

From Corporate Governance to Corporate Social Responsibility

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At the 4th Corporate Governance Forum and Roundtable
June 7, 2007, Chinese Taipei

The need for corporate governance

1. I shall start by touching briefly on the importance of corporate governance - - because it is so fundamental to capital market development of all countries that it must be stressed and emphasized at every opportunity. Capital market is about utilizing OPM, Other People's Money. When you use somebody else's money, you are expected to follow a minimum code of conduct to give a reasonable assurance to the owners of those monies that the money is used wisely, honestly and transparently.

2. All countries of course want rapid economic development. Rapid development demands that businesses and households - - that have good use for savings - - must be able to obtain their capitals and their borrowings at the lowest costs possible. They must not pay too high a price for OPM. However, if the owners of those monies do not have full confidence in having their monies back, they will demand a risk premium. The lower the confidence, the higher the premium and hence the higher capital costs. The higher capital costs will put businesses at a disadvantage in their global competition. Good governance therefore is essential to keep down the cost of capital, and must be one of the most important pillars in all capital markets.

From CG to CSR

3. The next point is about the evolution from CG - -corporate governance to CSR - - corporate social responsibility. But why such evolution? Some countries in the region are already having difficulties coping with CG. But now they have to contend with the wider scope of CSR.

4. The concept of CSR is larger than CG in scope. The term is also called, "Corporate Citizenship" or "Corporate Philanthropy." Its evolution started from the premise that - - while it is true that companies must maximize profit, the argument underlining the issue of sustainable business growth must also be taken into consideration.

5. In the old days, people generally held the view that the chief aims of companies were to make profits. The fact that companies caused environmental damages was sometimes accepted as the price to pay for progress. It would be left to the government and the society to clean up afterwards, often after per capita income exceeds a certain level. The same went for other stakeholders. Sometimes inadequate attention was paid to companies that took poor care of their employees, their surrounding communities or their customers. In the old days, all these were often subservient to the profit motive.

6. Not any more. These days, companies are viewed no different from individuals and - - as much is now expected of them as from a good human citizen. By recognizing the symptoms mentioned above, the CSR concept has introduced the Triple Bottom Line (TBL) model which put together all the essential variables to help company achieve sustainable business growth.

CSR's Triple Bottom Line concept (3Ps):

7. The Triple Bottom Line covers the Economy and the Environment and the Society. And, it works in the 3 Ps, which comprises of Profit, Planet and People.

8. Perhaps the clearest definition of Corporate Social Responsibility is said to be “ the continuing commitment by business to behave ethically - - and contribute to sustainable economic development - - while improving the quality of life of the workforce and their families as well as of the local community and society.”

9. The key words here are therefore firstly sustainable growth and development and secondly the continuing self commitment to the social causes.

Factors leading to CSR

10. What caused the evolution to CSR?

11. The **first** reason, in my opinion, is the spread of public ownership of companies. In all countries, over the past few decades, the number of companies that have gone public grew steadily. And for each public company, the number of shareholders also expanded greatly. Many public companies now have a department to oversee investors' relation. The wide spread of public ownership has therefore made companies more and more mindful of issues that may affect the opinion of their public shareholders. With widespread shareholding, public companies naturally expand their goals beyond simple accounting profits to cover other social causes.

12. Another factor in this respect is that the companies are not only becoming more widely owned by individual shareholders, but they are also being more and more owned by collect investment schemes, mutual funds, pension funds, etc. Many funds nowadays pay active attention to social issues in order to satisfy the values of their unit holders. And when professional fund managers keep track of governance practices of companies, they can be very up to date with teams of staff to actively monitor what is going on.

13. Pension funds are perhaps most active in this respect, led by the like of CalPERS (California Public Employees Retirement Funds). In pension funds, sometimes a certain number of directors are elected by their members. This was the case with CalPERS. Some directors therefore opted to take a stand on social issues in order to establish their marks and reputation so that they get re-elected.

