

Millennials and the Future of Corporate Governance

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Outline

1. The importance of corporations in Philippine national development
2. Challenges in fulfilling the Philippine corporate vision
3. Institutionalizing good corporate governance
4. Where millennials can contribute

The importance of
corporations in national
development

The Philippine Constitution on Corporations and the Common Good

ARTICLE XII: NATIONAL ECONOMY AND PATRIMONY

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

... *corporations* 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.

The Purpose of Philippine Corporations

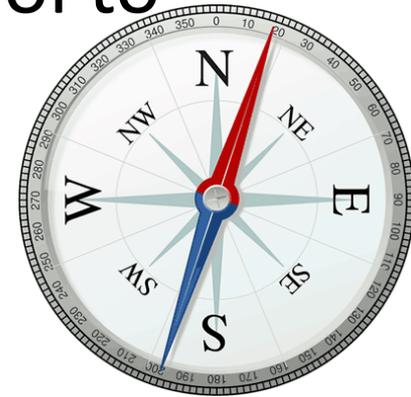
Explanatory Note to the Corporation Code of 1980

“...to establish a new concept of business corporations so that they are **not merely entities established for private gain but effective partners of the National Government in spreading the benefits of capitalism** for the social and economic development of the nation.”

- Essentially social legislation
- Predates the CSR movement

The SEC's expanded view of corporate governance: A moral compass

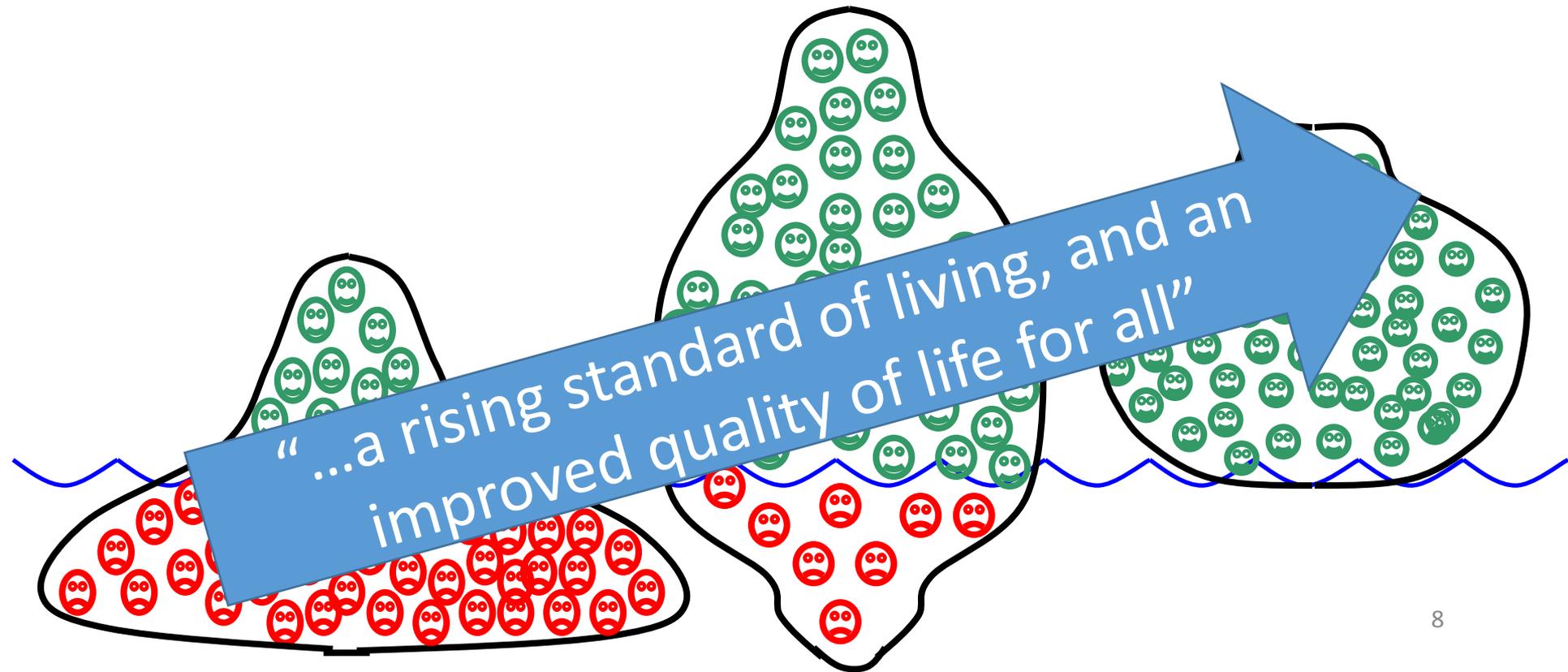
- “the system of stewardship and control to guide organizations in fulfilling their long-term economic, moral, legal and social obligations towards their stakeholders.
- ...
- “Its purpose is to maximize the organization’s long-term success, creating sustainable value for its shareholders, stakeholders and the nation.



