## Contents

- Abstract .......................................................................................................................................................... 2
- Power of ideas .............................................................................................................................................. 3
- Adam Smith problem .................................................................................................................................. 4
- Profit maximisation or destruction? ......................................................................................................... 5
- Cost of greed ................................................................................................................................................. 6
- Social justice as good governance .............................................................................................................. 7
- The value of virtue ....................................................................................................................................... 8
- Walking together .......................................................................................................................................... 9
- References .................................................................................................................................................... 10
Abstract

Corporate governance and social responsibility are explored from the perspective of the proposition that social and economic value creation are mutually reinforcing principles and practices of business enterprise in the strategic context of competitive business in a local and global economy and society. It is suggested that sustainable value creation is a powerful idea whose time has come in a world with unsustainable inequities of resource allocation and benefit.

The notion is explored that a market economy in a capitalist model is the pursuit of self-interest both in the economic and moral sense. In this regard it is argued that the economic and business models that have dominated policy and practice at the institutional and enterprise level during the post World War II era of unprecedented prosperity, have misread or ignored Adam Smith’s moral philosophy that he proposed to be intrinsic to a viable, sustainable market society. From this perspective, the proposition is extrapolated that the catastrophic global meltdown triggered by the financial sector default, has been seminally affected by the scarcity of value based governance and social responsibility.

The specifics of greed and justice are considered in the context of socially responsible and responsive corporate governance. The King III Code is examined in terms of recommended principles and practices for social responsibility as key objective of prudent corporate governance, specifically in the South Africa context. The conclusion is reached that collectively corporate governance and social responsibility underpin the power of the idea of sustainable social value creation as the primary concern of our era, for business specifically and society generally.

Key Words

• Governance responsibility and accountability
• Capitalist free market system
• Efficient market hypothesis
• Pursuit of happiness as moral imperative
• Value based enterprise
• Profit maximization
• Socially responsible and responsive enterprise
• Risk appetite and mitigation
• Economic value and qualitative growth
• Social capital
• Creative capitalism
• Virtue as strategic business objective
Power of ideas

The theme of this conference is governance beyond compliance, a matter of high interest at a time of agonising soul searching to identify culpability for the catastrophic failure in the global financial system, and its devastating impact on the real economy. It is particularly appropriate therefore, to explore social responsibility in the context of corporate governance, given that responsibility and accountability are two foundational principles of good governance.

My essential proposition is that social responsibility is at the very heart of why and how a business enterprise conducts its transactional provision of goods and services for profit to its market. In other words, social responsibility is not a voluntary "nice to have" activity on the sideline of the mainstream activity of making money, but an imperative, "must have" governance principle contained in the purpose and conduct of the business enterprise.

A business is by definition expected and required to act responsibly and responsively towards the society in which it operates. The King Codes through all three its iterations have made this point vigorously and abundantly clear, more so in the King III version currently on the table.

It may be conceptually useful to unfold this particular perspective on corporate governance and social responsibility by reflecting on the thought elegantly expressed by French author Victor Hugo when he said "there is nothing as powerful as an idea whose time has come." This observation from one who has moved many to tears with his heartbreaking story of Les Misérables (The Wretched Ones) about the soul and life destroying consequences of social injustice (or absence of social responsibility) in early 19th century France.

In my view, we are indeed living in an era where the power of ideas is washing over and through our world as we grapple to understand, manage and govern. Our concern here is of course with business and its governance, so that will be the focus of what I have to say.

One of the powerful ideas that is moving into sight as we strategise for and in an uncertain present and future, is that the capitalist free market system and concomitant business models are under deep scrutiny in terms of their role and impact on society and the common wealth of all who inhabit this planet, indeed of the planet itself.

What then is the provenance of social responsibility in the context of corporate governance? The origin of the concept and substance of the social responsibility of a business enterprise is anchored in the foundation of free market capitalism. Adam Smith, the intellectual father of capitalism, produced two seminal texts: The Theory of Moral Sentiments (1759)\(^1\), and The Wealth of Nations (1776). However, it is the second book where Smith expounded his theory of self-interest as the economic principle that

\(^1\) Otteson, James R: Adam Smith’s marketplace of life. Cambridge University Press, 2002
creates efficient (capitalist) markets that is best known and considered to be the sacred
text of free market enterprise. The first book with its exploration of a moral philosophy,
in which Smith argues that morality underlies human social conduct and purpose,
seems to have been mostly forgotten or ignored.

