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Relational companies: a Christian perspective on corporate responsibility

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There is growing public discontent with the short-term financially driven approach of listed companies with ever-increasing dividend payments and other distributions demanded by shareholders. At the same time, there is an increasing recognition that real long-term value lies in promoting the interests of employees, suppliers, customers and other stakeholders. This paper challenges Christians as investors and customers of listed companies to be part of a movement to encourage a more inclusive and acceptable form of capitalism and proposes a new template for companies to operate with a relational ethos.

Setting the scene

What should we expect from large companies? They supply us with food, clothes, household goods, medicines, our means of transport by selling us cars, petrol and diesel, tickets for train and air travel, they supply utilities such as gas, electricity and water and banking services including credit cards and a mortgage to buy a house. The list goes on and on. Without large companies to provide so much of what we need (and much we don't need), our standard of living would significantly diminish.

They also benefit society by providing employment, pensions, careers and opportunities for investment. However, the demands from shareholders for short-term and ever increasing financial return can lead directors to ignore the value of promoting and nurturing the interests of employees, suppliers, customers and other stakeholders, and with little encouragement for long-term planning and steady investment in the development of the business.

Should we expect more from these companies? We would presumably expect them to support and engage with those who work for them, those they buy their supplies from, their customers and others they deal with and society more widely. We would probably expect them to: pay their employees well,[1] at least the living wage with incentives including cash bonuses; exercise some control over ever-increasing pay levels of senior executives - avoiding excessive pay differentials between highest and lowest paid;[2] pay their suppliers on time and within a short timescale;[3] provide a personal service to customers and pay taxes where profits are earned to support the stable society on which they rely.[4]

There are, however, many examples of practices by companies in their dealings with employees, suppliers, customers and other stakeholders which fall well below the standards we as individuals would expect to follow in our own dealings with others. The malpractices and excesses of banks which came to the fore in 2008, and those in the corporate world generally, have led to a loss of trust and confidence by society in the business world. We engage with these companies every day but seem powerless to influence them or to persuade them to take responsibility for the impact they have on employees, suppliers, customers and wider society.

Recognition of long-term stakeholder value

Instead of being driven by the imperative for ever-increasing short-term financial returns for shareholders, would it be better if they were to operate in the interests of all stakeholders who rely on them for their livelihood and wellbeing? If there were a community of interests and alignment of purpose between the company and stakeholders working together for their mutual benefit, companies, it is argued, would be more competitive, productive, successful and acceptable to society. After all, the word company comes from the Latin *cum panis*, which translates as breaking bread together, from which there is benefit to all involved. This is in contrast to what often seems to be the practise in the corporate world today, where various parties fight for the most favourable financial terms.

Business leaders, politicians, economists, academics and opinion formers increasingly voice their conviction that a change of direction is needed away from the short-term profit focus towards an approach which recognises and embraces the benefits of positive, nurtured and mature relationships with stakeholders and their interests. This reflects the growing appreciation of the value of what is now referred to as social and relational capital and not just financial capital, by which companies display commitment to and create value for their stakeholder community. I will first explore briefly the background to corporate structures and how the development of share trading markets has led to a disconnect and loss of responsibility by shareholders who have the ownership interest in listed companies.

Relational distance between the company and its shareholders

Companies are legal entities created under company law which have many of the characteristics of a person. They can own assets, and develop, make and sell products, provide services, borrow money (and create security over their assets for a loan), sue and be sued. They have provided incalculable benefits to the commercial world and society generally. But they cannot operate themselves and directors are appointed by the shareholders to manage and develop their operations primarily for the benefit of those shareholders.

When companies were first created, shareholders bore the risk of personal liability for their debts and obligations if they failed, in the same way that individuals would for their own business. The concept of limited liability was introduced in Victorian times, as investors wished to invest in companies and make a return but not be involved in day to day management. If the company failed, the shareholders would lose the amount of their investment but have no responsibility for the underlying debts and liabilities of the company itself, for instance sums owed to employees, suppliers or bank funders. The share trading and investment market in shares of listed companies developed based on the market price and so over time shares became just another tradable commodity. Wealth was generated for shareholders often at the expense of those employed by the company and long-term investment in development of the business.