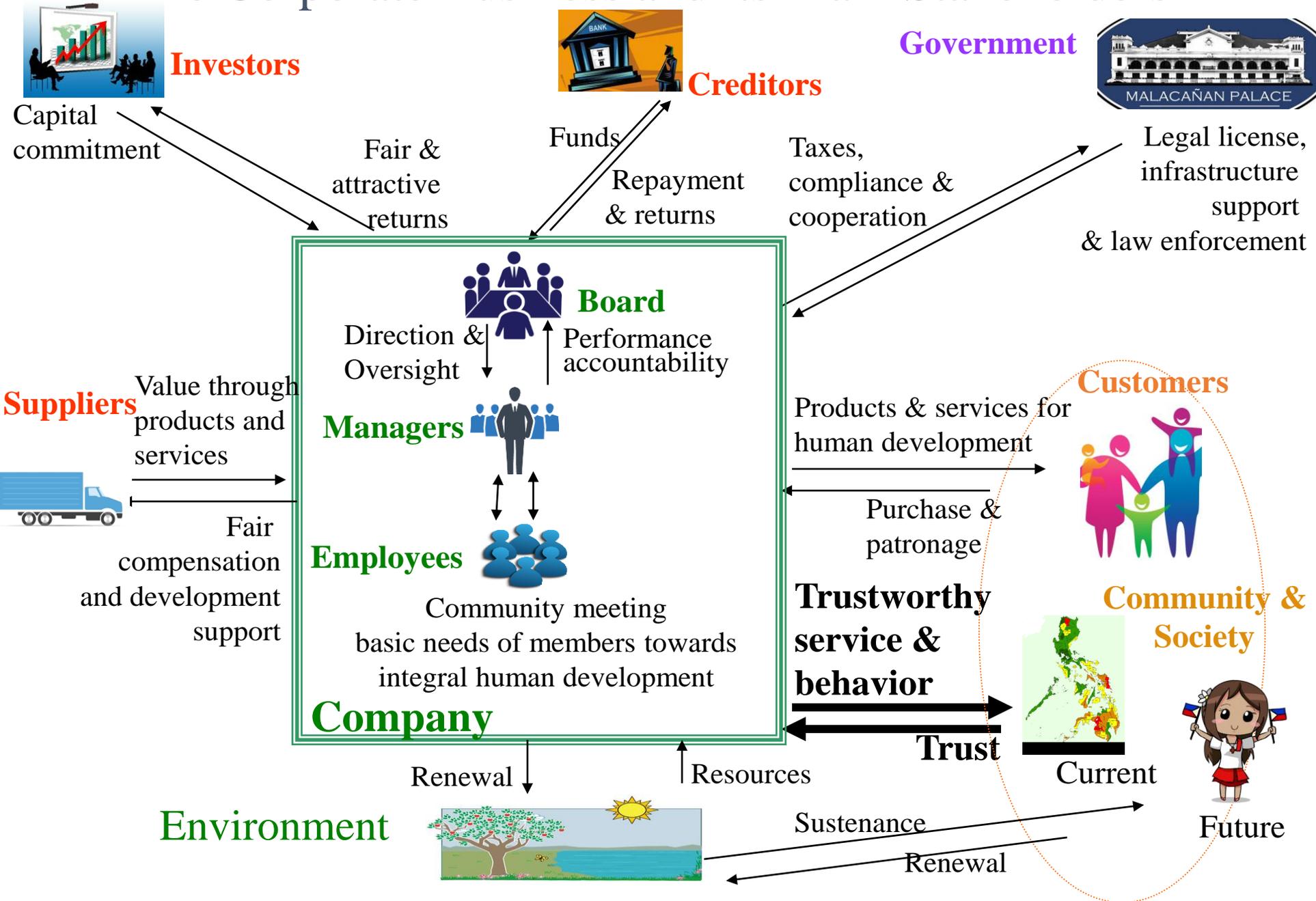
SEC Code of Corporate Governance – Nov 2016

