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Alignment of Interests

The alignment of interests between a company’s major constituents is regarded as the key to long-term sustainability and success. While inherently interdependent, there is a natural hierarchy in those interests that has proven itself, over time, to be fair and balanced.

Starting in the 1980s with the emergence of the power of leverage, the ranking of those interests began to change, from Customers; Employees; Community; Shareholder to Shareholder; Customer; Executive Suite; Employees. Advancements in share ownership and technology further diminished the importance of the employee and the community, in favor of the owners of the firm.

This new alignment, however, appeared not only to benefit just two of the major stakeholders but potentially undermined the interests of the rest. Shareholders and the Executive Suite found themselves in a new, highly correlated alignment that often benefitted them at the expense of the others. The expanding component of stock, RSUs and options in executive compensation meant both shareholder and executive had a powerful interest in a rising stock price. But the pursuit of “shareholder value” often came at the expense of the employees (increased automation; stagnant pay in return for employment) and the community (outsourcing; inducements to remain).

In a twist of fate, this new alignment has shown signs of fracturing over the last few years, as Boards have shown increased devotion to rewarding senior executives, even when the performance of the company, in real terms, may not have justified it. The complexity of compensation plans, designed to bring executives in alignment with corporate performance has, at times, moved in opposition to the experiences felt by other stakeholders: when employees have lost their jobs; shareholders have seen the value of their shares go down; and the financial condition of the company has deteriorated. Under those conditions, Board committees that continue to increase awards to senior executives have attracted negative publicity, anger and opposing votes from shareholders and even customer boycotts.

As the power of shareholder votes increases (through the weight of passive investors increasingly engaged in the proxy process), a reversion to earlier alignments may occur. Ultimately, the most successful companies: make and offer good products and services; have satisfied customers; enjoy good labor relations with an experienced, stable workforce: engage with the community that provides a workforce and an appropriate environment to work in; and have a stable shareholder base that provides capital for growth.

It is arguable that the reason alignments change over time stems from ignorance about both the relevance and importance of each of the major stakeholders. Better internal communication, led by investor relations teams that exist at the nexus of these stakeholder interests, offer the most efficient way of raising awareness and promoting solutions to those problems of alignment that occur. A degree of foresight and a will to communicate can solve many of these problems before they happen.