Four Perspectives of Stewardship

Developed by Stewardship Asia Centre

Introduction

The long-term success of a business, or for that matter any organisation, rests upon the exercise of good stewardship by its owners and other stakeholders. Stewardship, defined as the practice of actively safeguarding and enhancing an organisation's ability to create over time, is increasingly recognised as the best route to a company's long-term success.

Stewardship is an inclusive concept, meaning that good stewardship is not restricted to the company's actual owners. As many of its stakeholders as possible should also adopt a stewardship mentality. There are clear benefits to doing so. For example, investors who think in terms of the company's long-term survival and prosperity are more likely to encourage the board and management to make decisions with this in mind. In return, these investors are more likely to be able to reap the benefits of their investment over a longer period of time.

In 2015, Stewardship Asia Centre hosted a series of dialogues on stewardship with various stakeholder groups. This paper presents some of the perspectives raised by four of these groups: boards, employees including management, investors, and regulators.

Boards as Trustees

Boards should take the stance that they are stewards of the company, in the sense that they have trusteeship of assets – not only financial and physical assets, but also intangible assets such as intellectual property and non-quantifiable assets such as the company's reputation. They owe it to the asset owners to ensure that these assets are preserved, enhanced, and used to further the company's mission over the long term. Eventually, they must endeavour to hand these assets over to their successors in equal or better condition.

In line with such a stance, board members need to recognise that they have committed themselves to a major responsibility, and conduct themselves accordingly. This stewardship-based approach represents adherence to the spirit of the law whose letter is delineated in Singapore's Code of Corporate Governance as follows: "The Board is collectively responsible for the long-term success of the company."

Some best practices whereby boards can take ownership of their responsibility are:

- Assert the board's independence, utilising the guidance of a mandate to do so
- Ensure that board members are chosen in a proper and professional way
- Make decisions in a professional and transparent manner
- Leverage the expertise of shareholders where necessary without becoming beholden to them
- Work closely with management to obtain their perspectives

Employees as Stakeholders

As the people who keep the company going all year round, employees, including management, are both stakeholders and assets to be taken care of and cultivated. Companies need to put effort into engaging their employees, communicating strategies and changes to them regularly where possible.

On their part, employees should take ownership of and pride in their duties and responsibilities to the organisation. Besides focusing on short term results, they should also concern themselves with the long term improvement and success of the company and its future stakeholders, including future employees who will succeed them in time to come.

Some best practices whereby employees can practice good stewardship are:

- Learn, follow, and uphold the policies of the company, and any relevant external legislation or other policies
- Support and enhance the mission of the company in their daily activities
- Take good care of the company's assets, including physical, financial, reputational, and human assets

Investors as Owners

As companies broaden their purpose to include increasing the well-being of society over the long term, the input of their investors and shareholders will influence how they could implement that vision. Ideally, investors will recognise that they are asset owners and exercise stewardship over the company accordingly, influencing it to plan for the long term and make decisions with the greater good in mind.

Stewardship is best encouraged by a strong anchor shareholder, such as an institutional investor, that can provide stability and direction over the long term. Such investors typically will share a long-term vision, have significant influence over the company, and see themselves as owners. In Japan, for example, almost all major institutional investors are signatories to the Japanese Stewardship Code, which calls upon shareholders to play a more active role in encouraging stewardship in companies.

The Principles of Stewardship currently being developed for Singapore will also encourage investors to engage companies on both their short-term finances and long-term plans. It aims, among other things, to have asset owners and managers take an active oversight role in companies' practice of stewardship.

Some ways in which investors can exercise good stewardship are:

- Have firm policies on what business practices are acceptable to them
- Keep themselves updated on the activities of their investee companies
- Be mindful of conflicts of interest
- Exercise their voting rights consistently and responsibly

Regulators as Stewards

Stewardship is not confined to businesses alone. Governments and regulators are also stewards of the economy at large, the business environment, and the regulatory environment. They determine and influence what kind of environment is beneficial to stakeholders and create it in various ways: codifying processes, encouraging certain types of business, making specific investments, and so on.

Singapore's current business environment, while competitive, is strongly angled towards building capital markets and attracting foreign investment. This carries short-term implications that spill over into governance and affect the potential for stewardship, especially in the context of growing local businesses. There is room for the government and regulator to adopt a more stewardship-oriented approach and focus on long-term value alongside growth and compliance.

Companies, on their part, need to count regulators among their stakeholders and communicate with them accordingly. The nature of policymakers' work may distance them from the industries and businesses they see, and companies therefore need to help close the gap by providing regulators with a more holistic and discerning view. The regulator, meanwhile, may consider adopting a slightly more ownership-oriented approach, which may help encourage companies to follow the spirit of the law rather than taking a checklist approach to compliance.

In certain cases, such as with the financial industry, the regulator can also play the role of anchor stakeholder. Sometimes, companies' strategy and direction may be affected by changes in the industry or within the firm's own leadership, and when this happens, the regulator can help the firm retain its focus until the situation stabilises.