- **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.**

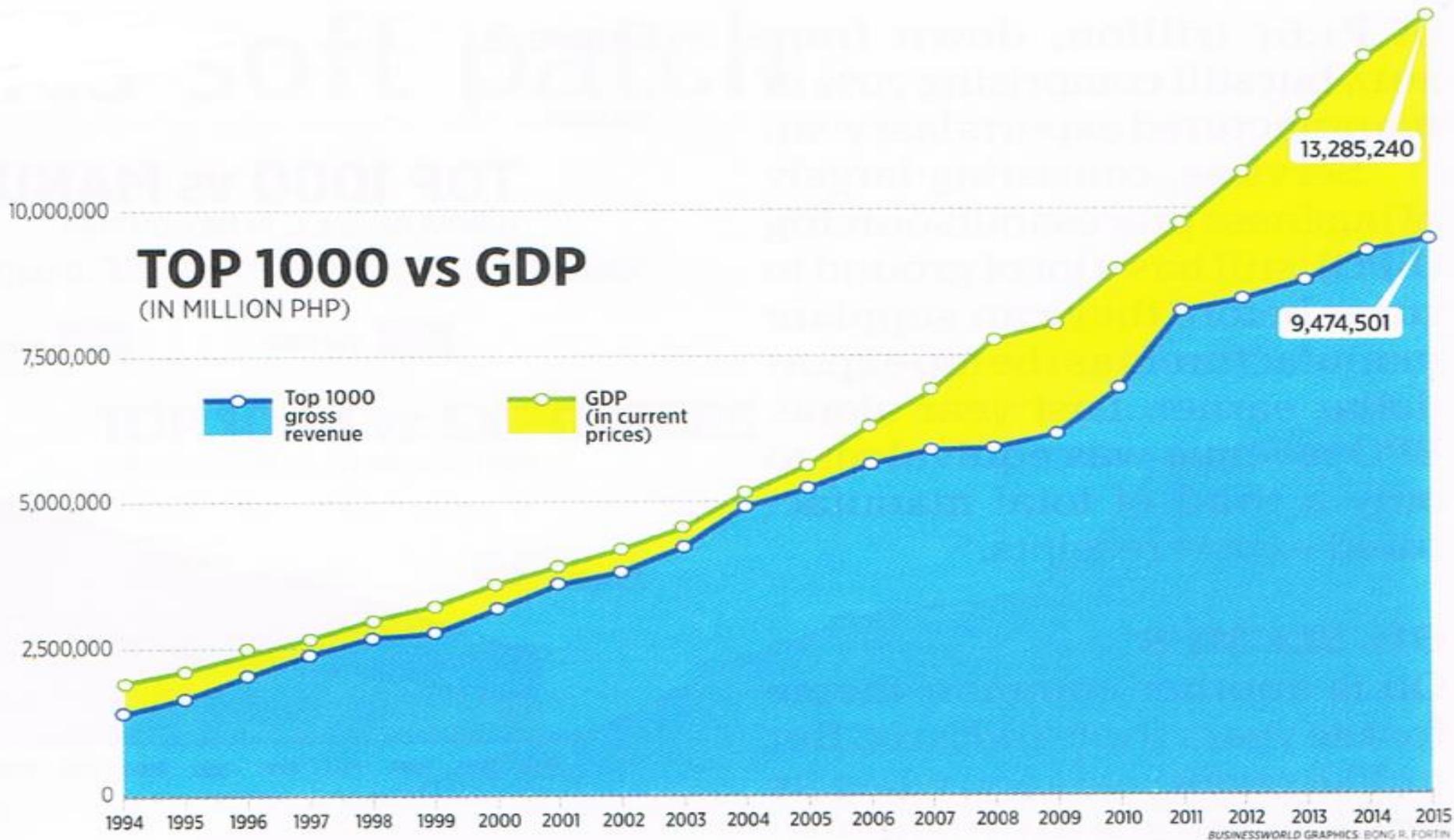
The Philippine Constitution's Vision: Towards a Socially Just Economy for the Filipino people



