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特許秘書

Corporate Governance Paper Competition on

Is it possible to tie governance with a sense of purpose given the myriad of stakeholders' interests?

and Presentation Awards 2021

Contents

About The Hong Kong Chartered Governance Institute

The Hong Kong Chartered Governance Institute

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The Hong Kong Chartered Governance Institute (HKCGI), formerly known as The Hong Kong Institute of Chartered Secretaries (HKICS), is the only qualifying institution for the internationally recognised Chartered Secretary and Chartered Governance Professional qualifications in Hong Kong and the Mainland of China.

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HKCGI Corporate Governance Paper Competition

The Annual Corporate Governance Paper Competition and Presentation Awards organised by the Institute aims at promoting the importance of good governance among local undergraduates and providing them with an opportunity to research, write and present their findings and opinions on the selected theme.

Participants are required to submit a paper of not more than 5,000 words in English on the theme of the year's competition.

Six teams with the highest total scores were invited to present their papers to compete for the Best Presentation Award. Audiences voted online to select the 'Audience's Favourite Team'.

Topics of previous years' competition:

2007	Corporate Social Responsibility
2008	Corporate Risk
2009	Investor Relations
2010	Disclosure & Transparency
2011	Best Practices vs Practicality
2012	The 21st Century Board
2013	Corporate Governance means more Reports and Disclosure?
2014	Changing Rules, Changing Roles – Managing It All
2015	Risk Management and Corporate Governance
2016	Internal and External Forces for Better Corporate Governance
2017	Corporate Governance and Business Sustainability
2018	Corporate Governance – Challenges and Opportunities in the Digital Age
2019	How is good governance of Non-Governmental Organisations (NGOs) similar to, and different from, good corporate governance of public companies age
2020	ESG Reporting: A Value Proposition? Yes or No?

Prizes of the competition:

Paper Competition	Best Paper Award	HK$11,000 plus publication of the paper in 'CSj', the monthly journal of the Institute
	First runner up	HK$7,000
	Second runner up	HK$5,000
	Three Merit Prizes	HK$1,000 each
Paper Presentation	Best Presentation Award	HK$6,000
	First runner up	HK$3,000
	Second runner up	HK$2,000
	Three Merit Prizes	HK$1,000 each
	Audience's Favourite Team	HK$2,000

Best Paper Award

Shevin Fan, Isaac Lee, Hellen Liu and Magnolia Wang

City University of Hong Kong,
Bachelor of Law,
Bachelor of Business Administration (Accountancy),
Bachelor of Business Administration (Accountancy),
Bachelor of Law

I. Introduction

During the 1990s, several big-name companies collapsed suddenly without any forewarning in their published accounts.[1] At the same time, there was growing scepticism from investors and people gradually lost confidence in the overall market. In response to this increasing lack of investor confidence in the accountability and integrity of listed companies,[2] the concept of corporate governance was first officially introduced by the Cadbury Committee in 1992.

After decades, the development of corporate governance is approaching completeness. The possibility of corporations pursuing purposes other than profit has been the subject of debate for several years, with two competing theories: shareholder theory and stakeholder theory. The stakeholder theory recognises the responsibilities of corporations in the world today, whether they be economic, legal, ethical

1 Cadbury Committee, The Cadbury Report, Cambridge Judge Business School, accessed 16 July 2021, http://cadbury.cjbs.archios.info/report.
2 ibid.

or even philanthropic.[3] Numerous multinational companies claim to have corporate social responsibility (CSR) at the centre of their corporate strategy.[4]

The current Covid-19 pandemic has led to a market downturn and has constrained investor enthusiasm for investment. To reheat the market and rekindle investor sentiment, corporations are now compelled to perform comprehensive and intelligent governance and trade-off.

II. Theoretical background

A. Corporate governance

Corporate governance was originally defined as 'the system by which companies are directed and controlled'.[5] Corporate governance is now coming to prominence in the business world, based on contributions from professionals and academics.[6] Its theories are based on several disciplines: finance, economics, accounting, law, management and organisational behaviour.[7] Some prominent fundamental theories have been developed to demonstrate corporate governance and the relationship among the parties connected to the companies, notably agency theory, stewardship theory, stakeholder theory, resource dependency theory, transaction cost theory and political theory.[8] More importantly, two mainstream theories have drawn the attention of scholars: shareholder theory and stakeholder theory.

B. Shareholder theory

The original theory of corporate governance is the shareholder theory, which primarily focuses on agency theory. Under this theory, corporate governance aims to eliminate or minimise conflicts of interest between shareholders and directors, and to maintain investor optimism in the long run.[9] Also, it is essential to figure out effective ways of monitoring management teams' actions for the companies.[10] In other words, the board of directors must manage the corporation's business on behalf of the shareholders.[11]

However, this theory does not put any emphasis on the interests of external stakeholders, such as the community or the environment, which reveals that the shareholder theory precludes companies from considering CSR[12] in the decision-making process. Milton Friedman, who first advanced the shareholder theory, claimed that the social responsibility of business is to increase its profits.[13] From Friedman's point of view, a business should seek profits as its aim, rather than CSR, because it reduces the conflicts of interest among employees, shareholders and the board of directors. Hence, the shareholder theory emphasises profits only.

C. Stakeholder theory

With the development of corporate governance, the stakeholder theory has become one of the mainstream theories. The stakeholder theory is significantly different from the shareholder theory, as it explicitly addresses morals and values as central features of organisational management.[14] In comparison with the shareholder theory, the stakeholder theory emphasises the needs of stakeholders, and thus concerns the needs of every group who can affect and/or can be affected by the companies' decisions.[15] In line with this, Richard Branson and Simon Sinek concluded that companies should emphasise purposes and values created beyond profit,[16]

3 Edward Freeman, Strategic Management: A Stakeholder Approach (Boston etc: Pitman, 1984).
4 Mason Mitchel, Top Corporate Social Responsibility Trends in 2020, SmartRecruiters Blog (blog), 21 May 2020, https://www.smartrecruiters.com/blog/top-corporate-social-responsibility-trends-in-2020/.
5 The Committee on the Financial Aspects of Corporate Governance, Report of the Committee on the Financial Aspects of Corporate Governance (London: Gee, 1992), accessed 28 July 2021, https://ecgi.global/sites/default/files//codes/documents/cadbury.pdf.
6 Christine A Mallin, Corporate Governance (Oxford: Oxford University Press, 2019), 17.
7 ibid.
8 Haslinda Abdullah and Benedict Valentine, Fundamental and Ethics Theories of Corporate Governance, Middle Eastern Finance and Economics, no 4 (2009): 88–96.
9 Mallin, Corporate Governance, 17.
10 Carol Padgett, Corporate Governance: Theory and Practice (Basingstoke: Palgrave Macmillan, 2012), 2–16.
11 Padgett, Corporate Governance: Theory and Practice, 17–44.
12 CSR is a self-regulating business model that assists companies to build a corporate image of being socially accountable.
13 Milton Friedman, A Friedman Doctrine: The Social Responsibility of Business Is to Increase Its Profits, The New York Times, 13 September 1970, https://www.nytimes.com/1970/09/13/archives/a-friedman-doctrine-the-social-responsibility-of-business-is-to.html.
14 Robert Philips, Stakeholder Theory and Organizational Ethics (San Francisco: Berrett-Koehler Publishers, 2003).
15 Abdullah and Valentine, Fundamental and Ethics Theories of Corporate Governance, 88–96.
16 Gill Meller, Purposeful Governance – A Stakeholder Responsive Approach. Webinar from The Hong Kong Chartered Governance Institute, Hong Kong, accessed 30 July 2021, https://www.youtube.com/watch?v=6KVjjc8mA7U.

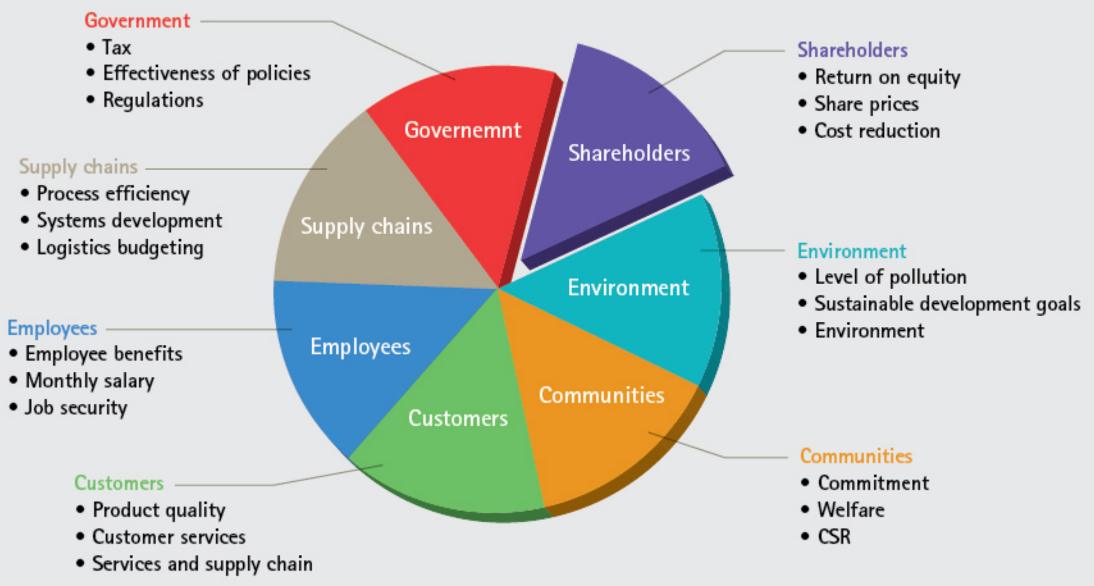

Figure 1: Revised stakeholders' relationship diagram[18]

suggesting that companies should create value to benefit their internal and external stakeholders, rather than simply making profits for shareholders.

The stakeholder approach considers fundamental stakeholders to include customers, shareholders, investors, employees, suppliers, the government, communities and the environment.[17] Below are the interactions among stakeholders, illustrating their relationships and respective interests.

We will now discuss the evidence to demonstrate that the stakeholders approach is more appropriate for the business world of the 21st century, as it sees society as a whole.[19]

III. Incentives

A. Profitability

Profitability, as a likely result of purposeful governance, nurtures the growth of the company. It can motivate companies to further improve their ethical corporate governance and thereby form a virtuous cycle.

Research conducted by scholars from the University of California in 2011 shed light on the positive correlation between stakeholder relationship management and return on assets (ROA), which serves as an indicator of profitability. The Kinder, Lydenberg, Domini & Co (KLD) database was employed, providing data on corporate social performance and different stakeholder relationships.[20] Referring to the research, five key measures were selected: employee relations, product safety/quality, diversity, environment and community. By conducting regression analysis on the statistics, the result (see Figure 2) reveals that employee relations and product safety/quality are the most significant among the five measures.[21] The result verifies the hypothesis

Stakeholder relationships	Coefficients	Standard error
Employees	0.3270	0.1162
Product safety/quality	0.2652	0.1359
Diversity	0.1335	0.1229
Natural environment	0.0736	0.1658
Community	0.1499	0.1443

Figure 2: Regression results on ROA

17 Chris Mason and John Simmons, Embedding Corporate Social Responsibility in Corporate Governance: A Stakeholder Systems Approach, Journal of Business Ethics, 18 January 2018, https://doi.org/10.1007.
18 Mason and Simmons, Embedding Corporate Social Responsibility in Corporate Governance: A Stakeholder Systems Approach.
19 Meller, Purposeful Governance – A Stakeholder Responsive Approach.
20 Chien-Ming Chen and Magali Delmas, Measuring Corporate Social Performance: An Efficiency Perspective, Production and Operations Management, 20, no 6 (2011): 789–804.
21 Shawn L Berman et al, Does Stakeholder Orientation Matter? The Relationship between Stakeholder Management Models and Firm Financial Performance, The Academy of Management Journal, 42, no 5 (1999): 488–506.

that stakeholder relationship management in corporate governance positively impacts financial performance.

Other relationships with stakeholders also influence the performance of the company. For instance, when considering alliance partners as the firm's primary stakeholder, as in a study conducted by Lai and Chen,[22] a positive correlation has been established between a corporate governance mechanism that prioritises the interests of alliance partners and the associated gains. This stakeholder orientation increases the loyalty and commitment to the alliance, eventually pursuing the maximisation of shareholder interests. Concerning the environmental perspective, research conducted by Khojastehpour and Johns[23] revealed the positive effect of environmental CSR on corporate profitability. CSR refers to a range of company activities focusing on stakeholder welfare, where the environment is one of its stakeholder groups.[24] Benefits of implementing CSR, where the environment is taken into consideration, include improved brand reputation and consumer purchase intention, driving the consumers to purchase environment-friendly products. At the same time, customers are more willing to pay higher prices, offsetting the increased costs incurred of CSR practices. As a result of the higher quantity and higher price, environmental consideration impacts positively on corporate profitability.[25]

Analysing the above studies, a well-governed company based on a stakeholder perspective results in an improved financial performance. This is also in line with the instrumental stakeholder theory, which asserts that a firm with stakeholder management will have better profitability, growth, stability and other aspects.[26] In other words, this is the expected return, which is why taking a stakeholder perspective is considered necessary.[27] The expected profitability pushes the firm to improve corporate governance from a stakeholder standpoint, providing possibilities of purposeful management given a myriad of stakeholders' views.

B. Sustainability

More importantly, sustainability can be achieved through purposeful governance with a stakeholder perspective. There are two types of sustainability: organisational sustainability and global sustainability (see Figure 3), as per Rickard Garvare and Peter Johansson's theory.[28]

1. Organisational sustainability

Not only does the stakeholder approach accelerate profitability, which can be quantified, but it also benefits the company in ways that are unquantifiable, such as an improved public image, increased investor confidence, easier employee recruitment and so on.[29] These intangibles

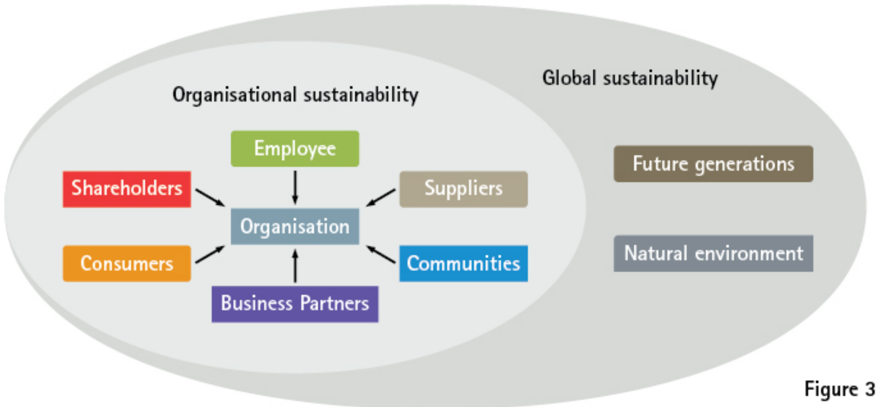

Figure 3: Model of sustainability

22 Jung-Ho Lai and Li-Yu Chen, 'The valuation effect of corporate governance on stakeholder wealth: Evidence from strategic alliances', International Review of Economics & Finance, 32 (2014): 117–31.

23 Morteza Khojastehpour and Raechel Johns, 'The effect of environmental CSR issues on corporate/brand reputation and corporate profitability', European Business Review, 26, no. 4 (2014): 330–39, doi: 10.1108/EBR-03-2014-0029.

24 Geoffrey B Sprinkle and Laureen A Maines, 'The benefits and costs of corporate social responsibility', Business Horizons, 53, no 5 (2010): 445–53.

25 Khojastehpour and Johns, 'The effect of environmental CSR issues on corporate/brand reputation and corporate profitability.'

26 Salma Damak-Ayadi and Yvon Pesqueux, Stakeholder Theory in Perspective, Corporate Governance: The International Journal of Business in Society, 5, no 2 (2005): 5–21, https://www.researchgate.net/publication/46477850_Stakeholder_Theory_in_Perspective.

27 Vincent de Gooyert et al, 'Reviewing the role of stakeholders in operational research: A stakeholder theory perspective', European Journal of Operational Research, 262, no 2 (2017): 402–410, doi: 10.1016/j.ejor.2017.03.079.