14. About 5 years ago, CalPERS announced that they were taking Thailand off their list of eligible countries. They cited some social deficiencies as justification. I was in the team sent by the Thai Government to visit CalPERS to try to explain our

position to them. We did not succeed then in getting CalPERS to put us back on the list. But I remember that we were shown the meeting room where the fund directors held their regular meetings. In all directors' meeting rooms of other funds that I had seen prior to that, the directors would sit around a table so that they can see each other when they discuss or debate on an issue. However, at CalPERS, the meetings were held in an auditorium. Fund directors would sit in a line on stage, facing the audience. They did not face each other, but they all faced the audience.

15. In the audience, there would be many retirees that came to attend meetings. They would therefore watch the meetings that would go on as if it was a debate show. No wonder, some directors would come under pressure to highlight their stand on social issues to impress the audience. The pressure towards CSR therefore grew not only from public ownership but also from the rapid growth of collective investment funds.

16. The **second** reason, as I see it, is the trend of companies having much wider reach to the general public in their sales. The proliferation of global brands is certainly an important factor in this respect. The wider that the brand reaches out, the more it has to be careful about social issues because of the potential negative impact that may be the cause.

17. But it is not only the brands that go global. Retail stores have also gone global. Many retail stores now operate not just nationwide, but worldwide. In case of the retail stores, CSR extends further. It sometimes lies not only in the way they treat their retail customers, but also extends to the way they treat their suppliers and in turn the individual farmers that sell to those suppliers.

18. Global brands and global retail chains simply cannot afford to be associated with the use of forced labor in the factories that produce the merchandises. Nor with the oppression of farmers - - nor with the deliberate disregard for the environment.

19. The markets that have become mass global markets have therefore forced many companies to go into CSR.

20. The **third** reason is the trend towards companies of bigger and bigger sizes. Fifty years ago, on New York Stock Exchange, the biggest company was General Motor. But its revenue was only less than half of a per cent of GDP. Now there are 8 companies with revenues exceeding 1 per cent of GDP. Their revenues exceed US \$ 100 billion.

21. Today, we have therefore many more companies with gigantic financial power, with sales that exceed GDPs of many small countries. These super large companies are able to finance activities to further good social causes much better than even small governments. Over the years, they had developed much bigger capacity to do good, and this has led us to expect them to do more good.

22. Finally, CSR does benefit companies indirectly. CSR often involves company staff in becoming personally involved in communal activities. No contribution is as valuable and as effective as the companies giving staff time.

23. The personal involvement can help improve the employee's self-esteem. It can also lead the employees to adapt more quickly to changes that occur in the companies. In the volunteer environment, employees can also enhance their team-building skills better. Employees often discover not only their hidden talents in working with people, but also their hidden dreams and their personal satisfaction.

24. All this can help encourage company loyalty and long term commitment to the company. The companies' CSR reputation will definitely help in its recruitment. CSR therefore benefits the companies in the end. In fact, there is a saying that if the CSR program does not contribute to the company's profit bottom line, then the company needs to think of a new program.

How to encourage companies to do more CSR

25. As the result of the interacting forces above, CSR has now become firmly established in many developed countries. Companies clearly see the benefit of CSR in term of shareholders' appreciation and in term of customers' appreciation. Nowadays, in the developed countries, big companies do not just wait to react to CSR events. Instead, they take initiatives to work out plans of action with government departments and politicians well in advance.

26. However, in emerging markets, companies still have to be encouraged to do this. So how can we encourage them? In Thailand, we have started by establishing a CSR committee comprising both the public and the private sector. This committee will propose a CSR roadmap for Thai listed companies. The work of this committee is still ongoing. An important part of the roadmap will focus mainly on educating listed companies as to what CSR is all about, how CSR benefits the society and how CSR can also benefit listed companies. This year the CSR committee is planning to launch a CSR handbook to further enhance the knowledge on CSR. Last year, the Stock Exchange of Thailand has also begun giving awards to listed company with outstanding CSR projects. The award helps stimulate CSR awareness in the capital market.

