

# Shareholder Value vs. Stakeholder Value

*Companies today must learn to find the right balance between creating shareholder value and achieving good corporate citizenship.*

**T**he runaway popularity of Al Gore's 2006 documentary, *An Inconvenient Truth*, marked the dawning of a new age of social awareness about our impact on the environment and the world in which we live.

Two of the biggest events of the year – the U.S. presidential election and the Beijing Olympics – highlight the environment as a key issue. In 2007, Chinese leaders introduced the National Climate Change Program, the first of its kind in a developing country, with a goal to increase energy efficiency and double the use of renewable energy.

Attitudes towards climate change are continuing to progress, with stakeholders, including governments, investors and consumers, all turning their attention back to Planet Earth. Companies in China and around the world are beginning to re-examine the corporate objective of maximizing value just for shareholders that has traditionally shaped the business world.

Just a few years ago, corporate social responsibility (CSR) meant donating money to charity to boost a company's image. Today, CSR has evolved to become closely linked with a company's values, and growing awareness of a company's impact on society has led to greater demand for consideration of its stakeholders when strategizing business actions.

## The Rise of CSR in China

McKinsey recently noted that companies are waking up to the reality that the "creation of long-term shareholder value depends on a corporation's ability to understand and respond to increasingly intense demands from society." Corporate responsibility is no longer merely about making your company shine in the media; it is now viewed as an important competitive business tool. The definition of success has also expanded from simply creating short-term shareholder returns to encompass a company's long-term commitment to being a good corporate citizen.

A push to meet the "demand from society" is even more relevant in China, given the government's goal of creating a harmonious society by encouraging companies to make "contributions beyond capital." Environmental protection and energy efficiency will be key words in the following years. Developing and promoting CSR initiatives consistent with the government's agenda will give pioneering companies a competitive edge and change the way business is done in China.


In addition to aligning with government objectives, it is important for companies to cultivate consumer trust and respond to growing consumer demand for green and ethical products as well as environmentally friendly companies. As CSR becomes more visible, Chinese consumers are becoming more critical of companies' actions. CSR is also becoming an indispensable tool in maintaining good employee relations and attracting talent. According to the 2007 Hill & Knowlton Corporate Reputation Watch, 65 percent of MBA students surveyed in Asia ranked social responsibility as extremely or very important in assessing a company's reputation.

## The Olympic Catalyst & Going Global

The Beijing Olympics serve as a symbolic accelerator in the globalization of Chinese brands. A growing number of local brands are recognizing that a strong CSR focus will be advantageous for branding outside China. For Chinese companies looking to expand globally via overseas M&A, CSR will play a more significant role in meeting the demands of foreign partners and analysts, many of whom regard CSR as a prerequisite for sustainable development.

With the vision that it is good for business, companies in China are adopting CSR best practices at a very fast pace. An increased understanding of the impact of stakeholders on the value maximization of a company has led to a greater consideration of their business influence. Almost 90 percent of Chinese CEOs surveyed by Hill & Knowlton believe CSR presents tangible business value and over 80 percent believe the most important achievement of CSR campaigns are the effects on brand-building.

CSR brings business value that benefits both shareholders and stakeholders alike. By proving they care about China's long-term goals, businesses are able to brand themselves as responsible, trustworthy corporations, increase customer and employee loyalty, and boost their competitive advantage.

The challenge of the 21st century CEO will be to go beyond the standard business book preaching of maximizing shareholder value and towards considering the needs of stakeholders. Only companies that take stakeholders into account when making business decisions will succeed, and success will only be sustained by supporting a society that values good corporate citizenship. 



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