28 Rickard Garvare and Peter Johansson, 'Management for sustainability – A stakeholder theory', Total Quality Management & Business Excellence, 21, no 7 (2010): 737–44, doi:10.1080/14783363.2010.483095.

29 Keith Davis, The Case For and Against Business Assumption of Social Responsibilities, Academy of Management Journal, 16, no 2 (1973): 312–322, doi: 10.5465/255331.

contribute to the firm's self-interest in the long run through the achievement of social power.[30] In terms of the workforce, for example, favourable policies and promoted welfare towards its employees will result in a recognition of the company as being employee-orientated and having corporate citizenship.[31] Employee engagement will likely be improved and trust will be built, supporting the organisation's sustainability.[32]

2. Global sustainability

Global sustainability is beyond organisational sustainability and includes the interests of the natural environment and future generations.[33] The World Commission on Environment and Development defines sustainable global development as 'satisfying the present need without compromising the ability of future generations to satisfy their needs',[34] which is from the perspective of a relatively longer timeframe and a broader range of parties.

Global sustainability can be achieved when taking account of the interests of future generations and with a basis in organisational sustainability. For example, the concept of environmental carrying capacity was proposed for the aviation sector, the purpose of which is to stipulate the respective usage rates of renewable and non-renewable resources, as well as the rate of pollution emissions for sustainable airport development.[35] The consideration for the natural environment and future generations in corporate governance prompts the achievement of global sustainability, becoming an advantage and giving the possibility of stakeholder orientation.

C. Ethical considerations

Moreover, there are currently three prominent stakeholder theories: normative stakeholder theory, instrumental stakeholder theory and convergent stakeholder theory.

Normative stakeholder theory states that moral and normative commitments should be the core motivating factors behind the decision-making process.[36] The theory has two main elements: denying the separation fallacy and its usefulness in corporate governance,[37] and recognising and maximising the intrinsic value of stakeholders.[38] In this regard, it can be considered as one kind of general movement, which provides powerful alternatives to the 'dominant' shareholder model.[39] In other words, the normative stakeholder theory claims that all stakeholders have intrinsic moral value.[40] People who support the normative stakeholder theory consider this approach to be just and fair to everyone.[41]

The instrumental stakeholder theory focuses on the performance consequences of having a highly ethical relationship with stakeholders, characterised by a high level of trust, cooperation and information sharing.[42] To illustrate, an increase in efficiency and effectiveness of operations, better performance in terms of financial position and, ultimately, higher profits are the goals of this approach.[43] Hence, the proponents of instrumental stakeholder theory are the stakeholders who care about profit as their priority.[44]

Scholars differ in opinion regarding these two emphases.[45] A new theory was therefore developed, namely convergent

30 Nada K Kakabadse et al, 'Corporate social responsibility and stakeholder approach: A conceptual review', International Journal of Business Governance and Ethics, 1, no 4 (2005): 277–302, https://www.researchgate.net/publication/31870723_Corporate_social_responsibility_and_stakeholder_approach_A_conceptual_review.

31 Supriti Mishra and Damodar Suar, 'Do stakeholder management strategy and salience influence corporate social responsibility in Indian companies?', Social Responsibility Journal, 6, no 2 (2010): 306–27, doi: 10.1108/17471111011051784.

32 Robert G Eccles et al, How to Become a Sustainable Company, MIT Sloan Management Review, 53, no 4 (2012): 43.

33 Garvare and Johansson, 'Management for sustainability – A stakeholder theory', 737–44.

34 Report of the World Commission on Environment and Development: Our Common Future, World Commission on Environment and Development, accessed 30 July, 2021, https://sustainabledevelopment.un.org/content/documents/5987our-common-future.pdf.

35 Kenneth M Amaesh and Andrew Crane, 'Stakeholder engagement: a mechanism for sustainable aviation', Corporate Social Responsibility and Environmental Management, 13, no 5 (2006): 245–60, doi: 10.1002/csr.108.

36 Nada K Kakabadse et al, 'Corporate social responsibility and stakeholder approach: A conceptual review', 277–302.
Business decisions have no ethical content.

38 Abe Zakhem and Daniel E Palmer, Normative Stakeholder Theory, Stakeholder Management (2017): 49–73, https://doi.org/10.1108/S2514-175920170000003.

39 ibid.

40 ibid.

41 The Stakeholder Argument: Why Stakeholder Principles Matter, The Vital Edge, by Gideon Rosenblatt, 22 May 2013. https://www.the-vital-edge.com/stakeholder-argument/.

42 Thomas M Jones, Jeffrey S Harrison and Will Felps, How Applying Instrumental Stakeholder Theory Can Provide Sustainable Competitive Advantage, The Academy of Management Review, 43, no 3 (2018): 371–91, doi: 10.5465/amr.2016.0111.

43 The Stakeholder Argument: Why Stakeholder Principles Matter.

44 ibid.

45 ibid.

stakeholder theory, as being 'morally sound in its behavioural prescription and instrumentally viable in its economic outcomes'.[46] As convergent stakeholder theory is both normative and instrumental, it has a strong basis in morality, which accepts that the basic intention behind specific aims should be to achieve an ethically acceptable outcome. From this perspective, the convergent stakeholder theory can be considered the best version of stakeholder theory as it combines ideas from both schools.

1. Application: corporate social responsibility

One of the most effective applications when adopting the convergent stakeholder theory is having a constructive CSR framework in place. Citibank, for example, is one of the multinational corporations in Hong Kong that incorporates CSR within its company strategy. Citibank launched the Citi-HKCSS Community Intern Program (CIP) 10 years ago,[47] in which Citibank donates all operational expenses and intern allowances. It invites undergraduate business students from local universities to be interns in various non-governmental organisations (NGOs),[48] during which time interns participate in activities to better understand Hong Kong communities.

Over the last decade, CIP has become very popular among undergraduate students in Hong Kong. In addition to CIP, Citibank also supports the Tung Wah Group of Hospitals' Corporate Volunteers Day and The Community Chest – Walk for Millions.[49] From this point of view, Citibank is improving its public image through CSR and by making the public aware of its pioneering role in CSR.

2. Application: creating shared value

Creating shared value (CSV) is also a familiar concept under the convergent stakeholder theory. However, CSV is slightly different from CSR. To illustrate, CSR is a cost centre to a business rather than a profit centre, from which cash flows out to other parties, such as NGOs.[50] In addition, CSR only emphasises a company's responsibility to the community, including such activities as donating to universities, reducing carbon footprint and improving labour policies.[51]

In contrast, CSV does not concentrate on company responsibility, but rather on creating value with other stakeholders.[52] To illustrate, CSV is a business model that will accelerate the achievement of sustainable development goals for the benefit of society as a whole.[53] Referring to the scholars' definition, CSV is comprised of strategies and policies that make companies more competitive, while simultaneously advancing the economic and social conditions in the communities in which they operate.[54] The definition of CSV reveals that its goal is to create value to help the community.

To apply CSV in the real business world, one example is G for Good, a Hong Kong start-up and a subsidiary of New World Development Company Limited (NWD).[55] G for Good has two goals: building communities of social innovators to assist them in delivering CSV projects to the broader public and investing in potential social innovation companies with a CSV model. In only a few years, G for Good has successfully impacted the Hong Kong community, and in 2019 – its founding year – was a recipient of the Shared Value Awards, the first Hong Kong company to obtain this award.[56]

In conclusion, CSV is also appropriate for a business to implement in the long run, as evidenced by the successful

46 Nada K Kakabadse et al, 'Corporate social responsibility and stakeholder approach: A conceptual review', 277–302.
47 The 10th Citi-HKCSS Community Intern Program Cultivates Corporate Social Responsibility in Future Leaders, The Hong Kong Council of Social Service, 1 November 2020, accessed 30 July 2021, https://www.hkcss.org.hk/the-10th-citi-hkcss-community-intern-program-cultivates-corporate-social-responsibility-in-future-leaders/?lang=en.
48 Citi-HKCSS Community Intern Program, accessed 30 July 2021, https://cip.org.hk/.
49 Citibank, Other Community Services, accessed 30 July 2021, https://www.citibank.com.hk/global_docs/financial_edu_home_eng/csr/html/social_03_04.html?lid=HKENCBLGNLNTLOtherCommunityServicesCSEN.
50 Mark Kramer, 'CSR vs. CSV What's the difference?', FSG, 18 February 2011, accessed 27 July 2021, https://www.fsg.org/blog/csr-vs-csv-what%E2%80%99s-difference.
51 16 Brands Doing Corporate Social Responsibility Successfully, Digital Marketing Institute, 25 February 2019, accessed 29 July 2021, https://digitalmarketinginstitute.com/blog/corporate-16-brands-doing-corporate-social-responsibility-successfully.
52 Kramer, 'CSR vs. CSV What's the difference?'.
53 Marga Hoek, CSR v CSV: The Difference and Why It Matters, Sustainable Brands, 2020, accessed 28 July 2021, https://sustainablebrands.com/read/business-case/csr-v-csv-the-difference-and-why-it-matters.
54 ibid.
55 Jie Huang, 'Xinshijie qixia chuchuang qiye「G for Good」tuidong chuangzao gongxiang jiazhi [Startup, G for Good under New World Development promotes Creating Shared Value]', HK01 News, 29 October 2019, accessed 30 July 2021, http://tiny.cc/5vjluz.
56 G for Good – 2019 Shared Value Award, Shared Value Project, accessed 30 July 2021, https://sharedvalue.org.au/profiles/g-for-good-2019-shared-value-awards/.

role of G for Good in building an excellent social image for NWD.

IV. Difficulties

A. Potential conflicts with having multiple objectives

Defined originally by Freeman, the term 'stakeholder' refers to 'those who can affect and/or be affected by the enforcement of the company's purposes'.[57] The categories comprise, but are not limited to, financial stakeholders (including shareholders), societal stakeholders, employees, customers and business partners.[58] It is difficult to make conclusions about or rank the importance of stakeholder groups without considering the actual situation of the specific company.[59]

Furthermore, the objectives of corporate governance vary when taking different stakeholder groups into account-profit-maximising for financial stakeholders, contributions of sustainable solutions for societal stakeholders, favourable employment conditions for employees, adding value for customers, cocreating for business partners and so on.

Given the various concerns of different stakeholders, one critical task is to ascertain whether they are compatible or whether they are 'zero-sum' – which means that adopting one hinders the other[60] – or to find a solution to turn the zero-sum into a win-win situation. Although some interests can be aligned, conflicts exist in some relationships. For example, there are inherent conflicts of interest in the relationship between principals and agents.[61] In the relationship between shareholders and managers, managers may tend to pursue the short-run interest rather than the long-run interest that is preferable to shareholders.[62] When the bondholder acts as the principal and the shareholder acts as the agent, the problem will be that the stockholder may prefer riskier projects due to the different payoff curves[63] (see Figure 4).

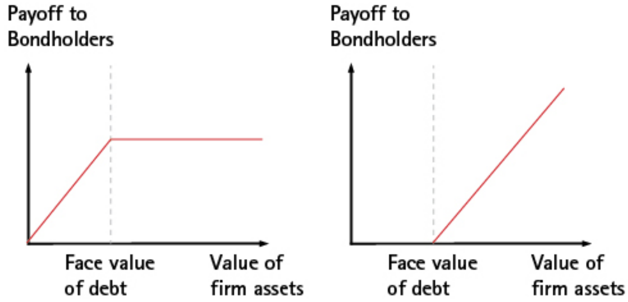

Figure 4: Payoff curves to bondholders and shareholders

With unbalanced stakeholder pursuits, companies would find it difficult to achieve profitability and sustainability. In addition, a company could fall into an ethical dilemma if it ignores some of the minority voices. All these consequences lessen the possibilities for a company to conduct purposeful corporate governance. Only by solving the potential conflicts of multiple concerns can a firm successfully manage its stakeholder relationships and then create possibilities for management with a myriad of stakeholders' views.

B. Ambiguous boundaries of stakeholder groups

Following the definition by Freeman, the concept of 'stakeholder' gave rise to over 60 explanations. Depending on the particular understanding of the meaning of stakeholder, a company may consider the stakeholder group in a broader or more restrictive range.[64]

It is also challenging for the firm to figure out the exact stakeholder boundaries. Effort is needed to distinguish the constitution of one stakeholder group from another, and to identify which stakeholder group an individual belongs to.[65] It is even more challenging for large conglomerates to determine and manage their stakeholder groups than it is for small enterprises. The difficulty in identifying stakeholders, especially secondary stakeholders, is a phenomenon called stakeholder ambiguity. The ambiguity may indeed undermine the competitive advantage gained by stakeholder managers.[66]

57 Richard Edward Freeman, Divergent Stakeholder Theory, The Academy of Management Review, 24, no 2 (1999): 233–236, doi: 10.2307/259078.
58 Birte Freudenreich et al, 'A stakeholder theory perspective on business models: Value creation for sustainability', Journal of Business Ethics, 166, no 1 (2020): 3–18, doi: 10.1007/s10551-019-04112-z.
59 Jeffrey Unerman, 'Stakeholder engagement and dialogue', Sustainability Accounting and Accountability (George Routledge: Routledge, 2010), 105–122.
60 Mason and Simmons, Embedding Corporate Social Responsibility in Corporate Governance: A Stakeholder Systems Approach, 77–86.
61 Abdullah and Valentine, Fundamental and Ethics Theories of Corporate Governance, 88–96.
62 Dan R Dalton el al, The Fundamental Agency Problem and Its Mitigation, The Academy of Management Annals, 1, no 1 (2007): 1–64, doi: 10.1080/078559806.
63 Morey W McDaniel, Bondholders and Corporate Governance, The Business Lawyer, 41, no 2 (1986): 413–50.
64 Emerson Wagner Mainardes et al, 'Stakeholder theory: issues to resolve', Management Decision, 49, no 2 (2011): 226–52, doi: 10.1108/00251741111109133.
65 ibid.
66 Jeremy Hall and Harrie Vredenburg, Managing Stakeholder Ambiguity, MIT Sloan Management Review, 47, no 1 (2005): 11.

First, without identifying the different stakeholder groups, it would be impossible for the company to balance the concerns. Second, without the classification of various stakeholders, it would be confusing for the company to realise the actual needs of the stakeholders. As a result, the ambiguity hinders the establishment and improvement of purposeful corporate governance with proper stakeholder management.

V. Theoretical possibilities

A. Potential alignment of multiple interests

Ultimately, there is no conflict between shareholders' and stakeholders' interests; in other words, it is possible to align their interests if a company is aiming for long-term sustainability. As illustrated above, stakeholders are parties who will be affected by any operation or activity of the company, the notion of which is derived from the very existence of a company. Without a long-term goal, and with a focus merely on short-term profit, a company is unlikely to be sustainable and it will therefore be impossible to properly provide for its stakeholders. The reverse is also the case – a company will not be able to see long-term growth without concerning itself with stakeholders' interests as a whole. Therefore, all stakeholders would be presenting a unified front in terms of the sustainability of the company, at least, and this 'common expectation or interest' of all stakeholders appears to suggest the possibility of enforcing purposeful governance. Through caring more about environmental, social and corporate governance (ESG) issues, as already discussed, companies can generate extra financial and ethical values, thereby setting up a virtuous cycle that mutually benefits financial and ESG considerations.

Apart from the common interest, there are unique and diverse interests of myriad stakeholders. However, it is noted that one particular purpose can serve more than one party. For example, NWD is a local corporation with great interest in CSR. At the start of 2020, it set up production lines to manufacture medical face masks and to dispense them in the local community.[67] As a result of its CSR activities, NWD benefits through mitigating risks, enhancing reputation and contributing to business results. In this case, an activity may provide the best of both worlds, although the starting point of decision-making may only have one purpose. It is believed that the purpose beyond profit explains why the company exists, and the profit can be a by-product that is highly likely to be naturally created in the process of pursuing the initial purpose. In the same manner, even though various stakeholders exist, it is not necessary that merely a few groups are able to benefit from the decision. Case in point, one purpose may benefit more than one group of stakeholders.

