SUBMISSION TO

PARLIAMENT OF AUSTRALIA JOINT COMMITTEE

INQUIRY INTO CORPORATE RESPONSIBILITY

Professor Thomas Clarke

Director

Centre for Corporate Governance

UTS Sydney

EXECUTIVE SUMMARY

Responding to the Terms of Reference of the Parliament of Australia Joint Committee Inquiry Into Corporate Responsibility:

a) Organisational decision-makers do have an existing regard for the interests of stakeholders, other than shareholders , and the broader community in their strategic thinking and operational management. To remain competitive in the market place and accepted in the community a wide and genuine regard for stakeholder interests is an essential part of business practice.

b) Organisational decision-makers therefore should have a regard for the interests of stakeholders other than shareholders, and the broader community. It is clear that as with other aspects of business performance, some companies are better at stakeholder engagement than others. It would be helpful if relative performance in stakeholder engagement could be more open, transparent, and verifiable than is presently the case in Australia. This would assist for example in gauging more accurately customer satisfaction, employee development, and community acceptance. Together elements such as these will help to enhance the overall performance of companies towards world-class standards.

c) The current legal framework could offer more encouragement to company directors to have regard for the interests of stakeholders other than shareholders, and the broader community.

d) Whilst the interests of stakeholders other than shareholders, and the broader community may be legally protected by consumer protection law, employment law, environmental law etc,, it remains the case that the Corporations Act should be revised to enable and encourage incorporated entities and their directors to have regard for the interests of stakeholders other than shareholders, and the broader community.

e) There are many mechanisms, including voluntary measures that may enhance consideration of stakeholders interests by incorporated entities and their directors. For example dissemination of best practice regarding the use of company web sites for building an informed dialogue with stakeholders.

f) However corporate entities should be encouraged to engage in this dialogue with stakeholders by an amendment to the Corporations Act which extends the basis of reporting requirements.

g) The policy and legislative approaches of other countries, particularly in Northern Europe, could prove enlightening for the kind of approach Australia might adopt. In particular the recent application of the Operating and Financial Review in the United Kingdom is relevant, which extends the basis of company reporting to the analysis of their development and performance, including information regarding employees, environmental matters, and social and community issues.

What follows is a justification of these arguments. The author was a member of the Royal Society of Arts (UK) *Tomorrow's Company* Inquiry (1992-95) which elaborated the concept of the *inclusive company*. He took part in the review of the original OECD's *Principles of Corporate Governance* in Paris in 1998 where he moved a strengthening of the clauses relating to stakeholders. He is the author of "Balancing the Triple Bottom Line: Financial, Social and Environmental Performance," *Journal of General Management,* 26, 2, 2001, which discusses some of the debate that took place in the UK Modern Company Law Review a copy of which is included with this document. With Marie dela Rama he published "The Impact of Socially Responsible Investment Upon Corporate Social Responsibility"**,** in, David Crowther and Lez Rayman-Bacchus (eds), *Perspectives on Social Responsibility,* Aldershot: Ashgate Publishers, 2003, which considers the impact of the considerable growth in socially responsible investment by the institutional investors upon corporate social responsibility, and the increasing influence of the corporate social and environmental responsibility indices (a copy of this publication is also included with this submission). More recently he published, *Theories of Corporate Governance,* London: Routledge, 2004, which includes a chapter on "The Stakeholder Corporation: A Business Philosophy for the Information Age" (pp189-202) among a series of chapters devoted to examining the different philosophical foundations of corporate governance.

The rest of this submission is concerned with more clearly differentiating shareholder and stakeholder approaches to corporate governance, and the resulting interpretations of corporate responsibility.

INTRODUCTION: QUESTIONS OF GOVERNANCE

To understand the forces shaping the direction of the development of corporate governance and corporate responsibility today it is necessary to return to the basic fundamentals, and in the beginning there was Berle and Means.

Berle and Means

Berle and Means were the first to explore the structural and strategic implications of the separation of ownership and control. Berle wrote in the preface of *The Modern Corporation and Private Property* that "It was apparent to any thoughtful observer that the American corporation had ceased to be a private business device and had become an institution." (1932:v) The dispersal of equity ownership of companies raises a number governance issues:

i) For firms to operate efficiently managers must have the freedom to take risks, make strategic decisions, and take advantage of opportunities as they arise, and though they should remain subject to effective monitoring mechanisms, they cannot submit every decision to a shareholder vote.

ii) A group of shareholders with a large total share of the equity might be more effective at monitoring management, but their powers must also be restrained to prevent them taking advantage of other shareholders.

iii) Many investors prefer the advantages of liquidity and diversity in their portfolios to the time and resource commitment involved in monitoring.

iv) Investors require accurate accounting information, but any performance

> measures can provide misleading information or distort incentives by encouraging mangers to focus attention on inappropriate goals. Further, releasing some kinds of information can weaken a firm's competitive position. (Blair 1995:32-33)

The attenuation of the shareholders role in managing the business, and the rise of professional management is associated with a growing recognition of the significance of the role and contribution of other stakeholder groups to the performance of the company. With management assuming responsibility for the supervision of the physical capital of the corporation, each of the primary stakeholder groups shareholders, lenders, customers, suppliers and employees have a relationship with the company in which they provide some resource vital for the company's survival and in return receive some value. Berle and Means argue:

> Neither the claims of ownership nor those of control can stand against the paramount interest of the community... It remains only for the claims of the community to be put forward with clarity and force. Rigid enforcement of property rights as a temporary protection against plundering by control would not stand in the way of the modification of these rights in the interests of other groups. When a convincing system of community obligations is worked out and is generally accepted, in that moment the passive property right of today must yield before the larger interests of society. Should corporate leaders, for example, set forth a program comprising fair wages, security to employees, reasonable service to their public, and stabilisation of business, all of which would divert a portion of the profits from the owners of passive property, and would the community generally accept such a scheme as a logical and human solution of industrial difficulties, the interests of passive property owners would have to give way. Courts would almost of necessity be forced to recognise the result, justifying it by whatever of the many legal theories they might choose. It is conceivable, indeed it seems almost essential if the corporate system is to survive, that the 'control' of the great corporations should develop into a purely neutral technocracy, balancing a variety of claims by various groups in the community and assigning to each a portion of the income stream on the basis of public policy rather than private cupidity. (1932:312)

In 1932, the same year their book was first published, Berle insisted "You cannot abandon emphasis on the view that business corporations exist for the sole purpose of making profits for their shareholders until such time as you are prepared to offer a clear and reasonably enforceable scheme of responsibilities to someone else." (A.A. Berle, "For Whom Are Corporate Managers Trustees?" *Harvard Law Review*, 45, 1932, pp 1365,1367) He could not have foreseen that after 65 years of patient and deliberate effort by company managers to balance their responsibilities and objectives, that no 'clear or enforceable scheme' for them to do this has emerged, or that though the law has struggled to keep pace with industrial reality, the changes in the fundamental principles of company law could have proved so modest.

