



Resetting Philippine Capitalism for the Common Good

Corporate Governance for Shared Prosperity

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Prof. Zingales' points relevant to Philippine realities

1. Philippine corporate boards should have fiduciary duty towards society, aligned with the Constitution and the Code of Corporate Governance. →
2. It is essential to protect other stakeholders from expropriation
 - Corporate capitalism dominates in the Philippines.
 - Leads to market and wealth concentrations; widening inequalities →
3. Employees are residual claimants, not only stockholders, due to firm-specific human capital.
 - The Constitution considers labor and capital as partners. In practice, capital has been privileged as evidenced by persistent poor job quality.
 - Result: Persistent poverty despite strong growth. →
4. Businesses have the power to NOT be rule takers. Hence, Friedman does not apply.
 - Weak institutions allow business regulatory capture which blunt stakeholder and shared prosperity initiatives (e.g., 1980 Corporation Code, 2009 Code of Corporate Governance).
 - Make this transparent and involve other stakeholders. →



COVENANT FOR SHARED PROSPERITY



WE BELIEVE THAT A WAY TO ADDRESS INEQUALITY IN ALL ITS FORMS IN OUR SOCIETY AND TO ENHANCE THE DIGNITY OF HUMAN BEINGS AND, THUS, ACHIEVE INCLUSIVE DEVELOPMENT IS FOR ALL BUSINESSES TO COLLECTIVELY MOBILIZE THEIR HUMAN, TECHNICAL, ECONOMIC AND FINANCIAL RESOURCES TO ENSURE **ETHICAL WEALTH CREATION AND THE SHARING OF PROSPERITY** WITH ALL THEIR STAKEHOLDERS.

WE THEREFORE PLEDGE AND COMMIT TO:



RECRUIT, TRAIN, AND DEVELOP OUR EMPLOYEES AND MANAGERS TO BE THE BEST THAT THEY CAN BE REGARDLESS OF GENDER, ALMA MATER, AGE, ETHNICITY, AND RELIGION;

PROVIDE JUST COMPENSATION AND BENEFITS;
PROMOTE MERITOCRACY
AND ENCOURAGE WORK-LIFE HARMONY;

#1



#2

PROVIDE ONLY QUALITY PRODUCTS AND SERVICES THAT ARE OF CONTINUING VALUE TO OUR CUSTOMERS;





TREAT OUR GOODS, SERVICES AND FUNDS PROVIDERS
FAIRLY, ETHICALLY AND RESPECTFULLY.
AS WE EXPECT THEM TO TREAT THEIR OWN WORKERS
IN THEIR SUPPLY CHAIN THE SAME WAY;

#3

#4

BE ACTIVELY INVOLVED IN COMMUNITIES WHERE WE OPERATE
WITH PARTICULAR ATTENTION TO THE NEEDS
OF THE DISADVANTAGED IN THOSE COMMUNITIES;



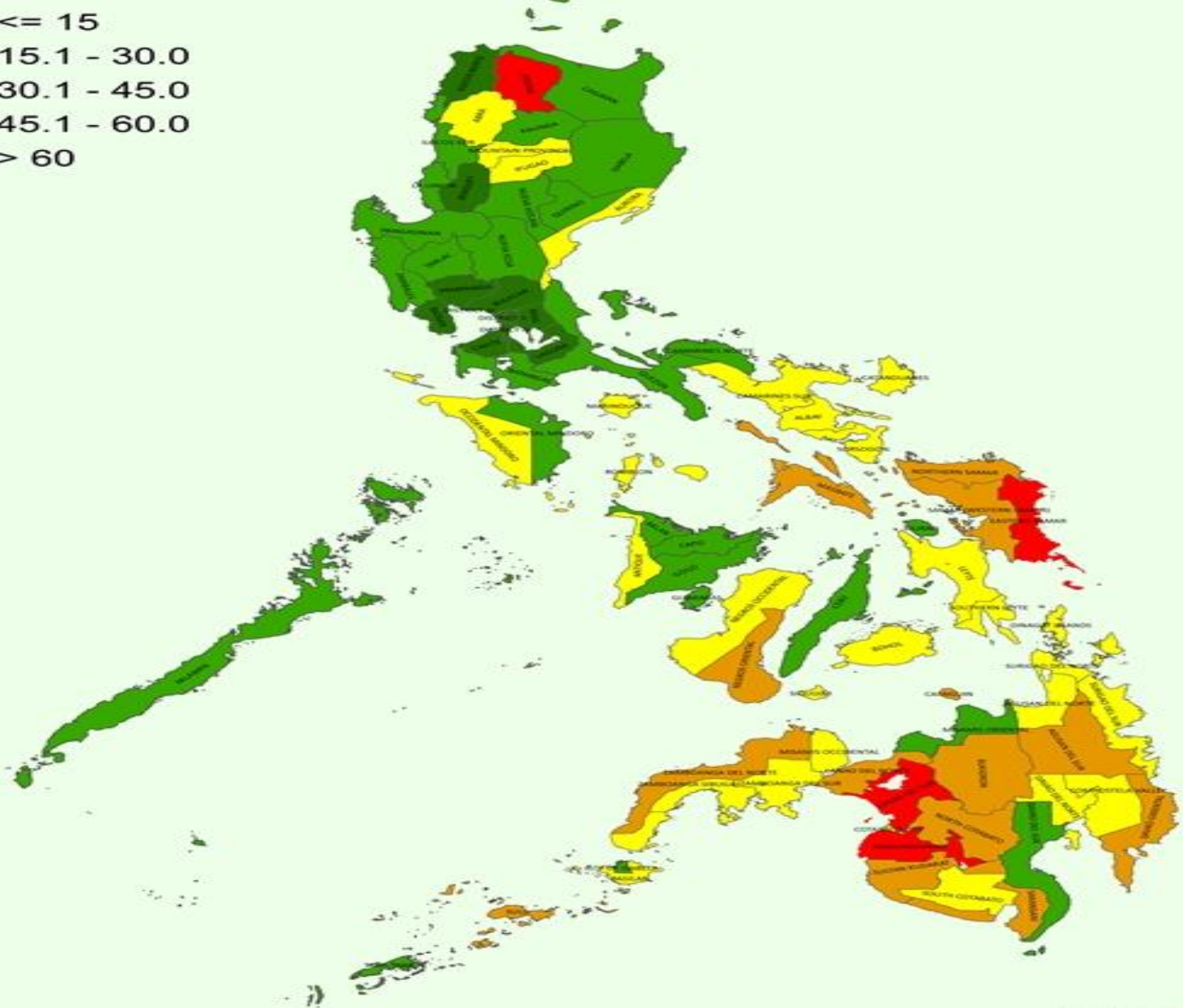
PROTECT AND PRESERVE THE ENVIRONMENT FOR THE
BENEFIT OF CURRENT AND FUTURE GENERATIONS
BY EMPLOYING FRIENDLY TECHNOLOGIES
IN ALL ASPECTS OF BUSINESS OPERATIONS; AND.

