

# Balancing the Interests

## Between Shareholders and Other Stakeholders



Growing social and global challenges have already prompted many governments and financial regulatory organisations to require listed companies to submit an Environmental, Social and Governance (ESG) report to complement the yearly financial annual report. The ultimate goal of this is for companies to commit to sustainability by balancing financial performance with contributions to other stakeholders. Sustainability has today become a focus for many corporations as well as a 'fashionable' term used in the business world, yet it can be interpreted in a number of ways.

**Professor Simon Shun-Man Ho**  
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Simply speaking, sustainability means that we look beyond the interests of ourselves and help to make the world livable for the next generation and those afterward,” says Professor Simon Shun-Man Ho, president of Hang Seng Management College (HSMC). “If we do not do things properly now, the entire community of next generation citizens will suffer from what we did, and it could be irreversible.”

Ho explains that we have to consider the impact on future inheritors of the earth in all aspects of our lives, including business activities. This is not only limited to environmental concerns, but also relationships among different stakeholder groups especially the interests of employees and customers.

Before taking up the role as HSMC president, Professor Ho was the vice rector (academic) of the University of Macau, dean of the School of Business at the Hong Kong Baptist University and the director of the School of Accountancy at The Chinese University of Hong Kong. He is also the current chairman of the Hong Kong Corporate Governance Forum and the editor of the Asian Journal of Business Ethics. His studies and work on corporate governance, business ethics

and corporate social responsibility are highly regarded and he has received widespread recognition such as winning the Faculty Pioneer Award from the Aspen Institute as well as being named one of the 100 Most Influential People in Business Ethics 2008 by Ethisphere.

### From profit maximisation to social responsibility

Profit maximisation is the foundational concept we learned in Economics 101. The famous American economist Milton Friedman believes that businesses do not have any social responsibilities at all other than to maximise their own profit. The key statement from the Shareholder Theory: “The social responsibility of business is to increase its profits in legal and ethical manners.” was quoted in the New York Times in 1970. This ideology has been deeply imprinted in many people’s mind.

Based on this concept, Professor Ho explains that executives may choose to behave to boost the short-term stock prices for the interests of the shareholders, instead of making investments for the future relating to sustainable benefits.

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The world is a different place right now. That’s why Ho believes that the key to business sustainability requires a paradigm shift in corporation governance away from the sole focus being on shareholders to balancing the interests of different stakeholder groups. “Advocated by the applied ethics scholar Edward Freeman, the Stakeholder Theory emphasises that businesses do have a social responsibility, to not detract from others and are, in fact, obligated to support the well-being of others.” He points out that the purpose of the Stakeholder Theory is to create a win-win situation between different relevant groups of people, including shareholders, employees, clientele, suppliers as well as non-governmental organisations and the society. The essence of the theory is to ensure a balance of profits and a common good for all parties, and that the benefits of one party should not grow at the expense of the others.

Most people may think that corporate social responsibility (CSR) activities stem from pure altruism. Yet Ho emphasises that, according to the Stakeholder Theory, sustainability does not come from a call to conscience, but it is indeed an imperative duty or a social contract that corporations take good care of various stakeholder groups. “The problem with conscience is that it is still often overridden by the misconceived principle of profit maximisation for shareholders, if it is deemed necessary,” he adds. “It is a matter of choice when you do it out of conscience, but it is a must to fulfill when it is your responsibility. That’s a solid way to keep a business sustainable by covering the interests of major stakeholders as an obligation.” He also suggests firms to first treat their employees and customers well enough before performing instrumental CSR or the so-called ‘creating shared values’ initiatives.



## Re-defining the meaning of success

A paradigm shift also requires us to re-visit the definition of success. “The personal indicators of success including the money, power or fame we earn are often too shallow and materialistic. Happiness, friendship, love, contribution to society, these are the values that should also be categorised as indicators of success.” Ho urges political and business leaders in our society to take the lead in changing values. “At the end of the day, our life is not solely about money because joy, harmony, integrity, all-wins and our contributions to others also matter significantly.”

As ideal as it seems, the Stakeholder Theory still has its own set of limitations. Ho explains that in dealing with different stakeholder groups, clashes among parties become inevitable. “When a fair win-win situation cannot be made easily, who should come first? There is no clear nor definite answer.” Furthermore, conflicts can occur within the same stakeholder group, such as a significant wage discrepancy between upper level management and front line employees. Ho and his team have been conducting research to make the Stakeholder Theory a more practical model that can guide corporations to embrace different types of challenges. He has been advocating that corporate boards should have employee representatives and legal fiduciary duty of board directors should be extended to all stakeholders, not just shareholders.

Ho encourages HR personnel to understand more about the Stakeholder Theory. “As one of the most primary groups of stakeholders, employees also have to consider the interests of other groups such as shareholders, executives, clientele, suppliers and the local communities. HR should also ensure that employees, in particular the newcomers, share the same corporate values and vision.”

