

The Spiritual Basis of Corporate Governance

*Building the
Foundation for Ethics,
Performance, and
Responsibility*



What is “Spiritual”

- “Spiritual” includes:
 - ✓ The “Breath” (spiritus, spirit) of Life
 - ✓ Tapping into the deeper meaning of life
 - ✓ Having a relationship with the Source of creation
 - ✓ Becoming fully conscious
 - ✓ Living in harmony with the essential nature and inter-connectedness of creation
- “Spirituality” is distinct from “religion”
- “Spirituality” is “inclusive”

Spirituality – the Thread that Connects the World’s Religions

Buddhism -- *That which you do not desire for oneself, do not do to others. (The Staff of Wisdom, 2c AD)*

Christianity -- *Do unto others what you would have them do unto you. (Mathew 7.12, 70 AD)*

Confucianism – *Do not impose on others what you yourself do not desire. (Analects XII.2 3c BC)*

Hinduism -- *Do nothing to your neighbor which you would not have your neighbor do to you. (Mahabharata, 5c BC)*

Islam -- *Do to all men as you would they should do to you. (Mishkar-el-Masabih, 14c AD)*

Judaism -- *What is hurtful to you do not to your fellow man. (Talmud)*

The Bold Possibility

- Spirituality is the basis for revolutionary, transformational leadership and corporate governance
- Directors develop within themselves a purity and unity of thought, word, and deed
- Directors actively express their spirituality in every aspect of their lives
- Directors ensure that their corporations embody a spiritual basis in their mission, vision, values, products/services, practices, and processes
- Spiritual values transform all aspects of life in business and society

For Example...

William George, Chairman of Medtronic, the world's largest producer of medical electronics:

- *We are all spiritual beings. To unleash the whole capability of the individual -- mind, body, and spirit -- gives enormous power to the organization. It truly empowers members of the organization to devote their entire beings to the ultimate purpose for which the organization exists, which is to serve others. That's what I believe is 'spirituality in the workplace': to unlock the real sense of significance of the organization's purpose.*



He continues...

- *This has nothing to do with religion. People of many faiths, or no faith at all for that matter, can join together in a common cause of service to others through their work. Why should we ask employees to 'check their values and their spiritual selves at the door' when they come to work? They lose, the organization loses, and ultimately the customer or beneficiary of the company's work loses!*



William George also says they “lead by values” rather than “manage by objectives.”

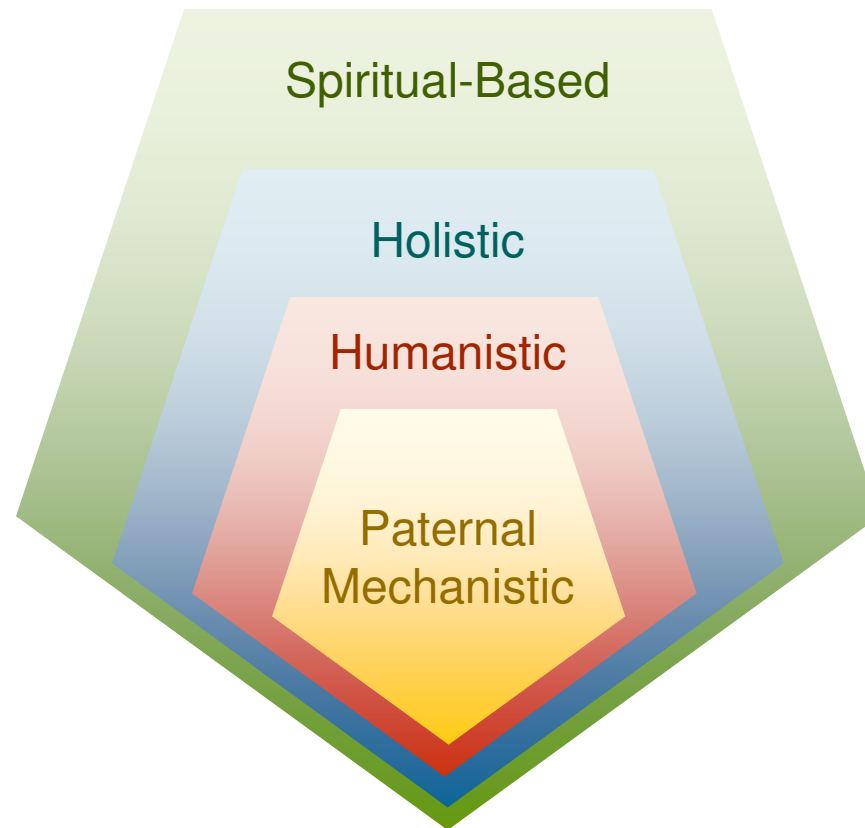
Those values, in *priority* order, are:

1. Restoring people to full health
2. Serving customers with products and services of unsurpassed quality
3. Recognizing the personal worth of employees
4. Making a fair profit and return for shareholders
5. Maintaining good citizenship as a company

Regarding this prioritisation, he wrote in 1993:

- *Medtronic is not in the business of 'maximizing shareholder value;' rather, our purpose is to 'maximize patient value.' The 'real bottom line' for Medtronic is the 1,300,000 patients who were restored to full life and health last year by Medtronic products... At Medtronic we believe that if we first serve our customers well, provide products and services of unsurpassed quality, and empower our employees to fulfill themselves and the company's mission, we will indeed provide an outstanding return for our shareholders.*
- *Those results? Their stock has grown at more than a 25% annual, compounded growth over the past 40 years, vs. the Dow Jones or S&P 500 average growth of 10-12%.*

The Evolution of Four Contexts for Business Leadership (and C. G.)



Corporate Governance According to the *Paternal–Mechanistic* Context

Paternal-mechanistic -- From this view, business is “survival of the fittest,” and competition is a win-lose game. The goal of business and its leadership is wealth creation (specifically, profit-maximisation) on behalf of business owners. The common employee is usually seen as an interchangeable part in the big machine, expected to perform within clearly defined parameters.



Paternal
Mechanistic

What is a Corporation?

- “A corporation is an artificial person of legal entity created by, or or under the authority of, the laws of the state... (and) is distinct from the individuals who comprise it.”

(Black’s Law Dictionary)

- “The company is an artificial legal entity, created and recognised by law for just over a century. It comprises two principal organs, namely its board of directors and its shareholders in general meeting, both of which are regarded as its agents.”

(Chee Keong Low, Assoc. Prof. In Corporate Law,
Chinese University of Hong Kong)

What is Corporate Governance?

- “Firms exhibit good corporate governance when they both maximize residuals and, in the case of investor-owned firms, make pro rate distributions to shareholders. Bad corporate governance is just the failure by a firm to meet one or both of these conditions.”

(Merritt Fox and Michael Heller
Professors of Law, Univ. of Michigan)

What is the Main Approach to Corporate Governance?

- “Anglo-American model: one-tier board – single board of directors
- “... the concept of the company owned and governed by shareholders, who are the last risk-takers, and the system of seeking profits for ‘individualistic-oriented’ shareholders.”

(Corporate Governance Forum of Japan)

What is the Role of a Director?

- “Agents: Directors act as ‘employed agents’ to undertake roles on behalf of their principals. Agents will act because of self-interest so must be managed through a system of explicit rewards and punishments.”
(Dr. N. Balasubramanian, IIMB, India;
David Kimber, RMIT University, Australia)
- Directors are responsible to shareholders, the financial investors/owners of the corporation

What Positive Impact of Corporate Governance is Sought?

- Corporate Value: “For the US market, Gompers et al.’s results clearly support the hypothesis that well-governed companies outperform their poorly governed counterparts. Well governed companies have higher equity returns, are valued higher, and their accounting statements show a better operating performance.”

(Rob Bauer, Maastricht Univ. and Nadja Gunster, Erasmus Univ. of Rotterdam, Netherlands)

What Positive Impact of Corporate Governance is Sought?

- Corporate Value: “Our most important result (in Switzerland...) shows that an increase in the corporate governance index by one point (where the index ranges from 1 to 100) causes an increase of the market capitalisation by roughly 8.52% on average of a company’s book asset value.
- “Our analysis confirms that causation runs from corporate governance to firm value, but we also find evidence of reverse causality, with higher value firms adopting better corporate governance practices.”

(Stefan Beiner and Wolfgang Drobetz, Univ. of Basil,
European Corporate Governance Institute)

What Positive Impact of Corporate Governance is Sought?

- Attractiveness to Investors: “There is increasing survey evidence that good corporate governance plays an important role in the investment decisions of major institutions. And premium is often reflected in the price of securities of companies that practice this.”