#5

#6

DELIVER REASONABLE AND JUST RETURNS TO OUR
CONTROLLING AND NON-CONTROLLING SHAREHOLDERS
AND TREAT THEM FAIRLY.









Thank you

Exhibits

Social Duties of Business



The Vision of the Philippines: Quality of Life for All

PHILIPPINE CONSTITUTION STATE POLICIES

Section 9. The State shall promote a just and dynamic social order that will ensure the prosperity and independence of the nation and ***free the people from poverty*** through policies that provide ***adequate social services, promote full employment, a rising standard of living, and an improved quality of life for all.***

The Social License of Business

PHILIPPINE CONSTITUTION -- NATIONAL
ECONOMY AND PATRIMONY

Section 6. *The use of property bears a social function, and all economic agents shall contribute to the common good. ...*



The Social License of Business

... Individuals and private groups, including **corporations**, cooperatives, and similar collective organizations, shall have the right to own, establish, and operate **economic enterprises**, subject to the duty of the State to **promote distributive justice and to intervene when the common good so demands.**





Code of Corporate Governance of 2017

http://www.sec.gov.ph/wp-content/uploads/2016/12/2016_memo_circular_no.19.pdf

Principle 16

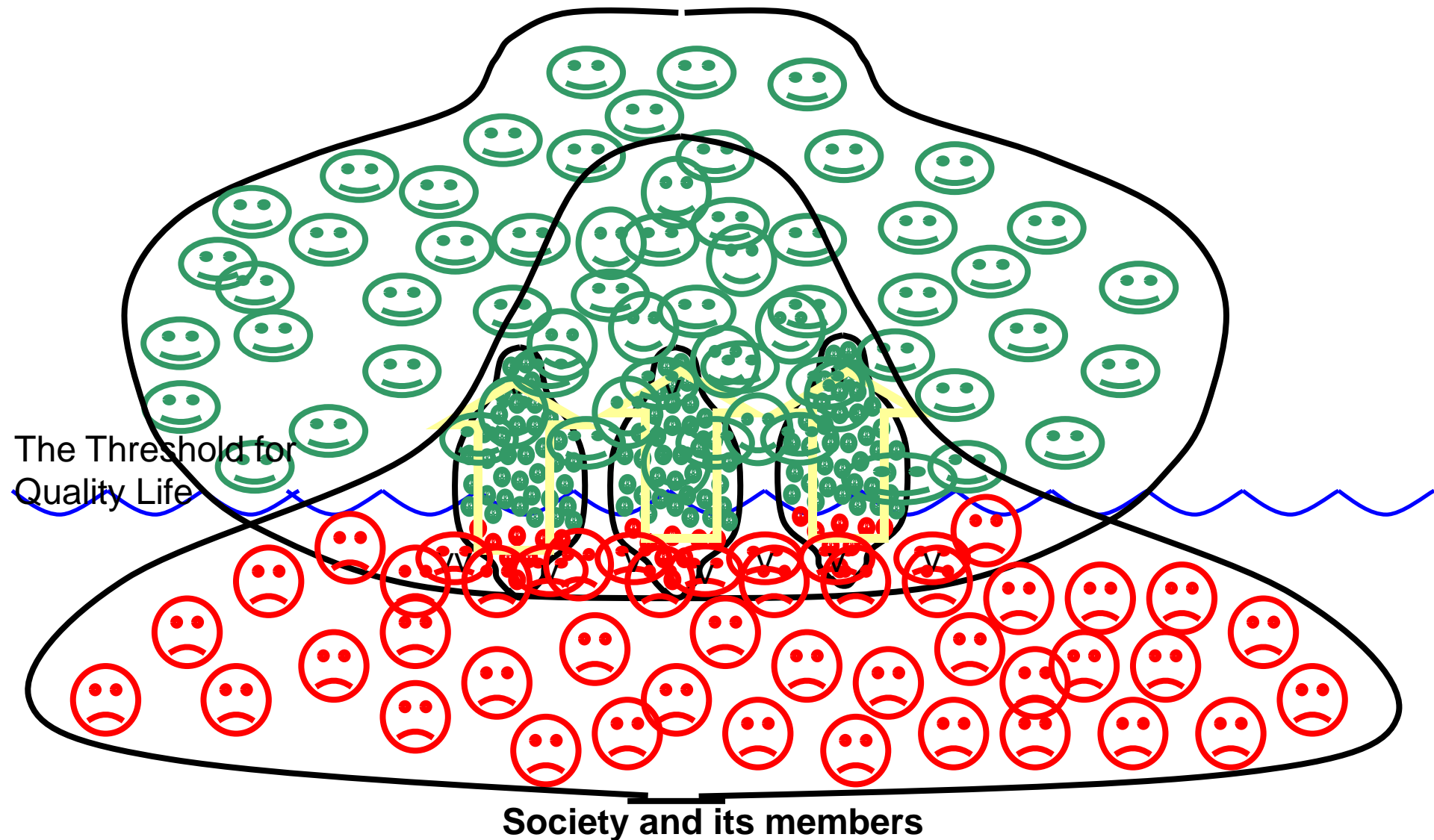
- The company should be **socially responsible in all its dealings with the communities** where it operates.
- It should ensure that its interactions **serve its environment and stakeholders in a positive and progressive manner that is fully supportive of its comprehensive and balanced development.**



The Philippine Vision: An Economy for the Common Good



Businesses fulfill their social license by spreading the benefits of work, products and services ←