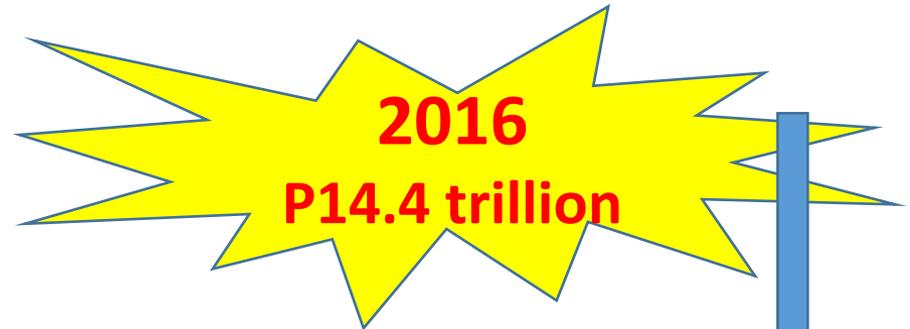
The Corporate Business and its Main Stakeholders



Large corporations drive the economy



The stock market continues to grow



- Foreign companies
- Domestic companies

Challenges in fulfilling the Philippine corporate vision

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

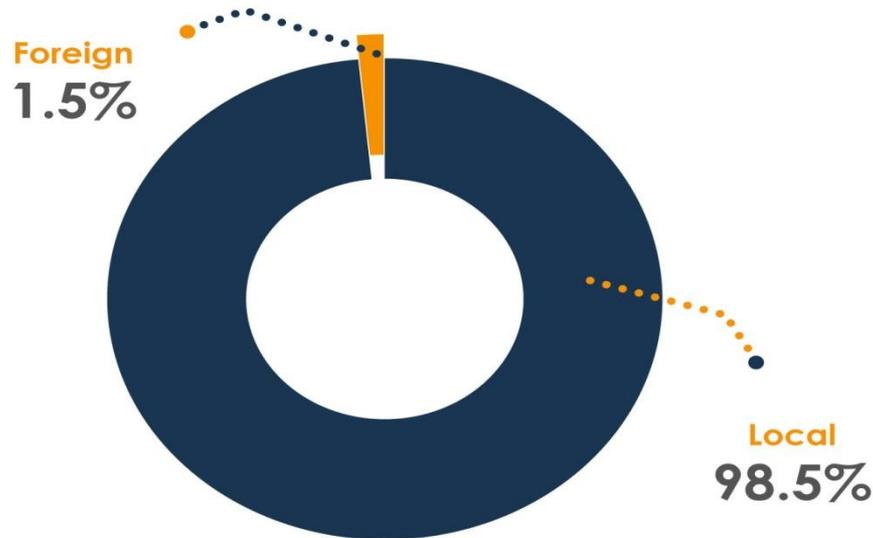
STOCK MARKET INVESTOR PROFILE 2015

TOTAL MARKET ACCOUNTS ►

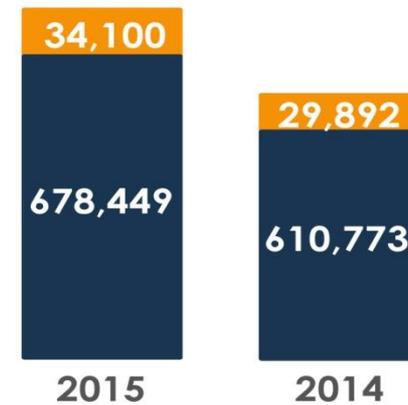
Data for this report was gathered from information provided by 132 trading participants (TPs/brokers) in 2015.