The Corporate Constituency

On the ground in the United States 38 state legislatures attempted to protect the companies in their local economies from hostile takeover by passing stakeholder laws that permitted or required directors to consider the impact of all their activities on constituencies other than shareholders including employees, customers, suppliers and the community. (Hanks 1994; Orts 1992)) (Hanks goes on to describe stakeholder theory as "an idea whose time should never have come..")

Steven M.H.Wallman an SEC Commissioner who helped draft the 'corporate constituency' law passed in Pennsylvania defines the corporation's interest as "enhancing its ability to produce wealth indefinitely...both profit from today's activities and expected profit from tomorrow's activities." (1991:170) This could provide the basis of a new interpretation of what it means for directors to act 'in the interests of the corporation'. Defining the interests of the corporation in terms of maximising the wealth producing potential of the enterprise, and linking the interests of the various constituencies to the interests of the corporation "resolves much of the tension that would otherwise exist from competing and conflicting constituent demands."(1991:170; Blair 1995))

Over half of the Standard & Poor's 500 corporations in the United States are listed in the state of Delaware which does not have a "corporate constituency" statute, however in a case involving Paramount Communications the Delaware Supreme Court was understood to give the same freedom to management to judge the short term and long term interests of the company, though in 1993 this ruling was altered in a case involving the same company, leaving it unclear if directors of companies incorporated in Delaware can consider the effects of takeover decisions on stakeholders other than just shareholders. (Blair 1995:220-222)

Martin Lipton offers a precise legal interpretation, "..Under Delaware law the objective of the corporation is the *long-term* growth of shareholder value; assuming the board of directors has used due care (followed reasonable procedures) and did not have a conflict of interest, the board may prefer *long-term* goals over *short-term* goals except when the decision is to sell control of the corporation or to liquidate it in which case the board must use reasonable efforts to get the best value obtainable for the shareholders. Under this standard the board has the right to invest for the *long-term* in people, equipment, market share and financial structure even though the financial markets do not recognise (or overtly discount) the future value and even though the board's strategy results in elimination of dividends and reduction in market price of the stock. Also under this standard, the board has the right to 'just say no' to a premium takeover bid. However, the board does remain subject to shareholder control and the shareholders have the right at least once a year to replace at least some of the directors who have followed a strategy or taken a position disliked by the shareholders." (Blair 1995:222)

THE SHAREHOLDER THEORY OF THE FIRM

Though the law in the United States has inched towards acknowledging the rights of other stakeholders, at least in the extreme circumstances of company takeovers, for most of this century a "property conception" of the company has predominated in the Anglo-Saxon world. This has received most robust expression in the Chicago School of law and economics, which treats the company as a nexus of contracts through which the various participants arrange to transact with each other. According to this theory assets of the company are the property of the shareholders, and managers and boards of directors are viewed as agents of shareholders, with all of the difficulties of enforcement associated with agency relationships, but without legal obligations to any other stakeholder. This view maintains "the rights of creditors, employees, and others are strictly limited to statutory, contractual, and common law rights." (Allen 1992:10)

Any broadening of the social obligations of the company was dangerous according to this school of thought, "Few trends could so thoroughly undermine the foundations of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible." (Friedman 1962: 113) The difficulty is whether in trying to represent the interests of all stakeholders, company directors simply slip the leash of the one truly effective restraint that regulates their behaviour - their relationship with shareholders. In apparently seeking to become the arbiter of the general interest, all that occurs is executives become a self-perpetuating group of princes: "So long as the management has the one overriding duty of administering the resources under its control as trustees for the shareholders and for their benefit, its hands are tied; and it will have no arbitrary power to benefit from this or that particular interest. But once the management of a big enterprise is regarded as not only entitled but even obliged to consider in its decisions whatever is regarded as of social interest, or to support good causes and generally to act for the public benefit, it gains indeed an uncontrollable power - a power which would not be left in the hands of private managers but would inevitably be made the subject of increasing public control." (Hayek 1979: 82)

These views were expressed with vigour by liberal economists, and enjoyed the support of some business leaders and senior politicians. More practically, such views reflected how US and UK companies were driven in the period of the 1970s and 1980s, with an emphasis upon sustaining share price and dividend payments at all costs, and freely using merger and takeover activity to discipline managers who failed in their responsibility to enhance shareholder value. It was the economic instability and insecurity created by this approach that was criticised in the report by Michael Porter (1992) for the US Council on Competitiveness.

Monks and Minnow have attempted a recent restating of the essential principles of the shareholder theory of the firm, which is more tolerant of the interests of other constituents, but insists they are best served by acknowledging the supremacy of the ultimate owner: "It seems to make most sense to envision a hypothetical long-term shareholder, like the beneficial owner of most institutional investor securities, as the ultimate party at interest. That allows all other interests to be factored in without losing sight of the goal of long term wealth maximisation. But without a clear and directly enforceable fiduciary obligation to shareholders, the contract that justifies the corporate structure is irreparably shattered. It is difficult enough to determine the success of a company's strategy based on only one goal - shareholder value. It is impossible when we add in other goals...The only way to evaluate the success of a company's performance is to consult those who have the most direct and wide-reaching interest in the results of that performance - the shareholders. The problem is one of effective accountability (agency

costs). Only owners have the motive to inform themselves and to enforce standards that arguably are a proxy for the public interest."
(1995: 41)

It could be contested whether a focus upon shareholder interests really has been the key to good corporate performance and effective accountability in the recent past in the US and UK. Secondly whether in an age of more active participation by consumers, employees and other economic groups, assuming that only shareholders are capable of effective monitoring sounds like wishful thinking. An irony is that shareholders, particularly the scattered army of individual shareholders, have not been particularly well looked after or informed in the recent past, even by companies espousing shareholder value views.

The arguments against the stakeholder view have been summarised by John Argenti:

1. Companies have a relatively homogenous group of shareholders to relate to but diverse stakeholders.
2. It is clear what shareholders expect, but not clear what stakeholders expect.
3. The pursuit of the profit motive is simple, but if all stakeholder interests are to be balanced, trade-offs will become increasingly complex.
4. There is a need for a single bottom line to provide a focus for managers.
5. There is difficulty in measuring and verifying values to other stakeholders.

As Andrew Campbell suggests this straightforward view of management underestimates the existing complexity of the task, and restrictively confines the objectives of business to a single purpose, when in fact the "market economy allows each company to define its own 'deal' for each stakeholder group. This in turn encourages creativity." (1997:448) For example an annual report of Enterprise Oil plc included among its central corporate objectives "nurturing an environment in which the best people want to work towards delivering a strong growth in *values. "* (Apparently the plural caused problems for one of the company's non-executives).