Adam Smith problem

These two books with their ostensibly contradictory, or mutually exclusive principles of
economic self-interest and morality have been variously interpreted to reflect an earlier
and later Smith, with the latter reflecting Smith’s change of mind about his original
concern with “moral sentiments” towards the greater reality or “truth” of rational self-
interest as the organising principle of human society, particularly in its economic
congress. This apparent contradiction became known as the “Adam Smith problem.”
Perhaps a richer analysis could be achieved by interpreting and understanding the two
texts together as an integrated, cohesive and consistent conceptualisation of economic
and social behavior as mutually dependent conduct in a market model of society.
Such an interpretation could be derived from Smith’s proposition:

“How selfish soever man be supposed, there are evidently some principles
in his nature, which interest him in the fortunes of others, and render
their happiness necessary to him though he derives nothing from it except
the pleasure of seeing it.”

Based on this perspective on the pursuit of happiness as a moral imperative, it could be
argued that Smith’s moral basis for an efficient market economy, generates the
contingent proposition that “Societies….are not in the first instance rational
arrangements or compacts entered into on the basis of self-interested calculation…(but
that) morality as an institution…develops unintentionally…..in an orderly way according
to a market model.”

Such a foundational perspective of capitalism as economic and moral self-interest
places social responsibility in a different category and level of business conduct. It is a
perspective which lifts social responsibility out of trivialised corporate spin or buy-off of
troublesome agitation and supplication for corporate largesse to its rightful place as
fundamental to a value-based enterprise and economic model that considers doing
good as an intrinsic business imperative that contributes to a “happy, sympathetic”
society that best serves an efficient market.

Such an integrated economic and social framework is consistent with good corporate
governance as advised in the King Codes which have clearly articulated the principle of
the license to operate to mean that business enterprise does not function independently
from the societies in which it operates. It is significant in terms of the notion of the
“power of ideas” that King III emphasis corporate citizenship with its corollary of social
responsibility as imperatives for sound corporate governance. This is a position that

2 Ibid, 16
3 Ibid
advances the notion of principled (or value based) enterprise performance beyond rule focused compliance.

**Profit maximisation or destruction?**

It could be argued that this orientation toward principled governance of business is a fundamental shift away from Milton Friedman’s classic dogma that a business has no social responsibility outside profit maximization for the benefit of its shareholders. Since the collapse of the Wall Street banking system and its global fall-out, a Pandora’s box of criticism and critique has opened up a vigorous - and vicious - debate about the conflict of narrow self interest and the public good in the business and economic models that underpinned the spectacular bubble of greed of billion dollar management rewards and trillion dollars of costs that had to be socialised in the heretical bail-out of banks with taxpayers’ money.

Surely it is both a flawed and unsustainable model that considers immense personal reward to be justifiable if earned from bottom line performance, and then on the other hand, for even more spectacular loss through failed governance to be distributed as social cost to society. The argument that these financial institutions are simply “to big to fail” does of course have some validity in terms of the consequences for society generally of a catastrophic systemic failure in the financial sector which raises the specter of global depression.

However, an appropriate response to this bubble burst should focus not just on containment of the consequences, that is the symptoms, but more fundamentally and imperatively, on the disease itself, on cause rather than effect. Learning lessons from the painful experience is arguably a better way to seek remedial action for the future, rather than merely mitigating the consequences.

Remedial action should start with reconsidering the economic and business models that underlie the governance of risk so that the disastrous outcomes we are now painfully trying to overcome, can be better anticipated for timely corrective action, even if not fully avoided. Socially responsible and responsive business enterprise would be a key principle in this necessary quest for business as social value creator not destroyer.

If the case has been made for social responsibility as mainstream strategic business concern, it is helpful to clarify what social responsibility is and is not. I would go so far as to infer from King III that the economic value of a business as determined by share price aggregated in its market capitalization, does include in principle social responsibility as intrinsic to the true “value” of the enterprise. This notion is perhaps best illustrated in terms of the triple bottom line performance metric that King III has addressed as business acting as good corporate citizen in its pursuit of qualitative growth that is economically sound, ecologically justified, and socially just.4

---

Building on the broad exploration of social responsibility in terms of capitalism and morality, we can now examine greed and justice as two critical areas of corporate governance concern relevant to the present state of the world. “Greed is good” became the mantra of self-proclaimed “masters of the universe” during the exponential growth of the great subprime and derivates bubble that seemed it would never end the dumping of unimaginable wealth in the laps of those at the centre of this Croesus-like wealth creating miracle. But is also reflected the seed of its own destruction.

