by stating that directors have a duty to promote the success of the company and must also 'have regard to' a number of issues including long-term consequences of decisions, the interests of employees, relationships with suppliers, customers and others, as well as the impact on the environment.[1]

The problem remains how to decide precisely who company directors are accountable to and what is the extent of that accountability.

This article explores a Christian perspective to the question of company director accountability and argues that boards should not be given a duty of accountability *to* parties beyond that imposed by the operation of law – either in terms of statute or in terms of the contracts set up between the company and its stakeholders. On the other hand, the Scriptures teach that each of us, including company boards, have an accountability *for* all those whose lives we impact, directly and indirectly and this accountability *for* others must be taken into consideration in determining how our legal accountability *to* other parties is fulfilled.



Enron 's stakeholder 'benefit' caused blackouts in California

Stakeholder engagement – a means to an end?

Although there has been a major increase in stakeholder engagement, concerns for other stakeholders have tended to be motivated by the recognition that, if profits are to be maximised, the interests of these groups cannot be ignored. Therefore 'enlightened' companies will provide good pay and conditions for their employees and maintain good relations with customers and suppliers in order for the wheels of their businesses to run more smoothly. They will initiate local community projects and minimise environmental pollution in order to improve their public standing and avoid damage to their reputation from hostile communities or pressure groups. These moves are primarily designed to improve share price rather than for any altruistic purposes since the original model has not altered. If we have moved at all, it is from 'shareholder value' to 'enlightened shareholder value.' The Companies Act requirement to 'have regard to' these stakeholders is sufficiently vague to allow for that interpretation. As a result, concern for satisfying stakeholders is driven largely by the positive impact that this will have on shareholder wealth – a so-called 'instrumental' approach to stakeholders.

The continued focus on shareholder wealth implicit in an instrumental view of stakeholders has led to the indulgence of greed by shareholders and their representatives in constantly pursuing above-average returns in the short term. It can be argued that this greed has substantially contributed to the recent experiences within the banking industry where increasingly complex financial instruments were created (the risks of which were not fully appreciated), with the aim of increasing reported profits and share price in the short term. In Enron, too, the obsession with share price growth prompted creative accounting on a grand scale. Enron also strongly advocated the deregulation of electricity prices on the basis that it would benefit the customers. In fact this led to the abuse of customers in California by the manipulation of the electricity supply, creating temporary shortages which caused blackouts and forced up prices.[2] Thus there is a serious danger that particular stakeholders can suffer if they are used as means to achieve the end of profit maximisation.

Accountability *to* and accountability *for*

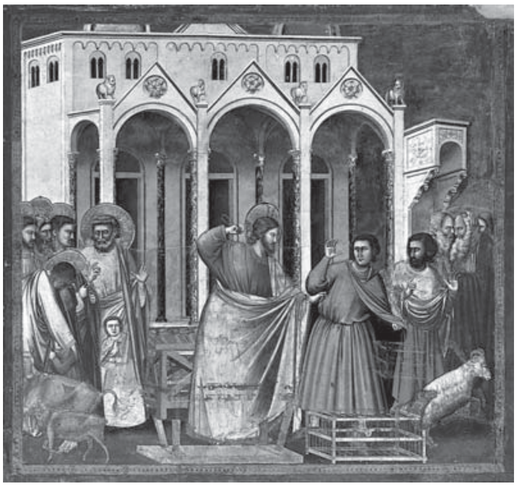
Ultimately all of us are accountable *to* God[3] but within a business context company directors are accountable *to* shareholders for their stewardship of the company and its assets. Directors are also legally accountable *to* employees, suppliers and customers to abide by the terms of contracts and not to breach specific legislation. They also have a responsibility *to* the wider community to comply with social and environmental laws and regulations. Many boards would see their responsibility as wider than statutory regulation both in terms of the issues covered (e.g. building in product safety features beyond the statutory limits) and the breadth of stakeholders considered (e.g. including future generations who will live within the locality of the company's operations) and they attempt the difficult task of trying to balance their responsibilities *to* a diverse group of stakeholders.