THE STAKEHOLDER THEORY OF THE FIRM

Stakeholding: A Concept With Many Meanings

The Oxford dictionary definition of stakeholding records the first use of the term in 1708 as a bet or deposit, "to have a stake in (an event, a concern etc.): to have something to gain or lose by the turn of events, to have an interest in; especially to have a stake in the country (said of those who hold landed property). Hence specifically a shareholding (in a company)." A stakeholder theory of the firm has existed in various forms, and based on different economic principles, since the origins of industrialism. The philosophical antecedents of stakeholder theory reach back into the 19th century, to the conceptions of the co-operative movement and mutuality. Periodically such theory has become marginalised and forgotten, only to be reclaimed later in response to changing economic circumstances. Because of its fragmented development and marginal status, it has never been elaborated and explained as fully and coherently as the shareholder theory of the firm.

One explanation of the recent widespread enthusiasm for the idea of stakeholding is that like *democracy* and *citizenship* there are many meanings of the concept of *stakeholding* which readily stretch across the political spectrum, and have multiple practical implications. In its broadest meaning Jacobs identifies three fundamental elements (Jacob 1997):

- *philosophical*

  stakeholding represents a general sense of social inclusion; an economy or society in which every citizen is a valued member, everyone contributes, and everyone benefits in some way;

- *participatory*

  whether at the level of the economy as a whole, or in relation to individual companies, stakeholding implies an active participation in processes of accountability;

- *financial*

  participation is reinforced by the acknowledgement of a direct financial or material interest stakeholders have in the well-being of the economy or company, in turn this legitimates the participation.

Edith Penrose in *The Theory of the Growth of the Firm* laid the intellectual foundations for stakeholder theory in her concept of the company as a bundle of human assets and relationships (1959). The term stakeholder theory was first used in 1963 at the Stanford Research Institute, where stakeholder analysis was used in the corporate planning process by Igor Ansoff and Robert Stewart. (Freeman and Reed 1983:89) However Ansoff was cautious in his use of the concept: "While...responsibilities and objectives are not synonymous, they have been made one in a 'stakeholder theory' of objectives. This theory maintains that the objectives of the company should be derived by balancing the conflicting claims of the various 'stakeholders' in the firm, managers, workers, stockholders, suppliers, vendors."(1965:33)

Freeman provides a history of the US use of the concept (1983). In 1975 Dill argued: For a long time we have assumed that the views and initiatives of stakeholders could be dealt with as externalities to the strategic planning and management process: as data to help management shape decisions, or as legal and social constraints to limit them. We have been reluctant, though to admit the idea that some of these outside stakeholders might seek and earn active roles with management to make decisions. The move today is form stakeholder influence to stakeholder participation." (60) The Wharton School in Pennsylvania began a stakeholder project in 1977 exploring the implications of the stakeholder concept as a management theory; as a process for practitioners to use in strategic management; and as an analytical framework (Freeman and Reed 1983:91)

The stakeholder notion is deceptively simple. Definitions of who the stakeholders are range from the highly specific and legal to the general and social. The Stanford Research Institute's definition of stakeholders was "those groups without whose support the organisation would cease to exist." Max Clarkson organised an academic conference on the subject at the University of Toronto in May 1993, the papers from which resulted in a special edition of the *Academy of Management Review* in January 1995, offered the following definition of stakeholder theory, "The firm is a system of stakeholders operating within the larger system of the host society that provides the necessary legal and market infrastructure for the firms activities. The purpose of the firm is to create wealth or value for its stakeholders by converting their stakes into goods and services." (1994:21)

Who Are the Stakeholders ?

Whatever approach to stakeholding is adopted by business the first question must be 'who are your stakeholders and what do they want?' The answer to this will be rather different for every company depending on its ownership, size and structure, product or service market and so forth. Jonathan Charkham suggests a distinction between *contractual* stakeholders who have some legal relationship with the company, and *community* stakeholders whose relationship with the business is more diffuse but nonetheless real in its impact. (Table 1)

CONTRACTUAL	**COMMUNITY**
Shareholders	Consumers
Employees	Regulators
Customers	Government
Distributors	Pressure Groups
Lenders	Local Community
Suppliers	Media

Table 1 Contractual and Community Stakeholders

What Do Stakeholders Want ?

Having identified who the key stakeholders are, ascertaining what stakeholders want is the next critical task. Again the interests, desires and preferences of stakeholders will vary for every company, but a template of stakeholder expectations and forms of accountability is summarised in Table 2.

STAKEHOLDER	RELATIONSHIP	INTEREST	RISK
Investors	Owners	Optimum return	Poor return Negligible share value, Loss of investment
Customers	Purchase goods Or service	Obtain what want At good price	Failure to deliver goods or services As expected
Suppliers	Supply goods/ services	Source of revenue	Loss of custom
Employees	Provide labour	Salaries and Job security	Unemployment
Lenders	Supply funds	Source of revenue	Bad debt
Government	Receives taxes, imposes regulations, provides infrastructure	Source of revenue	Loss of revenue, political costs, unemployment
Society	Consumes goods And services	Good corporate citizen	Undesirable social or environmental impact

Table 2 What Do Stakeholders Want ?

Creating A Measurement Framework

Having established who key stakeholders are, and investigated what it is they value in the relationship with a business, there remains the tricky job of assessing whether over time relationships are improving as planned. If the variables are easily quantified that can be helpful, but many aspects of stakeholder relationships and business processes are complex and qualitative, and this in the past may have excluded them from such careful consideration as the 'hard' data received. Companies are developing and utilising more effective measurement frameworks, and the RSA report suggested useful principles of any measurement system includes:

- *manages complexity to create clarity*

  encompassing a coherent set of selected key measures;
- *matches the success model*

  for example, General Electric's success model is expressed in terms of customers, employees and cash, and the key measures are customer loyalty, employee morale, and cash flow;
- *includes one leading indicator from each relationship*
- *includes measures of the strategic health of the business*

  for example the rate of introduction of new products, or the progress in staff development;
- *enables benchmarking against the performance of world class companies*
- *balances immediate results with future capabilities*
- *includes measures which assist the board in risk assessment and management.*

  (1995:13)

Accountability to Whom ?

A related and unresolved problem is to work out how stakeholder interests may be more formally represented in the direction of companies, if that is desirable, the appropriate spheres of influence of the different parties, and whether there is any need to change company law. In his review of the centrality of stakeholder models to the running of enterprises in Germany, France and Japan, Charkham argues: "In one important respect the law does not need to be changed: namely the bodies to which the board is accountable. In the 'other constituencies' debate, it is argued that management has a great many interests to consider other than the shareholders, such employees, customers suppliers, bankers, and the community. Of course it does: it cannot hope to succeed unless it takes all these interests properly into account...Shareholders may come at the end of the queue for dividends (and for distribution if the company ceases to trade), but they are the anchormen. If the board's accountability to them is lessened it be altogether weakened: the distinction between 'taking into account' and 'being responsible to' must be maintained (1995:336).