However, it is unnecessary and impossible for a corporation to work for all stakeholders and to fulfil all their expectations. Stakeholder groups may have diverse special interests and it is not easy to cater to all tastes. Moreover, this is similar to the theory of economies of scale, where only within a certain production level can the company keep reducing production costs to finally reach the most profitable point.

B. Minimum requirement for directors

As corporations are in the public domain, legally speaking, directors must comply with certain requirements when making decisions.[68] As fiduciaries, directors must disclose their interests when necessary,[69] and cannot take the opportunity for themselves when they come across an opportunity initially intended for the company.[70] Besides, they must exercise their power bona fide in the best interests of the company.[71] The 'interests of the company' means the financial interests of the members as a general body, flowing from maximisation of the company's profits. According to Darvall v North Sydney Brick & Tile Co Ltd, directors would be entitled to act in the long-term or short-term interests of the shareholders as a whole.[72] However, we cannot find an exhaustive list of considerations that directors must take into account when making decisions.

Nevertheless, the disputable issue is whether directors can

67 New World Development Launches HK$10 Million New COVID-19 Initiative with NGOs for the Underprivileged, New World Development website, accessed 30 July 2021, https://www.nwd.com.hk/content/new-world-development-launches-hk10-million-new-covid-19-initiative-ngos-underprivileged.
68 Companies (Model Articles) Notice Cap 622H Sch 1 Reg 15 and Sch 2 Reg 16.
69 Companies Ordinance Cap 622 s 536.
70 Industrial Development Consultants Ltd v Cooley [1972] 1 WLR 443.
71 See for example, Re Smith and Fawcett Ltd [1942] CH 304; Akai Holdings Ltd (in Liquidation) v Thanakharn Kasikorn Thai Chamkat (Mahachon) [2010] HKCFA 64.
72 Darvall v North Sydney Brick & Tile Co Ltd (1986) 4 ACLC 539; (1986) 5 NSWLR 681.

take account of ESG factors, even though that may not directly lead to profits in the short term. The court has discussed this issue for several decades. The Cowan v Scargill line of authorities was first introduced in the 1980s, when Vice-Chancellor Sir Robert Megarry decided that trustees must choose more beneficial investments without considering other factors.[73] However, Lord Murray expressly doubted that position in Martin v City of Edinburgh District Council, where his lordship distinguished the position of trustee and financial advisor, and held that social considerations could be taken into account if it is a fair and impartial judgement based on the merits of the issue.[74]

The debate was temporarily settled by a report published by the Law Commission of England and Wales, where two tests were laid down for applying non-financial factors.[75] The first test is 'Do trustees have good reason to think that scheme members share the concern?', whereas the second is 'The decision should not risk significant financial detriment.'[76] Thus, even though there is no constitution that explicitly requires directors to take ESG considerations into account, the current position – and the likely future direction – suggests that directors can take account of ESG factors, as long as it benefits the company at any stage or that the long-term benefit surpasses the short-term loss. Therefore, decisions such as attractive remuneration for employees and promotional offers for customers can be consistent with the directors' duty.

VI. Practical possibilities

In practice, companies can understand and identify their purpose by prioritising multiple interests and emphasising material ones. Several organisations, such as the International Integrated Reporting Council, the Sustainability Accounting Standards Board (SASB) and the Global Reporting Initiative (GRI), have published sustainability standards to assist companies in identifying, deciding on and prioritising material issues that ultimately indicate the companies' purpose. For example, SASB summarises and classifies material issues into five sections: environment, social capital, human capital, business model and innovation, and leadership and governance (see Figure 5).

The two most notable reporting standards, GRI and SASB, take distinct but complementary approaches to materiality.[77] SASB emphasises the influence of sustainability issues on the company's financial performance,[78] whereas GRI focuses on the external impact of the company's operations and business activities on the economy, environment, people and human rights.[79] Hence, the emerging best practice will be a matrix utilising both important dimensions (see Figure 6).

Environment	Social capital	Human capital	Business model and innovation	Leadership and governance
• Use of nonrenewable natural resources • Harmful releases	• Human rights • Protection of vulnerable groups • Local economic development • Access to and quality of products and services • Affordability • Responsible business practices in marketing • Customer privacy	• Productivity of employees • Management of labour relations • Management of the health and safety of employees • Ability to create a safety culture	• Efficiency and responsibility in the design, use phase and disposal of products • Integration of environmental, human and social issues	• Regulatory compliance • Risk management • Safety management • Supply-chain and materials sourcing • Conflicts of interest • Anti-competitive behaviour • Corruption and bribery

Figure 5: Material issues recognised by SASB

73 Cowan v Scargill [1985] Ch 270, 286–289.
74 Martin v City of Edinburgh DC 1998 SLT 329, 334–335.
75 Law Commission of England and Wales, Fiduciary Duties of Investment Intermediaries (Law Com No 350, 2014) paras 6.57–6.83.
76 ibid.
77 Nina Hatch and Adam Fishman, Five Steps to Good Sustainability Reporting: A Practical Guide for Companies, 18 November 2020, https://www.bsr.org/en/our-insights/report-view/five-steps-to-good-sustainability-reporting?gclid=Cj0KCQjw9O6HBhCrARIsADx5qCQjeiWHNd7xjQGn8fTOgRL9PbmkkFMh0YiSEUrOcPMQNvz8O6XTB20aAgDWEALw_wcB.
78 Standards Overview, Sustainability Accounting Standards Board, 20 January 2021, https://www.sasb.org/standards/.
79 About GRI, Global Reporting Initiative, accessed 25 July 2021, https://www.globalreporting.org/about-gri/.

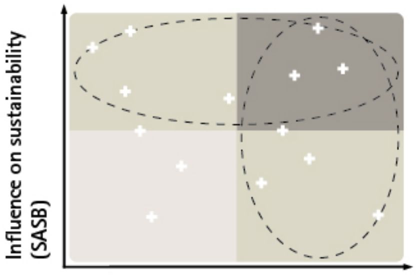

Figure 6: Interaction of GRI and SASB

A. Identification of material issues

Each company is unique and therefore must have its unique materiality portfolio. Before the materiality assessment process, companies should research and review industrial benchmarks, their own internal business and global standards to narrow the fields. For instance, product safety is essential in the auto industry, while data security has received much attention in the tech sector. Some stakeholders, such as investors, are crucial to almost all companies.

1. Communication with stakeholders

There is no doubt that stakeholder engagement matters. It is vital to understand and emphasise how the stakeholders consider ESG factors in their decision-making, as well as to take account of their views on current and future ESG programs. One possible way to obtain the relevant information is to establish a stakeholder board that runs over and above the board of directors, one that is determined by the shareholders. The stakeholder board could consist of representatives from shareholders, employees, significant consumers, significant suppliers, lenders, communities and investors, among others. Additionally, companies are advised to introduce some experienced corporate professionals and relevant experts who are competent in reporting, screening and prioritising processes. By doing so, critical internal and external stakeholders will be identified and engaged regularly in a structured manner.

The materiality identification is not a 'one and done' exercise, and should be refreshed frequently in order to address emerging issues and business contexts, which, as Covid-19 has shown, can rapidly shift.

2. Customer-related compliance and the 'right thing to do'

Customers are one of the most critical stakeholders. In terms of a customer-related compliance framework, the main focus for a corporation would be on the distinction between the minimum legal requirements and CSR. One example is the tax affairs of well-known companies such as Starbucks, Google and Facebook in 2013.[80] These companies all managed to avoid being taxed on their UK revenues. While the measures adopted by the companies were legal, they were widely seen as unethical as they were utilising loopholes in the British tax system and robbing public services. The hostile public reaction to Starbucks' tax dealings, for instance, led them to pledge £10 million in taxes for each of the next two years, in an attempt to win back customers.

In Hong Kong, consumer-related laws set out the minimum standards, including product safety and liability,[81] conformity, merchantability and fairness of terms for the customer sales contract.[82] However, CSR requires – and customers often expect – more than the minimum standards. Studies show that the more customers understand CSR activities, the more likely they are to exhibit a positive attitude toward sponsoring the firm and its products.[83] Thus, corporations need to give considerable weight to doing the right thing to meet the market's moral and ethical standards.

3. Internal control and risk management

Increased concerns have recently arisen regarding corporate accountability. A comparative study between Australia and Belgium suggested that a weaker focus on risk management and internal control within corporate governance guidelines may result in a less-developed system.[84] Even though the

80 Vanessa Barford and Gerry Holt, 'Google, Amazon, Starbucks: The rise of "tax shaming"', BBC News, 21 May 2013, https://www.bbc.com/news/magazine-20560359.
81 Gas Safety Ordinance Cap 51; Pesticides Ordinance Cap 133; Electricity Ordinance Cap 406; Toys and Children's Products Safety Ordinance Cap 424; Consumer Goods Safety Ordinance Cap 456.
82 Sale of Goods Ordinance Cap 26; Control of Exemption Clauses Ordinance Cap 71; Supply of Services (Implied Terms) Ordinance Cap 457; Unconscionable Contracts Ordinance Cap 458.
83 Ki-Hoon Lee and Dongyoung Shin, 'Consumers' responses to CSR activities: The linkage between increased awareness and purchase intention', Public Relations Review, 36, no 2 (2010): 193–95.
84 Gerrit Sarens and Joe Christopher, 'The association between corporate governance guidelines and risk management and internal control practices', Managerial Auditing Journal, 25, no 4 (2010): 288–308.

external environment provides a different level of focus and support, corporations are competing in a relatively free global market. They should thus consider an internal control and risk management framework at an early stage, even without government or regulatory guidelines.

Employees are undoubtedly essential stakeholders for the internal control and risk management framework, as they can influence corporations' financial performance with sensitive and confidential information. Thus, it is crucial to manage employees for the corporations' benefit. Comparably, employment laws have already provided employees with essential protections and dispute resolution mechanisms. However, a satisfying employee management goal is to encourage every employee to treat the corporation as their own to work for. Thus, corporations should design systematic internal control and risk management frameworks as material issues, regardless of governmental requirements.

B. Strike a balance

Among the difficulties mentioned above, the most troublesome is balancing multiple interests, as stakeholder interests can conflict. Measures need to be taken to help with the balancing exercise, and the balanced scorecard (BSC) will be introduced for this purpose.

BSC could be applied to allow directors to analyse their business from four perspectives: finance, internal business, innovation and learning, and customers. This would enable them to emphasise the central issue and to help avoid being distracted by other gradually appearing measurements.[85] It also guards against suboptimisation, as it allows managers to consider all critical factors together, rather than sacrificing one goal for another.[86]

To have a balanced business, managers should evaluate their business internally (for example, percentage of sales), externally (for instance, customer feedback) and even retrospectively (to illustrate, costs).[87] The specific ways that BSC works are relatively straightforward (See Figure 7).

First, corporations should articulate goals for time, quality, performance and service from the customer perspective, and then transfer those to detailed measurements.[88] Second, the question 'what must we excel at' should be answered, focusing on the particular business processes that have the most significant impact on customer satisfaction – in other words, the company's core competencies.[89] Moreover, the traditional shareholder focus should be addressed from the financial perspective. Managers should document financial goals, including profitability, growth and shareholder value.[90]

The final perspective concerns sustainable development, questioning whether the corporation can continue to improve and create value. The detailed measurements include product and process improvement and innovation.[91]

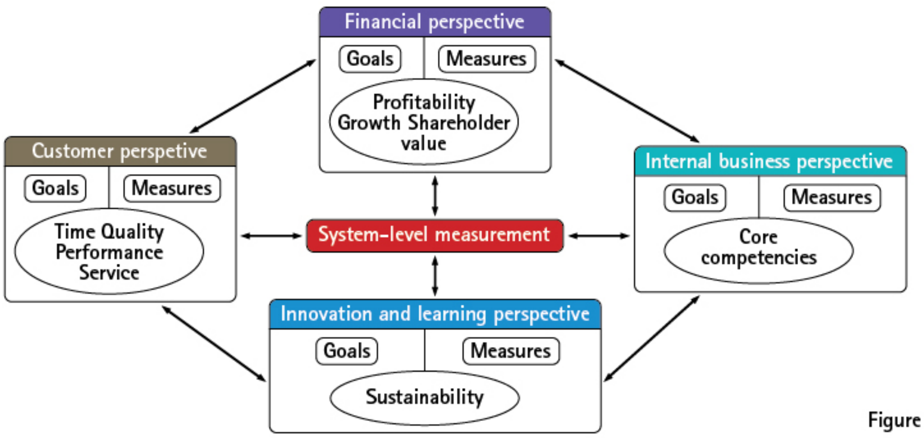

Figure 7

85 Robert S Kaplan and David P Norton, The Balanced Scorecard – Measures that Drive Performance, Harvard Business Review, February 1992, https://hbr.org/1992/01/the-balanced-scorecard-measures-that-drive-performance-2.
86 ibid.
87 ibid.
88 ibid.
89 ibid.
90 ibid.
91 ibid.

Scholars have discussed this limb of measurement and some have suggested that it should be modified, due to its unique role, by adding system-level analysis, in other words, the materiality balanced scorecard (MBSC) model.[92] It has also been recommended that four steps should be followed, but the rationale for creating BSC was to simplify the whole picture. Nevertheless, the system-level measurement could be added to the centre of consideration to emphasise long-term sustainability.

One additional point that needs to be noted is the selection of personnel. Studies have suggested that this cannot be undertaken without the involvement of senior managers, which further demonstrates their all-around involvement and business management function, compared with a standard performance measurement scheme designed by financial experts.[93]

After all the assessments and prioritisation has been undertaken, it is necessary to communicate the results to internal and external stakeholders to ensure procedural and substantive transparency.

C. Implementation of material issues

Companies can sometimes struggle to get everyone on the same page, especially when other business units have different priorities and goals that may well align with corporate goals for the bottom line, but not necessarily with their ESG initiatives. To ensure the implementation of identified material issues, a company should integrate material ESG issues into its business strategy, functions and operations.[94] Educational initiatives, training and a unified approach to internal business practices and controls can help secure employee engagement and support from the executive levels.[95]

The stakeholder matrix may assist in executing the 'purpose'. After identifying materiality, four groups of stakeholders are formed using the significance of stakeholders' influence and their related interests (see Figure 8). Different strategies are applied correspondingly: closely managing the stakeholder group with high interest and big influence, keeping satisfied those with low interest and big influence, keeping informed those with high interest and low influence, and continuously monitoring those with low interest and low influence.[96] Tailored strategies targeting different groups help the company to optimise the implementation with the greatest efficiency.

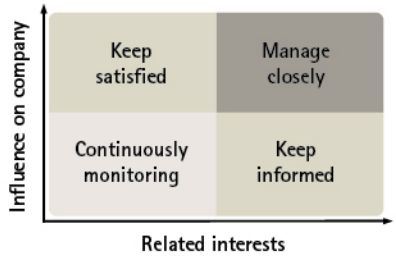

Figure 8: Influence-interest matrix

D. Disclosure

Disclosure was primarily referred to as the compulsory requirements in the company legislation, especially in the Listing Rules, to help investors make informed decisions. However, in the digital information era, corporations' financial performance can be significantly influenced by their non-financial performance. Thus, there is an increasing need for corporations to make non-compulsory disclosures, that is, the ESG report, to gain support from stakeholders. The commonly included information in an ESG report, in alignment with international standards, is shown below (see Figure 9), with shading to indicate the number of standards relevant to the different factors. Generally, environmental factors caught the most attention, while the social-related criteria can be divided into further subcategories. Corporations should focus on the 'hot' issues, but pay attention to employing integrated factors.

Disclosure plays a significant role in achieving the final intended outcome, which is increased purchase intention. Studies suggest that the common perception of people's willingness to support the firm being positively correlated

92 Mireia Guix and Xavier Font, 'The Materiality Balanced Scorecard: A framework for stakeholder-led integration of sustainable hospitality management and reporting', International Journal of Hospitality Management, 91 (2020): 102634, doi: 10.1016/j.ijhm.2020.102634.
93 Kaplan and Norton, The Balanced Scorecard – Measures that Drive Performance.
94 Kasturi Rangan et al, The Truth About CSR, Harvard Business Review, 93, nos 1/2 (January–February 2015): 40–49.
95 Keith Murphy, The Challenges of Corporate Social Responsibility, PLANERGY (blog), 27 July 2020, accessed 21 July 2021, https://planergy.com/blog/corporate-social-responsibility-challenges/.
96 Michael Jay Polonsky, 'Stakeholder management and the stakeholder matrix: Potential strategic marketing tools', Journal of Market-Focused Management, 1, no 3 (1996): 209–229.

