

Sustainability for whom – shareholders or stakeholders?

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The word 'stakeholders' has become a "buzz" word in business and sustainability circles. You simply don't even take a toilet break without consulting your stakeholders. So who are these mysterious, and all-powerful stakeholders? And, what is their agenda?

A stakeholder is some one who has a stake in the business, not necessarily financial. One of the important stakeholder groups is employees. Others may include, in no particular order of importance, partners, suppliers, regulators, community, non-government organisations, the media and customers. Stakeholder theory uses the levels of influence and interest of a stakeholder to determine their level importance.

One of the more fundamental questions about the notion of sustainability within a business context is whether directors have a fiduciary duty to take into account interests of those parties other than investors, and taking the extreme view, are they in fact in breach of fiduciary duty by doing so. The famous US economist of the post-war era, Milton Freedman, who argued that the sole purpose of business is to make profits would indeed be supportive of the extreme view.

However, times have changed. Reputational damage by stakeholders in the 'CNN world' that we live in is known to bury businesses in the vortex of quick sand before they manage to comprehend a solution, or indeed even understand what went wrong.

Nothing illustrates more clearly the growing importance of stakeholders to business than the Company Law Review (CLR) process in the UK. The recent UK government white paper quotes that "the CLR proposed that the basic goal for directors should be the success of the company for the benefit of its members as a whole; but that, to reach this goal, directors would need to take a properly balanced view of the implications of decisions over time and foster effective relationships with employees, customers and suppliers, and in the community more widely. The Government strongly agrees that this approach, which the CLR called "enlightened shareholder value", is most likely to drive long-term company performance and maximise overall competitiveness and wealth and welfare for all. It will therefore be reflected in the statement of directors' duties, and in new reporting arrangements for quoted companies under the Operating and Financial Review Regulations (OFR)."

The ripple that started with concepts such as *The Balanced Score Card* is turning into a tidal wave with reforms such as the OFR that is washing away theories (such as those of Freedman's) of days past, and creating a sea change in the way business will morph in the future. Indeed, a parliamentary inquiry is presently taking place in Australia that, amongst other issues, seeks to review the extent to which organisational decision-makers have an existing regard for the interests of stakeholders, and the broader community within the context of the Corporations Act. I encourage you to contribute, as stakeholders.

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