If companies have multiple accountabilities *to* stakeholder groups beyond legal requirements, it is difficult to prioritise the company's activities. Who is entitled to what? What are the repercussions if companies fail to meet particular stakeholder aspirations? As a result, anything other than an instrumental approach to stakeholders becomes impractical. However, this approach has led to companies cynically catering for the demands of the stakeholders who shout loudest or who have the potential to cause most damage to the company's share price.[4] Because of the uncertainty as to the extent of this accountability it would be more appropriate to limit accountability *to* those parties who are linked with the company by the many contracts under which they operate and by the statutory requirements imposed on companies by legislation.

However, the Scriptures tell us that in addition to an accountability *to* we have an accountability *for*. When Noah emerged from the ark God told him that He would demand from everyone 'an accounting for the life of his fellow man.'[5] It would be a mistake to narrowly interpret this as referring only to murder: we each have an accountability *to* God *for* all whom we interact with. Cain's careless question of Genesis 4:9 has been answered in the affirmative: I *am* my brother's keeper. The question is how we apply this requirement in the context of a corporate board seeking to act in harmony with Scripture.

Accountability from a Christian perspective

The parable of the talents[6] demonstrates the Christian steward's duty of accountability *to* the owner for the resources given to him or her. The servants who produced an appropriate return on the funds entrusted to them were commended whereas the servant who buried the money was denounced as unfaithful. But at the same time, the



The love of money
Giotto di Bondone
Expulsion of the Money-changers from the Temple (1304-06)
Fresco at the Cappella Scrovegni (Arena Chapel), Padua

Scriptures warn against the dangers of greed and the love of money [7]. So, while reasonable returns on investment are encouraged, the pursuit of wealth at all costs is condemned. Sufficiency is the key. The message of Scripture is that we should be content with enough. Agur's prayer was for the Lord to give him neither poverty (in case he was tempted to dishonour God by stealing) nor riches (in case he became arrogant and disowned God). Instead he asked for his daily bread[8].

The approach suggested in this article recognises that shareholders, as contributors of capital, are entitled to a *sufficient* return for their investment and for the risks they bear and that directors and senior management are due appropriate rewards for success, but that the accountability *to* these parties can only be met when the company's accountability *for* stakeholders has been discharged.

The Scriptures teach that humanity is made in the image of God and each individual has value for this reason. The Lord's will for humanity is that we should live in harmony and in mutual accountability. This means that an instrumental approach to stakeholders, which prioritises the interests of one group (shareholders) and manipulates all others in the interests of that one group, is an offence against the dignity of humanity. This is because it objectifies people and turns them into means rather than ends. A better way would be to recognise that companies have an accountability *for* all parties who are affected by their operations and that they need to work towards ensuring that each stakeholder's encounter with the company is a positive experience. For example, one of the major stakeholders of a company is its employees. A board trying to fulfil its accountability *for* employees would emphasise the dignity of individuals – not just in obvious ways like paying them equitable wages but also by structuring work patterns in ways that protect family life, and providing work that is as fulfilling as possible. Staff should be made aware of how what they are doing fits into the overall picture and should also be kept informed of, and invited to share in, the company's progress. Above all, staff should be supported as individuals in times of difficulty. I heard recently of an employee who was seriously injured in an accident. He was visited by his (Christian) employer who assured him that his job would be kept open for him and he was to concentrate on getting well rather than worrying about the future. The man's response was to burst into tears. He had assumed that his boss had come to give him his P45. So how far should employers go with supporting staff through illnesses and other life crises such as alcoholism or bereavement? Commercial companies are not charities but perhaps accountability *for* would involve establishing links with charities who *could* provide practical help on an ongoing basis.

Child labour

Child working in a small tea stall in Bangladesh

The question remains: how would accountability *for* stakeholders differ from accountability *to* stakeholders? Accountability *to* tends to be driven by external forces – the demands of the stakeholders or parties acting on their behalf (such as environmental pressure groups), or by the operation of law. Accountability *for* is driven by internal forces – the motivation of the board to have as positive an influence on stakeholders as possible. Accountability *to* stakeholders focuses on the rights of the stakeholder; accountability *for* stakeholders focuses on the responsibility of the company. Corporate boards would therefore take responsibility for the wellbeing of business contacts in the context of their areas of interaction. For example employees would be encouraged to develop their skills and find meaning and purpose in their work; long-term supportive relationships would be established with customers and suppliers and there would be flexibility and care in the treatment of those in difficult circumstances. Recently there has been a lot of publicity about companies auditing their supply chains and dropping any suppliers who operate sweat shops or use child labour. Unfortunately such action does not help suppliers to escape from this trap. It might be better to support them and gradually wean them off these unacceptable practices. For example, Tesco, in their 2009 Corporate Responsibility Report[9] stress that their emphasis in dealing with suppliers is to help them to implement improvement plans rather than to stop using them.