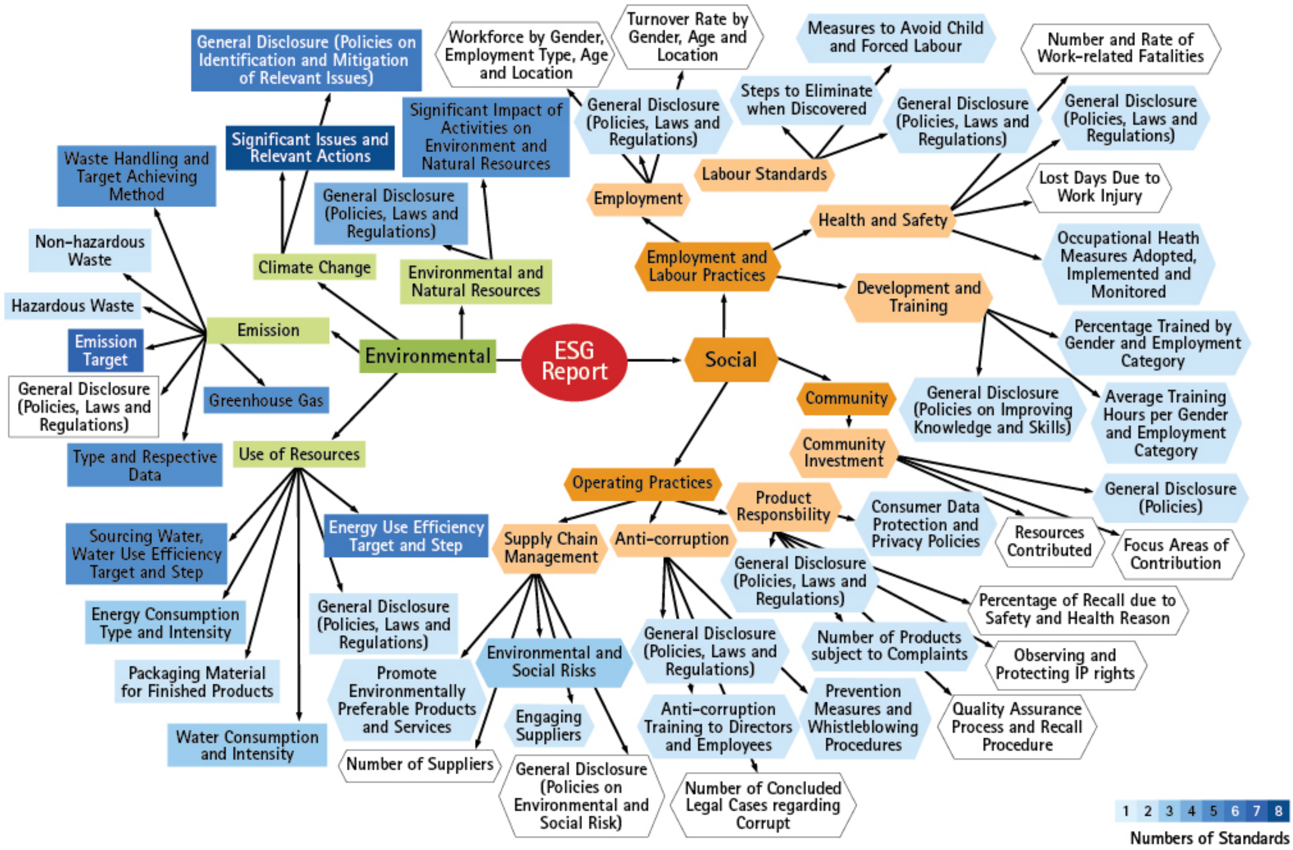

Figure 9[98]

with the objective level of a firm's CSR actions is ambiguous.[97] What corporations can do is to express their CSR involvement in such a way that customer perception and understanding of their CSR activities is enhanced.

VII. Conclusion

In conclusion, it is possible for firms to institute purposeful corporate governance with a myriad of stakeholders' interests. Based on the stakeholder theory, purposeful corporate governance requires a company's efforts in stakeholder management, which in turn benefits the company. Going beyond profit, the corporation is also driven by sustainability and ethics to take the stakeholder approach. Although difficulties – including inherent conflicts and ambiguity of stakeholder groups – can still hinder stakeholder management, feasibility lies in the potential alignment of interests and the legal environment. In the meantime, firms' efforts are needed in pre-implementation, implementation and post-implementation. Before the implementation, the understanding and identification of stakeholders should be given emphasis, and BSC can help to strike a balance. During the implementation, separate strategies can be integrated by using the stakeholder matrix. After the implementation, disclosure can be made through ESG reports. With both pursuits and feasibility, there are possibilities for corporate governance tied with a myriad of stakeholders' interests.

97 Karen L Becker-Olsen et al, 'The impact of perceived corporate social responsibility on consumer behavior', Journal of Business Research, 59, no 1 (2006): 46–53.

98 HKEX, 'How to prepare an ESG Report, Appendix 4: Table of references to international standards/guidelines and other resources', accessed 30 July 2021, https://www.hkex.com.hk/-/media/hkex-market/listing/rules-and-guidance/environmental-social-and-governance/exchanges-guidance-materials-on-esg/app4_tableref.
Standards include: GRI; CDP's Climate Change 2020 Questionnaire and Water Security 2020 Questionnaire; International Organization for Standardization's Guidance on Social Responsibility; Recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures; Climate Disclosure Standards Board's Climate Change Reporting Framework; Climate Disclosure Standards Board's Framework for Reporting Environmental and Climate Change Information; Organisation for Economic Co-operation and Development's G20/OECD Principles of Corporate Governance; An Analysis of the Goals and Targets by SDGs.

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First runner up

Sovia Fung, Victoria Ip, Peter Kwong and Dreyllien Wu

The University of Hong Kong
Bachelor of Laws,
Bachelor of Social Sciences (Government and Laws) and Bachelor of Laws,
Bachelor of Business Administration (Law) and Bachelor of Laws,
Bachelor of Business Administration (Law) and Bachelor of Laws

Introduction

The topic of corporate governance has attracted increased attention over the last two decades, since the emergence of numerous financial scandals resulting from improper governance, such as that of Enron Corporation in 2001.[1] To prevent the recurrence of similar scandals, there have been discussions regarding ways to ensure, inter alia, accountability, control, and transparency of corporate decision-making and management.[2]

In recent years, corporate governance has gone far beyond a pure business and law topic, to also become a social topic. This is because decisions of big corporations affect many stakeholder groups in society. Companies have begun to identify 'purpose' (also known as 'vision' or 'company goals') on top of profit maximisation, and now include non-financial and non-material goals in their decision-making processes.

1 Li, Yuhao. The Case Analysis of the Scandal of Enron. International Journal of Business and Management 5 (October 2010). https://www.ccsenet.org/journal/index.php/ijbm/article/view/7627.

2 Bebchuk, Lucian, Alma Cohen and Allen Ferrell. What Matters in Corporate Governance? The Review of Financial Studies 22, no 2 (February 2009): 783–829.

There are many stakeholders – whose interests may conflict with each other's – involved in each decision of a company. When companies identify and try to fulfil their own sense of purpose, is it ever possible for the decisions to strike a delicate balance between the various interests, not to mention satisfying all stakeholders? Is it possible for companies to create a win-win situation, especially when the interests of internal shareholders may conflict with those of external stakeholders?

Definitions

Corporate governance

Andrei Shleifer and Robert W Vishny gave a narrow definition: 'Corporate governance deals with the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment.'[3]

In 1999, the Organisation for Economic and Co-operation and Development described corporate governance as 'a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined.'[4] For modern corporations, corporate governance is often aimed at balancing economic considerations with social goals, as well as striking a balance between individual and community goals.'[5] For the purpose of discussion in this paper, the broader definition will be adopted.

Sense of purpose

The need for purpose is a desire that every human has. As societies have become more affluent in general, people have an increasing focus on life beyond the purely material. According to a survey conducted by Deloitte Touche Tohmatsu LLC, 63% of Generation Y (those born between 1981 and 1996) look for jobs that give them a sense of purpose, rather than jobs that merely generate economic profit. Hence, Generation Y is sometimes portrayed by the media as the 'purpose generation'.[6] Consumers also tend to support brands that carry a sense of purpose in line with their own values.

In light of this, companies have been identifying and fulfilling their own sense of purpose, or company goals. Their 'purposes' may take a variety of forms, ranging from profit maximisation to promoting other types of social well-being. These purposes may vary across different organisations, given their unique nature and market positions. A company carrying a sense of purpose focuses on rethinking its role in society and hence tends to have a more long-term vision in the process of decision-making.[7]

Shareholders vs stakeholders

The concepts of 'shareholders' and 'stakeholders' are different. 'Stakeholders' refers to any individual or group that an organisation's decisions would affect. In contrast, 'shareholders' only includes those who provide capital for the company. Shareholders are only one of the stakeholder groups. Stakeholders include, but are not limited to, employees, providers of credit, suppliers, customers, local committees, environmental groups and governments.[8]

A corporation's willingness to tie governance with a sense of purpose

The concept of corporate social responsibility (CSR) seldom sits well with corporations in which profit maximisation is still the dominant, if not the sole, goal of business. One of the reasons for this is that the board of directors has the responsibility of protecting the interests of shareholders, who may emphasise profit-making. Yet, amid the increasingly influential advocates of CSR, a portion of companies accepts its significance, hence integrating it into corporate governance. This section aims to review under what circumstances a corporation is willing to tie governance with a sense of purpose.

1. Improvement in the company image

Consumers hold different perceptions of different companies. Especially with the advances in technology

3 Shleifer, Andrei, and Robert W Vishny. A Survey of Corporate Governance. The Journal of Finance 52 (June 1997). https://www.jstor.org/stable/2329497.
4 Organisation for Economic Co-operation and Development. G20/OECD Principles of Corporate Governance, 2015, page 9. https://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf.
5 Cadbury, Adrian. Report of the Committee on the Financial Aspects of Corporate Governance, December 1992.
6 Taticchi, Paolo, and Melissa Demartini. Corporate Sustainability in Practice: A Guide for Strategy Development and Implementation, 2021, 71–72.
7 Adams, Renée B, Amir N Licht and Lilach Sagiv. Shareholders and Stakeholders: How Do Directors Decide?, 23 July 2012.
8 Rey, Carlos, Miguel Bastons and Phil Sotok. Purpose-driven Organizations: Management Ideas for a Better World, 2019.

and information systems, consumers can enjoy more diversity of commodities and the market is more transparent than ever. On hearing a specific brand name, consumers' emotions will normally be aroused, except where it is completely new to them. The emotional reactions greatly affect consumers' attitudes and decisions about whether to buy the company's products or services.[9]

The public holds an opinion on a company based on a variety of factors, including price, quality, supply source, employees' remuneration and working conditions, and environmental impact.[10] Consumers buy the product based on concerns beyond the product itself. Investors may also be concerned with the brand image and goodwill when making investment decisions. For example, investors may take into account the environmental, social and governance (ESG) factors of public listed companies.

Brand management is therefore of utmost significance to a corporation. When businesses turn a deaf ear to anything but profit maximisation, they risk damaging their brand reputation. Such a mercenary attitude – and any unethical approaches taken thereof – are likely to be abhorred by consumers. In contrast, a company that strikes a delicate balance between earning profits and CSR is more likely to appeal to consumers. For instance, McDonald's Corporation launched the Ronald McDonald House Charities programmes to demonstrate the company's commitment to giving back to the community.[11] With the establishment of a positive brand image, the company's brand value may increase.

2. Consumer pressure

Even if corporations do not take a proactive approach to improving brand image by shouldering CSR, they may still find it necessary to do so under immense consumer pressure. Corporations are not only judged by their earnings, but also by their commitment to social and environmental values, and by governance standards like openness and accountability.[12] The operation and management of a business is inextricably intertwined with the interests and needs of the market, in which corporations have invested billions annually.

It is commonly believed that we are what we consume, since consumers' purchasing decisions do, to a certain extent, reflect their preferences and lifestyles. The purchasing power of consumers is the strongest bargaining chip at the negotiating table, shaping every aspect of the corporation.[13] Consumers normally feel reluctant to pay for products or services offered by companies, the mission of which contradicts consumers' beliefs. In this regard, Starbucks Corporation and Lego Group are two vivid illustrations. The coffee chain giant Starbucks was boycotted by some consumers after it was reported to be involved in labour exploitation.[14] Although sourcing beans from Ethiopian coffee growers played a crucial role in Starbucks' cost-reduction strategy, the company has since compromised to adopt an ethical supply chain as a consequence of the fierce criticism. In addition to Starbucks, Lego was strongly condemned in 2014 for collaborating with Royal Dutch Shell Plc, which was associated with environmental destruction. Lego therefore decided to end its partnership with Shell.[15]

3. Product variations

The integration of CSR into a company can sometimes create new types of merchandise. Unless the entirety of the related sales are donated to charity, corporations are still able to boost their profits by selling the fusion products. Companies have thereby created shared value, which allows them to solve social issues profitably. With such a mutually beneficial outcome, there appears to be no good reason for a corporation not to enter into such a reciprocal relationship.

Pride-celebrating collections is an example in this regard. In

9 Zhang, Qingyu, and Sohail Ahmad. Analysis of Corporate Social Responsibility Execution Effects on Purchase Intention with the Moderating Role of Customer Awareness. MDPI Journals (Sustainability) 13, no 8 (April 2021). https://www.mdpi.com/2071-1050/13/8/4548.

10 Lumen Learning. Factors Influencing Consumer Decisions. Accessed 25 July 2021. https://courses.lumenlearning.com/wmopen-principlesofmarketing/chapter/reading-situational-factors/.

11 Bellucci, Marco, Carmela Nitti, Serena Franchi, Enrico Testi and Luca Bagnoli. 'Accounting for social return on investment (SROI): The costs and benefits of family-centred care by the Ronald McDonald House Charities'. Social Enterprise Journal, October 2018.

12 Salter, D. Resolved: Public Corporations Shall Take Us Seriously. The New York Times Magazine, 2007. https://www.nytimes.com/2007/08/12/magazine/12exxon-t.html.

13 Shao, M. Social Pressures Affect Corporate Strategy and Performance. Insights by Stanford Business, 2009. https://www.gsb.stanford.edu/insights/social-pressures-affect-corporate-strategy-performance.

14 Canning, A. Starbucks Has a Slave Labor Problem. Fair World Project, 2019. https://fairworldproject.org/starbucks-has-a-slave-labor-problem/.

15 Vaughan, A. 'Lego ends Shell partnership following Greenpeace Campaign'. The Guardian, 2014. https://www.theguardian.com/environment/2014/oct/09/lego-ends-shell-partnership-following-greenpeace-campaign.

2011, June was declared the Lesbian, Gay, Bisexual and Transgender Pride Month,[16] during which many giant corporations rolled out new products using symbols of the rainbow flag. Apart from those criticised for 'pinkwashing' (being hypocritical and commercialising Pride events purely for their own benefit),[17] sales (deducted from charitable donations, if any) of the products are still generating profits and are attracting more customers for those companies.

4. Ease of production

While considering the interests of stakeholders beyond the company itself is often considered detrimental to the business, that is not necessarily the case. The concept of environmental, social and corporate governance can, in some circumstances, assist the operation of the company.

Apparel companies are generating immense amounts of ready-to-wear clothes every year, leading and updating the fashion trend expeditiously. The fashion industry is therefore notorious for its heavy pollution and wastefulness.[18] In light of this situation, different fast fashion companies have promoted schemes to collect used garments by offering vouchers and discounts to customers. Although corporations could have simply ignored the imposition of such bothersome schemes, the recycled textiles can be used as raw materials for further production. Not only will this divert millions of pounds of waste from landfills, but these schemes will also aid the company's production.