**Cost of greed**

As far back as 2003 (it does seem a long time ago, given how the world looked on in stunned disbelief as Wall Street collapsed almost minute by minute from that fateful announcement of the Bear Sterns collapse in March 2008) Nobel laureate and former World Bank top economist Joseph Stiglitz warned about the risk of unmitigated greed for the American economy specifically and society generally, both at the personal and institutional level. The very notion of sub-prime mortgages and the resultant “toxic assets” in the banking system reflect the pursuit of debt fuelled and leveraged greed that now in hind sight seems to have been outside every principle and boundary of sound corporate governance in terms of risk appetite and risk mitigation.

Stiglitz computed the greed-driven value destruction in the American economy to have amounted to staggering trillions of dollars - and that in 2003 before the current implosion almost brought the world to its economic and social knees. But Stiglitz’ early warning also signifies how deep and far back the underlying cause of social irresponsibility was wreaking havoc with prudent financial and economic governance even at the highest and most iconic levels of leadership and corporate governance.

And sadly so, much of this self-destructive behavior arguably could be found at worst in the willfully wrong and at best ignorant interpretation of Adam Smith’s self-interest and invisible hand of a capitalist market economy that ignored his moral philosophy of “social responsibility” as foundation.

From a management perspective, it is worth noting that management guru Jim Collins has added to his previous block-buster books Built to Last and Good to Great, his latest (and seemingly hasty) comment on the global meltdown with the catchy title of How the Mighty Fall.  

The five factors he identifies as the cause of the leadership failures amongst the mighty of corporate management, includes what he calls the ‘undisciplined pursuit of more.’ When coupled to the ‘hubris born of success’ Collins sees the result as a fatally flawed leadership cocktail of arrogance and greed.

The logic of the interpretation thus far implies that the economic and business models that morphed from drivers of unprecedented wealth-creating globalisation to global

---

meltdown are deeply flawed through the absence of or badly impoverished socially responsible values. The counter proposition is that socially responsible values should best be institutionalised by business in its corporate governance philosophy, systems and conduct. Such governance would meet the benchmark of a principled corporate governance approach that is performance focused, as opposed to a rule-based model that is often at best box-ticking compliance.

The second principle of socially responsible governance that I wish to address is that of justice. I again refer to King III defining qualitative growth as good corporate citizenship that includes conduct that is socially just.

Social justice as good governance

Social justice is a vast and complex field with various cross-disciplinary perspectives and interpretations, including jurisprudence, moral, social and political philosophy. In the exploration of social responsibility in a corporate governance context, the seminal principle of social justice cannot be adequately addressed in the confines of purpose and scope of this paper.

However, the fact that King III identifies social justice as one of the three pillars of good governance in terms of socially responsible corporate citizenship, could benefit from some clarity of what this entails by reflecting on a jurisprudence perspective that observes:

“The concept of justice has a central place in moral philosophy. In its widest and most profound sense it means righteousness, or living in harmony with the higher cosmic laws. Justice in this sense corresponds to the *Darma* in Hindu and Buddhist philosophy and to *Jen* in Confucian thought……Aristotle regarded justice as inseparable from virtue.”

A more comprehensive treatment of justice in the contemporary global economy and social order has been undertaken by Amartya Sen, Indian born Nobel Laureate in Economics, and professor in this discipline at both Cambridge and Harvard:

“The conversion of personal resources into functionings is influenced also by social conditions, including public healthcare and epidemiology, public educational arrangements and the prevalence and absence of crime and violence in the particular location. Aside from public facilities, the nature of community relationships can be very important, as the recent literature on ‘social capital’ has tended to emphasise.”

Much of what Sen has to say about the eradication of injustice particularly in its poverty manifestation falls outside the remit of business. However, there is also much that business can glean about the principles and practices of social justice that could be fruitfully applied in the development and implementation of good corporate citizenship

---

7 Ratnapala, Suri: Jurisprudence. Cambridge University Press, 2009
8 Sen, Amartya: The idea of justice. Allen Lane, 2009
that seeks socially just governance, as advised in King III. It is in this sense that
Amartya Sen contributes significantly to the power of the idea of social justice, an idea
whose time has come.