If the company's financial performance is not satisfactory, shareholders tend to sell their shares rather than engage with the company to find solutions and hold the directors to account. The short-term financially driven approach is encouraged by investment intermediaries as investments in shares are often in managed funds, which means that an investment adviser (or pension fund trustee) might refer investment decisions to a fund manager which in turn might invest the monies into specialist funds for investment in specific listed companies. The original capital providers frequently therefore have no knowledge of, or interest in, the underlying business of the companies they invest in and how they treat their employees and other stakeholders and, indeed, may not know in which companies they have an interest. Other shares may be held directly in companies by, for instance, financial institutions (such as insurance companies), private equity and sovereign wealth funds.

Responsibility in investment

It can be said that as stewards of our money we have a responsibility as to how we invest and should be satisfied, so far as possible, that a company in which we invest has high ethical standards, and pays its employees generously, treats suppliers and customers responsibly, pays appropriate amounts of tax, engages with and supports the local community and is a responsible corporate citizen. Investors can of course choose funds which invest in companies which meet ethical criteria, for instance respecting the environment, but they are unlikely to focus on the interests of all stakeholders in companies and wider society, as suggested in this paper.

We go out of our way to buy goods stamped with the Fairtrade logo as we want to ensure that the farmers and workers in Africa, South America and Asia are paid properly and their interests protected. Should we not also choose to buy goods and services from companies which behave responsibly to all stakeholders who rely on those companies for their well-being and livelihood?

The duties of directors of companies require them to have regard to certain stakeholder interests but there are doubts as to how effective this is.[5] The UK Corporate Governance Code addresses corporate governance matters, including shareholder interests but not those of other stakeholders. The Government Green Paper on Corporate Governance Reform published in November 2016 includes proposals for strengthening the employee, customer and wider stakeholder voice. It recognises the economic benefits from bringing external perspectives to bear and in understanding and maintaining healthy relationships with interested groups.

There are suggestions for new law and regulation on various aspects of corporate governance. However, this can lead to a mechanistic and formulaic approach to compliance, adding to costs and stifling innovation. Government, it is submitted, should provide the framework through law and regulation but standards in the private sector should be led by the companies themselves under the stewardship of their shareholders.

The relational approach

One way in which company practice could be changed draws on the concept of Relational Thinking,[6] which analyses the structure of relationships in organisations and suggests practical ways to put relationship priorities at the heart of society, in contrast to a focus on the interests and rights of the individual within a narrow financial and materialistic paradigm. This simple, but in some senses radical, approach reflects the principle that Christianity is a relational faith, seen centrally in the covenant between God and his people. Relationships – with God and other human beings – should be at the centre of our lives (Matt. 22: 37-40). Christians are called to seek and pray for harmony in society, do good to all and help to promote mutual understanding, respect and shared goals and values.[7]

Such an approach in a company context leads to a critique of the current tendency for a short-term financially driven approach towards a commitment to encouraging companies to serve the interests of, and create value for, all stakeholders including shareholders, i.e. all those who build the company's success through a mix of investment, skills and responsibilities. It would put stakeholder relationships at the centre of company operations and decision-making.

To achieve this, listed companies can be assessed on the extent that they have a relational ethos, based on their published report and accounts, corporate social responsibility and other reports. One attraction of this proposal is that it requires no change or addition to UK law or regulation, simply a willingness to change the priority from a shareholder to a more stakeholder inclusive approach.

Relational Business Charter standards

A set of principles reflecting the standards expected of a company with a relational ethos is set out in the Relational Business Charter.[8] The following are some examples of what this means in practice.