Poverty and poor jobs



Despite robust growth, income inequality widening — NEDA



Czeriza Valencia (The Philippine Star ⓘ) - May 31, 2019 - 12:00am

2018 Philippine Poverty = 16.6%

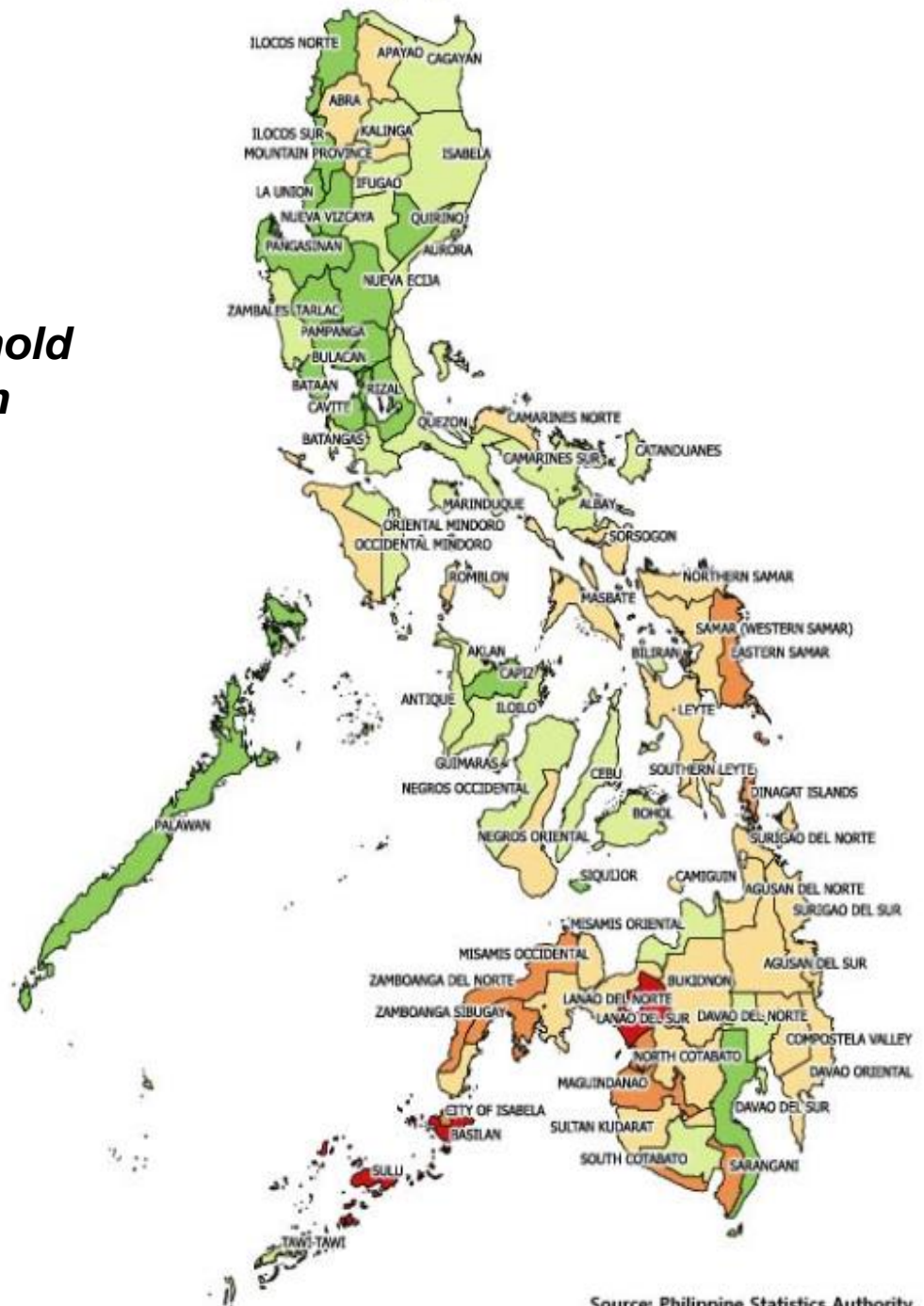
Note: Government poverty threshold for family of 5 is P 10,481 a month

Legend

2018 First Semester

Clusters

	1 (Poorest)	60% and above
	2	36% to < 60%
	3	22% to < 36%
	4	12% to < 22%
	5 (Least Poor)	< 12%



