Resetting Philippine Capitalism for the Common Good
Corporate Governance for Shared Prosperity

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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:

#1
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;

#2
Provide only quality products and services that are of continuing value to our customers;
#3 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;

#4 Be actively involved in communities where we operate with particular attention to the needs of the disadvantaged in those communities;

#5 Protect and preserve the environment for the benefit of current and future generations by employing friendly technologies in all aspects of business operations; and.

#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.
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

“...a rising standard of living, and an improved quality of life for all”
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
2018 Philippine Poverty = 16.6%

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

The employed poor

- “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.”

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

<table>
<thead>
<tr>
<th>Number of Large Enterprises</th>
<th>2015 Total Revenues</th>
<th>Share of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top 100 Corporations</td>
<td>P4.7 T</td>
<td>35%</td>
</tr>
<tr>
<td>Top 200 Corporations</td>
<td>P5.8 T</td>
<td>44%</td>
</tr>
<tr>
<td>Top 50 Conglomerates</td>
<td>P6.2 T</td>
<td>47%</td>
</tr>
</tbody>
</table>

GDP 2015 = P13.3 T

Source: BusinessWorld Top Corporations report 2016
Unsustainable business biases at the expense of other stakeholders

- Capital commitment
- Value through products and services
- Fair compensation and development support
- Board Performance & accountability
- Provide better products and services faster -- cheaply
- Trust
- Resources
- Sustenance
- Renewal

Maximize profit

Investors

- Fair & attractive returns
- Repayment & returns

Creditors

- Taxes, compliance & cooperation
- Legal license, infrastructure support & law enforcement

Suppliers

- Value creating products & services
  for human development

Managers

- Work community meeting human development needs while innovating and serving customers
- Fair & attractive returns
- Repayment & returns

Company

- Trust
- Current
- Future

Customers

- Government
- Board
- Oversight
- Performance accountability
- Purchase & patronage
- Value creating products & services
- Value through products and services
- Fair compensation and development support
- Fair & attractive returns
- Repayment & returns

Community & Society

- Investors
- Creditors
- Suppliers
- Managers
- Company
- Trust
- Current
- Future

Renewal

Sustenance

Resources

Environment

- Current
- Future

Trustworthy service & behavior

- Investors
- Creditors
- Suppliers
- Managers
- Company
- Trust
- Current
- Future

Renewal
Some Violations Against Stakeholder Welfare

- **Trustworthy service & behavior**
- **Some Violations Against Stakeholder Welfare**
- **Work community meeting**
- **human development needs of members**
- **Value creating products & services for human development**
- **Purchase & patronage**
- **Capital commitment**
- **Fair & attractive returns**
- **Government**
  - Taxes, compliance & cooperation
  - Legal license, infrastructure support & law enforcement
- **Customers**
  - Value creating products & services for human development
- **Oversight**
- **Company**
  - Managers
  - Board of directors
    - Performance accountability
- **Investors**
- **Creditors**
  - Repayment & returns
- **Suppliers**
  - Capital commitment
  - Value through products and services
- **Excess expenditure or lack of transparency**
- **Misuse of funds and lack of transparency**
- **Misuse of funds and lack of transparency**
- **No job security; Unjust pay**
- **Delayed payments**
- **Waste dumping**
- **Tax Evasion**
- **Unsafe or unhealthy products/services**
- **Indecent and false advertising**
- **Trustworthy service &**
  - Community & Society
- **Future**
  - Renewal
  - Resources
  - Sustenance
  - Current
  - Future
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!

Source: Philippine Daily Inquirer June 25, 2012
Based on Dumlao (2004)

Legal cash flow & control; share-ownership

Effective cash flow

Effective control
Filipino billionaires' wealth shoots up by 30% during pandemic - Forbes

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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