



Corporate Governance: Philanthropy by Immortals

By Paul A Zaman MBA, MSC

Philanthropy by Immortals

Paul A. Zaman explores how an immortal company can be intent on looking after mortals and the environment.

Human beings are mortal and have to contend with a finite life. Many wealthy and not so wealthy people in the maturing years often have increased goodwill towards their fellow people. These people within their own capability, values, beliefs and culture practice philanthropy that is an active effort to promote human welfare. A corporation is a legal entity for doing business. It is in the eyes of the law a fictional person (persona ficta) and in most jurisdictions is granted limited liability and unlimited longevity ... an immortal. A company once set up is immortal and only through mis-management can die. Mature and wealthy companies are also exhibiting philanthropy.

The most ardent capitalist such as the founding fathers of Milton Friedman and Adam Smith shared a primary belief that a corporation's sole purpose is to create long-term shareholder value. This means looking after the interest of the owners and increasing profit distribution. This is often enshrined in Company Law. In an extreme and strict interpretation of this context would mean that philanthropy is stealing from the owners and also unlawful. However even Friedman and Adam did not believe that the self-interest pursuit of profit was the right way to live. They also believed that corporations must conform to the morality of the surrounding society and that lavish management perks and excessive compensation were an abuse of management power. The spirit of Company Law is on the sustainability of the business and a focus upon creating long-term shareholder value and not on short-term profits.

The trend in immortal corporations is beyond philanthropy, to pro-active social initiatives. In S.E Asia after the Tsunami we saw multinational companies offering relief in terms of logistics (UPS), medical supplies (Johnson Johnson) and antibiotics and food supplements (Novartis and GlaxoSmithKline).

Is such Philanthropy, real altruism by an immortal or just good business sense? Well the debate is out. I believe we should not even ask this question. Instead we should acknowledge these companies and encourage them and others to follow with similar acts.

There are many possible aspects to corporate philanthropy. We have highlighted corporate social initiatives of giving products and services. Two other

aspects are environmental integrity and sustainability; and social welfare and human rights. Collectively these form the broad area known as corporate social responsibility (CSR).

Who else is encouraging corporate social responsibility? Even bigger immortal giants. These are the pension and superannuation funds, whom were all mutual trusts and increasingly being de-mutualised and becoming corporations themselves. Around one third of funds invested in listed companies are from pension and superannuation money. Whose money is that, well it's yours and mine and any other individual pension fund member. Pension funds are focused upon creating long-term shareholder value and the traditional view of earning a reasonable economic rent on capital, that is a dividend. The dividends are needed to pay the pension money when their members retire. Pensions funds are increasingly shareholder activists for enhanced corporate governance and good corporate citizenship.

There is much debate on whether good corporate governance and pro-active good corporate citizen increases or decreases shareholder value. Research of the numerous studies shows that nine out of ten studies shows a favourable and positive link with increased shareholder value. However whilst this academic debate is ongoing money talks! Individual investors and pension funds are leading by example. For example, in the UK Friends Provident set up the first socially responsible investment (SRI) ethical fund twenty years ago. Morley Fund Management, manages around £291 billion and owns 1% of the UK stock market capitalization. They announced in 2001 that it would exclude any FTSE100 company that does not include an environmental report. They use the shareholder voting rights of Morley's SRI and non-SRI funds at Annual General Meetings to influence a board's agenda. Their voting policy includes a requirement for companies to disclose information on their approach to managing social, environmental and ethical issues.

There are two broad approaches to corporate social responsibility: Process centered upon compliance process and doing the business right, which tends to be the USA corporate approach; and behavior centered upon fair justice, environmental sustainability and human rights which tends to be the European corporate approach. Asia is still forming its approach, however with the cultural background is more aligned with the European approach. For example the Sony Foundation and the Sampoerna Foundation.

Remember the game called the prisoner's dilemma. It is





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a game in which two players try to get rewards by cooperating with or betraying the other player. In the prisoners dilemma there is a reduced sentence if one testifies against their partner. If neither testifies then there is no evidence and both go free. It is assumed that each player "prisoner" will maximize his own advantage, with a lesser concern for the well being of the partner. If both trusted their partners to remain silent, that are co-operated, then the combined payoff is the best, no prison sentence for either. In a single game, no matter what the other player does, one player will always gain a greater payoff by defecting, a so called rational approach and the other approach is naive. However if the game is played several times and a losing player can punish the winning player for defecting then a new, learnt behavior and outcome can be achieved. They learn that with co-operation the pay-off is the best that is no prison sentence.

For an immortal, it is rational to adopt a win-win strategy it is the best for long term shareholder and stakeholder interests. This can be seen in real life competitions such as Formula1 Grand Prix racing or the Tour de France cycling, where team members and even competitors help each other to win. They share the lead and slipstream positions to move ahead of and block the pack and so be well placed for the top 1st and 2nd positions.

All very well, so lets now describe the best practices and behaviours for corporate social responsibility (CSR) reporting. The primary behavior is to establish sponsorship at the Board level as this is all about increasing long term shareholder value. Establish a clear CSR policy and mandate, which can direct a CSR committee. Further engage the Board in periodic CSR review. In a small company the Board is the senior management team.

The CSR committee then will collect the relevant core historic data, identify the relevant core CSR issues for the company, and formulate strategic options to mitigate the CSR issues enabling future improvements. In this process it is wise to engage relevant national or international non-government organizations (NGO), focuses upon the environmental integrity & sustainability issues or social welfare and human rights. For large companies international NGO could be Greenpeace, Amnesty International and International Labour Organisation. NGOs are often the recognized community representatives and also have an expert professional team to provide guidance on the key issues. The NGO will add credibility to the veracity and realism of the final CSR Report. The CSR committee and report must also empower the senior management to walk the talk and engage the company, staff, customers and suppliers.

Another benefit of the CSR Report is an awareness of how relevant corporate social initiatives can be executed.

Corporate social initiatives differ from corporate philanthropy in that it is linked to the company's vision, values and the CSR strategic issues. Corporate social initiatives unlike traditional corporate philanthropy do not require corporate brand name recognition and a promise of an intangible payback for shareholders. Be inspired, read Sir Howard Stringer, Chairman & CEO of Sony Corporation commitment and Sony's CSR report that goes back to 1976. Another is XL Foundation and the XL Magazine executing a policy of using recycled paper and also directly sponsoring and planting trees.

Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Contact Paul Zaman at email pzaman@qualvin.com.