712,549

total stock market accounts in 2015, an **11.2 percent increase** from 640,665 in 2014



Local accounts comprised **701,643** of total accounts at the Exchange while **10,906** were classified as foreign accounts



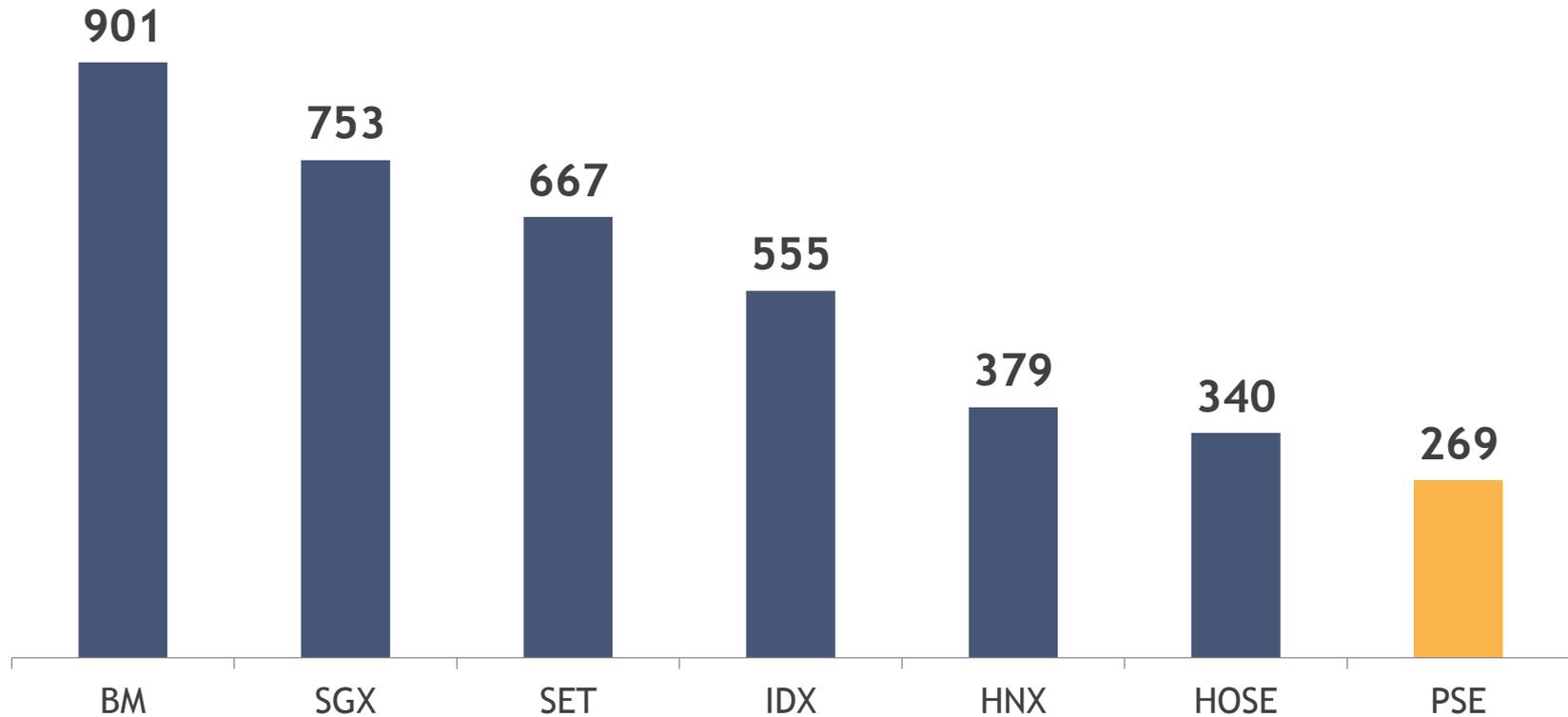
■ retail ■ institutional
In 2015, retail accounts cornered **95.2 percent** of total accounts for the year, while the remaining **4.8 percent** were classified as institutional accounts