27. Next we will have to work out how CSR activities of public companies should be disclosed in their annual reports. The disclosure will encourage peer competition of sort that may start attracting more companies into serious CSR. In Thailand, last year we started for the first time the rating of annual shareholders' meetings by the Thai Investor Association (TIA), financed by the Securities and Exchange Commission. It was very successful in creating some competition among the top tier companies, and we expect there will be even more improvement next year. Some time in the future therefore, a similar rating on disclosure of CSR among public companies may perhaps be considered

28. Finally, there is the role of professional fund managers. In the past few years, in Thailand, we have been successful in prodding the Association of Investment Management Company to be vigilant on related party transactions to prevent the siphoning of money out of public companies. They now monitor company news and accounts closely to identify suspected transactions and vote against them where necessary. In future, we can perhaps prod them to extend this work also to CSR.

Ladies and gentlemen

29. Let me close by thanking the Financial Supervisory Commission for organizing this seminar. In this region, companies are also becoming bigger, more publicly owned and their reach is also becoming wider. We can therefore rightly expect more from them as a responsible social citizen. We can rightly expect our companies to play a stronger role on social issues. The question is how we can encourage them to do more CSR. In a seminar like this, by pooling together all our information and by frankly exchanging ideas, we can find the answer. Thank you for your attention.

APPENDIX:

- **Examples in Thailand**
 - **CP7-11 (commerce):** The Company established Panyapiwat Techno Business, a retailing vocational school, with the objective of creating retail professionals to support the expansion of the retail industry. At the same time, the school aims to help society by molding the new generation of vocational students to have 3 distinct attributes: learning through real working experience, earning income while studying and being employed after graduation.
 - **Chumphon Cabana (Resort and Diving Center in Chumphon Province):**
 - Community development: Chumphon Cabana convinced local farmers to convert their lands to organic only production regime and guaranteed them market values for their produce. Chumphon Cabana buys products directly from local farmers and uses in the kitchens of the Cabana. In doing so, Chumphon Cabana provides a superior, healthy and ethically conscientious service to its guests while at the same time promoting local organic agriculture. In this practice, Chumphon Cabana has helped local farmers to become more self-reliant in so far as they avoid selling to agents who then resell their product to urban markets at a greatly exaggerated profit margin.
 - Water treatment facilities: use of bacterial colony as well as plants to clean wastewater from laundry, kitchen use, and general disposal of liquids.
 - Organic recycling to produce fertilizer.
 - Low impact construction practices. Use interlocking bricks to bypass the need for wood frames and supports. Saving the wood for forests.
 - “No Development” Beachfront Policy: No jet-skis and deck chairs to maintain a "pristine" beach.
 - Amenities at the resort are eco-friendly, for example makrood (citrus) shampoo, hand made natural soap.
- **Examples in other countries**
 - **DuPont:** The company’s vision is to be the world’s most dynamic science company, creating sustainable solutions essential to a better, safer, healthier life for people everywhere. By DuPont’s definition, \$5billion of its \$29billion in revenue comes from sustainable products. These can be pure-green materials, such as bio-PDO, a corn-based substance that can be turn into a fiber for suits or carpets or even made into deicing solutions for airplanes.
 - **Nestle’** : In 1962, the company obtained permission from the Indian government to build a dairy factory in a poor district called Moga. The town had no electricity, roads or telephones. Nestle’ worked with the local people to build some infrastructure, such as refrigerated collection points, implement training classes for local people to care for their cows and farms. Today, 75,000 farmers supply milk to the factory. Most of the villages now have electricity and telephones.

Schools are set up in all villages. The community has grown to become a corporate supplier and also a customer. Nestlé has established a reliable network of supplier with good-quality milk without paying middlemen.
