

CSR the heart of corporate governance

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Why Corporate Governance Traditional

- Compliance with legal requirements
- Opportunistic behaviour of managers
- Balancing interests of capital providers with those in control
- Principal / Agent problem
- Efficient use of resources and accountability for the stewardship
- Minority Shareholders rights



Why Corporate Governance Competitive

- Strengthen economy and abridge inequity
- Inspire trust & confidence
- Access financial resources
- Advancing Triple Bottom Line
- Align interest of individuals, corporations & society
- Corporation an instrument of economical and social transformation
- Sustained and shared growth
- Source of competitive advantage



What is good corporate governance all about - 1

- Efficient and effective use of resources
- Participatory & Proactive
- Owns the problem
- Sustainable
- Legitimate
- Transparent



What is good corporate governance all about - 2

Accountable
Promotes equity
Promotes gender balance
Acceptance of diversity
Strengthens indigenous mechanisms



What is Good Corporate Governance All About - 3

- Operates by rule of law
- Ownership of solutions
- Enabling and facilitative
- Regulatory rather than controlling
- Steering and not rowing



Why Corporate Governance Classical Definition

Corporate Governance refers to that blend of law, regulation and appropriate voluntary private-sector practices which enable the corporation to attract financial and human capital, perform efficiently, and thereby perpetuate itself by generating long-term economic value for its shareholders, while respecting the interests of stakeholders and society as a whole.



A Proposed Definition

Corporate Governance is a system of governance that unlocks and capitalizes the strength of all its stakeholders to create value for the corporation.



5 Principles of Corporate Governance

- Protection of shareholder rights
- Equitable treatment of shareholders
- Protection of stakeholder rights
- Timely & accurate disclosures
- Diligent exercise of Board's responsibilities



5 Pillars of Corporate Governance

- Transparency
- Equity
- Accountability
- Responsibility
- Integrity



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5 Constituents of Corporate Governance Process

- Owners
- Board
- Managers
- Employees
- Other Stakeholders



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Drivers of Good Corporate Governance

- Globalisation
- Deregulation
- Telecommunication
- Power of Consumer
- Scams
- Stakeholder Activism
- Shareholder Activism
- Capital Needs
- Codes of Conduct
- Regulations
- Voice of Society
- Industry Pressure
- Environment
- Competitiveness



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The Untapped Potential of the Board - 1

1. Managing Discontinuities
2. Constantly Changing Business Boundaries
3. Incrementalism Improvement's Worst Enemy
4. Recognise the Externals



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The Untapped Potential of the Board - 1

5. Assessing the Internals
6. Setting Goals
7. Balancing short and long term
8. Power of collective wisdom



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Empowering the Board - 1

1. Separation of the Chairman & CEO
2. Directing & Managing
3. Why NEID
4. Cohesiveness
5. Diversity



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Empowering the Board - 2

6. Open & Free Communication
7. Lead Director
8. Committees made up of NEID
9. Reporting in Plain English



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Empowering the Board - 3

10. Understanding company's markets
11. No holds barred discussions on strategy
12. Monitoring performance of management
13. Annual evaluation of CEO's performance
14. Self monitoring



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Corporate Governance - A Value Shift

- From tangibles to intangibles
- From capital to knowledge
- From objects to relationships
- From parts to the whole
- From domination to partnership
- From structures to processes
- From individualism to integration
- From short termism to long termism
- From growth to sustainability
- From confrontation to collaboration
- From shareholders to stakeholders
- From single bottom line to triple bottomline



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Managing Stakeholders - 1

- Making a difference
- Inclusivity
- Employee & stakeholder empowerment
- Transparency
- Accountability



Managing Stakeholders - 2

- Sharing responsibility
- Sustainable Capitalisation
- A Triple Bottom Line
- Long termism
- Communication
- Engagement
- Dialogue



Five D's for Value Creation

- Diversity
- Dissent
- Difference
- Dialogue
- Disclosure



Stakeholder Corporations

"During most of the 20th century in the UK and USA, stakeholder inclusive enterprises fared better than "shareholders – first" companies. Stakeholder inclusive corporations invariably lead to better long term business performance".