SOURCE: PSE 's Stock Market Investor Profile 2015

ASEAN Stock Markets

As of August 2017

Listed Companies



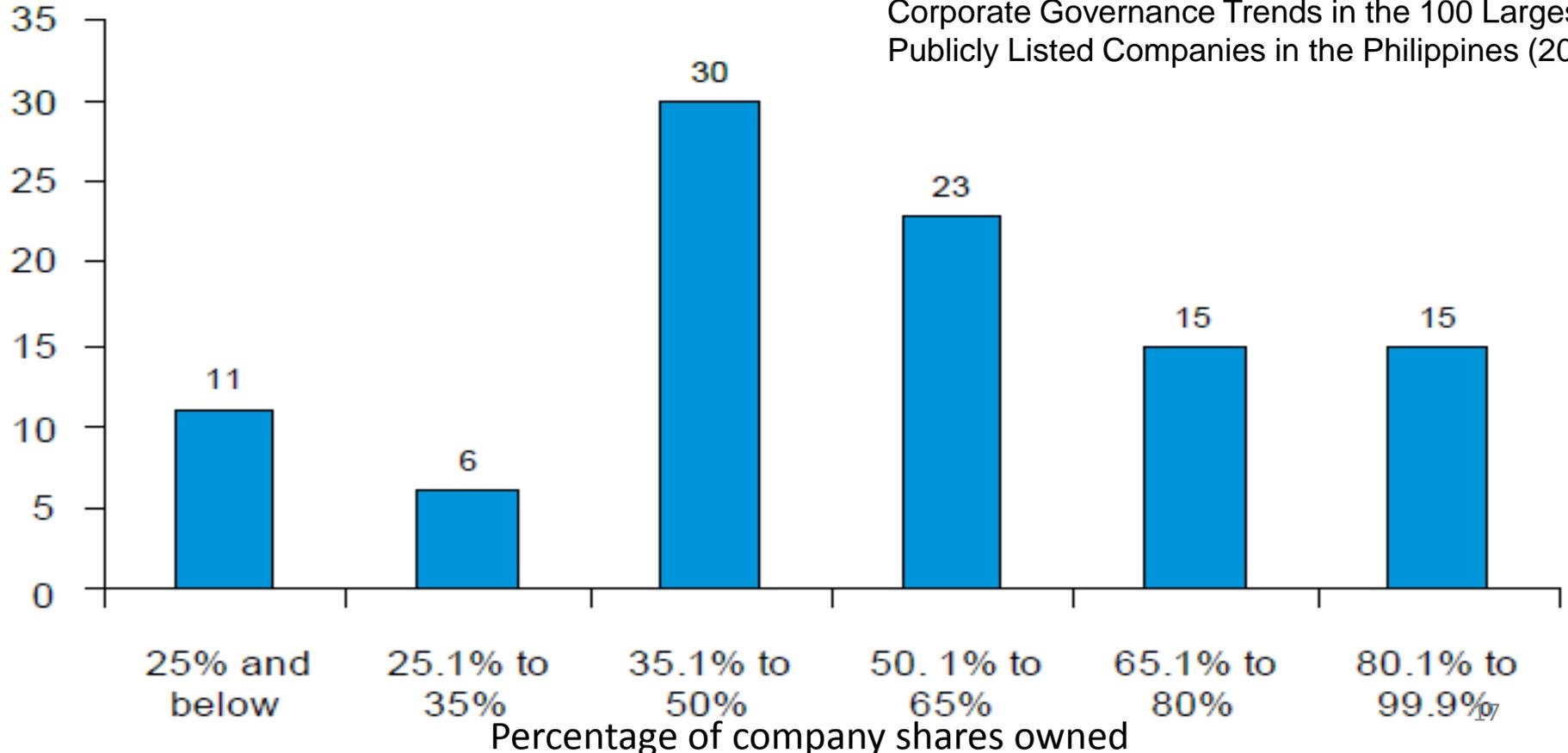
Source: World Federation of Exchanges

Ownership Concentration among 100 Largest Publicly-listed Corporations – AIM Study