Source: Philippine Statistics Authority

The country has the slowest poverty reduction rate

Slow going

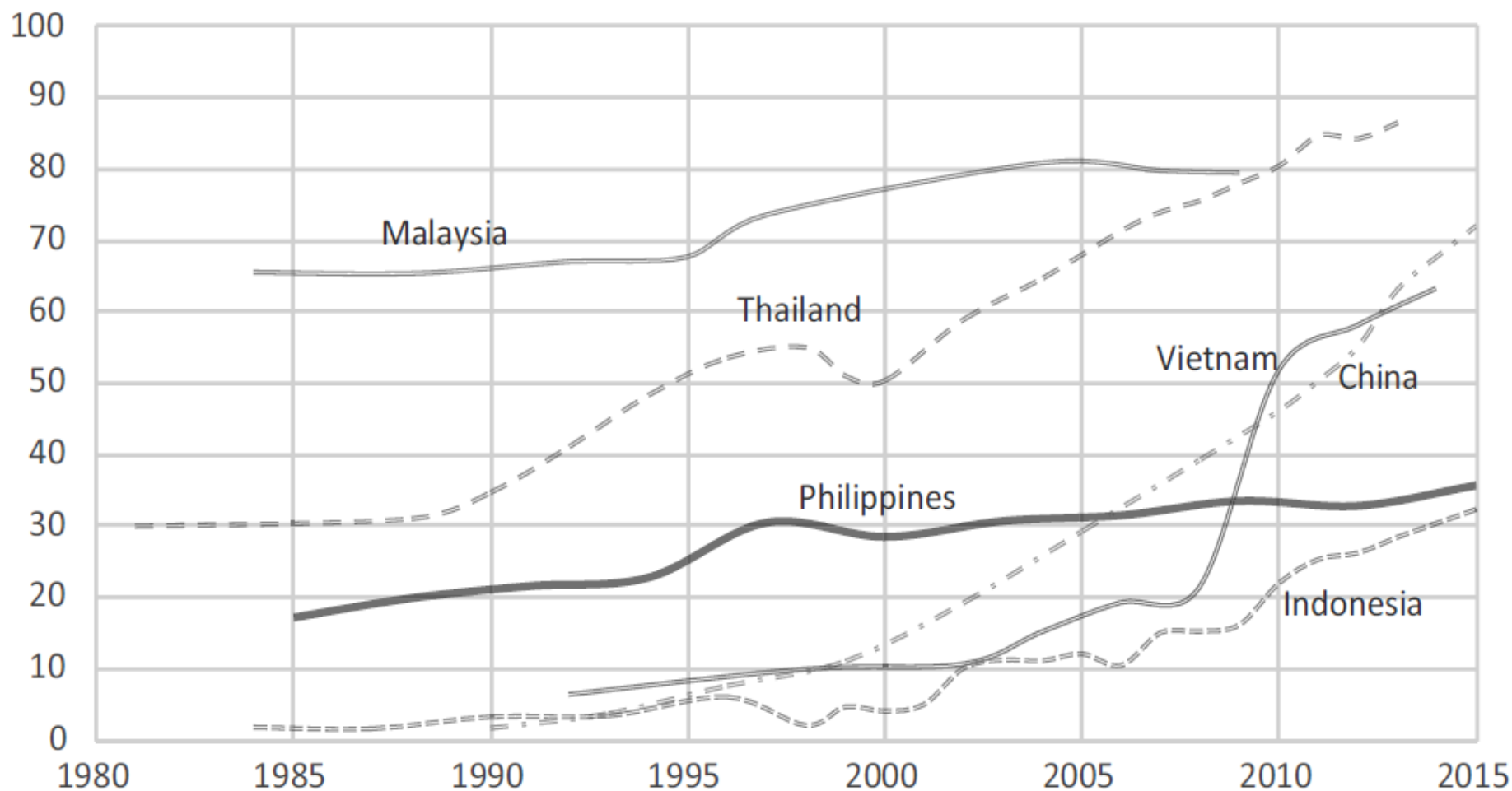
People who make less than \$1.90* a day
% of total



Source: World Bank

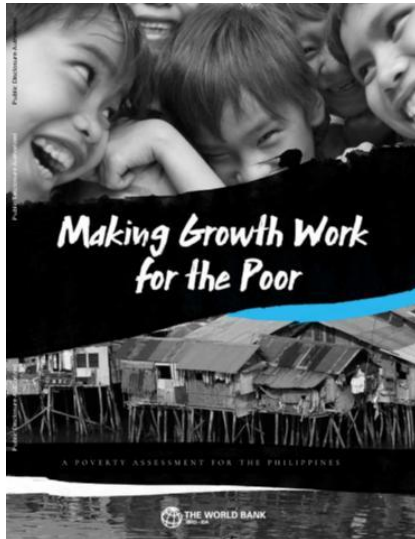
*At 2011 purchasing-power parity

Proportion of Middle Class across Different Asian Countries, 1980–2015



SOURCE: Philippine Human Development Network (2019) from the World Bank PovCalNet.

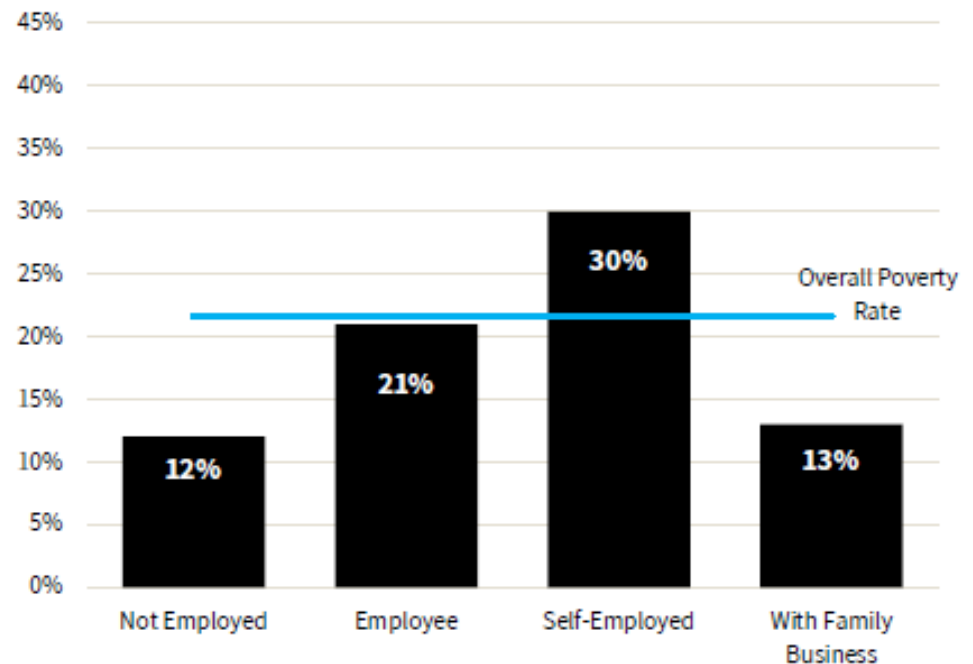
The employed poor ←



Source: Making Growth Work for the Poor: A Poverty Assessment of the Philippines. 2018. The World Bank

- “Poor-quality jobs (or “in-work poverty”), rather than unemployment, is the key challenge in the Philippines.
- “...the primary constraint facing poor households in urban areas is the low level of wages paid to unskilled workers.”

