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Duty of Directors to promote Success of the Company and Enhancing Stakeholder Value Through CSR

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The Board of Directors is the supreme governing body of the company, except for those matters which by law or as provided by the Articles of Incorporation must be decided by the General Shareholders Meeting. The supervision of all corporate activities is vested in the Board. The Board exercises its functions in the best interests of the company, with the aim of maximizing the long-term value of the company in legitimate interests involved, either of a public or private nature, and in particular taking into account other interest groups of the company: employees, customers, business partners and society in general.

The underlying duty of directors borders on the duty of care and skill geared towards maximizing the shareholders' interests. Over the years there has been a shift from the duty of directors solely focused on maximizing shareholder interest to catering to the interest of other stakeholders - suppliers, customers, employees, the community, as a way of promoting the success of the company.

Governance responsibility of the board

The Board is the most important decision making body of the company. A company should have a dedicated and responsible board to ensure that the company continues to achieve its objectives. The SEC Code listed the responsibilities of the board as follows[1]:

1. The Board is accountable and responsible for the performance and affairs of the company;
2. The principal objective of the board is to ensure that the company is properly managed;
3. The responsibility of ensuring good corporate governance lies with the board;
4. The board must define the framework for the delegation of its authority or duties to management.[2]

Duty of Directors to promote the Success of the Company - Stakeholder Value and Corporate Social Responsibility

The duty of directors to promote the success of the company is with regard to the interests of the customers, suppliers, employees and the community.[3] Some have argued that the rule is designed to ensure that directors think about the wider implications of their business decisions whilst still promoting the interests of the members thus expanding the scope of acting in the best interest of the company alone.[4]

Corporate Social Responsibility and Stakeholder Value Maximization

This duty has been coined as the stakeholder value theory. It seeks to widen the focus of the board beyond the state of using the resources of

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a company solely for the benefit of shareholders to the state of promoting the company by using its resources for the benefit of a much wider group of stakeholders. Benefits to stakeholders can be increased through management’s power to increase efficiency and to harness the creative and cooperative efforts of stakeholders for competitive advantage.[5] Examples of activities which benefit stakeholders are: construction of community theatre facilities, reduction of pollution in a river system providing childcare facilities for employees and producing cheaper and/or safer products for customers.[6] These activities constitute what is known as corporate social responsibility.

Corporate Social Responsibility (CSR) also known as corporate conscience is all about how companies manage the business with the aim of delivering social, economic and environmental benefits to all stakeholders through initiatives. Over the years it has developed from a place of being voluntary to being mandatory for directors to consider the interests of stakeholders.

As stakeholders are becoming increasingly interested in business affairs, many companies are taking steps to ensure that their partners conduct themselves in a socially responsible manner. Some are introducing codes of conduct for their suppliers, to ensure that other companies’ policies or practices do not tarnish their reputation. Some of the positive outcomes that can arise when businesses adopt social responsibility include: Company benefits (Improved financial performance, Lower operating costs, Enhanced brand image and reputation), Benefits to the community and the general public (Employee volunteer programme, Corporate involvement in community education, employment and homelessness programme), Environmental benefits (Greater use of renewable resources).

References

[1] International Journal For Business and Finance Management Research; Board of directors and corporate governance in Nigeria Kunle Aina http://www.bluepenjournals.org/ijbfmr/pdf/2013/October/Aina.pdf

[2] SEC Code para 5.

[3] Companies Act of the United Kingdom in section 172.

[4] The Bell Group Ltd (in liq) v Westpac Banking Corporation [No 9] (2008) 39 WAR 1.

[5] Philip Kotler, Francois Maon, Kotler, Philip, Vanhamme, Joelle (editors) ‘A Stakeholder Approach to Corporate Social Responsibility: Pressures, Conflicts and Reconciliation’ Farnham: Gower Publishing Ltd, 2012. 303.

[6] Ibid.

[7] International Institute for sustainable development: A Global guide https://www.iisd.org/business/issues/sr.aspx

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