The Stakeholder Corporation:
A blue print for Maximising Stakeholders Values (1997)
By Wheeler and Seelampaa



Stakeholder Management Clarkson Principles

- Listen to and Communicate with stakeholders
- Adopt Processes sensitive to the stakeholders constituencies
- Recognize the independence among stakeholders
- Work Cooperatively with Stakeholders
- Avoid activities that would jeopardize the human rights of stakeholders
- Acknowledge the potential conflicts between your own role and fiduciary responsibilities for other stakeholders



Stakeholder Management

Wainwright Bank & Trust Company

- Loans to Socially Responsible Organisations
- Health Service Centres
- Breast Cancer Research
- Inner-City Business Development
- Affordable Housing
- Shelters for Homeless
- Special Needs Housing



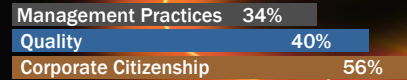
Glassman's Belief

"I believe that it is important to use the platform the Bank affords me to inform, educate and introduce different constituencies to issues of social justice".

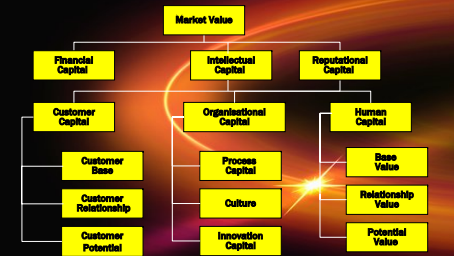
Robert Glassman
Wainwright Bank and Trust Co.

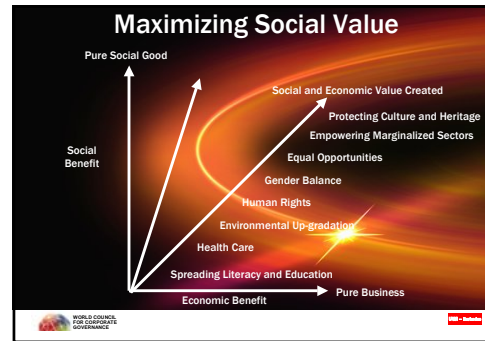
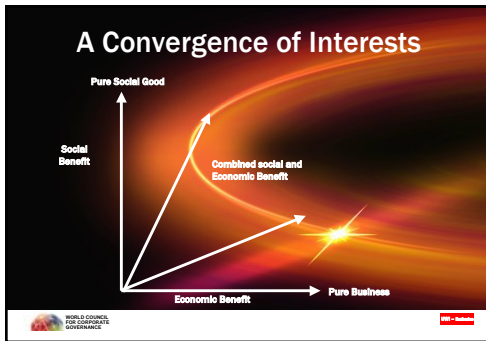


Social Good as Competitive Advantage

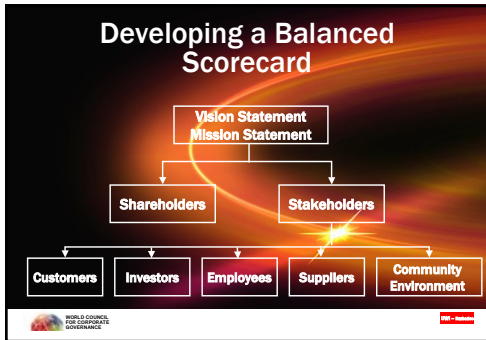


Social Good for Market Capitalization





- ### Balanced Business Scorecard
- Financial Perspective
 - Social Perspective
 - Environment Perspective
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IMPLEMENTING CORPORATE GOVERNANCE Sarbanes-Oxley

- SOX is sweeping legislation, effecting significant changes to laws affecting officers, directors and reporting obligations of public companies, and mandating a myriad of new regulations to prevent securities fraud and other abuses.
- The Act was signed into law on July 30, 2002 and includes eleven titled sections: Title I Public Company Accounting Oversight Board (Sections 101-109)
- Title II Auditor Independence (Sections 201-209)
- Title III Corporate Responsibility (Sections 301-308)

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Sarbanes-Oxley Act of 2002

“ The most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt.”

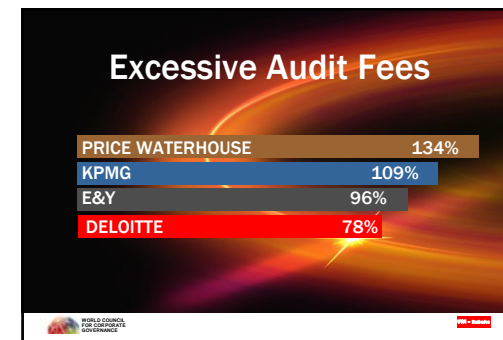
President George W. Bush upon signing of the Sarbanes-Oxley Act of 2002 (“SOX”)

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- ### CEO and CFO Responsibilities
- CEO and CFO are personally responsible for
- Establishing and maintaining disclosure controls and procedures
 - Designing disclosure controls and procedures to ensure material information is made known to the CEO and CFO
 - Evaluating the effectiveness of the company's disclosure controls within 90 days or less
 - Presenting in each quarterly or annual report the conclusions about the effectiveness of the disclosure controls
 - Disclosing to the company's auditor
 - All significant deficiencies in the design or operation of internal controls
 - Any fraud, whether or not material
 - Indicating in each quarterly or annual report any significant changes in internal controls that could significantly affect internal controls
- World Council for Corporate Governance

The very accounting firms whose integrity was besmirched ARE PROFITING MOST FROM SOX

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Challenges Ahead

Virulent competition & capitalism has spawned a culture of concealment.