- In 83/100 companies, more than 35 percent of the shares were owned by one family or individual.*

No. of companies

Source: AIM-Hills Program on Governance
Corporate Governance Trends in the 100 Largest
Publicly Listed Companies in the Philippines (2009)



Global Employment Trends 2014

International Labor Organization



Unemployment

	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cambodia	1.3	0.8	0.5	0.2	0	0.4	0.3	0.2	0.3
Thailand	1.3	1.2	1.2	1.2	1.5	1	0.7	0.7	0.8
Laos	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Viet Nam	2.1	2.3	2.3	2.4	2.3	2.3	2	1.8	1.9
Singapore	4.1	3.6	3	3.2	4.3	3.1	2.9	2.8	3.1
Malaysia	3.5	3.3	3.2	3.3	3.7	3.4	3.1	3	3.2
Myanmar	3.4	3.4	3.4	3.6	3.6	3.5	3.5	3.4	3.5
Brunei	3.2	3.2	3.2	3.2	3.5	3.7	3.7	3.8	3.7
Indonesia	11.2	10.3	9.1	8.4	7.9	7.1	6.6	6.1	6
Philippines	7.7	8	7.4	7.3	7.5	7.3	7	7	7.3

Source: International Labor Organization

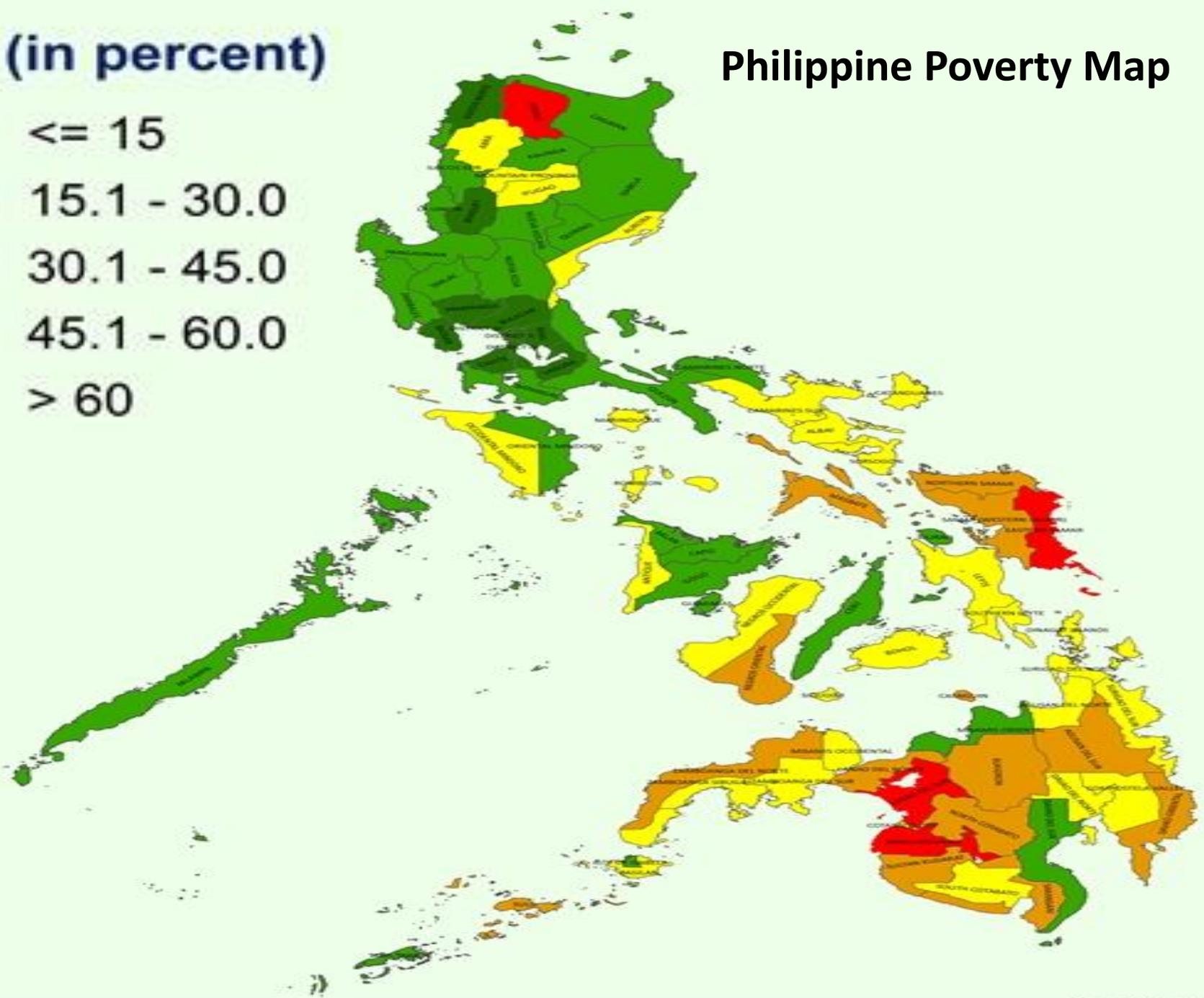
Infographics by: Matikas Santos/INQUIRER.net