It was this critical distinction which let the Hampel Committee on Corporate Governance in the UK off the hook of more formally recognising stakeholder interests among the duties of company directors: "A company must develop relationships relevant to its success. These will depend on the nature of the company's business; but they will include those with employees, customers, suppliers, credit providers, local communities and governments. It is management's responsibility to develop policies which address these matters; in doing so they must have regard to the overriding objective of preserving and enhancing the shareholders' investment over time. ..This recognises that the director' relationship with the shareholders is different in kind from their relationship with other stakeholder interests. The shareholders elect the directors. As the CBI put it in their evidence to us, the directors are responsible *for relations with* stakeholders; but they are accountable *to* the shareholders. This is not simply a technical point. From a practical point of view, to redefine the directors' responsibilities in terms of the stakeholders would mean identifying the various stakeholder groups; and deciding the nature and extent of the directors' responsibility to each. The result would be that the directors were not effectively accountable to anyone since there would be no clear yardstick for judging their performance. This is a recipe neither for good governance nor for corporate success." (1997:1.16-1.17)

Identifying and communicating with relevant stakeholder groups, deciding the nature of responsibilities to each, and being judged by a wider range of performance indicators that relate to stakeholder concerns is precisely what enlightened companies are striving to do as Wheeler and Sillanpaa illustrate in their work on *The Stakeholder Corporation* (1997).

As John Kay insists there is an alternative to the shareholder-agency model of the corporation, which recognises the existence of the corporate personality, and accepts the large public corporation is a social institution, not the creation of private contracts. He indicates the well established principles of English law to govern the behaviour of individuals or groups who control assets they do not beneficially own - the concept of trusteeship:

> The notion that boards of directors are the trustees of the tangible and intangible assets of the corporation, rather than the agents of the shareholders is one which the executive of most German and Japanese companies, and of many British firms, would immediately recognise. The duty of the trustee is to preseve and enhance the value of the assets under his control, and to balance fairly the various claims to the returns which these assets generate...The responsibility of the trustees is to sustain the corporation's assets. This differs from the value of the corporation's shares. The difference comes not only because the stock market may value these assets incorrectly. It also arises because the assets of the corporation, for these purposes, include the skills of its employees, the expectations of customers and suppliers, and the company's reputation in the community. The objective of mangers as trustees therefore relate to the broader purposes of the corporation, and not simply the financial interests of shareholders...Thus the trusteeship model demands, as the agency model does not, the evolutionary development of the corporation around its core skills and activities because it is these skills and activities, rather than a set of financial claims, which are the essence of the company. (Kay 1997:135)

A more basic question, which Hampel failed to ask, is what are the principal assets of the contemporary company?

The Principal Assets of Knowledge Based Companies

The principles of corporate governance to which the Hampel Committee refers

were established almost two centuries ago. Charles Handy in an essay on The Citizen Corporation explains why clinging to former certainties is no longer appropriate:

> The old language of property and ownership no longer serves us in the modern world because it no longer describes what a company really is. The old language

> suggests the wrong priorities, leads to inappropriate policies, and screens out new possibilities. The idea of a corporation as the property of the current holders of shares is confusing because it does not make clear where power lies. As such, the notion is an affront to natural justice because it gives inadequate recognition to the people who work in the corporation, and who are, increasingly, its principal assets.

In a study of intellectual capital and the end of assets as we know them, Thomas A. Stewart, the present editor of the *Harvard Business Review* insists, "The knowledge company travels light. When information has replaced stockpiles of inventory and when it has left its material body and taken on a business life of its own, a company ultimately becomes a different kind of *creature.* A traditional company is a collection of physical assets, bought and owned by capitalists who are responsible for maintaining them, and who hire people to operate them. A knowledge company is different in many ways...not only are the assets of a knowledge company intangible, it's not clear who owns them or who is responsible for them. Indeed, a knowledge company might not own much in the way of traditional assets at all. Just as information replaces working capital, so intellectual assets replace physical ones. A knowledge companies financial structure can be so different from that of an industrial company that it is incomprehensible in traditional terms." (1997:32)

STAKEHOLDER STRATEGIES IN PRACTICE

In practice, executives leading companies and managers operating them have utilised increasingly elements of the stakeholder approach. The growing emphasis upon customer relations, employee relations, supplier relations, and indeed investor relations, is an indication of the way managers are grappling with the need to satisfy the interests of more complex constituencies than shareholder theory would suggest.

The defence of shareholder rights sits uneasily with how increasingly companies are managed. The *Tomorrow's Company* Inquiry launched by the RSA in 1992, captured much of the sense that businesses need to fundamentally examine their objectives, relationships and performance measures if sustainable commercial success is to be achieved. Convincing evidence was cited of the perils of too narrow a business focus on short-term financial indicators.

Kotter and Heskett studied 200 companies over 20 years and clearly correlated superior long term profitability with corporate cultures that express the company's purpose in terms of all stakeholder relationships (1992). John Kay defines success in terms of value added, and - arguing that outstanding businesses derive their strength from a distinctive structure of relationships with employees, customers and suppliers - explains why continuity and stability in these relationships are essential for a flexible and co-operative response to change(1993). He offers a hard headed interpretation of how a stakeholder approach is an essential basis for industrial viability:

> Inclusion and shared values promote trust, co-operative behaviour and the ready exchange of information. These things also yield hard-nosed commercial advantages. Such values encourage closer working together, which is why the Japanese have achieved unmatched levels of component reliability, implemented just-in-time production processes and shortened model cycles. They help explain why the German and Swiss have secured exceptional standards of production engineering. (*Financial Times* 17 January 1996)

A paradox is that companies driven by financial indices to satisfy shareholders often appear capable of doing so for limited periods of time. "Companies that set profits as their No 1 goal are actually less profitable in the long run than people-centred companies." (Waterman 1994:26) Of the 11 companies named as Britain's most profitable by *Management Today* between 1979 and 1989, four subsequently collapsed and two were acquired. (Doyle 1994) A BOC/London Business School survey *Building Global Excellence* commented on the pre-occupation of UK managers with financial performance. The report commented: "To be in a position to predict the future and discover you need to change 3-4 years before the crisis comes, today's managers need to switch their attention away from the *financial* health of their companies and start measuring the *strategic* health." (1994:16)

Schools of Thought

The deep philosophical underpinnings of stakeholder theory have been operationalised in a great variety of practical ways. Because of multiple interpretations and applications, a degree of confusion has occurred, with different parties claiming allegiance to different understandings, some of which are contradictory. Among the influential proponents of rival stakeholding propositions are:

- A Political Economy of Stakeholding
- Institutional Approaches to a Stakeholding Economy
- A Stakeholder Theory of the Firm
- The Inclusive Company
- Integrated Stakeholder Communications
- Quality and Improvement Stakeholding
- Sustainable Enterprise

A Political Economy of Stakeholding

As countries traditionally associated with essentially stakeholding principles appear to be drifting away from them, the UK has travelled in the opposite direction. Will Hutton, presently editor of *The Observer* newspaper in the UK, launched an impassioned defence of new Keynesianism in the best-selling book, *The State We're In* . (1995) His robust advocacy of stakeholder capitalism helped provoke a public discussion still developing (1995). The central thesis is that a market economy needs democratic institutions that generate social capital, particularly trust, and that contrary to the individualistic neo-classical model, businesses function best on the basis of internal commitment and trust:

> In market capitalism there will always be a constant tension between relationships of commitment and relationships of flexibility; between market contracts and non-market contracts. My central argument is that many of the present instabilities within society are the result of the balance being tilted too far in favour of an emphasis on free markets. This creates an environment which is so unstable, and which leads to such exclusion and polarisation that it actually destroys the social habitat within which a successful regulated market system needs to be embedded. The pattern is particularly clear in the US where you see atomistic markets throwing up, for example, an excessively large financial services industry as people try desperately to protect themselves against unquantifiable and unmeasurable degrees of risk. (Hutton 1997b:4; 1997a).

Mario Nuti remains sceptical of such an ambitious extension of the stakeholder principle, and suggests "once the set of a country's stakeholders coincides with the set of all citizens, the concept of stakeholders becomes completely redundant," however he may be underestimating the appeal of an "inclusive society" in economies that have felt the consequences of the cold draught of exclusion in poverty, crime and failing economic performance (1997:19).

Institutional Approaches to a Stakeholding Economy

It is often suggested the institutional foundations of stakeholding were essential to the post-war economic success of the German and Japanese economies. In Germany this is provided by the high concentration of owner-managers, the limited role of the equity market, and the inside characteristic of their governance systems, with an emphasis upon the representation of all interested stakeholders. OECD 1995; OECD 1996) In Japan collective stakeholder conceptions are deeply embedded in corporate thinking and practice, from the *keiretsu* principle of related companies, to the *kaizen* of continuous improvement, to the *kanban* of just-in-time production and the suppliers it depends upon, the importance of relationships is paramount. (Yoshimuri 1995; Zimmerer and Green 1995; OECD 1996) Both systems are now under stress, and whether their stakeholder institutions survive the influence of international investors is an open question.

In Europe and Japan companies have traditionally adhered consciously to a stakeholder model, which it is often claimed is the basis of their industrial success and social stability. However more recently with the development of their equity markets, and the increasing activity of international investors, particularly from the United States, some major European and Japanese companies for the first time have come under pressure to focus upon shareholder value. Whether this system can survive in major German companies such as Mercedes Benz and Hoechst following their listing on the New York Stock Exchange, and the insistent pressures they will face to yield shareholder returns is open to question. At the other end of the scale, up to 700,000 of the family run Mittelstand, the locally based backbone of German enterprise, could be up for sale within the next ten years, as their post-war founders retire. *(Financial Times* 10 October 1997)

Rainer Zimmerman has recorded the sea change sweeping through German industry: " The late 1980s and early 1990s ushered in a phase of far reaching change for German companies. 'Go global' pressure and both political and private-sector deregulation force market players to adopt new competitive approaches and rethink their self-images. The potential for pure streamlining as a cost-cutting tool had effectively been exhausted. A new era began, one marked by a focus on growth, restructuring, corporate downsizing, portfolio shifts, consolidation, mergers and acquisitions, divestment, production shifts abroad and, more than anything, value management." (1998)

German analysts Trinkhaus and Burkhard assessment was that a string of leading German companies had explicitly adopted a focus on shareholder value including BASF; Bayer; SAP; Daimler-Benz; Linde; Mannesmann; VEBA; Deutsche Bank; Shering; BMW; Lufthansa; and Metro. (*MangerMagazin* July 1997:133) German companies have developed commitments to a wide range of social themes which help to identify their existence and direction. (Figure 7.6) Zimmerman refers to the fact that many German corporations are trying to project shareholder values and stakeholder values simultaneously, having approached the shareholder/stakeholder dilemma from the opposite direction of UK and US corporations. German companies that emphasise shareholder value also commit themselves to taking into account the interest of all reference groups:

> It goes without saying that none of these companies can afford the luxury of underweighting the reference group of customers, so vital to their survival, or that of employees, so vital to their future development, all for the sake of a one-sided shareholder focus. Shareholder value and value management are only possible when companies first focus on creating strong benefits to customers and employees. Conversely, those companies placing greater emphasis on stakeholder value both in terms of positioning and public self-image by no means ignore the need for high shareholder value. While most companies generally position and depict themselves vis-a-vis their customers, their employees and society as a whole as expert, responsible, transparent, forward-thinking, innovative and environment-minded, the picture they draw for analysts, investment banks and business journalists must embrace the ideal of optimum returns on investment as the overarching corporate objective. (Zimmerman 1998)

Shareholder value orientations sit uneasily with both German corporate traditions and the legal system. Gruner has emphasised that by law German companies are obliged to contribute to the social well-being of the community. In 1918 Walter Rathenau, chief executive of AEG and later German Foreign Minister created the term of 'das Unternehmen an sich' (the enterprise itself), which does not have only to meet the owner's interest, but that of others. Yet German corporations want to appear more attractive on the national and international capital market, and companies like Seimens, Henkel and Daimler Benz have been measuring business performance more and more by market value and equity return. In recent years shareholder returns have consistently risen, while wages have been reduced. (Gruner 1998)

In Japan stakeholder conceptions are deeply embedded in corporate thinking and practice. Yoshimori highlights a company survey in which 97% of companies agreed a firm exists for the interest of all stakeholders. Asked whether a CEO should choose to maintain dividends or lay off employees a similar number of companies agreed that job security was more important. Asked which stakeholder was most important as a source of support 63% of Japanese chief executives responded it was the employees and only 11.5% suggested it was shareholders (1995) Japanese firms have favoured long term growth, and sustained a policy of low dividend payments, with shareholders more concerned with total returns. However in 1993 company law in Japan was changed to strengthen the powers of shareholders, and pressure for improved performance is coming from institutional investors, including from overseas. As institutional investors become more influential in Japan and the influence of banks diminishes, it is likely Japanese corporations will be under increasing pressure to alter their stakeholder orientations in favour of shareholder interests (OECD 1996)

A Stakeholder Theory of the Firm

In the United States Freeman traced the origins of a stakeholder approach, if not the actual use of the term, to the depression of the 1930s, when GEC identified four major stakeholder groups: shareholders, employees, customers and the general public. In 1947, Johnson and Johnson's president listed the company's 'strictly business' stakeholders as customers, employees, managers and shareholders, which formed the basis of the Johnson and Johnson credo mission statement. In 1950 the CEO of Sears rapid post-war growth listed the 'four parties to any business in the order of importance as customers, employees, community and stockholders.' (Preston 1990:362; Clarkson 1995).