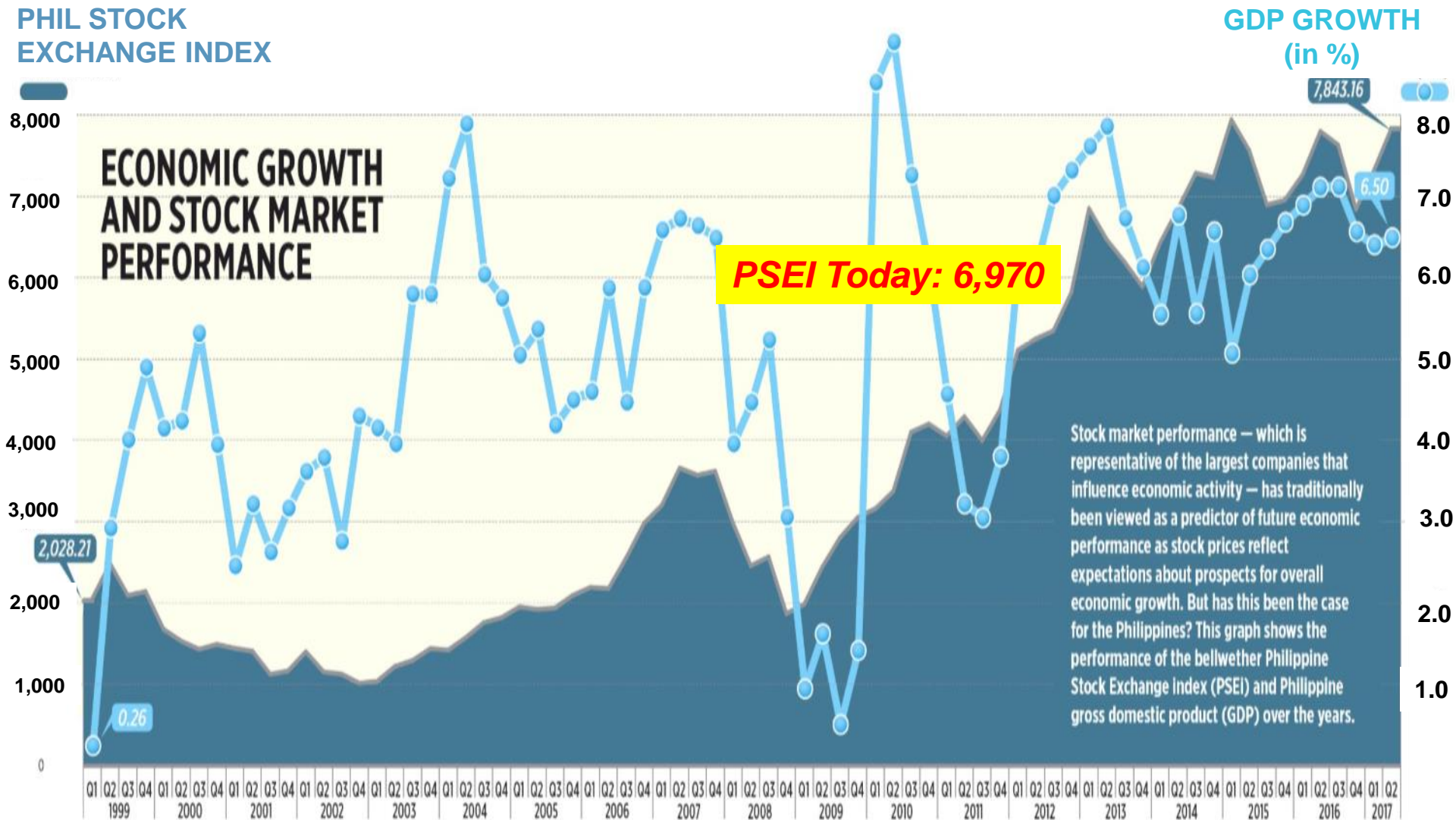
Figure 3.2. Poverty rate by employment status of household heads



