# Introducing Stewardship

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## Defining Stewardship

How can a business thrive and sustain growth while enhancing the wealth of its stakeholders and the well-being of the societies in which it operates?

This question is at the heart of modern business and our understanding of what business can and should set out to achieve. Increasingly it is realized that the answer to the question is *stewardship*. This is the process by which a firm can responsibly create long-term value.

Stewardship is built on internal relationships – with employees -- and external relationships – with customers, suppliers, and others. Well stewarded firms have solid foundations, building on these to develop capabilities that make them resilient to crises. Companies which declare a clear and distinct objective and align their values, structures and processes accordingly provide their managers and employees with clarity of purpose. Engaged employees make real contributions to efficiency and innovation, as well as operating margins and branding.

Stewardship is also characterized by a broader and longer-term perspective, as well as a deeper understanding of context. The impact of the firm's actions today as well as over time guide its strategic decision-making and operations. Through their interactions with internal and external stakeholders, well stewarded companies gain the contextual intelligence and relationships they require to act as a constructive force in society, playing a positive role in the wider community in which they operate.

## The Stewardship Landscape

The pressures pushing companies towards greater appreciation of stewardship are varied and powerful. Firms need to demonstrate growth – usually both bottom and top line – quarter after quarter, in order to be rewarded by the markets. We have moved well beyond the discourse of shareholder maximization, with its assertion that shareholder wealth is the only appropriate goal of the firm. We have witnessed stakeholder theory with its assertion that the firm has a responsibility to all of its stakeholders, and needs to balance the interest of these stakeholders against one another. And indeed many have since pointed out the destructive consequences of judging a firm's success based on the single metric of profit maximization.

Stewardship builds on the above: a firm needs to consider its impact on society, not just in achieving its stated purpose, but also in the totality of its operations and how these evolve over time. It must be willing to sacrifice short-term benefits for long-term gain.

Within companies specific people are critical to facilitating or obstructing stewardship. The quality of interaction between these people is essential for stewardship to occur.

While the specific responsibilities of the board depends on its organisational and legal context, it is the key link between the shareholders and the firm, and it needs to ensure the leadership capabilities are in place to fulfill its mandate; typically it makes decisions on behalf of the principal(s). The CEO serves as a liaison between the board and the management of the company.

A key element of stewardship is having an ownership mentality, defined as a strong sense of attachment to the business and a desire to work towards its sustained success for the longer term. Together, all players need to do their part to jointly steward the firm – safeguarding its values, benefitting the firm's stakeholders and the larger community, seeking to be in a position to hand over a thriving business and organisation to the next generation or to their successors. Stewardship is a group endeavor, requiring a virtuous exchange between and among the various players.

## Context for Fostering Stewardship

While there are universal characteristics shared by companies in different cultural contexts, some specific cultural dimensions also seem to encourage stewardship. Collectivist cultures (more common in Asian countries) would appear to have a greater propensity for stewardship than individualist cultures. On the other hand, cultures with less hierarchy may enable stewardship than more hierarchical cultures (more commonly found in Asian countries). In countries where the business culture is influenced by values based on Confucianism, Taoism or non-dualism – more prevalent in Asian countries – there is greater inclination to a long-term orientation, including stronger emphasis on harmony, sensitivity to social contacts and collectivism. Businesses in these countries may, as a result, be predisposed to a greater orientation towards stewardship. This is an emerging area of scholarship, which presents important learning opportunities warranting future study and sharing of best practices between different cultures.

Are there certain characteristics across cultures that make a company more likely to survive and thrive? One study found that long-established companies had an ability to adapt to social, economic and political conditions and consumer needs. The analysis revealed the common characteristics to these long-lived companies included: (1) Conservatism in financing – including making sure they had enough liquidity to remain flexible; (2) Sensitivity to the operating context – their leaders were aware of the external world around them, noticing changes in their environment and helping the organisation to build capabilities to adapt; (3) Cohesion and company identity – sensed among employees, i.e. a sense of purpose among employees and an identification with company values; and (4) Tolerance - regarding experimentation and outliers, which allowed them to stretch their conception of what was possible, frequently enabled by a decentralized structure and authority.