For the board this approach has implications for the way the company interacts with all stakeholders, irrespective of their power and influence. There is no place here for the cynical playing off of one stakeholder against another that has characterised much of commerce in recent years (and arguably, from time immemorial). In recent months we have seen directors of banking institutions that have been bailed out by the taxpayer, attempting to justify the payment of further substantial bonuses to senior staff on the basis that they are needed to retain the staff to enable the banks to remain competitive: in other words, if the bonuses are not paid, shareholders will suffer. Meanwhile staff at lower levels are made redundant and customers are treated harshly in the interests of profitability and bonuses. As Patrick Hosking recently observed, '(Banks) earn abnormal profits and pay out abnormal bonuses not by helping their clients, but by fleecing them.'[10]

So how might an approach that prioritises responsibility for stakeholders be made operational? A detailed exploration is beyond the scope of the present article, but there are a number of possibilities; for example the Christian Association of Business Executives has produced *Principles for those in business*[11] which includes a statement of corporate values relating to stakeholders such as customers, employees, providers of capital, suppliers, community and environmental interests. If companies were to set out their corporate values along the lines suggested there, a series of key performance indicators relative to each stakeholder group could be developed, which would enable companies to focus on realisable targets.

Conclusion

An article of this length cannot hope to set out a detailed road map for this change in approach, but recent events have demonstrated some of the dangers that follow on from treating the market as king and the untrammelled pursuit of shareholder wealth as the only real aim of business. The market was made for man and not man for the market. By allowing impersonal and uncontrolled forces to drive global businesses the people whose lives are affected by these businesses are bound to suffer. It is time that the inherent value of all stakeholders as individuals made in the image of God was recognised, and that company directors fulfilled their accountability *for* those whom they affect, in addition to and, indeed, in priority to, their accountability *to* those with whom they have legal ties.

1. Companies Act 2006, s172
2. For a detailed analysis of the work of Enron in California see Bethany McLean and Peter Elkind *The Smartest Guys in the Room*, Penguin, 2004, pp.264-283.
3. Romans 14:12; 2 Corinthians 5:10
4. For example, Mendelow classifies stakeholders using a matrix whose axes are *power held* and the *likelihood of showing an interest* in the organisation's activities. Hence, stakeholders with little interest and/or no power can effectively be disregarded. See A Mendelow (1991) *Stakeholder mapping: the power/ interest matrix:* Proceedings of 2nd International Conference on Information Systems, Cambridge, MA.
5. Genesis 9:5
6. Matthew 25:14-30
7. E.g. 1 Timothy 3:3, 3:8, 6:10, Proverbs 23:4, 28:20
8. Proverbs 30:8-9. See also the Lord's prayer in Matthew 6:11
9. Tesco, *Corporate Responsibility Report, 2009,* p.30, available from www.tescocorporate.com gives illustrations on how they followed up three reported instances of child labour in 2008, stating that: 'We…ensured appropriate action was taken – which, in the case of child labour reports meant ensuring the child had ceased work as soon as discovered, that the supplier's systems are tightened to avoid recurrence and best practice in supporting the child is followed – generally including the guarantee of a job once they turn 16.' Tesco go on to explain that they expect suppliers to complete implementation of improvement plans within six months. However, they continue, 'Our emphasis is on assisting improvement rather than simply policing deadlines. We only stop working with a supplier if they continually fail to meet our standards and refuse to take corrective action.'
10. P.Hosking, 'When bamboozling spins out of control', *The Times,* 19 December 2009, p47.
11. Christian Association of Business Executives, *Principles for Those in Business*, available from www.principlesforbusiness.com

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