(Chee Keong Low, Assoc. Prof. In Corporate Law,
Chinese University of Hong Kong)

- “...22% of European institutional investors are willing to pay an average of 19% premium for a well-governed company.”

(Rob Bauer, Maastricht Univ. and Nadja
Gunster, Erasmus Univ. of Rotterdam, Netherlands –
from the McKinsey Global Survey on Corporate Governance, July 2002)

What are Key Issues of Poor Corporate Governance?

- “Much has transpired since the inadequate corporate governance practices of East Asia were glaringly exposed by the Asian financial crisis... (which) brought to the foreground numerous deficiencies, which had common roots in excessive over-leverage as well as the lack of transparency, disclosure, and accountability.”

(Chee Keong Low, Assoc. Prof. In Corporate Law,
Chinese University of Hong Kong)

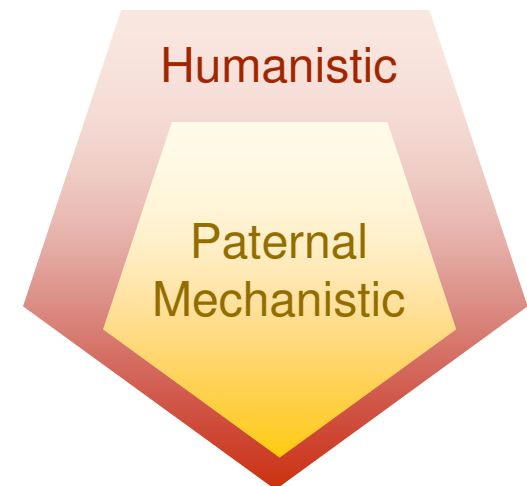
What are Key Issues of Poor Corporate Governance?

- (Regarding Russian governance)... We go beyond standard causal explanations of poor corporate governance, which include the low level of corporate transparency, lack of effective adjudication of corporate law violations, weak enforcement of judgments, and the absence of a network of trust among Russian businessmen. When insiders exercise their rights so that each blocks the others, corporate assets may be wasted... in low value uses.”

(Merritt Fox and Michael Heller
Professors of Law, Univ. of Michigan)

Corporate Governance According to the *Humanistic* Context

Humanistic -- From this view, the purpose of business and leadership is still wealth creation, but with a win-win mentality in which “enlightened self-interest” supplants “selfish-interest”. The leader's job is to help employees become self-actualised “intrapreneurs” who invest both their emotions and their minds, for their own sake and the organisation's.



What is Corporate Governance?

- “Corporate Governance does not refer to institutions by which ‘suppliers of finance assure themselves of getting a return on their investment’, but rather to institutions that take care of the conflict between the interest of investors to get the ‘warranted’ return on their invested funds and the interest of ‘managers’ to exert control over the use of those funds with as little interference from investors as possible.”

(Fabrizio Barca, Senior Economist, Banca d’Italia)

What is the Main Approach to Corporate Governance?

- “Anglo-American model: one-tier board – single board of directors
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(Corporate Governance Forum of Japan)

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(Dr. N. Balasubramanian, IIMB, India;
David Kimber, RMIT University, Australia)
- Directors are responsible to shareholders, which include employees

What Positive Impact of Corporate Governance is Sought?

- Corporate reputation: “Corporate reputation can be related to four themes:
 - Product/service reputation
 - Business reputation
 - Credibility in the financial markets
 - Social reputation
- “The Hay Group’s analysis of the world’s most admired companies, as reported in *Fortune*, emphasises leadership as the key to ‘corporate admiration’.

(Dr. N. Balasubramanian, IIMB, India;
David Kimber, RMIT University, Australia)

Leadership and Reputation

- “Top corporations develop a culture which ‘nurtures and retains outstanding talent.’ They do this by disciplined leadership selection... stressing values that take account of people as well as financial results, and seeking to develop human attributes such as self-confidence and self control...”

(Dr. N. Balasubramanian, IIMB, India;
David Kimber, RMIT University, Australia)

What are Key Issues of Poor Corporate Governance?

- “Corruption in any system or society depends on three factors, The first is the set of individual’s sense of values. The second is the set of social values. The third is the systems of governance.
- “If we examine the root of corruption, we will find that it arises perhaps from the extreme attachment of people to their families. Nepotism is natural in this situation.
- “Consumerism and the desire for an ostentatious life style tempts many to make money by hook or crook. Corruption is the result.”

(N. Vittal, Central Vigilance Commissioner, India)

What are Key Issues of Poor Corporate Governance?