The value of virtue

A practical example of virtue as strategic business (governance) purpose has been
articulated by Jeffery Immelt when he succeeded Jack Welsh as General Electric CEO.
On taking over the leadership Immelt announced virtue9 as primary strategic objective in
addition to the conventional growth, people and execution. In more operational terms
Immelt expanded on his vision for a virtuous GE by stating his conviction that business
has entered an era in which people want to work for a company that does great things
in the world; to be a great company means also to be a good company; that GE is to be
held to higher standards of goodness and virtue. Time will tell the extent to which
Immelt has succeeded in leading and creating this type of socially responsible global
enterprise through inspiring leadership and sound corporate governance.

In the same vein, although at a more fundamental level, Microsoft founder and richest
man in the world Bill Gates, has argued elegantly and eloquently about the need for
“creative capitalism” in the business sense of doing well by doing good.10 In fact Gates’
thinking is contained in a broader concern about “how to fix capitalism” that would seek
to “help those left behind. It is a theme he also addressed during his acceptance speech
at Harvard when awarded an honorary doctorate at his almost alma mater. It is of
course worth noting in the context of this discourse that Gates as perhaps the greatest
living example of entrepreneurial capitalism at work, considers the model to be “broken,”
and therefore needs “fixing.”

So far I have attempted to deal with social responsibility as an issue of principle in terms
of capitalism and its derivative business models. In more concrete terms, we
need to look at social responsibility in its various organizational manifestations of
interest to corporate citizenship and concomitant governance.

There is quite a lexicon that has evolved around social responsibility: (CSR) corporate
social responsibility; (CSI) corporate social investment; corporate citizenship, corporate
(strategic) philanthropy; social entrepreneurship. This list could be broadly tagged in
four categories11: government funded; charitable support by private individuals; blend of
charitable donations with business revenues; those that rely on a business revenue
stream.

It is a matter of choice for companies which permutation of socially responsible activities
they select in which to engage. These vary from an insignificant CSR budget to
extensive and intensive participation in social value creation. Examples are legion.
Whatever the social responsibility commitment of principles and resources that a

---

9 Gunther, Marc: Money and Morals at GE. Fortune, November 15, 2004
11 Collins, Jim: Good to Great and the Social Sectors. Random House 2006, 21
business musters, the best return on this investment will be delivered where there is congruence between underlying values and conduct in all and everything the company does. Where that congruence is glaringly absent or misaligned, lack of trust in the integrity of the enterprise is the likely outcome. And what value can be put on integrity and trust in terms of the long term sustainability of the enterprise? Social responsibility embedded in prudent corporate governance aimed at serving the best interest of the company’s stakeholders, seems to be the route towards the ultimate competitive advantage, namely the reputation of the enterprise.

Walking together

In the South African context, social responsibility as a corporate governance concern takes on added urgency and relevance, given social inequalities that characterize the country as developmental state, developing economy and society in transition. Moeletsi Mbeki, brother of former president Mbeki, cogently argues the need for a “capitalist market economy that is responsive to the real needs of African producers and consumers……instead of (the interests) of rent seeking elites.” Is this not a plea for social justice and equity, precisely the value based moral principles of a socially responsible and responsive market economy that should be the first concern of good corporate governance? The corporate sponsored Dinokeng Scenarios equally bring to the fore the imperatives for social value creation if South Africa is to achieve the growth, social stability and cohesion of a Walk Together future. Greedy and unjust pursuit of wealth, sanitised on the grounds of self-interest and perceived social benefits of the invisible hand of the rational market hypothesis just won’t cut it for South Africa.

In conclusion, some thoughts from Michael Porter on the strategic link between social responsibility and competitive advantage could be useful:

"The prevailing approaches to CSR are so fragmented and so disconnected from business and strategy as to obscure many of the greatest opportunities to benefit society. If, instead corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage.”

To summarise: corporate governance and social responsibility together provide:
- the value-based foundation of a sustainable economic, social and business model of the business enterprise
- the substance of corporate citizenship that upholds socially just business enterprise as economic and moral imperatives
- an integrated organisational framework of governance principles and practices.

---

13 Dinokeng Scenarios: http://www.dinokengscenarios.co.za
Collectively, these principles and aspirations constitute the power of an idea of social value creation whose time has come.

References

Dinokeng Scenarios: http://www.dinokengscenarios.co.za
Gunther, Marc: Money and Morals at GE. Fortune, November 15, 2004
Otteson, James R: Adam Smith’s marketplace of life. Cambridge University Press, 2002
Sen, Amartya: The idea of justice. Allen Lane, 2009