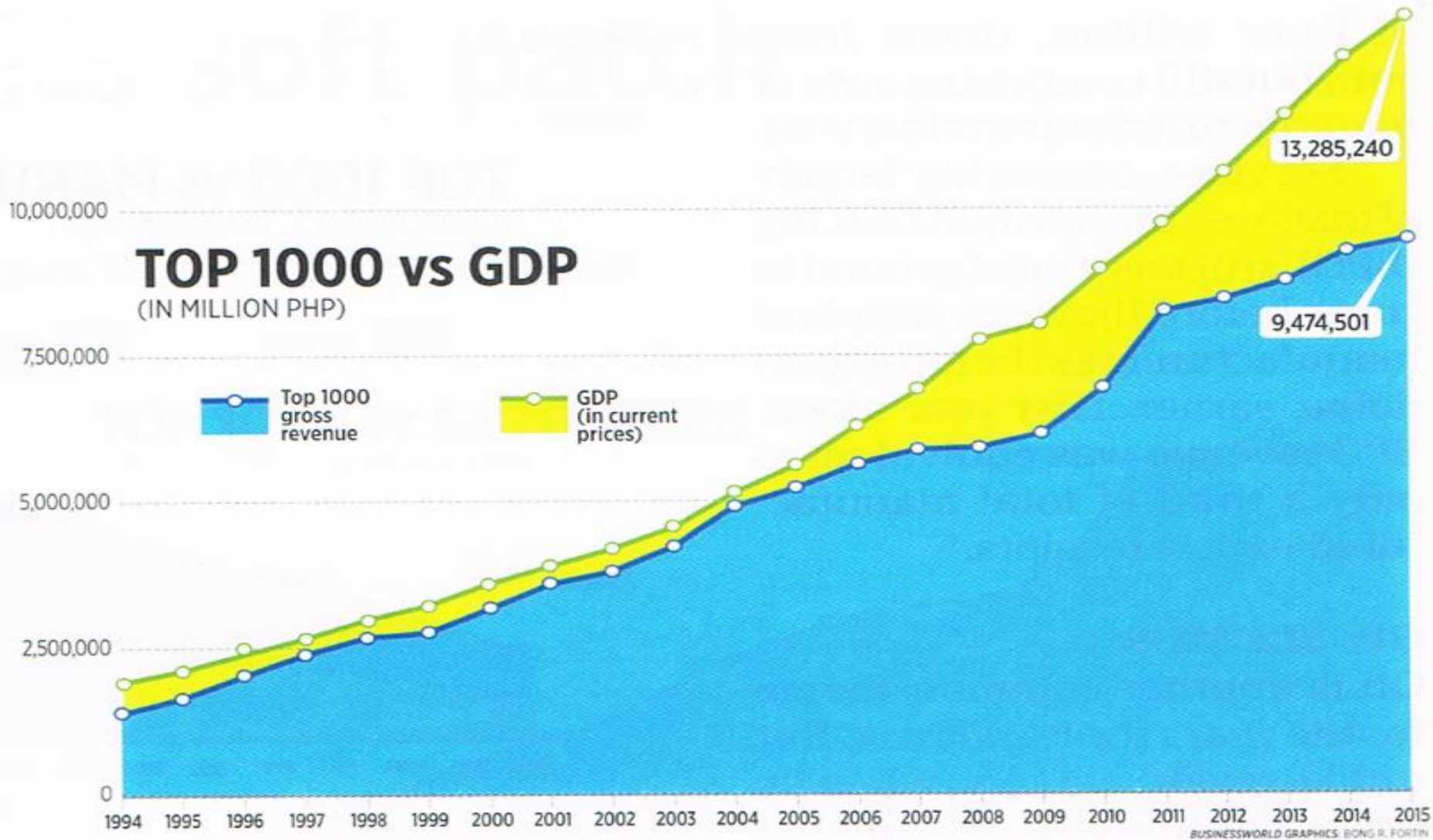
Source: Staff estimates using FIES 2015

Dominance of corporate capitalism

The economy and the stock market grew impressively pre-pandemic



Large enterprises drive the economy.