The fact that there appear to be characteristics that are common to long-lived companies across cultures would suggest that there is a universality in stewardship orientation among companies in different contexts.

## Steward Leadership

Stewardship requires strong leaders with a vision of long-term benefits, who can communicate this to their employees. They recognize that stakeholder interests may not always be aligned, and that their role is to balance these to create value not just for the organisation but for societal stakeholders too. Through consistent and reliable performance, as well as undisputed integrity, steward leaders build the trust that engages employees, while allowing for optimal interactions between stakeholders. Rooted in compassion, equity, prudence, accountability and care, the behavior of steward leaders can be characterized by three seminal attributes:

**(1) Leading with impact:** Transformational leadership occurs when leaders make the interests of their employees a central concern, when they motivate employees and engage them through enhanced awareness and acceptance of the group's purpose and mission, and when they inspire them to look beyond their own self-interest for the collective good.

**(2) Safeguarding the future:** When stewardship is embedded in the organisational culture, the commitment of the firm continues over time. Relationships are based on trust, structures are decentralized and power is distributed, and employees are motivated to contribute to the company's purpose in the long-term.

**(3) Driving social good:** Staying in touch with external and internal stakeholders' expectations of the company and minimizing discrepancies with the leader's expectations helps to ensure solid relationships, ensuring that there is a positive two-way exchange between the corporation and its broader societal context.

## Owners and Stewardship

Owners are key in stewardship – specifically because of their role in relation to governance practices. Does the type of ownership affect the likelihood of stewardship? The evidence is conflicting; however it is worth noting that there are distinct structural features which may affect the likelihood that stewardship will emerge, as well as increase the susceptibility to certain types of risk.

(1) Private Owners: Is a privately-owned family business with less short-term reporting pressure more likely to practise stewardship? When family executives are directly exposed to the business and its many stakeholders (and less predisposed to family pressure) they may be more likely to act in a steward-like manner. Many studies assert that privately-owned family businesses have superior financial returns. But, the degree to which stewardship behavior explains this is largely unexplored.

(2) Public firm shareholders: In publicly listed firms, ownership is diffused because of the large number of small shareholders. There is less incentive and ability for any one shareholder to monitor the behavior of the firm. Consequently, shareholders' associations and shareholder activism surface to provide minority shareholders with a stronger voice and better access to information. While shareholder

activism has at times come to have some negative connotations, shareholders have an important role to play in staying informed and communicating regularly with the companies in which they invest. Though they are minority shareholders, they need to be active investors and develop an ownership mentality.

