

## **Corporate Governance and Social Responsibility**

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Hidden behind the topic for today is a straight-forward question which is difficult to answer: what really is the role of the corporation in modern society?

Answering the question will guide us to a better understanding of corporate governance and corporate social responsibility.

When we are clear as to the mission of the corporation, then we can quickly establish the most sensible means for managing and governing the work of the business. When we know the goal of business, we then know who is to be served by corporate decision-making.

### Why Does a Corporation Exist?

So – why does a corporation exist? Let's look at history and even pre-history. You see people making a living by working – and gradually working individually at what he or she did best – a division of labor based on individual capability. Gradually, individual effort became group effort.

Over time this satisfied not just economic desires, but personal satisfaction as well – all people want to practice their craft, their skills – just like they want to receive reward for that work, have opportunity to improve, and enable their children to have a better life than they did. Those were, and are, prime motivators for most people.

So where does the corporation fit it? It has turned out that the other institutions for group effort, including governments, do not have the mechanisms corporations have to insure economic sustainability – continuous renewal, continuous building of specific skills from one generation to the next, objectives that necessitate effective teamwork, and the demanding rigor of competition, change and new knowledge.

So, I think corporations exist because they enable people to practice their craft in a way that creates jobs, creates value others will pay for, and therefore creates wealth for society and for the members of the corporation.

If we accept this, -- then what is the relationship of the corporation to society at large? What is the role of the corporation?

The role of government is to provide the basic national and international framework of laws and regulations for business operations.

How about the role and responsibilities of corporations?

The International Chamber of Commerce, the world business organization, defines corporate responsibility as “the voluntary commitment of business to manage its activities in a responsible way” and it strongly supports voluntary corporate social responsibility initiatives by companies.

A growing number of companies approach corporate responsibility as a comprehensive set of values and principles, which are integrated in business operations through management policies and practices and decision-making processes. Therefore, the path to corporate social responsibility goes directly through corporate management policies and governance.

How can corporations serve the needs and interests of insiders and outsiders in the larger society as well? What values and principles should business corporations choose to implement in their day-to-day decision making?

### The Caux Round Table Principles for Business

In 1994 the Caux Round Table published the first and most comprehensive Principles for Business to answer the question of what corporations should do. Mr. Kaku, then Chairman of Canon, made a most important contribution to those Principles by bringing to the Caux Round Table the Japanese concept of Kyosei. For Mr. Kaku, Kyosei became a philosophy of doing business.

We understand Kyosei to mean “living and working for the common good”. I am not sure if that is the exact translation into English of Kyosei, but it surely points in the right direction to make explicit Mr. Kaku’s concerns for the use of corporate power. The Caux Round Table highly values the insights of our Japanese colleagues, as we integrate into a common undertaking the values and principles of businesses from all over the world.

From the perspective of Kyosei, a corporation is not a self-sufficient organism cut-off from society living behind high castle walls like some daimyo lord in one of Kurosawa’s films about feudal Japan. For Mr. Kaku, a corporation was outward looking, aware of its ties to people outside its organization – customers, suppliers, the community. By seeking good results for that wider network of relationships, the corporation, Mr. Kaku believed,

could optimize its achievements. It would be profitable and would remain healthy for a long time.

We in the Caux Round Table largely agree with Mr. Kaku's understanding of the role of a corporation in today's world.

First, we believe that the world business community should play an important part in improving economic and social conditions. Business leadership is not just about financial success; business leaders should be working as well to improve their societies, insuring social, economic and environmental sustainability..

Second, we believe that "Businesses have a role to play in improving the lives of their constituent parts - customers, employees, and shareholders; by sharing with them the wealth that has been created." This improvement in economic well-being raises the quality of life and personal freedoms as well.

Third, the Caux Principles for Business set forth specific principles for dealing with the 6 fundamental sets of stakeholders: customers, employees, owners and investors, suppliers, competitors and communities.

With this vision of the corporation in relationship with parties outside its core organization, the Caux Round Table has delineated a course of proper corporate governance. Corporate governance must manage the relationship of the corporation with its stakeholders.

#### Corporations and Their Stakeholders: A Guide to Corporate Social Responsibility

Let me put the point about stakeholders in another way.

The corporation has grown up with industrialization, modernization and now globalization. It made them possible. The corporation is the work-horse of modern civilization. Without corporations, there might not be modern civilization with high living standards, longer life-spans, and great personal comforts. And, modernization and globalization remain the world's most viable mechanisms to enable the poor nations and peoples to share in the growing global prosperity.

Only the corporation has been able to combine for economic value creation, financial capital, new technologies, and human resources. Sole proprietorships and partnerships were too limited to achieve the scale of research and production that corporations could.

Corporations will continue to create much of the wealth of society and open up new possibilities for humanity.

Having said that, it is still manifest that a corporation is a set of relationships among different stakeholders. Each stakeholder plays some role in the success of the corporation. Without capital and stockholders, there can be no corporate entity. Without banks and

other debt investors, the corporation cannot maximize its ability to earn a return on its equity capital.

But without customers, there will be no business for the corporation to do.