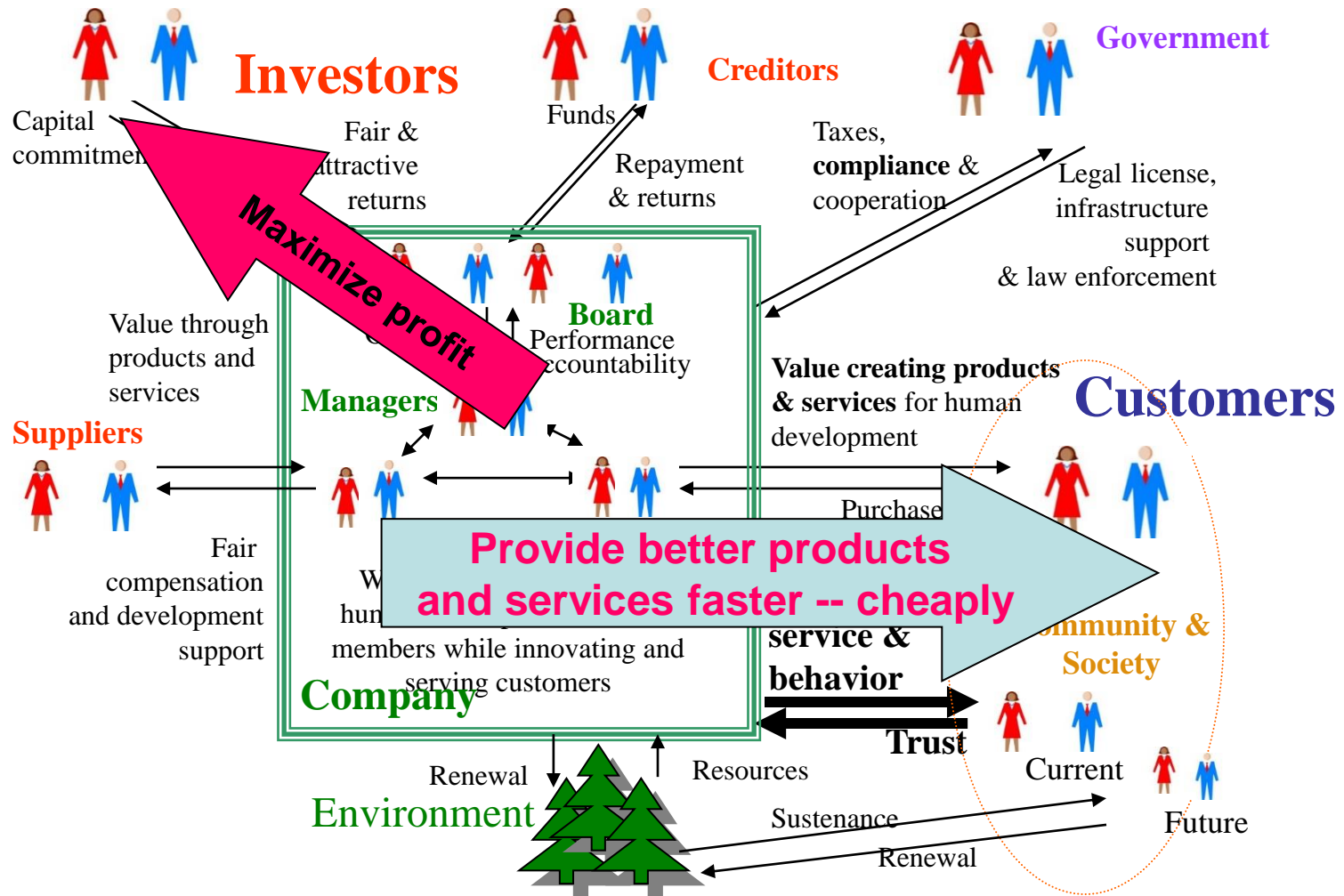


Share of Large Corporations in Gross Domestic Product

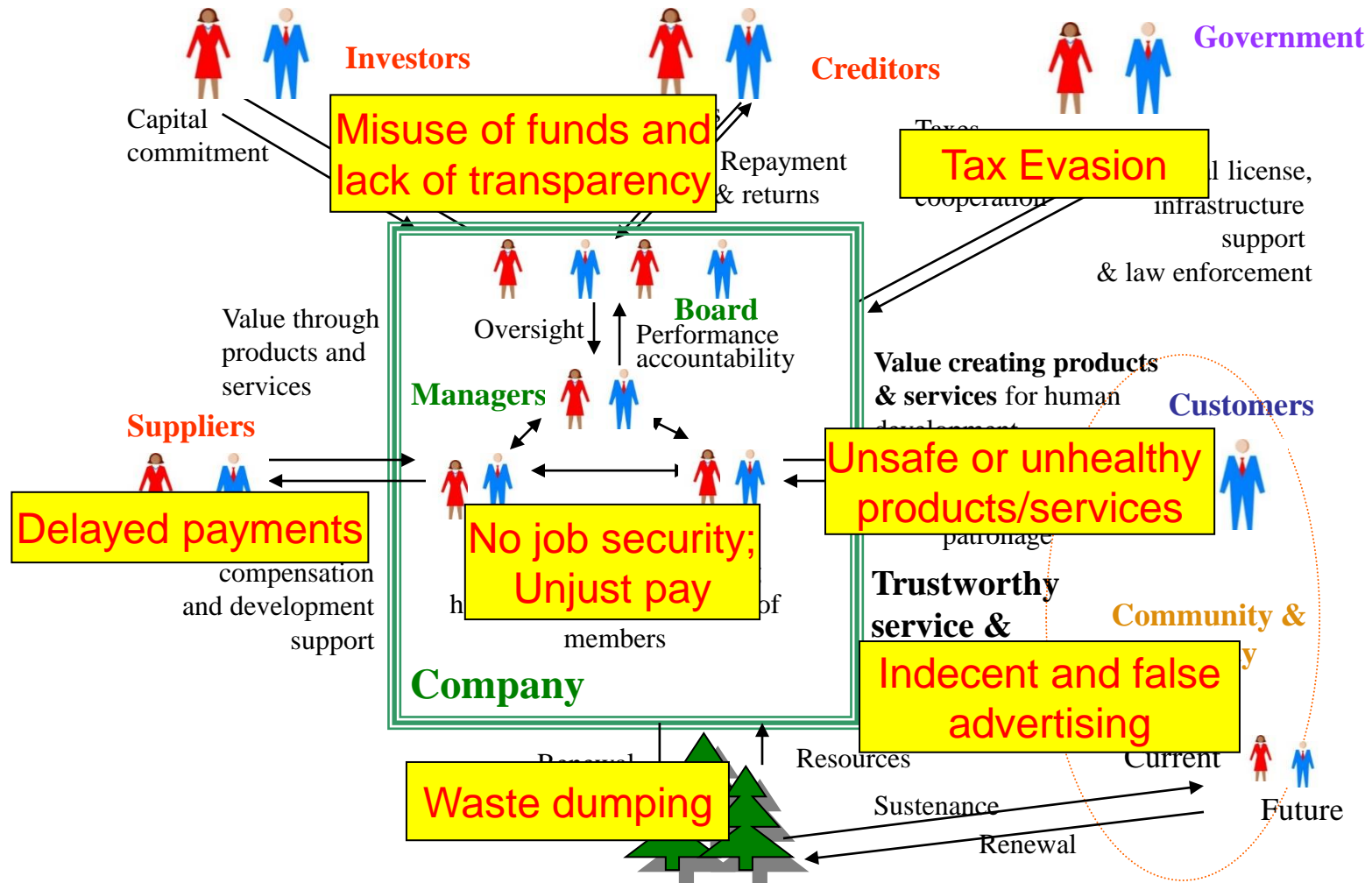
GDP 2015 = P13.3 T		
Number of Large Enterprises	2015 Total Revenues	Share of GDP
Top 100 Corporations	P4.7 T	35%
Top 200 Corporations	P5.8 T	44%
Top 50 Conglomerates	P6.2 T	47%

Source: BusinessWorld Top Corporations report 2016

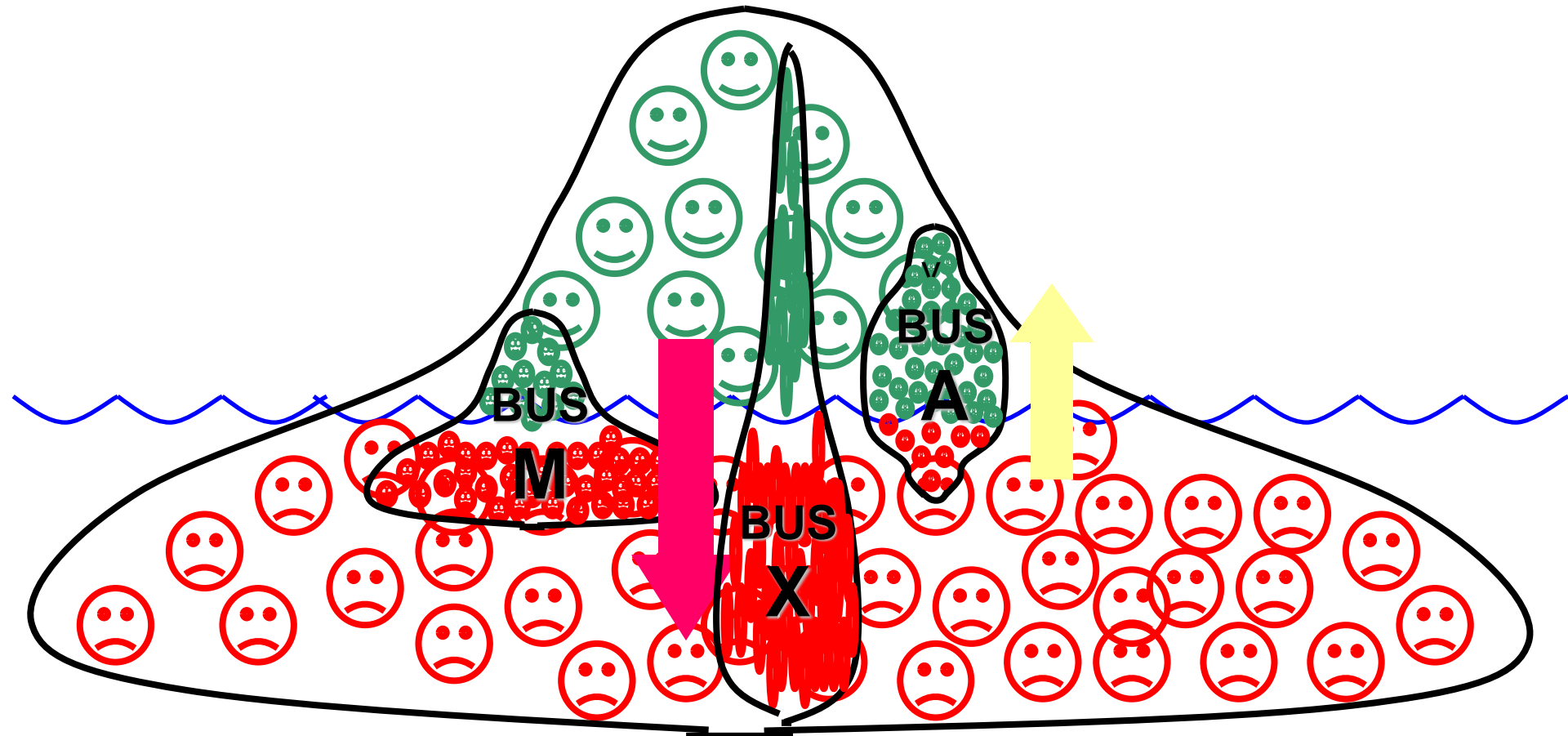
Unsustainable business biases at the expense of other stakeholders