5. Sustainability

Corporate longevity is equally crucial to profit maximisation in terms of a firm's goals – and without a prolonged lifespan, it is unlikely that a corporation will achieve success. This explains why businesses are embracing the Sustainable Development Goals introduced by the United Nations as key performance indicators (KPIs) beyond profits.[19]

Hongkong Electric Company, Limited (HK Electric) has voiced its unequivocal support for the Sustainable Development Goals.[20] As a responsible utility accountable not only to its internal shareholders but also to the general public, HK Electric has gradually refined its energy structure to reduce the reliance on fossil fuels or unclean energy. Despite high start-up costs involved in the energy transition, it is imperative for the energy industry to make such changes in pursuit of sustainability and long-term benefits.

Summary

Where the integration of social responsibility and accountability into the business – whether voluntary or pressurised – has proved beneficial to a corporation, it is possible and, to a certain extent, necessary for it to tie governance with a sense of purpose, while balancing different stakeholders' interests.

Nonetheless, it is sometimes an expensive and painful decision, since it requires changes in the corporations – and change can be agonising. The costs behind such a move vary from exorbitant start-up costs, increased overheads and transformation of organisational culture to deviation from the company's policy, goals and mission. Possible though it is, some companies are reluctant to make such a decision in certain circumstances, which we discuss in the next section.

Impossibility of tying governance with a sense of purpose

Despite the aforementioned advantages of integrating CSR into the business, some corporations are reluctant to fulfil their social responsibilities. This section discusses the circumstances under which corporations may find it impossible to tie governance with a sense of purpose.

1. Incompatibility between business model and social responsibility

The concept of CSR can sometimes be inherently contradictory to the operation of the corporations, such that they are destined to disregard those universally accepted principles.

An illustration of this is the conflict between environmental protection and companies that run their businesses at the expense of the environment. In light of the climate crisis,

16 Obama White House Archives. Presidential Proclamation – Lesbian, Gay, Bisexual, and Transgender Pride Month, 2011. https://obamawhitehouse.archives.gov/the-press-office/2011/05/31/presidential-proclamation-lesbian-gay-bisexual-and-transgender-pride-mon.
17 Abad-Santos, Alex. 'How LGBTQ Pride Month became a branded holiday'. Vox, 2018. https://www.vox.com/2018/6/25/17476850/pride-month-lgbtq-corporate-explained.
18 McFall-Johnsen, Morgan. 'These facts show how unsustainable the fashion industry is'. World Economic Forum, 2020. https://www.weforum.org/agenda/2020/01/fashion-industry-carbon-unsustainable-environment-pollution/
19 United Nations. The 17 Goals. Accessed 25 July 2021. https://sdgs.un.org/goals.
20 Hongkong Electric Company. Supporting UN SDGs. https://www.hkelectric.com/en/sustainability/supporting-un-sdgs.

environmentalists are demanding a cleaner fuel mix, reduction of electricity usage and installation of sustainable energy plants. However, such advocates strike at the roots of how oil companies operate. After all, the opposition to oil extraction is tantamount to asking the oil companies to completely restructure their business model or even to shut down, crossing their red lines.

Where the tying of governance with a sense of purpose and the operation of business is mutually exclusive, those companies cannot help but harm the interests of other stakeholders. More seriously, corporate initiatives to compensate for the harm done can be merely acts of hypocrisy. For example, in the carbon financial market, carbon offsets are produced and financed under the Clean Development Mechanism proposed in the Kyoto Protocol.[21] Firms can buy the offsets to fulfil their compulsory or voluntary commitments. In theory, a firm carries out activities to offset the carbon emitted in the other activities. In reality, however, firms without a genuine sense of purpose to protect the environment may acquire the offsets by planting palm trees after deforestation resulting from their production. Environmentalists have long questioned this paradoxical position, in which corporations taking remedial action for their knavery are rewarded with the right to continue such knavery. This is, however, the situation in Indonesia, where corporations are accused of planting palm trees to obtain the carbon offsets after cutting down indigenous forest and disturbing the ecology of the area.[22]

2. Absence of a clear right or wrong answer

It is impossible to tie governance with a sense of purpose when there is no clear morally defensible position. Where there is a definite socially acceptable response to a certain issue, a sense of purpose can be clearly sought. For instance, scientific evidence has unequivocally shown that global warming and climate change are caused by humans, so humans should take action to mitigate their significance.[23] Along with rising environmental awareness, consumers are increasingly considering the sustainability of a company when making purchasing decisions. To cater to this sentiment, companies may label themselves as eco-friendly and carry out environmental works to secure a consumer flow. In this respect, the 'correct' sense of purpose is to act green, giving a clear direction to the companies to tie internal governance to the purpose.

However, is it ever possible to tie companies with a sense of purpose when it comes to issues with no clear answer? It should be noted that the educational background, culture and ideology of different communities vary widely. Some values upheld by members of a particular community may not necessarily be accepted by members of another community, because of their different value orientations. Hence, the purpose identified by a company may not be always considered 'good' by society. It is therefore difficult for companies to determine what is the right purpose in the first place.

Summary

Where CSR and a corporation's business model are mutually exclusive, and where there is no absolute right or wrong, corporations may find it impossible to tie governance with a sense of purpose.

Companies therefore need to employ a balancing exercise, deciding what principles and values should be taken as the first and paramount considerations. This will be illustrated in the following section.

In addition, one should not disregard the fact that the sense of purpose is itself a dynamic concept, which differs according to the role and belief of its interpreter. Therefore, dismissing CSR may be the price to pay for the greater good of society, with the use of unsustainable energy being one such example.

Governance and sense of purpose – mixes and matches

Given the size of corporates, there will be a number of different senses of purpose, and thus the corresponding intentions and methods of delivering those purposes through their operations will differ.

21 Labatt, Sonia, and Rodney R White. Carbon Finance: The Financial Implications of Climate Change. Wiley Finance Series. Hoboken, NJ: John Wiley & Sons, 2007.
22 Cap And Trade - Carbon Offset - Carbon Footprint - Climate Change - Carbon Scam - Pollution Scam. YouTube. brainphreak, 2010. https://www.youtube.com/watch?v=WRNd6K8kS4M.
23 Boykoff, Maxwell T, and Boykoff, Jules M. 'Balance as bias: global warming and the US prestige press'. Global Environmental Change 14, no 2 (2004): 125–36.

Small and medium-sized enterprises (SMEs)

SMEs and multinational corporations (MNCs) are likely to face different market pressures and will position themselves correspondingly to meet the adversities. According to the Report on Support Measures for Small and Medium Enterprises issued by Hong Kong's Trade and Industry Department, local challenges faced by SMEs range from high operational costs, intense competition due to the free market nature of Hong Kong and financing problems, such as lack of credibility and uncertainties about the ever-changing market, as well as the market being monopolised by large and powerful companies.[24] However, the daily struggles faced by SMEs are unlikely to apply to MNCs as, with a larger scale of production, MNCs can enjoy economies of scale and a lower average cost of production. For example, ordering from suppliers in bulk often reduces transaction administration costs and allows MNCs to enjoy a bigger discount.[25] The relative unit cost for MNCs is very likely to be lower, along with reduced pressure from market competition due to a well-established oligopolistic or monopoly position held by the MNCs, as well as higher credibility for financial support from banks and the government.

Delving into the sense of purpose, because of insufficient support and governmental promotion of business sustainability among SMEs, SMEs generally lack a sense of awareness in sustaining their businesses, especially in governance, when their business size and scope are narrow.[26] Their sense of purpose lies in continuing their businesses and gaining profit by standing out from their competitors in the market. While customer aspirations do greatly affect the decisions of SMEs in terms of their business direction, the expectations of their employees also play a major role in determining their governance strategies due to the close relationships between, and ambiguous hierarchy of, employees and owners.

Multinational corporations (MNCs)

For large corporates in the local context of Hong Kong, family-run businesses and non-family businesses can be distinguished, as the core values passed through the family greatly influence the mission and vision of the corporation, thus affecting their governance strategies.[27]

The Nan Fung Group is an example. Nan Fung is currently in the hands of the third generation of the founding family. Their mission – of being 'people-oriented' and 'caring for the community' – was passed down from their founder.[28] His granddaughter, the current Group Managing Director, upholds this strong sense of purpose through her deep commitment to community engagement projects. The Mills, a major refurbishment project of the Group's garment factories dating back to the 1950s, is now a hub for local start-ups and creators to display their work, alongside an exhibition showcasing local artists, as well as the history and development of the textile industry. Nan Fung's forthcoming project, the Airside, located in the Kai Tak Development area, relays the Group's mission and a variety of community engagement projects will be launched as soon as the mall opens.[29] This demonstrates that the sense of purpose in family-run corporations is strongly upheld under the family stream, despite changes in stakeholder interests that affect the business direction and goals.

The respective effect of inherited mission is also reflected in the governance structure of family businesses. The Bank of East Asia, Limited (BEA), for example – even though it has embarked on diluting the rigid family line in its governance structure and shareholders – still retains a strong Li family presence in its executive roles.[30]

In comparison, with non-family operating large corporates, their sense of purpose in inheriting the corporate assets and core values are generally not as strong, and hence their main sense of purpose would lie in fulfilling CSR and profit maximisation. While doing social good is a universally incorporated value in modern businesses, the ideology of creating shared value (CSV), or balancing ESG

24 Trade and Industry Department. A Report on Support Measures for Small and Medium Enterprises, 23 April 2012. https://www.tid.gov.hk/english/aboutus/publications/smes/smes04_chapter3.html.

25 Pagano, Alessandro. 'The role of relational capabilities in the organization of international sourcing activities: A literature review." Industrial Marketing Management 38, no 8 (November 2009): 903–13. https://www.sciencedirect.com/science/article/abs/pii/S0019850109001369.

26 Pastrana, Nathaly Aya, and Krishnamurthy Sriramesh. 'Corporate Social Responsibility: Perceptions and practices among SMEs in Colombia'. Public Relations Review 40 (March 2014). https://www.sciencedirect.com/science/article/abs/pii/S0363811113001392.
Zheng, Victor, Po-san Wan, & Hao Gao. (2018). Dynamism in Adversity: a Comparative Study of Trends in the Performance of Listed Family- and Non-Family-Controlled Companies in Hong Kong, 1997–2014. East Asia, 35(4) (2018), 359–378. https://doi.org/10.1007/s12140-018-9299-0.

28 Nan Fung Group. Nan Fung Group – Our Core Values. Accessed 4 July 2021. https://www.nanfung.com/en/about-us/our-values/.

29 Nan Fung Group. In Time of Tree. Airside. Accessed 26 June 2021. https://www.airside.com.hk/en/campaigns/in-time-of-tree.

30 The Bank of East Asia, Limited. (1 April 2021). List of Directors and their Roles and Functions. Hong Kong.

concerns, still encourages the pursuit of profit and a balance in corporate governance.

Concerning the linkages to the myriad of stakeholders' interests, the sense of purpose and the corresponding governance may not be incompatible with the different stakeholder interests. Applying the concept of CSV, in which values are created for both society (containing different stakeholders) and the MNC itself, the sense of purpose can usually be upheld to suit what the stakeholders need. For instance, the increasing awareness and acceptance of the LGBTQ+ movement has prompted MNCs to advocate for the group by releasing several series symbolising 'rainbow' and 'pride', with LGBTQ+ figures as their ambassadors.[31] Because promoting these social trends and norms is likely to attract a certain group of customers and form a loyal customer base, there is generally no contradiction for the MNCs to adhere to the social trends, while earning profit and maintaining their missions.

Key to fulfilling purpose – clear identification of goals and careful planning

Case example: L'Oréal Société Anonyme

The cosmetic and beauty industry is often criticised for insufficient focus on contributing to society. For example, more than 120 billion units of packaging are produced globally each year by the cosmetic and beauty industry, which has led to a loss of approximately 18 million acres of forest annually.[32]

L'Oréal is a French cosmetics company with six founding purposes: entrepreneurial spirit, innovation, open-mindedness, passion, quest for excellence and responsibility. Their four ethical principles are courage, integrity, transparency and respect. L'Oréal strongly believes that a company's reputation and recognition by its employees are key to maintaining its long-term success. Both 'financial and non-financial performance' are 'at the heart of value creation'[33] and are 'equally remarkable', as described by the Chief Executive Officer of L'Oréal.[34]

In alignment with this, L'Oréal constantly launches sustainability-related activities and plans, including its global sustainability programme, Sharing Beauty With All, covering areas such as employees' healthcare and environmental protection (for example, 96% of products launched or renewed in 2020 had an improved social or environmental profile), as well as offering access to work opportunities for the underprivileged (100,905 job positions up to 2020).[35] In May 2020, L'Oréal allocated €150 million to address global social and environmental issues.[36] On the other hand, the company still achieved an annual net income of US$4,070 million in 2020.

The case of L'Oréal shows that, if a company identifies a clear purpose in the very beginning, and continually incorporates its own purposes into its careful plan, it is entirely possible to achieve all these goals without sacrificing any of them.

Solution to the reluctance to develop a sense of purpose – legislation

The above discussion is primarily related to the voluntary adoption of a sense of purpose in the process of decision-making. However, what if companies are reluctant to develop a sense of purpose? Governments can consider the use of law as an external intervention to impose 'purpose' on companies' corporate governance.

Legitimacy of interventions through legislation

There are legitimate reasons why governments have the right, and indeed the responsibility, to intervene in corporate governance. As Lord Devlin stated, the law is a tool to set a social standard to reflect the common values of society.[37] As previously argued, it is important for organisations to consider the interests of different

31 Paul, Darel E. 'Under the Rainbow Banner: Darel E. Paul explains the therapeutic role of the LGBT movement.' A Monthly Journal of Religion and Public Life, no 304 (July 2020). https://go.gale.com/ps/i.do?id=GALE%7CA627144367&sid=googleScholar&v=2.1&it=r&linkaccess=abs&issn=10475141&p=AONE&sw=w&userGroupName=anon%7E751b6fa2.

32 Sherriff, Lucy. The Minimalist Beauty Company Tackling The Industry's Waste Problem. Forbes, September 2019. https://www.forbes.com/sites/lucysherriff/2019/09/17/the-minimalist-beauty-company-tackling-the-industrys-waste-problem/?sh=1ee6cb594326.

33 'Creating value and investing in a more sustainable future.' L'Oréal 2020 Annual Report, 2021. https://www.loreal-finance.com/en/annual-report-2020/finance-legal/creating-value-and-investing-in-a-more-sustainable-future-4-3-3/.

34 'L'Oréal accelerates growth in the fourth quarter, reinforces its market shares, and preserves its profitability at 18.6%.' L'Oréal Finance, 2021.

35 'L'Oréal for the Future: Our sustainability commitments for 2030.' L'Oréal Commitments and Responsibilities, 2021. https://www.loreal.com/en/commitments-and-responsibilities/for-the-planet/.

36 'L'Oréal unveils its next generation of bold sustainability targets for 2030.' L'Oréal Finance, June 2020.

37 Dworkin, Ronald. Lord Devlin and the Enforcement of Morals. The Yale Law Journal, 1966, 2–3. https://digitalcommons.law.yale.edu/cgi/viewcontent.cgi?referer=https://www.google.com/&httpsredir=1&article=4612&context=fss_papers.

stakeholders in the 'ecosystem' they operate within. For instance, if enterprises ignore environmental issues and create massive pollution, this will not be sustainable for our community as a whole in the long run. To protect the common interests of society, the legislatures of different jurisdictions are meant to intervene through legislation.

Current corporate governance-related legislation

In a number of countries, laws have been adopted to make CSR a mandatory incentive for corporations, under either common law (such as in the UK and Hong Kong) or under civil law (such as in France).[38] Some codes are not legally binding in courts, so that companies are not sued in court for breaching those codes. While these codes are useful to set out the standard for industries to follow, and even create a societal norm in the long run, they arguably do not create excessive interference as they are not legally binding.

Overseas legislation

In 2017, the law of duty of vigilance related to corporate governance was introduced in France.[39] Companies with over 5,000 employees are required to develop and disclose a vigilance plan to identify potential risks related to areas of human rights and environmental protection, and to then follow regular assessment procedures and take corrective measures. Any party harmed because of a company's non-compliance with its plans may sue the company for negligence under the law of tort.

There is a large body of other legislation related to corporate governance around the globe. For example, the corporate law of Africa requires mandatory creation of a CSR board committee.[40] This imposes a duty of care on domestic companies to fulfil CSR and to consider different stakeholders' interests, tying a sense of purpose with their governance.

