Corporate Governance: Achieving a Balanced Approach to Corporate Responsibility (Discussion Group 2)

Mr. Manuel Isaza *Hermes Equity Ownership Services-Americas, United Kingdom*

Summary: For Hermes Equity Ownership Services, Corporate Responsibility implies the successful and transparent integration of ESG best practices into a company's core business strategy. A Balanced Approach to Corporate Responsibility is ultimately achieved when the incorporation of these ESG best practices results in the creation of long term value to all stakeholders. This should not translate into a window-dressing exercise, or the creation of short term value, nor should it be seen as simple charity. Companies should manage effectively relationships with their employees, suppliers and customers and others who have a legitimate interest in their activities with a view to maximizing long-term value.

At Hermes EOS we encourage corporations to adopt better ESG standards proactively, rather than as a reaction to new regulation. We also encourage corporations to be fully transparent in the integration of such practices and to turn the incorporation of such practices into a competitive advantage.

The results of the implementation of enhanced responsible practices as a competitive advantage can materialize in several ways such as cost reduction, mitigation of reputational risks, development of new revenue streams, etc.

Mr. Carlos Eduardo Lessa Brandaõ *IBGC board member, Brazil*

Summary: When a company improves its governance practices, it develops a more respectful and responsible business environment for the various parties involved. This attitude can be extrapolated within and beyond the company's borders, including a wider scope of stakeholders. The level of trust among the parties would improve, increasing its odds of being seen as a more "sustainable", ethical, or responsible entity.

However, if the company's reason for existence is understood as to maximize the return of its shareholders, especially in the short term, the other stakeholders may be considered as costs to be minimized, generating negative externalities on society and the environment. It is about long-termism and understanding that business is a wholly owned subsidiary of society, which is itself a wholly owned subsidiary of the environment, not the other way around.

When directors and senior executives incorporate social and environmental concerns in defining their businesses and operations, they take into account a wider range of corporate relationships, implying a broader vision of the corporate strategy. Good corporate governance acts as a "gateway" for introducing sustainability into the corporate environment. It follows that governance, strategy and sustainability have become inseparable: one can no longer plan strategically without having regard to sustainability issues.

Moderator/Rapporteur

Mr. Santiago Chaher *Consultant Global Corporate Governance Forum*

Discussion Questions:

1. *Should CSR be considered as part of the corporate governance: "value-creation" objective, as an "operational risk" issue, or as a more general "risk management" issue?*
2. *Corporate responsibility initiatives are, mostly, reflected on soft law. Is there a role for binding laws and formal enforcement in this subject?*
3. *What are the practical steps boards should take if they want to address this issue?*
4. *Where should boards draw the line between their duties to shareholders and stakeholders (incl. society)?*