Relational companies have goals in their constitution and directors' statements reflecting a relational approach to addressing stakeholder interests. The company's policy towards stakeholder recognition and relationships is disclosed, together with analysis and a report on the quality of those relationships. There is active dialogue with stakeholder groups, for instance quarterly meetings with shareholders and other stakeholders, at different times and in different parts of the country to encourage attendance, with break-out sessions with finance, HR and other directors. Face-to-face meetings lead to greater openness, understanding and trust. Individual direct holdings of shares are encouraged so there is closer engagement between the company, directors and management on the one hand and with individual investors on the other.[9]

Long-term investment is encouraged so that, for instance, if shares are held for 2 years, additional shares would be issued to the holder, with invitations to meet the directors and naming in the annual report and accounts. The company encourages and incentivises employees by paying above the living wage, paying cash bonuses and establishing share incentive schemes. Employees are listened to and their views about the company sought. This leads to engaged and encouraged employees with improved productivity, lower absence through illness and lower staff turnover.[10]

Respect for the value and contribution of all employees is recognised by limiting pay differentials between highest and lowest paid.[11] Suppliers are paid on time (within 30 days), helped with IT and supported when in financial difficulties. There are prompt and personal dealings with discontented customers, with swift and effective complaints procedures. Financial stability is promoted by limiting the amount of debt, with consent required from shareholders for any significant debt increase.[12] Obligations to local and wider society are fulfilled by, for instance, giving employees time off to support local community organisations and paying proper amounts of tax in the country where profits are earned.

A provisional independent assessment of the extent to which a company has a relational ethos based on the Charter standards would be discussed with the company to encourage improvement. The results of the assessment would then be published in the form of a score out of 100 or the award of a kitemark if a certain standard is achieved. Comparisons will be made across particular business sectors. Companies which rate highly will be recognised and lead by example, while others would see the merit of the relational approach in terms of public profile and acceptability and start to adopt it.

The benefits of following a relational approach would be recognised as showing responsibility to stakeholders and society but will also mean companies being more productive, competitive, sustainable and successful overall. A Relational Investment Fund could be established so that investors could choose to have an interest in companies which have a relational ethos and, as shareholders in the fund, they could be given special opportunities to engage with those companies.

Conclusion: a movement for change

Investments in shares in a particular company could be made by a group of Christians or other people concerned about corporate behaviour or by an individual buying shares. The investors would contact the company and attend the AGM to question and challenge matters where acceptable relational standards are not met. As consumers, if we have a choice we could use our purchasing power to buy products and services from those companies which demonstrate a high relational ethos and recognise their responsibility to society. As employees we would be attracted to work for such companies with confidence of their business practices.

Publicity would be given about companies with a relational ethos (by the news and social media), their profile would be raised by education about the corporate world and how investors, customers and communities can influence the behaviour of large companies. A move towards compliance with the Charter's principles, and an understanding and recognition of what it represents, would lead to restoration of confidence and trust by society in the corporate world.

There is already widespread recognition that stakeholder interests need to be valued, nurtured and reported on, given the move away from dependence on financial reporting. Analysis of the quality of stakeholder relationships would also give a more reliable picture of likely future profitability than backward-looking financial results. Companies will be able to learn how those relationships can be improved not only for the benefit of the company and stakeholders but also wider society. Shareholders should take greater responsibility to hold directors to account and encourage them to steward their companies responsibly.

The benefit of a published index of stakeholder relationship indicators would be to raise awareness of the issues and draw comparisons between companies in specific sectors as to their relational ethos and standards, based on the principles of the Relational Business Charter. Investors, consumers and others would then be able to apply pressure on listed companies to encourage a change of culture through closer engagement with stakeholders and a recognition of standards of responsibility that society finds acceptable. Ultimately, this is what may bring about the transformation of capitalism itself.