Without employees, the corporation will be unable to do business.

Quality and cost efficient suppliers are necessary for the success of any business.

And, if the community turns against a company, losing confidence in its good faith, then that corporation will lose its business legitimacy, sometimes very rapidly as we have just seen in several cases around the globe.

The corporation must also have concern for the physical and social environments in which it does business and must take care not to take unfair advantage of its competitors.

By aligning and attending to the needs of these stakeholders, the corporation fulfills its duty to society to promote modernization and a better life for all in a sustainable way.

### Corporate Governance and Stakeholder Interests

But, a modern corporation is under fire from many directions. It has duties and obligations to different stakeholders when these duties and obligations often seem to conflict with one another.

How is a corporation to decide what to do?

That is the role of governance. Corporate governance is the mechanism by which the values, principles, management policies and procedures of a corporation are made manifest in the real world.

The fundamental basis of corporate governance and responsibility is the value system of the corporation:

- its human resource principles – respect and dignity for all
- its dedication to accurate and transparent accounting and financial standards
- its concern for the environment, for good business ethics and conduct, for social advancement
- its over-riding passion to serve customers
- its insistence on fair treatment of suppliers – and competitors
- its uncompromising standard to comply with government laws and regulations in all countries in which it operates
- its desire to work with others to lead society to a better economic standard and quality of life

The managerial skill lies in accomplishing these things at the same time. In the famous business book, “Built To Last” the authors describe the ability of good corporations to sustain themselves over generations by practicing “the genius of the And”, accomplishing potentially conflicting objectives at the same time.

A good structure of corporate governance satisfies these needs and interests of different stakeholders in a way that provides for long-term growth in the value of the company and its contribution to society. Its reputation and good will are enhanced, it commands success in the market for its products or services, its employees are productive and loyal, its equity owners are rewarded with good dividends and a rising price for their stock, and its growth is not impeded by external forces.

Corporate governance divides responsibilities for policy-making, business decisions, and implementation among a board of directors, executive management, all management, and all employees. This is the general pattern for corporations around the world, with differences in detail arising in different countries. For example, in the United Kingdom the positions of chairman of the board and the chief executive officer are usually given to different individuals while, in the United States, they are combined in one person. In Germany, employee representatives have a right to sit on a supervisory board. In Japan few corporations have so-called “outside” directors on the board, though new legislation proposes to change that.

No matter the structure, good governance requires checks and balances and responsible oversight to insure that many factors and points of view are considered. For example, a board should have the power, and spend the time, to probe into, and give informed opinions about, the plans of management.

When employees, managers, executive management, or board members, look too much to their own power, prestige or financial reward, they act less and less as good stewards for the interests of stakeholders. Just look what happened to ENRON, where several laxities contributed to a collapse of shareholder value. Corporate governance is there to counteract the tendency to be selfish and short-sighted. Corporate governance is there to insure that we will act as agents and fiduciaries, guiding our corporations to successful accomplishment of their corporate and societal responsibilities.

To state it differently, good corporate governance aligns the interests of management, shareholders and other stakeholders.

The management and board of a corporation must define the values and principles for the company. To be effective and relevant to an individual company’s specific circumstances, business principles must be developed and implemented by companies themselves, not mandated by outsiders.

A company must develop its own understanding of how its principles or behavior relate to external expectations or to external codes or guidelines, like the Caux Round Table Principles for Business. Internal monitoring of compliance, external reporting of

performance and independent assurance are matters that should be decided by the companies themselves.

Of course, only when companies are profitable can they contribute effectively to the improvement of social conditions by creating jobs and economic growth. Prosperous companies are a precondition for corporate social responsibility.

Following sound principles of corporate governance and social responsibility may help a company in many ways – all elements of long-term sustainability. They may help build customer loyalty, increase morale and trust within the work force, improve productivity, attract new business, attract long-term investors, find efficient solutions to business problems, improve supply management, improve reputation, and a host of others.

### Nine Practical Steps to Corporate Social Responsibility

The International Chamber of Commerce recommends these steps:

1. Confirm CEO/Board commitment that priority to responsible business conduct comes first
2. State company purpose and agree on company values
3. Identify key stakeholders
4. Define business principles and policies
5. Establish implementation procedures and management systems
6. Benchmark against selected external codes and standards
7. Set up internal monitoring
8. Use language that everyone can understand
9. Set pragmatic and realistic objectives

### Summary

In summary, corporations exist because they, in a sustainable fashion, enable people to constructively practice their craft and create jobs, economic value, and wealth for the society and the enterprise.

The Caux Round Table Principles for Business articulate the corresponding obligation of the corporation to live and work for the common good – to grow a harmonious and ever-improving society,

Stakeholders – customers, employees, investors, communities, suppliers, and competitors – all have a part in the fulfillment of a corporation's responsibilities.

Governance is based on the corporation's values and is the responsibility of all members of a corporation for development, implementation and oversight.

And finally, the greatest beneficiary of good corporate governance and social responsibility will be the people of the developing and emerging worlds, for these ideals

are truly our best hope to help close the poverty gap and enable all people to share in a global prosperity.

Thank you.