Stewardship is defined as "the act of safeguarding and enhancing an organisation's capability to create economic and societal value over time". It is also about fulfilling one's responsibility in growing the assets entrusted such that they would be handed over in better shape. PHOTO: FREEIMAGES

Board's role inextricable from good stewardship

In fulfilling that role, each board member must make a commitment to the sound custody of the company on behalf of all stakeholders. BY ONG BOON HWEE

WHAT is the role of a company's board? Why does a company need to have a board? From a purely legalistic perspective, the answer seems obvious: Since 2012, Singapore's Code of Corporate Governance has stated that the board of a publicly listed company should bear responsibility for the company's long-term success.

In practice, this is somewhat more complicated. What qualifies as long-term success, and how does the board influence it? What should the board actually do? And what about companies that are not publicly listed, or non-profit organisations? Do they need a board of directors, and if they have one, should the board's role be the same as that of a publicly listed company's board?

One way of getting some clarity of the board's role is to view it from a stewardship perspective. Stewardship is defined as "the act of safeguarding and enhancing an organisation's capability to create economic and societal value over time". Stewardship is also about fulfilling one's responsibility in growing the assets entrusted such that they would be handed over in better shape. In practice, this means that the board's purpose is to find a way of responsibly maximising the company's value-creation abilities over the long term, and to constructively guide the company's management in carrying out that strategy.

As the stewards of a company's long-term success, the board needs to fulfil several key responsibilities. Firstly, it must create long-term value for the company. Secondly, it must ensure that the company's assets are preserved and improved over time. And thirdly, it must ensure that the value created by the company can be shared with the stakeholders, and also benefit the larger community within which the company operates.

To accomplish these objectives, the board needs to be able to make informed and substantiated judgements about the direction of the business and its capacity for growth. All the directors, both executive and non-executive, need to have a good grasp of the company's fundamentals including its purpose and core values, capabilities and risk profile, the stakeholders who are important to it, the relevant sustainability issues, and its long-term strategic considerations, among other things. They must be able to keep sight of what is important to the company and decide, on that basis and in a timely manner, what strategic changes or transformational actions are appropriate and are in line with the company's core values.

The board also needs to communicate clearly with its various stakeholders, including investors, customers, employees and society-at-large. It has to keep them informed, balance their concerns and manage their needs and expectations, which may vary widely. For example, investors may be interested primarily in information that helps them to better determine their investment allocations, while customers may be more interested in how to distinguish the company from its competitors.

The chairman plays a central role in the board's practice in good stewardship. He or she needs to ensure that the board has the right composition, and sufficient preparation and capabilities to fulfil its responsibilities. This would include ensuring that board members stay updated and engaged about the company, managing meetings efficiently, and encouraging board members to acquire relevant skills and knowledge. Sometimes, the chairman, together with the relevant committee, may even have to make the decision to replace certain board members who are unsuited for the company's needs.

IMPROVING CLARITY

An effective tool towards sharpening the focus of the board's stewardship perspective is by the development of what is termed a board mandate: a formal statement outlining the company's purpose, how it wishes to be known to its stakeholders, and what drives its business direction. This mandate summarises the company's fundamental characteristics, such as its charter, its core values and principles, its appetite for risks, its culture and aspirations, as well as approach to business and sustainability.

That which differentiates the mandate from other forms of information about the company is that it can be used as a framework to guide the company's long-term development. Because it clearly sets out the company's character and definitions of success, the board mandate provides a useful baseline for decision making at the highest levels – for instance, does a particular strategic action, such as a major acquisition or an expansion into a new market, fit with the company's purpose, or even its profile of what it is or what it wants to be as described in the mandate? In this way, the mandate helps the board to maintain strategic focus and direction over the long term.

The mandate is also useful in guiding the company's internal and external communications, as it articulates the importance that the company places on its various stakeholders and the type of relationship that the company wants to have with them. For example, the mandate can underscore the company's emphasis in considering the interests of its respective stakeholders, or the needs of the community where it operates, in relation to the business actions it has taken.

Of course, a board mandate – as with any other good practices – could only add value and reflect the substance of sound stewardship when it has been internalised by all the members of the board and is consistently referenced to in the board's decision-making process. A mandate, and indeed any other aspect of stewardship, that is created or executed as a box-ticking process will make little difference to the company. Here, again, the chairman could play a prominent part in developing the mandate and ensuring its relevance to the board when it comes to application in practice.

In conclusion, the board's role is inextricable from the principles of good stewardship. It involves a deep understanding of the company, the stakeholders and the community where the company operates. It is multifaceted, involving decision making on short-term and long-term matters, needing attention on tangible and intangible assets, as well as encompassing focus that sustain the well-being of the company and community alike. And in fulfilling that role, each member of the board – indeed the board as a whole – must make a commitment to the sound custody of the company on behalf of all stakeholders. Ultimately, the role of the board is to be the trusted steward of the company.

The writer is CEO of Stewardship Asia Centre, a Singapore-based thought-leadership centre committed to fostering stewardship across organisations in Asia.