With the present proliferation of employee-stock-ownership-plans (ESOPs) and other stakeholder forms, there is a growing literature in North America, which regards the firm as a *nexus of contracts* between itself and its stakeholders. Thus Hill and Jones develop the principal-agent paradigm of financial economics to create a stakeholder agency theory, which in their view constitutes "a generalised theory of agency" by which managers are seen as the agents for all stakeholders, not simply shareholders. (1994:132-4)

The "quest for a business and society paradigm" has covered corporate social performance, social control of business as well as stakeholder models, in an as yet unresolved effort to produce an analysis with descriptive accuracy, instrumental power, and normative validity. (Jones 1995). " Managers may not make explicit reference to stakeholder theory but the vast majority of them apparently adhere in practice to one of the central tenets of the stakeholder theory, namely, that their role is to satisfy a wider set of relationships, not simple the shareowners. (Donaldson and Preston 1995;75). The law in the United States has responded to this new thinking by encouraging company directors to look to the longer term, and a wider set of community interests, but this does not seem to have deterred the huge escalation in the rate of takeovers and merger activity.

The Inclusive Company

In a search for the sources of sustainable business success (and for something more acceptable to the business community than either the prevailing competitive individualism or the demands of stakeholder theory) the RSA *Tomorrow's Company* Inquiry (1992-95), sponsored by 25 leading companies in the UK concluded that "only by giving due weight to the interests of all key stakeholders can shareholders' continuing value be assured." (1995: iii) This *inclusive* approach to business leadership "has the courage to put across a consistent message which is relevant to all stakeholders - giving the same vision for the company to shareholder and employee, to investor and supplier, to customer and the community at large." Similar conclusions were reached by the *Tomorrow's Corporation* conferences which met in Aspen, Colorado (1992-94), sponsored by the Polaroid Corporation; and by the Karpin task force on Leadership and Management Skills, which reported in Australia (1995).

The key message of the RSA Tomorrow's Company Inquiry was that "As the business climate changes, so the rules of the competitive race are being re-written. The effect is to make people and relationships more than ever the key to sustainable success. Only through deepened relationships with -and between - employees, customers, suppliers, investors and the community will companies anticipate, innovate and adapt fast enough, while maintaining public confidence." (1995:1)

The route to durable competitive success was by focusing less exclusively on shareholders and financial measures of success, and including all stakeholder relationships within a broader range of measures, and in thinking and talking about business purpose, performance and actions. A company adopting an *inclusive* approach:

- clearly defines its own distinctive purpose and values
- communicates these consistently to all stakeholders
- develops its model of success, and how this may be sustained, and the importance of each relationship to the success of the enterprise
- engages in reciprocal rather than adversarial relationships with all those who contribute to the business
- works actively to build a partnership approach with employees, customers, suppliers and other stakeholders
- works actively to maintain public confidence in the legitimacy of their operations and business conduct, in other words to maintain a *licence to operate.*

The Centre for Tomorrow's Company which also grew out of the RSA Inquiry acts as a pressure group and research agency to encourage a network of sympathetic companies and investment institutions to adopt an inclusive approach in their business activity. A task force was established jointly with the Institute of Public Relations to examine how company annual reports could more adequately address the concerns of a wider group of stakeholders than simply the shareholders, with statements of values and accurate assessments of progress in meeting them, without the necessity for complex external auditing processes. Finally the Centre was active in the campaign to make directors appreciate that under existing UK common law they owed a duty firstly to the *company,* and not to any specific third party group. Directors as fiduciaries must have regard to the interest of shareholders, but this obligation is not to the holders of shares at one particular time, but to the general body of shareholders over time. That is, the law in the UK, as in the United States, allows directors to balance the long term interests of the company against a short term interests which may be perceived for shareholders

Quality and Improvement Stakeholding

The logical outcome of the total quality management movement of the last
20 years, in part inspired by the industrial success of Japanese enterprise, is an emphasis on the quality of relationships between every stakeholder that contributes to the production of goods and services with zero defects. This is acknowledged in the stakeholder emphasis of the criteria for both the US Baldridge Quality Award and the European Quality Award. (1992) Other measures such as the balanced business scorecard aim at improvement of the whole business, and not just immediate financial results.

International quality models are concerned with company performance in all key stakeholder relationships, including the European Quality Award and the Baldridge award in the United States. The assessment model of the European award proposes that the *enablers* of leadership, people management, policy and strategy, resources and processes are the means to achieve business *results* which are achieved through people satisfaction, customer satisfaction and impact on society.

It is interesting that the values ascribed by the model as a result of consultations with the several hundred corporate members of the European Foundation for Quality Management include:

20% Customer Satisfaction

What the perception of your external customers is of the company and of its products and services - evidence is needed of the company's success in satisfying the needs and expectations of customers.

18% People in the form of People Management and People Satisfaction

How the company releases the full potential of its people to improve its business continuously, and what people's feelings are about the company. Evidence is needed of the company's success in satisfying the needs and expectations of its people.

15% Business Results

The companies continuing success in achieving its financial targets and objectives in meeting the needs and expectations of everyone with a financial interest in the company; and in meeting non-financial targets and objectives, which relate to internal processes and products/service improvements which are vital to the company's success.

6% Impact on Society

What the perception of your company is among the community at large. This includes views of the company's approach to quality of life, the environment and to the preservation of global resources. Evidence is needed of the company's success in satisfying the needs and expectations of the community at large.

Integrated Stakeholder Communications

Within the public relations profession there is an increasing realization that integrated communications and consistent messages are necessary for effective corporate identity. Rather than different management functions addressing different stakeholders with different, and sometimes conflicting messages, the importance of co-ordination and the search for integrity is emphasised. The arrival of the professional investor, the sophisticated customer, the empowered employee, the information revolution, increasing public awareness, and government regulation have all served to make the significance of accurate and consistent communications vital to the well-being of companies. The fact that stakeholdres communicate actively with each other in the formation of relationships with and views about the company makes it harder for companies to manage impressions that have little substance to them. Pivotal to the whole process is the roles of employees, who are the frontline representatives of the company with other stakeholders

Scholes and Clutterbuck illustrate corporate casualties of stakeholder retaliation. British Airways faced a cabin crew strike, just as it was launching a multi-million pound new corporate identity to change passengers impression of the company as 'monolithic' and 'inflexible' to 'warm' and 'genuinely caring.' Some passengers were moved to side with the cabin crew and switched airlines in protest. Disapproval with the chief executives handling of the incident saw some investors offloading stock. Similarly Disney's image of good triumphing over evil took a knock when the pressure group World Development Movement accused it of boasting to shareholders about huge profits from the film *Hercules*, while - the charity alleged - using Third World sweatshops to make the clothing associated with the merchandising of the film. Protesters picketed premieres of the film, which took the headlines instead of the film. Finally Shell, as a result of recent environmental and human rights controversies, saw its position in the *Financial Times* survey of most respected companies slide from the top three to number eleven. In contrast BP was described as achieving a global operation while steering through the minefield of ethics and the environment.