- “The directorships of East Asian companies are somehow appropriate ‘rewards’ in recognition of years of loyal and subservient service, or of friendships. Rather than being viewed as an ornament, a director must be treated and appreciated as a vital cog in the wheels of effective corporate governance.”

(Chee Keong Low, Assoc. Prof. In Corporate Law,
Chinese University of Hong Kong)

- The South East Asian tiger economies dramatically became the victim of their crony capitalism...”

(N. Vittal, Central Vigilance Commissioner, India)

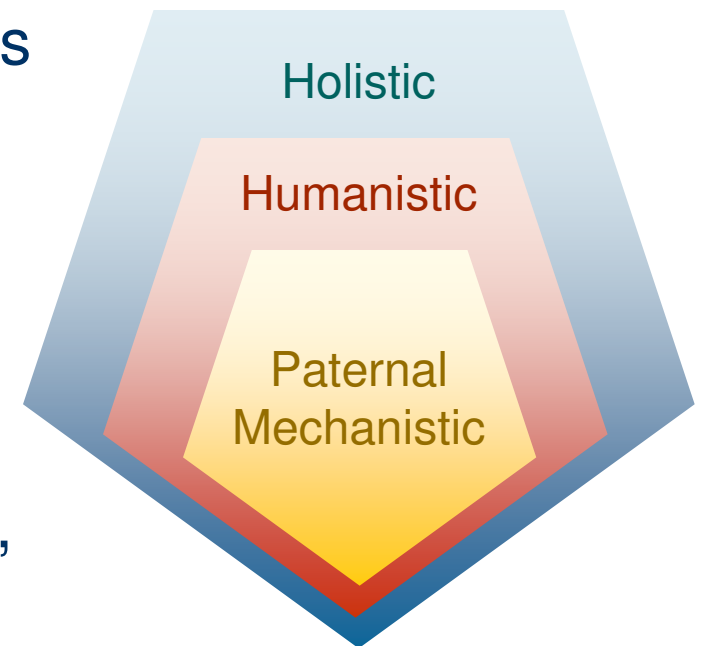
What are Key Issues of Poor Corporate Governance?

- “The recent corporate scandals involved not just improper behavior by senior executives, but corporate structures that, far from safeguarding against such behavior, in some ways encouraged it.
- “Effective corporate leadership involves more than developing a good strategic plan and setting high ethical standards. It also means coming up with an organisational design that encourages the company’s managers and employees to carry out its business plan and maintain its ethical standards.”

(James Brickley and Clifford Smith, Jr., Univ. of Rochester)

Corporate Governance According to the *Holistic* Context

Holistic – From this view, the goal of business and leadership evolves beyond "wealth creation for *shareholders*" to "wealth creation for the benefit of all *stakeholders*". Leadership "control" lies more in having a common purpose and value system. This view recognises that people are, in fact, the principal assets of wealth creation, especially in knowledge-intensive organisations.



What is Corporate Governance?

- “Corporate Governance is nothing but an attempt to bring greater transparency in the process of decision making. It is related to the value framework, moral framework and ethical framework against which business decisions are taken. This transparency in turn leads to fixing the accountability of those in an enterprise. Accountability is for ensuring that the stakeholders in the organisation get their expectations fulfilled.

(N. Vittal, Central Vigilance Commissioner, India)

What is the Main Approach to Corporate Governance?

- “European (continental)/Japanese model: two-tier system – management board and supervisory board
- “... the concept of the company as community, and the system of seeking profits for ‘pluralistic-oriented’ constituencies.”

(Corporate Governance Forum of Japan)

What is the Role of a Director?

- “Stewards: Directors act as ‘good stewards’ to ‘look after and care for’ the assets of others. This assumes trust and honesty – people are driven by higher motives and want to fulfil their duty with care.”

(Dr. N. Balasubramanian, IIMB, India;
David Kimber, RMIT University, Australia)

- Directors are responsible to a broad variety of stakeholders

What Positive Impact of Corporate Governance is Sought?

- Growth through Stakeholder Balance: A study by Harvard University found that those companies that had a stakeholder balance – a focus on customers, society, environment, and communities as well as shareholders – showed 4 times the growth rate and 8 times the employment growth than those companies that only focused on increasing the wealth for their shareholders.

What Positive Impact of Corporate Governance is Sought?