Hong Kong's corporate governance-related legislation

How is legislation related to corporate governance developed in Hong Kong? Hong Kong Exchanges and Clearing Limited (HKEX) introduced the ESG reporting guide in 2012 for voluntary disclosure of ESG performance.[41] In 2016, ESG reporting became mandatory as part of the Listing Rules. Since July 2020, the board of directors must provide a board statement explaining the board's considerations of ESG matters. The disclosure of 'social' KPIs have also been upgraded to 'comply or explain'. This has imposed pressure on listed companies to fulfil their CSR obligations and has significantly strengthened the governance structure in managing ESG issues. This is effectively tying a sense of purpose in their governance.

In 2021, HKEX issued further recommendations for amendments to the Corporate Governance Code and Corporate Governance Report, Main Board Listing Rules and the GEM Listing Rules.[42]

One feature of the proposal would be the compulsory disclosure on the HKEX website of information about the board's gender diversity. A 'single-gender board' is no longer acceptable under the proposal. This is aimed at encouraging companies to allow more women to play a role in senior management positions, which is crucial to promoting women's rights and gender equality in Hong Kong, given that women account for 54.3% of the entire population, as of 2020.[43] Other numerical targets and timelines are also set out in the proposal for achieving gender diversity.

In addition, HKEX proposes that the nomination committee of the board must be chaired by an independent non-executive director (INED). The re-election of a long-serving INED must be approved by the independent shareholders. These measures are intended to ensure that diverse views and opinions are included in the decision-making processes.

Summary

There may be insufficient incentive for some companies to change their business model to create and achieve a sense of purpose. However, legislation is an effective means

38 Lin, Li-Wen. Mandatory Corporate Social Responsibility Legislation Around the World. The Columbia Law School Blue Sky Blog, November 2020.
39 Clerc, Christophe. The French 'Duty of Vigilance' Law: Lessons for an EU Directive on Due Diligence in Multinational Supply Chains. ETUI Research Paper – Policy Brief 1/2021, 13 January 2021. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3765288.
40 Eberhardt-Toth, Edina. 'Who should be on a board corporate social responsibility committee?' Journal of Cleaner Production, August 2016. https://www.researchgate.net/publication/307613555_Who_should_be_on_a_board_corporate_social_responsibility_committee.
41 Hong Kong Exchanges and Clearing Limited. Environmental, Social and Governance Reporting Guide. ESG Reporting Guides and FAQs, July 2020. https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_3841_VER20.pdf.
42 Hong Kong Exchanges and Clearing Limited. Review of Corporate Governance Code and Related Listing Rules, April 2021. https://www.hkex.com.hk/-/media/HKEX-Market/News/Market-Consultations/2016-Present/April-2021-Review-of-CG-Code-and-LR/Consultation-Paper/cp202104.pdf?la=en.
43 Census and Statistics Department Hong Kong Special Administrative Region. Women and Men in Hong Kong Key Statistics, July 2021. https://www.censtatd.gov.hk/en/data/stat_report/product/B1130303/att/B11303032021AN21B0100.pdf.

of imposing the above general duties on companies, under social norms, to urge them to fulfil these universal social goals, thus implanting a sense of purpose in them. In light of this, legislative intervention makes it possible to urge companies to carry a sense of purpose.

Question for thought: does the end justify the means?

With legislation and other factors such as consumer pressure, companies are motivated to carry out social missions. However, what if some companies fulfil CSR just for the sake of profit maximisation, but not to fulfil a social purpose? Are these companies genuinely 'tied' with a sense of purpose? Do the socially beneficial consequences justify the self-oriented motives?

It is noted that there is a difference between corporate social responsibility (CSR) and creating shared value (CSV). The former aims to benefit society, while the latter improves both social and corporate situations.[44] It may be argued that in CSR, the ultimate goal is still to make profit, and that the social benefits can be incoherent or serve purely as a veneer of credibility. Others argue that CSV is the more feasible version of CSR, since it provides resources for the company's survival and also enables the company to put resources back into society.[45] Furthermore, consumers cannot really distinguish between CSR and CSV. Most companies promote themselves as helping society out of genuine empathy, while for consumers, a company's underlying motive may not necessarily affect their decision-making.

However, without a good motive, the consequences may only be beneficial on the surface – the carbon financial market and companies' commitment to carbon reduction being one example. Without a genuine sense of purpose to protect the environment, firms are only incentivised to get round the carbon emission figures. Without a good motive, the actual consequences may not be as advantageous as they appear to be.

Yet, some may argue that compensation, such as carbon offsets, made for damage to society or the environment has no actual remedial effect. It may be inevitable that, in extreme cases like extracting natural resources to fuel production and foster economic growth, the mere actions contribute to environmental damage and thus, on the surface, the purpose of those companies does not seem to align with the interests of most stakeholders, such as the general public, who have an increasing awareness of environmental protection along with sustaining natural resources. But when we drill deeper into the macroscopic view of economic growth and production, it is actually impossible for all businesses to balance the interests of other stakeholders with their own purposes, especially under circumstances where the economic interests conflict with environmental considerations. The possibility of balancing all aspects might be higher in the near future, but currently the unfilled technological gap between fully green and renewable energy, and non-renewable energy, in supporting energy demands still has negative consequences for the planet, hence the interests of all stakeholders cannot be balanced.

Overall, whether the end justifies the means depends on individuals' perceptions of morality and desires. The interests of stakeholders sometimes contradict each other, while the priority given at a particular point does not necessarily mean that their interests are being neglected, nor that the sense of purpose is being compromised. Rather, what this means is that a great deal of careful consideration has been given before any governance-level decisions are made.

Conclusion

As shown above, it may be difficult for corporations to satisfy all stakeholders' interests, given the inherent conflicts therein. However, this paper argues that, in the 21st century, it is necessary, and usually practical, for corporations to tie their governance with a sense of purpose for reasons such as the improvement of company image.

There may be no definite answer to what is right or wrong, so some corporations may fail to clearly identify their purposes. Besides, some companies are reluctant to tie governance with a sense of purpose because of the

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44 Ghasemi, Susan, Mohammad Nazemi and Tooraj Hajirahimian. From Corporate Social Responsibility (CSR) to Creating Shared Value (CSV): Case Study of Mobarakeh Steel Company. Global Business and Management Research: An International Journal 6 (2014): 15.

45 Wayne Visser, and Chad Kymal. Integrated Value Creation (IVC): Beyond Corporate Social Responsibility (CSR) and Creating Shared Value (CSV). Journal of International Business Ethics 8, no 1 (2015): 29.

potential negative impact on their businesses. The difficulties faced by different companies vary with their own scale and unique circumstances.

To overcome these difficulties, it is important for corporations to set clear goals and to prepare strategic plans in order to fulfil their social responsibilities through their businesses. Alternatively, it is legitimate for governments to urge companies to consider their social responsibilities in their decision-making process through legislation.

The concept of CSV may be a solution to balancing different stakeholders' interests. If CSV corporations incorporate social values into their business models in the first place, the conflict of stakeholders' interests can be minimised.

Lastly, companies inevitably need to make profit to sustain their businesses. It is inappropriate to blame corporations that do not appear to regard social purpose as their priority. Instead, these corporations should be appreciated for their respect for shouldering social responsibility.

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Second runner up

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Introduction

A company's purpose is the role it serves in society connected to long-term value, including the differentiated needs it addresses for all its stakeholders. Essentially, a purpose is the corporations' core reason for being and its resulting positive impact on the world. Purpose is the corporation's raison d'être.[1]

The concept of purpose has been around for a long time, but it was the financial crisis of 2009 that brought it to the forefront of discussions. It has become widely accepted that corporations need to be governed with respect for society and the environment, given the fact that they are dependent on the broader institutional andsystematic framing for their long-term survival.[2] On 19 August 2019, the CEOs of 181 large US corporations signed the Business Roundtable Statement, redefining

1 Jean-Philippe Robé, Bertrand Delaunay and Benoît Fleury. Gibson, Dunn & Crutcher LLP. (2019). French Legislation on Corporate Purpose. Harvard Law School Forum on Corporate Governance. Viewed on 4 July 2021. Retrieved from https://corpgov.law.harvard.edu/2019/06/08/french-legislation-on-corporate-purpose/.

2 Purpose of the Corporation Project. Corporate Governance for a Changing World: Final Report of a Global Roundtable Series (2016). Brussels and London: Frank Bold and Cass Business School.

the purpose of corporation and stressing that business plays a broader role in society, carrying responsibilities to multiple stakeholders, including employees, communities and the environment, not just shareholders.[3] Larry Fink, Chairman and CEO of BlackRock, Inc, states that 'companies must be deliberate and committed to embracing purpose and serving all stakeholders'.[4] Corporations are the world's engines of growth.[5] Most of the pressing societal problems cannot be solved without the contribution of corporations, or by regulation alone.

However, this consensus has not yet been reflected in mainstream corporate governance models that focus on the maximisation of shareholder value, which encourages excessive risk-taking at the expense of corporate resistance, the capacity of corporations to anticipate and mitigate systemic risks, and the ability to create long-term wealth, society and sustainability.

This paper advocates a 'shareholder welfare corporate purpose' approach to corporate governance as a solution to finding a manageable way to mutually enforce the often-contradictory goals of the corporation: to be able to create wealth for shareholders, while contributing to societal well-being and environmental sustainability.

Is it possible to reconcile shareholder theory and stakeholder theory?

Going beyond the two theories

Corporate governance is essentially the structure of procedures and processes that direct and control business in response to the questions below:

Over the recent decades, two main theories of decision-making have dominated the debate – 'shareholder theory' and 'stakeholder theory'.

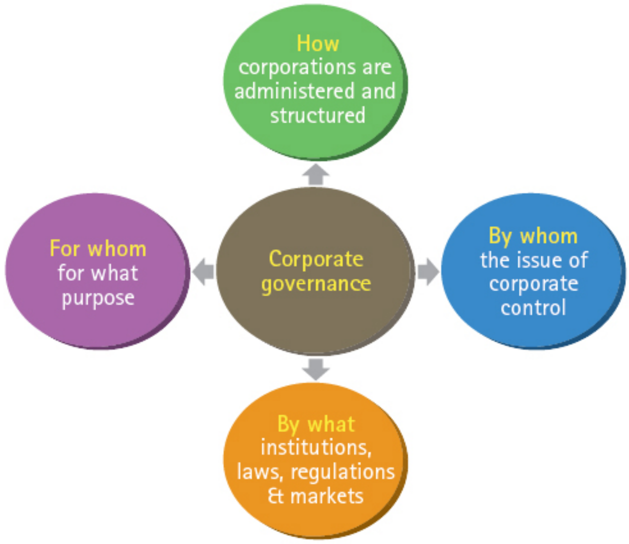

Figure 1: Question oulining the elements of corporate governance

1. Shareholder theory

The classical purpose of corporations, as articulated by Milton Friedman, was seen as maximising the monetary value of the enterprise, as measured by the share price rather than collective value.[6] The sole purpose of corporations is merely to forward their shareholders' financial interests, whereas considerations of extraneous interests are either non-existent or subordinated as matters that should be regulated through non-corporate laws.[7] This creates pressures on executive managers to take a short-term approach and to ignore environmental, social and governance (ESG) factors, systemic risks and the creation of negative externalities for the broader society.

In practice, the shareholder theory has led to the encouragement of the monitoring of corporate performance by markets, investor activism and increasingly short shareholding periods,[8] growing pressures on fund managers to provide financial returns in the short run[9] and the adoption of short-term strategies[10] to increase the payout ratio to shareholders by raising the proportion of

3 Business Roundtable. Business Roundtable Redefines the Purpose of a Corporation to Promote 'An Economy That Serves All Americans' (2019). Retrieved from https://www.businessroundtable.org/business-roundtable-redefines-the-purpose-of-a-corporation-to-promote-an-economy-that-serves-all-americans.
4 Larry Fink. A Fundamental Reshaping of Finance (2020). Retrieved from https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter.
5 World Investment Report 1992. Transnational Corporations as Engines of Growth. United Nations, New York, 1992.
6 Jeffrey Harrison, Douglas Bosse and Robert Phillips. Managing for Stakeholders, Stakeholder Utility Functions and Competitive Advantage. Strategic Management Journal. Volume 31, issue 1 (2010): pages 51–74; T Donaldson & JP Walsh. Toward a Theory of Business. Research in Organizational Behavior. Volume 35 (2015): pages 181–207.
7 Barnali Choudhury and Martin Petrin. 'Corporate governance that "works for everyone": promoting public policies through corporate governance mechanisms'. The Journal of Corporate Law Studies. Volume 18, issue 2 (2018).
8 Department for Business, Innovation and Skills. Business Plan 2011–2015. (2010).
9 Purpose of the Corporation Project. Corporate Governance for a Changing World: London Roundtable Executive Summary. (2015).
10 Department for Business, Innovation and Skills. 'A long-term focus for corporate Britain: call for evidence'. (2010).

corporate profits spent on dividends and share buybacks, as well as engaging in M&A transactions.[11]

2. Stakeholder theory

There has been a growing recognition that corporate purpose may be broader than shareholder wealth maximisation. According to the seminal work by R Edward Freeman in 1984,[12] the theory focuses on the idea that corporations have responsibilities not only to shareholders, but also to a variety of other internal and external stakeholders,[13] whose resources and 'investments' in the corporation, financial or non-financial in nature, deserve protection and consideration to the same extent as shareholder interest.

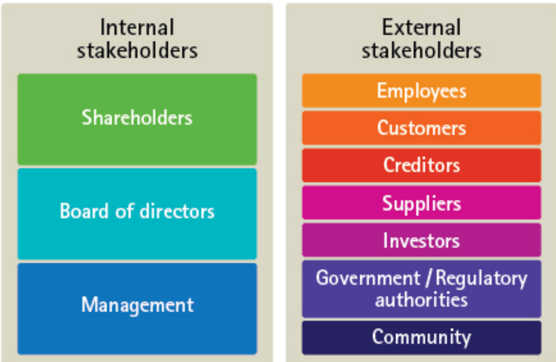

Figure 2: Internal and external stakeholders of a corporation

In the long run, stakeholder interests must be balanced over time.[14] The theory is not about turning all constraints and trade-offs into a series of win-win situations. Instead, it is the effective distribution of both benefit and disadvantage between different groups and stakeholders in a way that ensures their long-term support and shared value creation.[15]

Evaluation of both theories

Both theories can lead to problematic results. An overly narrow focus on shareholder interests and profitability, through increased risk-taking and neglect of non-financial impacts of corporate activities, leads or contributes to negative corporate externalities. The ugly truth of the full-fledged operation of the shareholder theory can be seen from the last two decades, with its corporate scandals such as the cases of Enron Corporation or Siemens AG, financial crises, mass torts, human rights violations and environmental disasters. The financial crisis of 2008 contributed to increased doubts about the shareholder wealth maximisation objective's justifiability as a guiding corporate law principle.

