

Whom does the board serve?

It is all a matter of perspective — evolving perspective, that is.

BY DONALD P. DELVES

TWO POWERFUL FORCES are reshaping the agendas of U.S. corporate boards. The first is an increase in “shareholder democracy” and the power of institutional and activist shareholders. The second is a subtle but more profound expansion in the perceived responsibility of the board to serve multiple constituents.

Even as boards’ accountability to shareholders is increasing, their sense of responsibility to other stakeholders is also increasing. This is evidenced by a growing focus on “corporate social responsibility” and topics like employee engagement, management development, succession planning, diversity and inclusion, community service, and environmental responsibility.

Is it possible that greater accountability to shareholders can go hand-in-hand with greater responsibility to all stakeholders? What are the implications for board members? Does the board serve all stakeholders, or just shareholders? Let us examine these questions from several perspectives:

- *The Legal Perspective:* The answer here is clear for U.S. corporations. The board’s duty is to shareholders. All other stakeholders are deemed to have relationships with the corporation that are defined by contractual arrangements, and hence, do not require board representation. Shareholders are the “residual claimants” whose interests need to be safeguarded and overseen by a board whom they elect to represent their in-

terests. While this is legally clear, it does not sufficiently account for the interests of communities and the environment, which one could argue are unrepresented residual claimants.

- *The Compensation Perspective:* For at least the past two decades, executive compensation has been focused primarily on aligning management with the interests of shareholders. “Maximizing shareholder value” has been the mantra of compensation committees. That said, other “softer” performance criteria have been creeping into management incentives, including measures of customer experience, employee engagement, leadership quality, innovation, community impact, and environmental stewardship. Boards are willing to pay for these non-financial results because they see the connection between value to shareholders and value to others.



Donald P. Delves is president of The Delves Group (www.delvesgroup.com), a compensation and corporate governance consulting firm that advises boards of directors.

- *The Reporting Perspective:* In a relatively new trend called “integrated reporting,” a growing number of U.S. corporations are providing a broader array of information and data, which incorporate the company’s performance with its employees, communities, and the environment. This “One Report,” as it has been known for some time in Europe and elsewhere, reflects the corporation’s service to multiple constituents and its broader role in society. An example is Southwest Airline’s One Report on Performance, People, Planet. Many other companies produce extensive sustainability reports. Kimberly-Clark’s focuses on products,

operations, community and employees. PepsiCo’s is presented in terms of human sustainability, environmental sustainability, and talent sustainability.

- *The Ethical Perspective:* In 1962, Milton Friedman wrote that “Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their shareholders as possible.” Now, almost 50 years later, the role, importance, and impact of the large corporation on society often surpasses that of most governments. Corporations can also make decisions and re-allocate resources at vastly greater speed and efficiency than government. It is hard to avoid the obvious and significant influences corporations have on communities and the environment. Responsibilities to society and shareholders are not as conflicting as Friedman imagined. In fact, many companies and their boards are finding synergistic solutions that benefit all or multiple stakeholders.

- *The Practical Perspective:* When Wal-Mart decided to be a greener, more environmentally friendly company, it did it in a way that was consonant with its mission to cut costs, provide inexpensive and efficient products for its customers, and produce higher profits and returns to shareholders. Tyson Foods’ stated goal to “relieve and ultimately end childhood hunger” is consonant with its corporate mission as a global food producer. It is not only possible to make money and be socially responsible, it is possible to make *more* money.

What do these various perspective views tell us about the duty of the board in U.S. corporations? It appears that corporations and their boards have an economic responsibility to their owners that supersedes, but by no means excludes, all other stakeholders. In fact, serving the interests of shareholders includes serving the interests of all stakeholders in ways that increase profit and create value. ■

The author can be contacted at ddelves@delvesgroup.com.