- Country-Specific Economic Growth: “Building a healthy capital market which will be scam-free and which will correct itself quickly if scams do occur is an important element in the strategy for better economic growth of the country. Corruption in India is the result of a vicious cycle which involves political corruption, bureaucratic corruption, and business corruption. As corruption goes down, economic development takes place. If India’s corruption level goes down to that of Scandinavian countries, according to the 1999 UNDP report for South Asia, GDP will go up by 1.5% and FDI by 12%.”

(N. Vittal, Central Vigilance Commissioner, India)

What Positive Impact of Corporate Governance is Sought?

- Regional Economic Growth: “The importance of corporate governance as a critical link to sustaining regional economic growth has been attested to by the organisation of five annual meetings of the Asian Roundtable on Corporate Governance... under the mandate of the G-7.”

(Chee Keong Low, Assoc. Prof. In Corporate Law,
Chinese University of Hong Kong)

What is the Social Pressure for Corporate Responsibility?

- A 1997 study by Walker Research found that when price and quality were equal, three-fourths of consumers would switch brands or retailers if the company was associated with a good cause.
- In 1999 in the USA, the growth rate of professionally managed assets that were invested in social responsibility funds increased by 80% where the the growth rate of the rest of the market increased by 40%.

What is the Movement To Value-Based Corporate Governance? ⁽¹⁾

- “Accountability, governance, and sustainability – three powerful ideas that are playing a pivotal role in shaping how business and other organisations operate in the 21st century. Together, they reflect the emergence of a new level of societal expectations that view business as a prime mover in determining economic, environmental and social well-being. These three ideas also point to the reality that business responsibility extends well beyond the shareholders, to people and places both near and distant from a company’s physical facilities.”

(Global Reporting Initiative [GRI] 2002 Guidelines)

What is the Movement To Value-Based Corporate Governance? ⁽²⁾

- GRI is a new, independent, international institution whose mission is to develop, promote, and disseminate globally applicable *Sustainability Reporting Guidelines*. GRI... seeks to elevate sustainability reporting to the same level of rigour, comparability, credibility, and verifiability expected of financial reporting, while serving the information needs of a broad array of stakeholders from civil society, government, labour, and the private business community itself. GRI is built on the pillars of inclusiveness, transparency, and technical excellence.”

(Global Reporting Initiative [GRI] 2002 Guidelines)

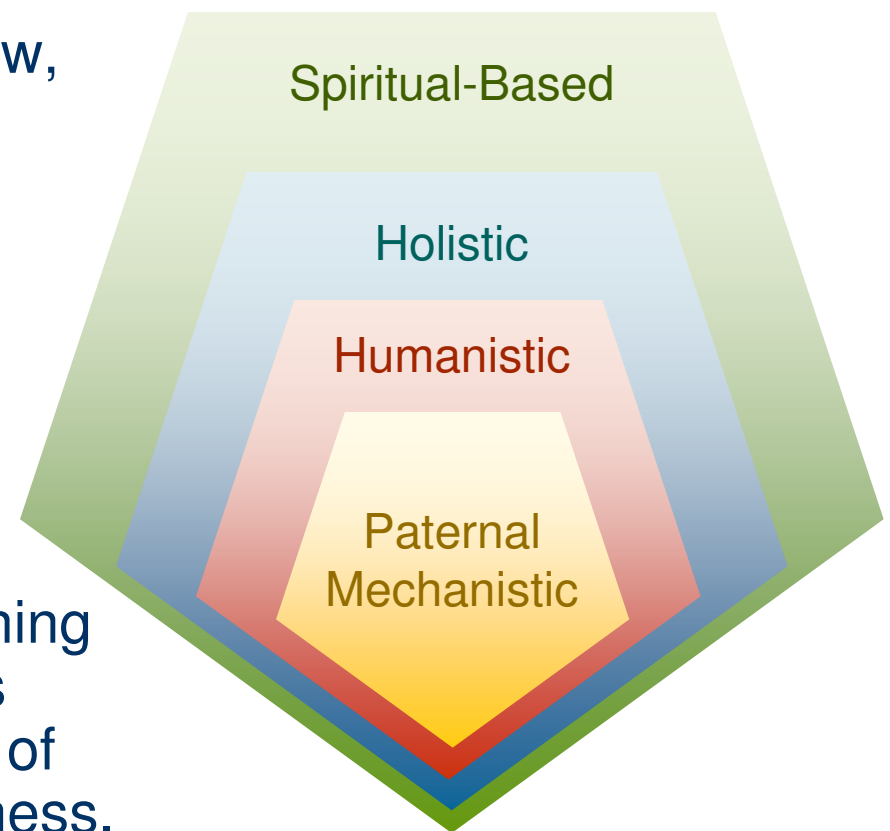
Royal Dutch Shell's Corporate Governance Message