On the other hand, a widely defined corporate purpose taking into account all stakeholders may impair innovation and economic growth, if it substantially reduces capital investment and results in costs that are difficult for businesses to absorb. The stakeholder theory has also been criticised as being 'irrelevant' and 'impractical'. The theory is irrelevant because there is instrumentally no inconsistency in interpretation between the stakeholder theory and the shareholder theory. Bebchuk and Tallarita (2020) argue that stakeholder theories are just a form of enlightened shareholder capitalism.[16] In tandem, Freeman et al (2019) argue that stakeholder theories need to escape the trap of building trade-offs among stakeholders and instead move toward redefining value creation.[17]

The stakeholder theory is considered impractical because this pluralistic approach means that the interests of specific key or prioritised stakeholders should be furthered in their own right, potentially at the expense of shareholders. Fundamentally, the heterogeneity of expectations of stakeholders makes corporate governance difficult in practice, as objectives are harder to determine, creating impossible trade-offs for companies to balance. Moir, Kennerley & Ferguson (2007) point out that the stakeholder responsiveness model does not work because salient stakeholders change over time and managers need to tackle constantly changing stakeholder relationships.[18] This theory also gives rise to very weak governance by compromising accountability since 'accountability to

11 William Lazonick. The Financialization of the U.S. Corporation: What Has Been Lost, and How It Can Be Regained. Seattle University Law Review. Volume 36, issue 2 ((2013): pages 857–909.
12 R Edward Freeman. Strategic Management: A Stakeholder Approach. Cambridge: Cambridge University Press, 2010.
13 The definition of 'stakeholder' is a group or individual that can affect or can be affected by an organisation.
14 R Edward Freeman, et al. Stakeholder Capitalism. Journal of Business Ethics. Volume 74, issue 4 (2007): pages 303–314.
15 R Edward Freeman and John McVea. A Stakeholder Approach to Strategic Management. (2001).
16 Lucian Bebchuk and Roberto Tallarita. The Illusory Promise of Stakeholder Governance. Cornell Law Review. Volume 106 (2020): pages 91–178.
17 Johanna Kujala, Hanna Lehtimäki and R Edward Freeman. A Stakeholder Approach to Value Creation and Leadership. Tampere University Press. (2019).
18 Lance Moir, Mike Kennerley and David Ferguson. 'Measuring the business case: Linking stakeholder and shareholder value'. Corporate Governance International Journal of Business in Society. Volume 7, issue 4 (2007): pages 388–400; Robbin Derry. Reclaiming Marginalised Stakeholders. Journal of Business Ethics. Volume 111, issue 2 (2012): pages 253–264.

everyone is accountability to no one.'[19]

In sum, both theories contain some fundamental flaws.

A shareholder welfare corporate purpose approach

As decision-making is becoming more complex, corporations require better frameworks for shareholders and directors to define how their corporations should operate, and to assess whether a decision is in the best interests of the company. This can open up a minefield where stakeholders and directors have different expectations of how these decisions should be made.[20]

The shareholder welfare corporate purpose approach is a holistic approach to corporate governance. The approach defines corporate purpose as having two elements, namely 'solving problems' and 'making profits', associating it with enhancing the well-being and prosperity of shareholders, society and the natural world. The corporation should have a purpose of 'producing profitable solutions to the problems of people and the planet' and 'not to profit from producing problems for the people or planet.'[21] Profit is defined as the net of the costs of avoiding and remedying problems. This approach goes beyond the shareholder/stakeholder debate, and aims at creating value for both shareholders and stakeholders. By tying a sense of purpose to governance, it brings clarity to stakeholder engagement by defining which stakeholders' interests the company is promoting and in what way it is trying to address the problems. It also promotes fair competition and diversity of purpose, as well as encourages corporations to seek a purpose that has a broad objective in terms of solutions to the problems. It does not disadvantage any party, because profits are only legitimate if they are not earned at the expense of other parties. Corporate purposes are only valid if they are profitable in this sense. This can either be the case where 1) the corporation yields maximum profits for shareholders, given that profits are not earned at the expense of other stakeholders, or 2) the corporation delivers maximum benefits for other stakeholders and minimal returns for shareholders. This approach goes beyond the shareholder and stakeholder theories since shareholder profits are maximised, no party benefits at the expense of another and no complex trade-offs under stakeholder plurality would arise.

How to tie governance with purpose – hard controls

Corporate governance is defined as the system of rules, practices and processes by which a firm is directed and controlled. Since corporate governance also provides the framework for attaining a company's objectives, it encompasses practically every sphere of management, from action plans and internal controls to performance measurement and corporate disclosure.[22] This section aims to lay out a holistic approach to tying corporate governance with a purpose, placing emphasis on seven identified change pathways, namely legal, regulatory and policy changes; identifying the corporate purpose; clarifying fiduciary duties; improving incentive structures; strengthening the role of the board; engaging stakeholders; and improving accounting and reporting systems. The pathways will act as guiding posts for corporations seeking to tie governance with a purpose.

1. Legal, regulatory and policy changes

Corporation, being a legal concept, and the fact that it is the law which ultimately determines the nature of the system – both through the means in which companies adhere to legal rules and seek to exploit accountability gaps – mean that the role of law in instigating change is one of the effective change pathways.

A laissez-faire attitude runs through Hong Kong's company law, providing corporations with certain flexibility to define their principles, given different attitudes and preferences when it comes to decision-making principles. Nevertheless, there is one thing for sure: creating clarity between shareholders, directors and managers by embedding a purpose will reduce the potential for conflict,

19 Colin Mayer, Luigi Zingales and Mireia Giné. Are Corporate Purpose Statements 'Verbiage'?' IESE-ECGI Corporate Governance Conference: Can Purpose Deliver Better Corporate Governance. 28–30 October 2020. Viewed on 4 July 2021. Retrieved from https://ecgi.global/content/can-purpose-deliver-better-corporate-governance#!event-presentations.

20 Lynn S Paine. Covid-19 Is Rewriting the Rules of Corporate Governance. Harvard Business Review. (2020). Viewed on 4 July 2021. Retrieved from https://hbr.org/2020/10/covid-19-is-rewriting-the-rules-of-corporate-governance.

21 The British Academy. Principles for Purposeful Business: How to deliver the framework for the Future of the Corporation (2019); Colin Mayer. Prosperity: Better Business Makes the Greater Good. Oxford University Press (2018).

22 James Chen. Corporate Governance. Investopedia. Viewed on 4 July 2021. Retrieved from https://www.investopedia.com/terms/c/corporategovernance.asp.

as well as open up opportunities for directors and managers to act more strategically and for the long-term benefit of the corporation.

Corporate purposes are named 'objects' in Hong Kong's legislation. The articles may state the purposes of the company,[23] and many of the powers the company would be entitled to exercise in carrying out its objects.[24] A company's purpose does not currently play a solid role in terms of Hong Kong's governance and corporations' regulation. This can be observed in the abolition of the Ultra Vires Doctrine by the Companies (Amendment) Bill 1996.[25]

From the aforementioned, a corporate purpose is not entirely binding on the actions of the company. Nonetheless, this does not mean that it cannot potentially have a role in corporate governance. From an ethical point of view, a sense of purpose is a core component of a company's ethical framework. Purpose-tied governance represents a new perspective through which stakeholder conflicts could be reconciled in requiring conscious consideration of the company's purpose.

This paper suggests that the option to incorporate around a purpose should not be implied as exceptional, or should not only apply in exceptional circumstances in what are described as 'altruistic' companies in all jurisdictions. Colin Mayer suggests that corporate law should capture the two definitions of shareholder welfare corporate purpose, 'solving problems' and 'producing profits'. Purpose and decision-making principles could be enshrined in the articles of association, shareholders' agreements or other documents to build clarity between shareholders and directors, and to ensure the accountability of directors to shareholders for implementing plans to meet those purposes, as well as to provide protection against shareholder proposals that contravene the corporate purpose.[26] The addition of the requirement of a supermajority of shareholder votes to change relevant enshrined purpose provisions could act as a mission-lock to secure the purpose.[27] A possible statutory formulation might be that 'a director of a company must act in a way he/she considers, in good faith, would be most likely to enhance shareholder welfare by solving problems of people and the planet and not producing problems for either.' This is an improvement to section 172 of the UK Companies Act 2006, as it deals with the problem that the act does not permit directors to further the interests of stakeholders at the expense of shareholders, and does not provide protection to companies that promote purposes beyond shareholder value.

The possibility of a purpose-tied corporate law framework is evinced in recent developments in corporate law and corporate governance codes around the world. Examples of this include the adoption of broad corporate purpose for the corporation in the Netherlands[28] and South Africa;[29] the broadening of ESG reporting standards in the EU, according to the Non-Financial Reporting Directive; and the use of the benefit corporation legal form in more than half the states in the US, as well as in Italy, with a requirement to create general public benefits, for which directors are also accountable to other stakeholders.

Some of the obstacles to legal changes might be the shifting nature of political contexts, the impact of being a first mover and the volume of detailed work required to bring about significant legal change.[30] Nevertheless, in recent years there has been an increasing commitment to legal change, signalling to business the direction of travel. For example, despite significant debate regarding the codifying practice of law, the Future of the Corporation roundtables in 2019 broadly concurred with the need for the use of legal mechanisms.

2. Identifying, articulating and embedding corporate purpose in the corporate structure of the corporation

As mentioned above, corporate purpose is about solving

23 Companies Ordinance (Cap 622) section 82(2).
24 Cotman v Brougham [1918] AC 514 (HL), at 522–523.
25 Previously, a Hong Kong company may only enter into transactions to the extent that it is permitted to do so by its objects (purpose), which are specified in its charter. Any action in accordance with these objects is ultra vires, that is, beyond the power of the company. Any contracts that are ultra vires are void and unenforceable against the company.
26 Social Impact Investment Taskforce. Profit-with-purpose businesses. Subject paper of the Mission Alignment Working Group. (2014).
27 In UK Company Law, section 31(1) CA 2006 allows companies to have an objects clause. Making the object explicit has the effect of putting directors under a duty to comply (section 171) and the objects clause can be entrenched (section 22(1)).
28 Corporate Governance Code Monitoring Committee. Dutch Corporate Governance Code: Principles of good corporate governance and best practice provisions. (2008).
29 The Draft King IV Report on Corporate Governance for South Africa 2016, which opened for public consultation on 14 March 2016.
30 Purpose of the Corporation Project. Corporate Governance for a Changing World: Final Report of a Global Roundtable Series (2016). Brussels and London: Frank Bold and Cass Business School.

problems in a profitable fashion. It is the point of intersection between hard elements, such as strategy and operational priorities,[31] which drive performance, and the soft elements, such as ethics, values and cultures, which work to create a distinctive organisational climate.[32]

A properly formulated purpose statement provides legal clarity on how the corporations assist stakeholders to address the challenges they face, while at the same time helping corporations to minimise the problems they might cause. This requires a clear judgement about balancing the interests of different stakeholders, and the subsequent delivery – both internal and external – of the corporation. For example, Novo Nordisk A/S drives change to defeat diabetes and other serious chronic diseases.[33] Once the corporate purpose is sufficiently clear, then the contribution of different stakeholders to the purpose and their interests can be determined, and trade-offs will become evident.

Enshrining a corporate purpose that places emphasis on solving problems in a profitable manner makes shareholder welfare derivative of stakeholder welfare. This approach brings effective governance and accountability because it provides a legal lock-in for corporate purposes, protecting them going forward. It also implies a lower cost of capital from shareholder welfare for corporations to deliver on those corporate purposes.

Corporations could adopt an industrial foundation structure,[34] where a non-profit foundation retains control of a majority of voting shares, allowing the corporation to retain its main purpose. The corporations adopting this structure include Novo Nordisk, Inter IKEA Systems BV, Carlsberg A/S and Heineken NV.

It should be noted that it is not possible to completely eradicate agency problems even with a corporate purpose statement, since they will persist as long as the key actors – namely shareholders, executives, directors and employees – are more concerned about their own welfare than the stated purpose of the company. Different mechanisms, which this paper will further elaborate on, can be utilised to lower agency costs, regulate principal-agent relationships and take advantage of incentives to align principal-agent interests. A clear purpose statement that is revisited from time to time and is supported by strategies will allow corporations to create value for society as a whole.

3. Clarifying fiduciary duties of directors

A fiduciary duty is the obligation based on trust to act in the best interests of another person.[35] The fiduciary duties of directors' must be clearly defined to achieve a purpose-tied governance.[36] Rather than a series of separate duties aimed at ensuring high standards of conduct, or at ensuring that those who govern a corporation act in the best interests of it, fiduciary duties emanate from the furtherance of the corporation's purposes.

Currently, fiduciary duties of directors are limited to serving the perceived interests of the corporation's shareholders to manage short-term market value increases. A strong focus on short-term performance destroys shareholder value in the long run, because it turns directors away from strategic considerations that mitigate corporation-specific and systemic risks.

It is surprising that Hong Kong has not yet codified the duty to act in good faith for the benefit of the company as a whole. In 2008, the Standing Committee on Company Law Reform actually considered codifying directors' general duties, along with the abovementioned duty. The reason for the committee's inaction was that it believed it was premature at that time to codify this duty,[37] given the concerns expressed that this might not fit with the beliefs of some companies. Fast-forwarding to 2021, companies are quickly adopting purposes and mission statements, in response to stakeholder expectations. It is doubted that codifying this would not fit with the beliefs

31 Nikos Mourkogiannis. Purpose: The Starting Point of Great Companies. Palgrave Macmillan Limited. (2008).
32 Douglas Ready and Emily Stecker Truelove. Purpose and the Power of Collective Ambition. Business Strategy Review. Volume 22, issue 3 (2011): pages 17–23.
33 Novo Nordisk. About Us: Defeat diabetes. (2021). Viewed on 5 July 2021. Retrieved from https://www.novonordisk-us.com/about/defeat-diabetes.html.
34 Colin Mayer. Firm Commitment: Why the corporation is failing us and how to restore trust in it. Oxford University Press. (2013).
35 Investopedia. What Are Some Examples of Fiduciary Duty? (2021). Viewed on 5 July 2021. Retrieved from https://www.investopedia.com/ask/answers/042915/what-are-some-examples-fiduciary-duty.asp.
36 The places where the fiduciary duties of directors must be defined and specified are the corporation's governance documents, strategic objectives, key performance indicators, and reporting and executive incentive systems.
37 Financial Services and the Treasury Bureau. Chapter 3: Directors' Duties. In Second Public Consultation on Companies Ordinance Rewrite. (2008). Retrieved from https://www.cr.gov.hk/en/publications/docs/042008_ch3-e.pdf.

of companies. This paper suggests that directors should have the fiduciary duty to act in good faith for the benefit of the company, with the interests of both shareholders and stakeholders in mind. They should be allowed to focus on long-term value creation for the corporation to the benefit of its present and future shareholders, and avoid contributing to systemic risks that create negative impacts.

Directors are under obligation to proactively evaluate the material financial risks and opportunities that are part of legitimate business strategy in the form of ESG factors. The scope of this duty could be defined by policymakers by clarifying the content of fiduciary duties of directors with respect to the outcomes caused, or contributed by the corporation, in terms of systemic risks, and environmental and social issues. Systemic risks could be embedded into corporate strategy by linking them to in-control statements.[38]

4. Improving incentive structures for directors and executives

The practice of incentive structures is to incentivise managers and directors to pursue the objectives of corporate strategy. The current incentives structures are focused on correlating pay with performance in the form of share options or incentive plans linked to share price to solve the agency problem. These structures have led to managerial short-termism, which has created a number of adverse impacts.[39] At the end of the day, this structure lowers the corporation's utility and hinders long-term success.

It is thus hinted that incentive structures should be linked to long-term value creation. The variable part of pay could be tied to the creation of long-term value, which is measured by a broader set of purpose-tied metrics. In March 2021, Ernst & Young Global Limited reported that 73% of leading corporations across Europe had implemented remuneration schemes tied to long-term value creation.[40] Share-based remuneration may be subject to the achievement and sustainment of long-term goals. The introduction of clawback clauses can give additional security where misconduct is later discovered.[41]

Regarding the transparency of executive remuneration, it is suggested that corporations should be obligated to disclose executive remuneration, and the ratio between executive pay and average pay for the rest of the workforce, and to explain changes to that ratio on a yearly basis to limit inequality within the corporation and to build trust and loyalty.[42] Employees should be able to express their views on executive compensation schemes through remuneration committees.[43]

5. Strengthening the role of the board

Generally speaking, the boards and top executives are responsible for displaying leadership and setting the tone of the corporate culture. To achieve effective oversight, the roles and responsibilities of each board member should be clearly defined, the risk appetite of the company has to be set and mechanisms have to be in place to hold management to account. The board's view of long-term value creation must include stakeholder interests and corporate purpose.

A diverse board could improve access to relevant expertise and specialised knowledge, solving problems more effectively,[44] achieving a better understanding of the global markets and stakeholders along the supply chain, improving the corporate reputation and facilitating long-term value creation in accordance with the corporate purpose. One report on the ethnic diversity of UK boards recommended that each FTSE 100 company should have at least one director of colour on the board by the end of 2021. There is a necessity for a variety of backgrounds,

38 Dutch Corporate Governance Code. Principle 1.4.3. (2016). Viewed on 5 July 2021. Retrieved from https://www.dsm.com/content/dam/dsm/corporate/en_US/documents/corporate-governance-code-en.pdf.