In the *Financial Times* survey the CEO's interviewed judged that one of the marks of a good company is the ability to balance the interests of shareholders, customers,

employees, and the community. In the same survey share analysts placed this characteristic higher than new technology, quality, or even satisfying customers needs.
The MORI *Captains of Industry Survey* (1997) indicated that three quarters of chief executives questioned said that a business best serves its shareholders by also catering for the needs of its employees, customers, suppliers and the wider community (Scholes and Clutterbuck 1998).

Sustainable Enterprise

The environment is the ultimate stakeholder, and the corporate impact upon the environment the most critical relationship of all. This is so because it will determine not only the wealth, but the existence, of future generations. The environmentalist movement which is growing in articulation and influence, asserts that environmental interests must be considered in business decision making, and that the objective must be sustainability.Some of the most radical ideas for developing stakeholder dialogue have emerged from the movement for sustainable enterprise. The competitive global economy is defined increasingly be complexity and uncertainty, for Wheeler and Sillanpaa, "One way to make sense of chaos is to base decisions on the maximum amount of information. The only way to secure information is to actively request it. In the case of key relationships with stakeholders this means regular conversations, focus groups and opinion surveys. It also means that the firm must organise itself to be receptive to inputs of opinion. In this context there are few more important sources of advice than the company's own employees." (1998)

Wheeler and Sillanpaa suggest a generalised cycle of dialogue and inclusion for all stakeholders, aimed at continuous improvement of processes, products performance and relationships. The stages involved in the cycle include company commitment to a stakeholder inclusive ethos, review of policies which delineate the company's intentions with respect to shareholders, for example health and safety programs for employees, customer service programs, dividend policies for shareholders. For each stakeholder group the scope of the audit feasible within numerical and geographic constraints needs to be determined, for example a retail company with millions of transactions will require representative samples of customers, a multinational oil company will have to gauge the level of consultation feasible in many local communities in different cultures.

There must be agreement on valid indicators of performance based on quantifiable factors and perceptions. Such surveys are becoming standard practice for leading companies, however the distinction here is in both consulting stakeholder groups on relevant indicators and questions, and in sharing the results in a verifiable way. Michael Power notes, "audits are needed when accountability can no longer be sustained by informal relations of trust alone, but must be formalised, made visible and subject to independent validation."

Thus whether the subject is financial control, social performance, or environmental management, formal processes of information collecting, reporting and auditing are essential if the issue is to be understood and managed effectively. This can lead to agreements on objectives which secure stakeholder commitment such as improvements in product quality, employee development, or environmental management, adding *stakeholder value.*

How exacting these processes of stakeholder dialogue and reporting can be, and how far they have become part of official policy, is revealed with reference to sustainable enterprise by the UN Environment Programme (UNEP). This provided a set of measures which companies could use to benchmark the quality of environmental and social disclosure, and no longer could a company argue that disclosure of social information was not possible or indicators of sustainability too diffuse.

The UNEP rating requires systematic and active engagement with stakeholders on the full range of environmental, social and economic questions - *the triple bottom line.* It describes ten transitions on corporate environmental and social reporting for the future, which are benchmarks for corporations wishing to build a reputation for transparency and integrity.

NON-FINANCIAL PERFORMANCE INDICATORS

The Firmness of Financial Indicators

Buttressing traditional financially-based approaches to corporate governance and management are accounting systems which track the flow of physical and financial assets. The modern corporation of course would not be manageable, or even feasible, without a system of debits and credits that gives a coherent picture of the many different streams of goods and money that flow through an enterprise, combined with a system of financial controls to ensure they flow in the right direction. The first accounting textbook was written by a Venetion monk, Luca Pacioli in 1494, *Summa de arithmetica, geometrica, proportioni et proportionalita* introduced the world to double-entry bookeeping. This framework of measurement has suvived for 500 years, simply assembling more rules, several thousand of them, over time. (Stewart 1997)

But the firmness of financial indicators which is the rock investors cling to, can often disappear in heavy seas. As Terry Smith who wrote an influential critique of creative company accounting commented on the failure of companies in the recession of 1990-92, "I was struck by the extent to which investors, even professional fund mangers and analysts, were quite naive in thinking that published company accounts were in some way a protection against losing money in this maelstrom" (1996;10).

When companies that have published healthy annual reports suddenly fail in a recession it is disturbing, but there are many questions about the veracity and reliability of company accounts in more normal times. Commenting on the weaknesses of the Generally Accepted Accounting Principles (GAPP) in the United States, Monks and Minnow argue: "Existing standards are too often seen as far more objective and meaningful than they are. For example 'earnings' are one of the critical components of value in the market place, yet essentially, earnings are what accountants say they are. Earnings are subject to manipulation. Much of it is legal and some even appropriate, but some goes far beyond what should be acceptable. In recent years there has been an increasing tendency towards what has been called 'big bath' accounting. This is the practice when a company decides at the end of the year that it must take a one-time only 'restructuring charge.' This charge is not assessed against current earnings, it is levied against the accumulated earnings of the venture." (1995:49)

In this world of corporate bath-taking Monks and Minnow offer some home-truths, "More important than the *worth* of a company, which measures (imperfectly) today's value is the *health* of a company which predicts tomorrow's." (1995:56) In putting into perspective some of the commonly used financial measures, they refer to Freidheim's critique of earnings per share, which can be driven up by restructuring and weakening the balance sheet, by acquisitions, and changing conventions, which do not add anything to the real value of the enterprise. Similarly all of "the R's - ROI, ROE, ROCE, ROA, ROS, ROT. They all have a place in business....but each can pay off without performance if followed as *the* measure." Scepticism about over-reliance on any single financial measure has not prevented the search for a more all-embracing metric, such as EVA (economic value added). EVA is the after tax operating profit minus the weighed average cost of capital multiplied by the total capital. (ATOP - WACC ∗ TC) Basically this is the net cash return on capital employed "what investors really care about". (1995:56)

It was Alfred Rappaport in his book on *Creating Shareholder Value The New Standard for Business Performance* (1986) who launched the launched the enthusiastic drive among leading companies around the world to introduce value creating business strategies. Though these may be oriented to the longer term than some of the more immediate financial measures, and though there is some realisation that to create value stakeholders have to be on board the corporate enterprise, there remains an acute focus on financial return for shareholders as the ultimate objective of the company:

> Business strategies should be judged by the economic returns they generate for shareholders, as measured by dividends plus the increase in the company's share price. As management considers the alternative strategies, those expected to develop the greatest sustainable competitive advantage will be those that will also create the greatest value for shareholders. The 'shareholder value' approach estimates the economic value of an investment (e.g. the shares of a company, strategies, mergers and acquisitions, capital expenditures) by discounting forecasted cash flows by the cost of capital. These cash flows, in turn, serve as the foundation for shareholder returns form dividends and share-price appreciation. (1986:12)

In contrast Drucker has argued the need for multiple financial and non-financial performance measures to be used to more accurately assess both the present performance and the future potential of the company: “Neither the quantity of output nor the ‘bottom line’ is by itself an adequate measurement of management and enterprise. Market standing, innovation, productivity, development of people, quality, financial results - are all crucial to an organisation’s performance and to its survival. Non-profit institutions too need measurements in a number of areas specific to their mission. Just as a human being needs a diversity of measures to assess its health and performance, an organisation needs a diversity of measures to assess its health and performance. Performance has to be built into the enterprise and its management; it has to be measured - or at least judged- and it has to be continuously improved."(1990,p222)

The overwhelming of traditional accounting practices by the arrival of intangible assets is detailed by Thomas A. Stewart in *Intellectual Capital The New Wealth of Organisations* (1997): "At bottom, accounting measures a company's accumulation and concentration of capital, and is based on costs - that is, it assumes that the cost of acquiring an asset fairly states (after some adjustments for items like depreciation) what an asset is worth. The model falls apart when the assets in question are intangible. As knowledge and its wrapper become separated, the relationships between current value and historical costs has broken down. The cost of producing knowledge bears much less relationship to its value or price than the cost of producing, say, a ton of steel. In the Industrial Age an idea couldn't become valuable unless a measurable collection of physical assets was assembled around it to exploit it. Not so now...Netscape, for example, concentrated an enormous amount of intellectual capital that assumed scarcely any physical or institutional form until, released into the market as an initial public offering in 1995, the capital manifested itself financial - to the tune of £2 billion." (1997:59)

Non-Financial Indicators

Recognition that purely financial measures of business performance are inadequate in modern business leads to consideration of the use of non-financial performance measures, as Elaine Monkhouse has argued, "Financial measures explicitly ignore a range of resources which, in an age when products and services can be rapidly duplicated, are being recognised as keys to sustainable business success. Resources such as skills, technological and management competency, innovation, information, brand loyalty, and demonstrable concern for the environment and community are rising to the top of the management agenda. Yet ability to systematically monitor management's efforts to improve the effectiveness of such resources through appropriate performance measures is dramatically underdeveloped. Decisions to invest in training or R & D for example, still require a leap of faith. Knowledge of how and why available measures are being used is scarce beyond the domain of quality measures.. dispelling the popular misconception that the use of non-financial measures is widespread and sophisticated. (1995;i)

A framework for developing non-financial performance measures by London Business School and the University of Warwick for the Chartered Institute of Management Accountants (CIMA), this structured approach has six dimensions: financial, competitiveness, quality, resource utilisation, flexibility, and innovation:

• *competitiveness*

performance relative to competitors whether in overall company performance, or in defined fields such as technical excellence, retaining staff etc.;

• *quality*

quality as defined by the customer, whether internal or external;

• *resource utilisation*

both the obvious use of tangible resources, such as machinery, and the less obvious use of intangible resources, such as corporate knowledge and communications;

• *flexibility*

the ability of a company to meet changing customer needs, and redirect resources in a timely fashion to maintain business efficiency;

• *innovation*

the ability to encourage, and support new ideas, products or processes, and turn them into commercial reality. (Monkhouse 1995:28)

Of course to be of use these measures require careful and appropriate definition, in the context of the industry and company concerned, accurate and verifiable assessment, and some form of rigorous internal and external benchmarking in order to lead to superior performance (Camp 1989).

The Balanced Business Scorecard

In the United States, Kaplan and Norton's concept of the balanced business scorecard was developed by a number of leading companies looking for a new performance measurement model including DuPont, General Electric and Hewlett Packard. "The collision between the irresistible force to build long range competitive capabilities and the immovable object of the historical cost financial accounting model has created a new synthesis: the balanced scorecard. The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investment in long term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology and innovation. (1996:7)

However Kaplan and Norton caution against too literal a pursuit of quality objectives,

"With the proliferation of change programmes under way in most organisations today, it is easy to become preoccupied with such goals as quality, customer satisfaction, innovation and employee empowerment for their own sake. While most of these goals can lead to improved business-unit performance, they may not if these goals are taken as ends in themselves. The financial problems of some recent Baldrige Award winners give testimony to the need to link operational improvements to economic results " (1996:150). Kaplan and Norton propose instead a *balanced scorecard* which retains traditional financial measures, but recognises that these record past events but are not adequate to guide and evaluate the challenge of information age companies to create future value through investment in customers, suppliers, employees, processes, technology and innovation. Hence the balanced scorecard complements financial measures of past performance with measures of the drivers of future performance. Derived from the organisations vision and strategy, the scorecard measures organisational performance from four perspectives: financial, customer, internal business processes, and learning and growth. (1996)

Conclusions

The Company: A Bundle of Assets Or A Set of Relationships ?

In the West we are encouraged to conceive of the company as a bundle of assets, property rights over which are the key to economic performance. As Boisot and Child have suggested in the East a company is conceived as a set of relationships, this "system of network capitalism works through the implicit and fluid dynamic of relationships. On the one hand this is a process that consumes much time and energy. On the other hand, it is suited to handling complexity and uncertainty " (1996). As the value attributed to intangible assets grows in the knowledge based companies of the late 20th century, conceptions of the company are beginning to change in the West.

To some in business the stakeholder concept remains largely a public relations exercise. However it is conceivable that a stakeholder approach may be not just a moral imperative, but a commercial necessity "in a world where competitive advantage stemmed more and more from the intangible values embodied in human and social capital." (Plender 1997:2) The importance of developing good stakeholder relationships is becoming increasingly apparent for successful enterprise in the information age. This involves not simply acknowledging the significance of these relationships, but making consistent efforts to measure and manage stakeholder relations, with the objective of continuous improvement in all company operations, and ultimately the goal of increasing stakeholder values. In this context it is likely there will be further investigation by many companies of how stakeholder strategies may usefully be applied in business, and how stakeholding is interpreted in other companies and countries. It is harder for companies driven by narrow self-interest to survive public scrutiny, it is still possible to make money this way, but this form of enterprise is invariably short term. Companies that are durable, invariably possess a wider and deeper sense of their responsibilities.

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