- “We continue to focus on delivering robust profitability, while leveraging our competitive edge to grow value. At the same time we are striving to fulfil our commitments to society, based on our strong Business Principles. This includes using the principles of sustainable development in all our operations – taking account of their social and environmental consequences as well as the economic dimension. We believe long-term competitive success depends on being trusted to meet society’s expectations.”

(Chairman, Royal Dutch Shell Petroleum
“People, Planet, & Profits” 2001 Shell Report)

Corporate Governance According to the *Spiritual-Based* Context

Spiritual-based – From this view, the nature of business itself is transformed – the purpose of business and leadership is *spiritual fulfilment and selfless service to society*, where both are motivated from the Source of creation. Wealth creation is no longer the *goal*; it becomes a *means* for enabling & sustaining this purpose. Business leaders promote the spiritual fulfilment of everyone touched by the business.



A Revolutionary Return to Our Spiritual Roots

- “Revolution” has two meanings: fundamental change *and* a return to a starting point
- The Spiritual-Based context starts with a relationship with the Creator, while the other three contexts focus only on a relationship with creation
- The Spiritual-Based context co-creates with the Creator, while each of the other three contexts optimise life and business within its understanding of creation
- Spiritual-Based Leadership -- leading from a consciously-held spiritual basis

What Shift is Needed for Spiritual-Based Corporate Governance?

- “National character is the keystone on which rests the fate and future of our public affairs, not this or that ‘ism’. National character depends on -- in fact *is* -- individual rectitude. Movements for purifying individual character are therefore not irrelevant in the context of politics, but are vitally connected with our hopes in respect of national affairs. Character, which includes efficient work and truthfulness and purity of mind, is the keystone of the arch in individual and in national life.”

(Bharatiya Vidya Bhavan, quoted by N. Vittal, CVC, India)

SBL Includes, Yet Goes Beyond, the Paternal-Mechanistic Context

- “For me spirituality is the acceptance of the existence of a God, whatever that is, and to adhere to my religion.”
- “Love God and love your neighbour.”
- “I personally have no doubt that being in contact with a higher power increases the quality of one’s life in the broadest sense. I have never felt satisfaction in just making money. I am only happy because I started by making a difference, whether it was for the family, or the environment, or whatever it was. I think a company in any industry has an incredible strength and competitive power if the staff is united by a common purpose that makes sense in a broader context than just making money.”

(Lars Kolind, Chairman Oticon, Grundfos, Denmark)

SBL Includes, Yet Goes Beyond, the Humanistic Context

- “Spirituality would be the awareness of myself as consciousness, that feeling of ‘I’. I and the Divine are the same. The Divine is in all of us. Spirituality is knowing the true core of being within you, and realising it is the same core within everyone.”
- “Awareness” and “Realising Divinity”
- “I think basically that you should not measure success or failure at all. What’s most important is to determine: “What was my underlying motivation? Have I given all of the effort that was required of me? Did I analyse it fully with the proper sense of ethical values? My learning from spiritual texts leads me to this view of success.”

(Ananth Raman, Chairman, Graphtex Inc., Switzerland/USA)

SBL Includes, Yet Goes Beyond, the Holistic Context

- “Spirituality is inspired responsibility towards people, other living beings, and the world... seeing and relating with Divinity in every aspect. Self-improvement plus world service equals spirituality. God is spirituality.”
- “Noble actions, noble feelings, noble thoughts, noble responsibility”
- “Business must look at not only the economy. My concept of business is the harmony of ethics, energy, excellence, economy, ecology -- with effectiveness and efficiency that leads to enlightenment. All this occurs through wisdom, coming from purity and beauty. This is my vision of the future of business.”