Some Violations Against Stakeholder Welfare



Types of Business Models

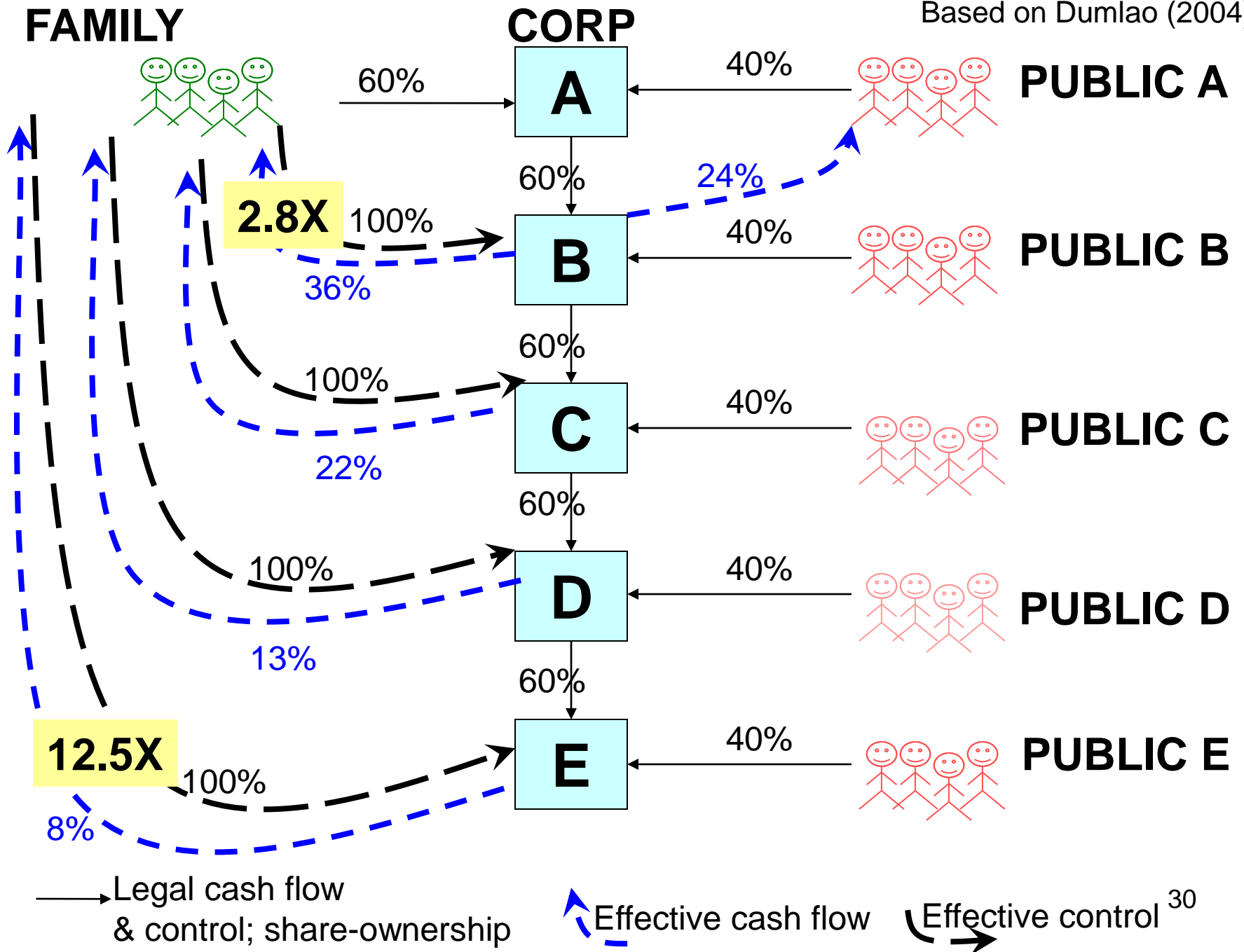


M=Maintaining
X=eXploiting
A=Ameliorating

Society/Community and its members and environment

Former NEDA Chief Cielito Habito on Philippine structural inequality (2012)

- “... the 40 richest Filipinos ... saw their collective wealth rise **\$13 billion** over the past year to \$47.4 billion, a 37.8-percent jump.
- “...our gross domestic product (GDP) ... went up by ... **\$17 billion** in 2011.
- “Thus, the increased wealth of our richest 40 individuals alone is already equivalent to the bulk—**76.5 percent**, or more than three-fourths—of the country’s overall increase in income last year!





PHILIPPINE TYCOONS

Filipino billionaires' wealth shoots up by 30% during pandemic – Forbes

SEP 9, 2021 11:45 AM PHT

RALF RIVAS



Businesses and regulatory capture

The Challenge of Corporate Reform

- University of the Philippines Law Center (1973)
- *“Seek to make a new concept of business corporations not merely as entities established for private gain but as partners of the government in spreading the benefits of capitalism for general social and economic welfare.”*
 - Anti-monopoly in corporate mergers & acquisitions
 - Possible employee representation in the board of directors
 - Private Corporation Community Improvement Fund (1% of net profits) for community social improvement projects
- Rationale adopted in the sponsorship of the 1980 Corporation Code, but without the progressive provisions

The SEC Code of Corporate Governance and stakeholder principles



- 2002: SEC included the duty of corporate boards to consider corporate stakeholders beyond stockholders
- 2009: SEC removed the stakeholder principle from the Code of Corporate Governance
- 2009: Appealed reinstatement but denied.
- 2013: Appealed through Shareholders Association of the Philippines.
- 2014: SEC reinstates stakeholder principle
- 2017: SEC promulgates revised Code of Corporate Governance with enhanced stakeholder principles