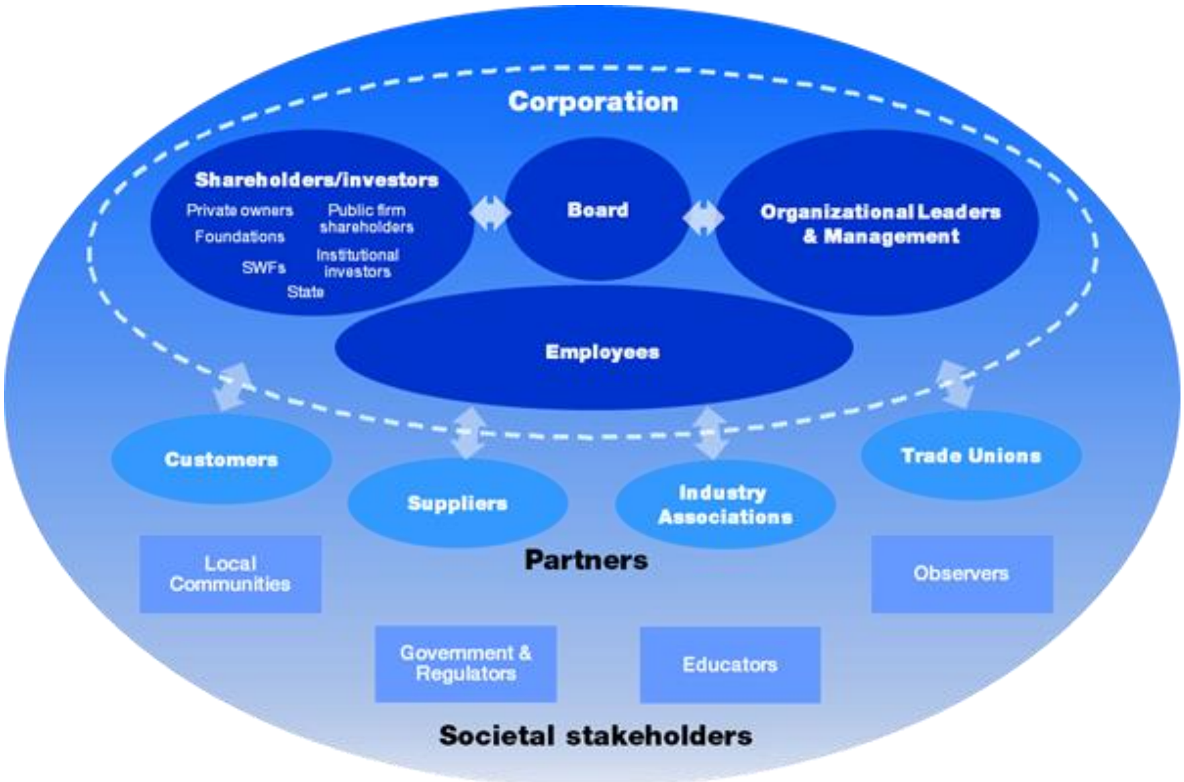
(3) Foundations: Large foundations are increasingly influential investors. Many of these view for-profit investments as a better means of having a positive social impact, rather than making donations. This may provide an interesting link between the worlds of public and private firms, as well as social enterprise, and vehicles for owners to work synergistically in their stewardship efforts.

(4) Institutional Investors: With large investment funds, institutional investors often exert influence on the management of a corporation due to their entitlement to voting rights and through the substantial power they wield to buy and sell company shares. Their increasing reliance on asset managers may be a stewardship risk. Holding external asset managers accountable is essential – for example by insisting on high-quality information about the way they approach stewardship, including how they manage potential conflicts of interest. Possible impediments to stewardship, including potential conflicts of interests, have prompted increasing discussion about what constitutes responsible investment on the part of shareholders, especially institutional investors and asset managers. One response has been stewardship codes which attempt to codify good investor governance by shareholders, particularly institutional investors.

(5) Sovereign Wealth Funds (SWFs): An increasingly important category of institutional investors is sovereign wealth funds, which are likely to have a growing influence on the future corporate governance landscape. There is some concern that SWFs may be used for strategic purposes by governments, to invest in geographies for geopolitical considerations rather than for economic returns. Many SWFs have refrained from taking an active corporate governance role in invested companies, in an attempt to avoid a backlash. However, that may in fact be depriving portfolio companies of the useful contribution that an enlightened, active long-term investor could bring to their corporate governance. Moreover, while termed collectively as SWFs, there are differences among them in terms of the maturity of governance practices and degree of transparency. Their stewardship orientation and good corporate governance practices may become a differentiating factor.

(6) State-Owned Companies: In many emerging economies, the state is the owner of large companies. Some are in industries related to public services or which are considered strategic. State ownership may be needed to provide longer term investment in such industries. In terms of governance, since the governments are also the regulators of businesses and the industries, sound and effective separation between ownership and management is required. When it comes to selecting board members, state-owned enterprises need to pay attention to ensure that members are selected on the basis of their merits and expertise only. The presence of effective boards, comprising competent and independent directors, would strengthen corporate governance and contribute to stewardship.

The figure below illustrates the relationships between the different stewardship actors and stakeholders involved.




Stewardship, as used in the corporate framework, draws on notions of accountability, a long-term orientation and responsibility for protecting assets over time. Stewardship, going hand-in-hand with corporate governance, continues to evolve and develop. Positioned as a clear objective to benefit society with its aligned values, structures and processes, stewardship provides a firm's leaders and employees with the clarity of purpose to generate value in the broader sense. As one pithy definition puts it: "Stewardship essentially means those who are entrusted with wealth of any kind have an obligation to hand those assets on in better shape than they inherited them".