(G. Narayana, Executive Chairman, Excel Industries Ltd., India)

The “Revolution”: Returning to Our Spiritual Roots

- “Spirituality is the search for and inner experience of the fullest personal integration with the greater transcendent mystery. Spirituality is our deep connection with a force greater than ourselves; it is a very individual, lived experience that includes longing and belonging, for which the fruits are love and compassion.”
- “Oneness”
- “There is such a need for a complete rebirth of trust in our business leaders. Somewhere along the line leaders have lost their humility and in doing so they have lost their compassion and empathy, and their inner connection to God. I think this is something we need to come back to.”
(Ricardo Levy, Chairman, Catalytica Inc., USA)

Methodist Health Care System (USA) ⁽¹⁾

MHCS Belief Statement

- “The Methodist Health Care System, a Christian organization established by the Texas Annual Conference of the United Methodist Church, exists to provide quality health care services. As it fulfills this purpose, the System participates in the redeeming activity of God that makes the world a better place for all of humankind. This health system is based on the belief that God can heal through the lives, actions and words of persons, regardless of various religious perspectives. Therefore, in all endeavors the Methodist Health Care System strives to treat everyone it serves as a person of sacred worth and value, created by God.”

Methodist Health Care System (2)

MHCS Mission Statement

- To provide high quality, cost-effective health care that delivers the best value to the people we serve in a spiritual environment of caring in association with internationally recognized teaching and research.

MHCS Vision Statement

- People will seek Methodist as a globally recognized leader of pioneering medical expertise and innovative, personalized care.

Methodist Health Care System ⁽³⁾

MHCS Values Statement: “I CARE”

Integrity: We are honest and ethical in all we say and do.

Compassion: We embrace the whole person and respond to emotional, ethical and spiritual concerns as well as physical needs.

Accountability: We hold ourselves accountable for our actions.

Respect: We treat every individual as a person of worth, dignity and value.

Excellence: We strive to be the best at what we do and a model for others to follow.

Kyocera (Japan)

- Corporate Motto: "Respect the Divine and Love People."
Preserve the spirit to work fairly and honourably, respecting people, our work, our company and our global community.
- Management Rationale:
To provide opportunities for the material and intellectual growth of all our employees, and through our joint effort, contribute to the advancement of society and humankind.

Excel Industries (India)

(excerpt from Mission for Next 50 Years)

- Satisfaction of our shareholders, customers, our own people, suppliers, institutions, investors, society, and community is paramount to us. We have a responsibility towards industry and community. Rural community is heart of India. We will be friends and contributors to well being of both industrial and rural community.
- Company is togetherness, We will work and contribute, learn and grow together in the spirit of “Saha Viryam.” We pray to the Almighty that we be granted the strength to fulfil this mission.

ServiceMaster (USA) (1)

1. **To honor God in all we do**

We believe that every person — regardless of personal beliefs or differences — has been created in the image and likeness of God. We seek to recognize the dignity, worth and potential of each individual and believe that everyone has intrinsic worth and value. This objective challenges us to have commitment to truth and to deliver what we promise. It provides the basis for our belief in servant leadership. It is not an expression of a particular religious belief, or a basis for exclusion. Rather, it is a mandate for inclusion, and a constant reminder for us to do the right thing in the right way.

ServiceMaster (2)

2. **To help people develop**

At ServiceMaster, work is about developing, contributing and feeling the accomplishment of a job well done...

3. **To pursue excellence**

We continually seek better methods of delivering service and believe that every time we touch a customer's life, we should provide added value for that customer...

4. **To grow profitably**

By achieving economic success, we will have the resources to positively affect the lives of our shareholders, customers and associates. Profitability is a way to test and challenge us.

Is Poor Corporate Governance Inevitable?

- “It was Alexis de Toqueville who said that the inevitable becomes intolerable the moment it is perceived to be no more inevitable.”

(N. Vittal, CVC, India)

The Bold Possibility

- Spirituality is the basis for revolutionary, transformational leadership and corporate governance
- Directors develop within themselves a purity and unity of thought, word, and deed
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- Spiritual values transform all aspects of life in business and society

What is the Place of Spirituality in Corporate Governance?

- Three questions:
 - How can we bring spirituality into corporate governance?
 - How can we integrate spirituality with corporate governance?
 - How can corporate governance come from, and draw from, a spiritual basis?

Q & A in Reverse...

My Questions and Your Insights

- What is “Corporate Governance” from a spiritual perspective?
- What is the main approach to Corporate Governance from a spiritual perspective?
- What is the role of Directors from a spiritual perspective?
- What positive impact of Corporate Governance is sought from a spiritual perspective?
- What are key issues of poor Corporate Governance from a spiritual perspective?

The Spiritual Basis of Corporate Governance

*Building the
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Performance, and
Responsibility*