39 Negative impacts include degrading contract conditions for employees, unnecessarily exorbitant CEO and top executive remuneration, and transfer of resources away from long-term value creation – such as investment in innovation and productive capabilities – to short-term value extraction for shareholders.

40 Ben Falk and Sharon Sutherland. 'How a purpose-led strategy can help boards prioritize stakeholders'. (2021). EY. Viewed on 5 July 2021. Retrieved from https://www.ey.com/en_gl/board-matters/how-a-purpose-led-strategy-can-help-boards-prioritize-stakeholders.

41 Corporate Finance Institute. 'Clawback'. Viewed on 5 July 2021. Retrieved from https://corporatefinanceinstitute.com/resources/knowledge/finance/clawback/.

42 Corporate Governance Reform: The Government response to the green paper consultation. (2017).

43 Ibid.

44 Corporate Governance Code Monitoring Committee. Dutch Corporate Governance Code: Proposal for revision. Page 28 (2016); Purpose of the Corporation Project. Corporate Governance for a Changing World: Dutch Roundtable Executive Summary. (2016). Brussels and London: Frank Bold and Cass Business School.

knowledge and skills on boards.[45]

The term limits for directors should be sufficiently long to enable a long-term perspective and allow them to put the purpose to practice, without having a constant campaign mentality, which leads to the adoption of short-term strategies. However, the term limits should also not be excessively long, which would result in directors losing their independent view. It is suggested that staggered boards can ensure board continuity and improve protection against hostile takeovers.[46] Reasonable recall provisions for incoming directors should also be in place, which the board, shareholders or other specified actors could trigger in the event of wrongdoing.

Board members' qualifications and remuneration could be made public to improve accountability and public oversight. An institution could be established to oversee the board members' adherence to requirements and to provide induction, training and certification.

6. Engaging stakeholders

The success of a corporation is dependent on the existence of a beneficial operating environment. Good relations with internal and external stakeholders are necessary for maintaining the long-term social license of corporations. The current practice under the enlightened shareholder model or CSR campaigns is that corporations would prioritise its stakeholders in order of importance, with a view to deciding the strategic choices in the management of those relationships. This can be achieved by recognising and categorising the stakeholders according to the level of power and legitimacy that they exert in the organisation. Kazmi attests that the value of stakeholders to the organisation can be evaluated according to the effect of the intensity and quality of support or opposition the particular stakeholder has on the organisation.[47] Governance arrangements will need to shift the focus of boards from shareholder value to corporate purpose.

As a corporation's governance shifts to become more purpose-tied, so too will the definition and understanding of long-term value. For this shift to have a real impact, a corporation needs to understand how its stakeholders are affected by its decisions and how this affects it in turn. Conducting a materiality analysis is a vital step to understanding how an organisation impacts its key stakeholders and its engagement with them, to determine how they are affected by the company's decisions and actions. Examining the steps required to undertake a materiality analysis – including listing all identified material topics, and detailing how they impact stakeholders and the corporation – and the process of identifying and engaging with stakeholders helps validate the input.[48] An all-round materiality analysis allows the corporation's directors to assess what issues are material for them, which of them should be prioritised, the risks of adverse impacts on external stakeholders and the sustainability of its value creation model.

Corporations might also reflect the interests of the stakeholders who cannot be directly engaged, such as the environment or people affected in global supply chains. To prevent false perceptions, the corporation could assign responsibility to particular board members and establish appropriate monitoring mechanisms.

The bare minimum of stakeholder engagement is to communicate with stakeholders through diverse channels and platforms to seek their feedback on the company's fulfilment of its corporate purpose and sustainable development strategies, goals and daily operations. One of the methods for engaging stakeholders is to bring stakeholders onto boards and to provide them with the right of representation.

Consultation provides an opportunity for key stakeholders to express their opinions on issues concerning the long-term value creation of the corporation. The right to consultation and the right of stakeholders to express an opinion could be built into the corporation's governance documents, or could be required by policymakers. The board could be specifically responsible for stakeholder consultation, to identify matters material to the corporation's future.

45 Corporate Governance Code Monitoring Committee. Dutch Corporate governance code: Proposal for revision. (2016).
46 Leo E Strine. One Fundamental Corporate Governance Question We Face: Can Corporations Be Managed for the Long Term Unless Their Powerful Electorates Also Act and Think Long Term?' The Business Lawyer. Volume 66 (2010): page 15.
47 Azhar Kazmi. 'A proposed framework for strategy implementation in the Indian context'. Management Decision. Volume 46, issue 10 (2008): pages 1564–1581.
48 Corporations usually consider adopting the United Nation's Sustainable Development Goals as their material topics.

Governance arrangements outlined in articles and official documents can serve to ensure respect for the interests of stakeholders and society at large, clarifying the shareholder engagement framework and the fiduciary duties of directors.

7. Improving corporate accounting and reporting systems

The purpose of corporate accounting and reporting is moving from the narrow approach of displaying financial information for absentee investors and creditors, to a broader approach of looking into the future and outside the mere confines of the corporation.[49] Currently, corporations in the US and in the EU must publish their financial statements on the basis of the generally accepted accounting principles and the International Financial Reporting Standards, respectively. These standards reinforce the narrow approach of disclosing financial information. The practice of quarterly financial reporting fosters short-termism and an overemphasis on maximising shareholder value.

It cannot be assumed that investors are less absorbed by ESG issues than financial information. Corporations are constantly pressed by investors to provide more comprehensive ESG information in their public reports to increase transparency. From 1 July 2020, the environmental, social and governance (ESG) reporting requirements of companies listed on the Stock Exchange of Hong Kong have been expanded. Companies are now required to make mandatory disclosures and state whether they have complied with the 'comply or explain' provisions. Furthermore, research shows that investors are increasingly interested in value creation, and that corporations which report on share-value creation in relation to all key stakeholders tend to be more successful.[50] Corporations with good ESG performance and reporting outperform their peers on the stock market and benefit from the lower cost of capital.[51]

Peter Drucker once publicly said that 'if you can't measure it, you can't improve it'. It is often assumed that there is an inherent difficulty in identifying meaningful metrics to assess whether the organisation is achieving its purpose.

Accounting models might be seen to omit addressing several issues that are essential for a corporation's ability to create sustainable value, in particular the information about social and environmental risks and opportunities, as well as intangible assets, presenting a major barrier to socially responsible investing. Studies show that intangibles represent 87% of leading companies' assets.[52] There is an insufficient recognition of the investments associated with expenditures on people, societies and environments on an external basis, as well as within corporations in their supply chains, local communities and natural world. These are assets over which companies do not necessarily have legal claims in the traditional sense, but which are nonetheless indispensable to the successful functioning of a company and the fulfilment of its purpose.

Integrated reporting could improve corporate governance because it provides a comprehensive and measurable view on value, on the performance of the corporation and on risks beyond its short-term financial position. It allows institutional investors to monitor corporate performance by considering its capacity for long-term value creation and by using the key performance indicators as benchmarks for their voting strategies, taking into account the interests of their end beneficiaries. Since purpose expresses what the corporation is and aspires to be, firm-specific metrics should inform not only day-to-day operations, but also allocation decisions such as capital expenditures and M&As, as well as company-wide transformation initiatives.

This paper proposes a further integration of ESG disclosures into the mandatory reporting of sustainable value creation of listed companies by assessing a core and expanded set of Stakeholder Capitalism Metrics – formulated by the World Economic Forum's International Business Council and reiterated in the white paper, Measuring Stakeholder Capitalism: Towards Common Metrics and Consistent Reporting of Sustainable Value Creation – which are

49 Purpose of the Corporation Project. Corporate Governance for a Changing World: Dutch Roundtable Executive Summary. (2016). Brussels and London: Frank Bold and Cass Business School.
50 Ibid.
51 Robert G Eccles, Ioannis Ioannou and George Serafeim. The Impact of Corporate Sustainability on Organizational Processes and Performance. Management Science. Volume 60, issue 11 (2014): pages 2835–2857.
52 Ocean Tomo LLC. Annual Study of Intangible Asset Market Value. (2015). Retrieved from https://www.oceantomo.com/2015/03/04/2015-intangible-asset-market-value-study/.

aligned with the Sustainable Development Goals and principal ESG domains.

Figure 3: The four pillars of the Stakeholder Capitalism Metrics formulated by the World Economic Forum

How to tie governance with purpose – soft controls

Corporate law and regulations are seen as the binding force of the purpose in corporate governance across most jurisdictions, offering considerable scope in terms of the purpose of the corporation where the fiduciary duties of officers are owed to the corporation itself, calling for them to act in its best interests. However, the permissive character of corporate law does not translate easily into practice. The dominant corporate governance model, based on the enlightened shareholder theory, persistently directs the focus of executives and boards toward short-term increases of market value. This shows that the above-mentioned hard controls are insufficient to tie purpose to corporate governance in themselves; they must therefore be paired with soft controls, such as corporate values, ethics and culture for a company to achieve a shareholder welfare corporate purpose approach.

Corporate values, ethics and culture are underpinned by implicit rules, which are not expressly outlined. Nevertheless, their importance as soft controls must not be underestimated. An important aspect of culture is its role in promoting ethical standards of integrity and honesty in corporations, as reflected in their values and codes of conducts. They act as benchmarks when unpredictable circumstances arise, limit the discretionary power of managers and help coordinate behaviour, thereby minimising friction within the organisation and setting the boundary between acceptable and unacceptable behaviour.[53] Examples of healthy corporate culture may include accountability, openness and fairness, among others. To develop a corporate culture that underpins these features, a corporate purpose must be in place to conceptualise these implicit assumptions.

The first step is for the board of directors to define the corporate purpose in a clear and precise manner, determining a set of mission statements and values necessary to deliver it. The next step is for the board to disseminate and consolidate an organisational culture that articulates the purpose of the corporation by embedding it in business strategies, which can then become a catalyst for motivation and alignment of the entire organisation, for example robust stakeholder engagement.[54] The corporation's leaders must proactively demonstrate the core values and strategic priorities of the culture, ensuring flat hierarchies and avoiding micromanagement. Employees must feel that the daily operation of the corporation emanates the corporate purpose. Recent research shows that a higher and broader corporate purpose leads to greater employee engagement and motivation.[55]

In making strategic decisions in accordance with corporate culture, values and strategy, corporations could use a matrix measuring the net positive impact value of the decision on shareholders, stakeholders and society, as well as the alignment with the corporation's purpose.

Figure 4: Step-by-step approach to using soft controls to tie governance with a sense of purpose

Source: António Gomes Mota. Corporate Governance in the new multi-stakeholder world: realities and challenges. Retrieved from http://revistapremio.pt/en/corporate-governance-in-the-new-multi-stakeholder-world-realities-and-challenges/.

53 Elizabeth A Collins, et al. Corporate Governance and Value Creation. The Research Foundation of CFA Institute. (2005).
54 John Coleman. Six Components of a Great Corporate Culture. Boston: Harvard Business Review. (2013). Viewed on 4 July 2021. Retrieved from https://hbr.org/2013/05/six-components-of-culture.
55 Lars van Tuin, et al. A Corporate Purpose as an Antecedent to Employee Motivation and Work Engagement. Frontiers in Psychology. Volume 11 (2020), article 572343.

Such a matrix would allow the corporation to develop a better understanding of what it means to act purposefully in practical situations, identify gaps in its strategy, balance contradictory objectives and evaluate its ability to make decisions in accordance with its purpose.[56]

Conclusion

The world is accepting the idea that corporations, as the engines of the world's growth, have a purpose beyond profit to address complex problems that cannot be solved by governments or society alone. The shareholder welfare corporate purpose approach, advocated in this paper as a model for corporate governance, is the solution to successfully tying governance to a sense of purpose over time and to finding a manageable way to mutually enforce the often-contradictory goals of the corporation – to be able to create wealth for shareholders, while contributing to societal well-being and environmental sustainability, given the myriad of stakeholder interests.

56 Purpose of the Corporation Project. Corporate Governance for a Changing World: Dutch Roundtable Executive Summary. (2016): page 3. Brussels and London: Frank Bold and Cass Business School.

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Photo Gallery

The top six teams were invited to present their papers on 30 October 2021 and compete for the Best Presentation Award. Audiences voted online for the 'Audience's Favourite Team'.

▲ Team 1 to Team 6

Team 1

(From left) **Bibo Chui, Kenton Lo, Brian Wong and Donald Tsang**

The Hong Kong University of Science and Technology and The University of Hong Kong

Team 2

(From left) **Truston Yu, Anfield Tam, Arthur Wong and Leo Ng**

The University of Hong Kong

Team 3

(From left) **Austin Lau and Alanis Man**

The University of Hong Kong

Team 4

(From left) **Magnolia Wang, Shevin Fan, Hellen Liu and Isaac Lee**

City University of Hong Kong

Team 5

(From left) **Quinyx Tam, Yo Yo Chan, Vincent Lau and Warren Chan**

Hong Kong Metropolitan University

Team 6

(From left) **Peter Kwong, Sovia Fung, Dreyllien Wu and Victoria Ip**

The University of Hong Kong

Awardees of Paper Writing Competition

Stella Lo FCG HKFCG(PE), Institute Council member and Education Committee Vice-Chairman; and Group Company Secretary, Guoco Group Ltd, presenting certificates to the awardees of Paper Writing Competition 2021 in appreciation of their achievement.

Best Paper Award

(From left) **Magnolia Wang, Shevin Fan, Isaac Lee and Hellen Liu**

City University of Hong Kong

First runner up

(From left) **Peter Kwong, Sovia Fung, Dreyllien Wu and Victoria Ip**

The University of Hong Kong

Second runner up

(From left) **Austin Lau and Alanis Man**

The University of Hong Kong

Ellie Pang FCG HKFCG, Institute Chief Executive, presenting the Merit Certificates to awardees of Paper Writing Competition 2021.

Merit

(From left) **Kenton Lo, Brian Wong, Bibo Chui and Donald Tsang**

The Hong Kong University of Science and Technology and The University of Hong Kong

Merit

(From left) **Truston Yu, Anfield Tam, Arthur Wong and Leo Ng**

The University of Hong Kong

Merit

(From left) **Yo Yo Chan, Warren Chan, Quinyx Tam and Vincent Lau**

Hong Kong Metropolitan University

Awardees of Paper Presentation Competition

Edmond Chiu FCG HKFCG(PE), Institute Council member, Membership Committee Vice-Chairman, Professional Services Panel Chairman and AML/CFT Work Group member; and Managing Director, Corporate Services, Vistra Hong Kong Ltd, presenting certificates to the awardees of Paper Presentation Competition 2021 in appreciation of their achievement.

Best Presentation Award

(From left) **Austin Lau and Alanis Man**

The University of Hong Kong

Second runner up

(From left) **Truston Yu, Anfield Tam, Arthur Wong and Leo Ng**

The University of Hong Kong

First runner up

(From left) **Warren Chan, Yo Yo Chan, Quinyx Tam and Vincent Lau**

Hong Kong Metropolitan University

Ellie Pang FCG HKFCG, Institute Chief Executive, presenting the Merit Certificates to awardees of Paper Presentation Competition 2021.

Merit

(From left) **Kenton Lo, Donald Tsang, Bibo Chui and Brian Wong**

The Hong Kong University of Science and Technology and The University of Hong Kong

Merit

(From left) **Magnolia Wang, Shevin Fan, Isaac Lee and Hellen Liu**

City University of Hong Kong

Merit

(From left) **Peter Kwong, Sovia Fung, Dreyllien Wu and Victoria Ip**

The University of Hong Kong

Audience's Favourite Team

Stella Lo FCG HKFCG(PE), Institute Council member and Education Committee Vice-Chairman; and Group Company Secretary, Guoco Group Ltd, presenting certificates to the awardees of Audience's Favourite Team in appreciation of their achievement.

(From left) **Austin Lau and Alanis Man**
The University of Hong Kong

▲ Group photo of the participants, judges and guests

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4. Ian Drew, Regional Head Risk Governance & Appetite, Asia Risk, The Hongkong and Shanghai Banking Corporation Limited
5. Dr Lisa Goh, Associate Professor and Programme Director of BBA in Corporate Governance and Compliance, Department of Accountancy, Hang Seng University of Hong Kong
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