Lord Penrose
about Equitable Life




The Naked Corporation

Strobe like glare of public scrutiny has nested the veil of secrecy and made the corporation

NAKED




Make Ethics Work for Your Business

Make your goal - to make a difference
Go beyond the bottomline
Be utterly transparent
Seven golden words




Social Good as Competitive Advantage

- Management Practices 34%
- Quality 40%
- Corporate Citizenship 56%






Capitalism's Metamorphosis

Lester Thurow wrote 40 years ago:

At precisely the time when capitalism finds itself with no social competitors - its former competitors, socialism or communism, having died - it will have to undergo a profound metamorphosis.

CSR is that "profound metamorphosis"

What is CSR

Corporate Social Responsibility

"A concept whereby companies integrate social and environmental concerns in their business operations and in their interactions with their stakeholders on a voluntary basis."



(EU 2001)




Gandhi on CSR

Earn your crores by all means. But understand that your wealth is not yours; it belongs to the people. Take what you require for your legitimate needs, and use the remainder for the society.

Harijan, 1.2.1942

Gandhi on CSR



Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one, it does not recognise any right of private ownership of property except so far as it may be permitted by society for its own welfare

Harijan, 25.10.1942




Gandhi on CSR

Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and weakest man who you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him.

Gandhi on CSR

Under the Gandhian economic order character of production will be determined by social necessity and not by personal whim or greed

Harijan, 25.10.1942



Gandhi on CSR

It is an arrogant assumption to say that human beings are lords and masters of lower beings. On the contrary, being endowed with greater things in life, they are the trustees of the lower animal Kingdom.

Young India, 8.12.1927



Gandhi on CSR

The earth provides enough to satisfy every man's needs, but not everyman's greed.

Mahatma Gandhi - The Last Phase, Pt II, p. 552



Gandhi on CSR

The economic imperialism of a single tiny island kingdom (U.K.) is today keeping the world in chains. If an entire nation of 300 million (then the population of undivided India) took to similar economic exploitation it would strip the world bare like locusts

Young India, 21.12.1928



Gandhi on CSR

A time is coming when those who are in the mad rush today of multiplying their wants vainly thinking that they add to real substance, real knowledge of the world, will retrace their steps and say: 'what have we done?'

Young India, 8.12.1927



Elements of Corporate Social Responsibility

- Human rights
- Working conditions
- Equality and diversity
- Consumer protection
- Environment/Health
- Economic development
- Community relations
- Ethical business practices
- Corporate governance
- Lobbying/political influence
- Business' role in conflict zones
- Strategic Philanthropy



CSR – Issues to be Addressed

- Sustainability
- Triple bottom line
- Employee and stakeholder empowerment
- Transparency
- Equity
- Accountability



CSR – Issues to be Addressed

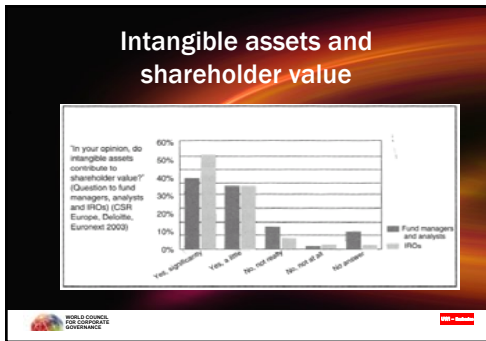
- Integrity
- Inclusivity
- Diversity
- Engagement
- Ethics
- Making a Difference



CSR TRENDS

Sustainable Investing
Enhanced Analytics Initiative
Ethical Consumerism
Fair Trade Supplier
Carbon Neutral





CSR and profits: likely benefits and costs

Stakeholder group	Benefits	Costs
Sub contractors suppliers	better quality inputs. Less harmful effect on “public image”	Cost of inputs may increase in short term
Community	More willingness to accept new investments. Improved public image	requires continual interaction with communities. Will need to produce CSR report. Will need to monitor internal activities. Implement human rights policy
Government	More confidence in company. Fewer legal battles. No new potentially harmful legislation. More favorable trading regime: more willing to accept expansion or downsizing	Costs of adhering to new regulations may increase