It is through a movement to transform companies with clearly defined and practical objectives, such as those set out in the Relational Business Charter, that the poorly articulated but deep concerns of the public can be addressed, and the corporate sector can begin the task of rebuilding the trust of society. Without such a movement, the danger is that Governments will feel compelled to introduce increasing amounts of legislation and regulation which is likely to involve high costs, and fail to lead to more positive relationships among stakeholders and the companies they serve.

For further reading:

- John Ashcroft, Roy Childs, Alison Myers and Michael Schluter, *The Relational Lens: Understanding, Managing and Measuring Stakeholder Relationships* (Cambridge University Press, 2017).
- Jonathan Rushworth and Michael Schluter, *Transforming Capitalism from within: a Relational Approach to the Purpose, Performance and Assessment of Companies* (Relational Research, 2011). Available at http://relationalthinking.net/relational-business/
- Jonathan Rushworth and Dr Arad Reisberg, *Transforming Capitalism from Within* (International Corporate Rescue 11, 2014). Also available at http://relationalthinking.net/relational-business/
- Jonathan Rushworth, 'A New Approach to Business in the UK following Brexit' (Brexit: Opportunities, Challenges and the Road Ahead, Britain in Europe Policy Report, Brunel University, London, October 2016).
- Submission by Jonathan Rushworth and Michael Schluter of Relational Research, in response to *Green Paper on Corporate Governance Reform*, Department for Business, Energy & Industrial Strategy (November 2016).

Jonathan Rushworth is a retired partner at a City of London law firm, with a broad-ranging company and finance practice, who served on professional committees and wrote and lectured extensively on legal topics. Since retiring from legal practice he has worked with Dr Michael Schluter and others in developing the framework of Relational Thinking. His focus is on analysing the current short-term financially driven approach seen in corporate structures and behaviour and exploring how companies might better serve the interests of all stakeholders including shareholders and society generally, in a way which will restore trust and confidence in the corporate world.[13]

1 It has been reported that average salary levels are below those 10 years ago in real terms.

2 Recent examples where substantial numbers of shareholders have voted against what were seen as excessive remuneration packages include Astra Zeneca, Crest Nicholson, Drax, Morrisons, Pearson and WPP. The High Pay Centre reports that FTSE 100 chief executives are paid on average 130 times more than their average employee. In 1998, by contrast, the average CEO was paid 47 times more than their employees.

3 Bacs Payment Schemes Limited reported in December 2016 that 47% of UK SME's were paid beyond the agreed payment date by customers and clients in respect of sums totalling £26bn. Late payment can have a devastating effect on cash flow and lead to insolvency.

4 Well published recent examples in the UK where little or no tax has been paid include Amazon, Apple, Facebook, Google and Starbucks.

5 s172 Companies Act 2006 requires directors in carrying out their duty in a way they consider most likely to promote the success of the company for the benefit of shareholders, to have regard to certain stakeholder interests (which include the interests of employees and suppliers).

6 See www.relationalthinking.net and www.relationalresearch.org for a detailed explanation.

7 See for instance, Isaiah 1:12-17, Amos 5:21-24, Micah 6:6-8, Jeremiah 29:7, Galatians 6:10.

8 For details see Jonathan Rushworth and Michael Schluter, *Transforming Capitalism from Within: a Relational Approach to the Purpose, Performance and Assessment of Companies* (Relational Research, 2011).

9 About 10% of listed company shares in the UK are held directly by individuals, whereas the figure was about 50% in the 1960s.

10 Other ways to engage and encourage employees could include arranging office activities to mix senior with junior across departments, e.g. office choirs and sports teams.

11 John Pierpoint Morgan, founder of JP Morgan, believed in a 20:1 ratio as a higher pay ratio would affect moral and productivity. Recent and current politicians, for instance David Cameron and Jeremy Corbyn, have suggested such a ratio, in particular in the public sector.

12 Debt could be limited by a low debt to equity ratio and high profit to interest ratio, depending on the nature of the business.

13 The author acknowledges with thanks comments and suggestions from Dr Michael Schluter and the support and contribution of Dr Jonathan Chaplin.