CSR and profits: likely benefits and costs

Stakeholder group	Benefits	Costs
Directors	More independent non-executive directors	More meetings and briefings
Shareholders	Increased investment from socially responsible investors	Increased costs of reporting and transparency
Managers	Better HR policies lead to increased motivation. More awareness of ethical issues from focus group sessions lead to more confidence about employees	Increased training in ethics. Focus group sessions and reporting

CSR and profits: likely benefits and costs

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CSR and profits: likely benefits and costs

Stakeholder group	Benefits	Costs
Environment	Fewer legal battles. Improved public image. Contribute to sustainability of company	Investment in environmental damage control Certification to ISO14001/EMAS R

CSR – The Investment Case Top Ten Pension Funds

Rank	Fund	Country	Assets (USD Millions)
1.	California Public Employees	U.S.	143887
2.	ABP	Netherlands	130391
3.	New York State Common	U.S.	106091
4.	Local Government Officials	Japan	98705
5.	California State Teachers	U.S.	95553
6.	Federal Retirement Thrift	U.S.	93328
7.	Postal Savings Fund	Taiwan	91043
8.	Florida State Board	U.S.	88514
9.	General Motors	U.S.	82500
10.	Texas Teachers	U.S.	75109

Source: Pension and Investment Magazine (Sept 2002)

What are SEE Risks

- The Equator Principles
- The Investor’s Statement of Transparency in the Extractive Sector
- Biodiversity and the Palm Oil Industry
- Wal-Mart and Non-Discrimination
- Glaxo Smith-Kline & Director’s Remuneration
- ITV’s “Green” Policy

Relative performance versus FTSE All Share Index, 1990-1999.

Index	Relative Performance
The Charities Avoidance Index	+0.000
The Environmental Damage Avoidance Index	+0.016
The Responders Index	+0.005
The Ethical Balanced Index	+0.003
The Environmental Management Index	-0.006

Source: Spratt, EIRIS (1999)

UK, SRI assets, 1997-2001, USD bln

	1997	1999	2001
Church investors	18.75	21	19.5
SRI Unit Trusts	3.3	4.65	5.25
Charities	12	15	37.5
Pension funds	0	37.5	120
Insurance companies	0	0	154.5
Total	34.05	78.3	336.75

Source: Spratt, Sparkes(2002)

Global SRI assets, 2001, USD Bln

United States	2332
United Kingdom	326
Canada	31.4
Europe	17.6
Japan	1.9
Australia	1.1
Total	2710.6

Source: Spratt, Sparkes(2002)

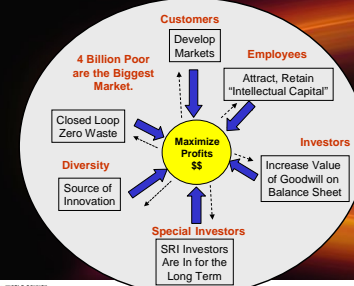
Key Issues for UK SRI Investors and SRI Screening categories

Issues	Importance %	Generally Used (At least 50% of portfolios)	Commonly Used (30-40% of portfolios)	Rarely Used (less than 30% of portfolios)
Global development	97.7			
Fair employment	97.7			
Openness	96.7			
Efficient material use	94.8			
Environment pollution	93.2			
Community relations	92.9			
Repressive regimes	91.8			
Sustainable materials	91.4			
Animal test for cosmetics	89.2			
Director remuneration	79			
Political donations	68.8			
Charitable donations	59.4			

Source: Social Investment Forum (2001)

Source: Spratt, Sparkes(2002)

The 21st Century Circular Business Model



CSR – The Way Forward

- Increasing evidence of nexus with enhanced performance
- Environment Responsibility reduces costs
- Changing demographics putting premium on CSR
- Bottom of the pyramid drives Innovation and profits
- CSR companies better at risk management
- CSR regarded as legitimate fiduciary responsibility
- CSR acts as an armor for the naked corporation
- Embedding CSR in business enhances long term value

80% of the products you see today
will not be there in 2020

What will take their place?

POISED

Poor
Oriented
Innovation for
Sustainable
Eco-friendly
Development

PROACTIVATE

Price natural capital
Radically increase energy efficiency
Opt for designs that minimise use of natural resources
Adopt closed loop and zero waste systems
Cost environmental impact of each activity

PROACTI VATE (CONTD)

Turn to renewables
Invest in green issues
Vigorously pursue market mechanism
Activate women/ teenagers drive change
Train
Execution is the key. Begin with yourself

Conclusion

There are now compelling reasons why CSR is not just good business, it is the business