The challenge to Philippine corporations

2012 (in percent)

Philippine Poverty Map



Institutionalizing good
corporate governance

Institutionalizing Good Corporate Governance: The 3 Pillars



Regulatory Pillar

Laws
Sanctions
Enforcement

Normative Pillar

Promotion of
“good corporate
governance”
behavior by
professions and
institutions

Cultural Pillar

People’s common
ideas about “good
and acceptable
corporate
governance
behavior”

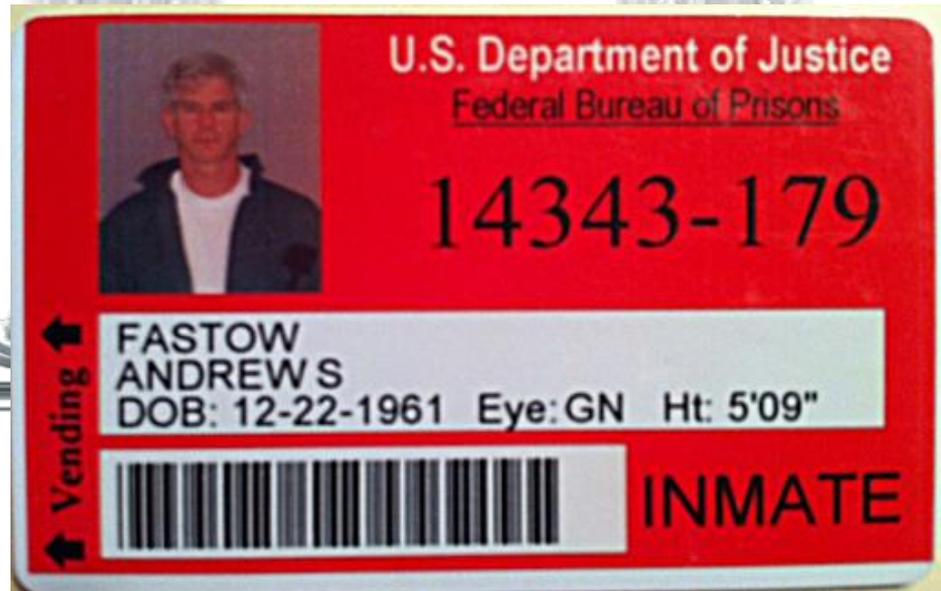
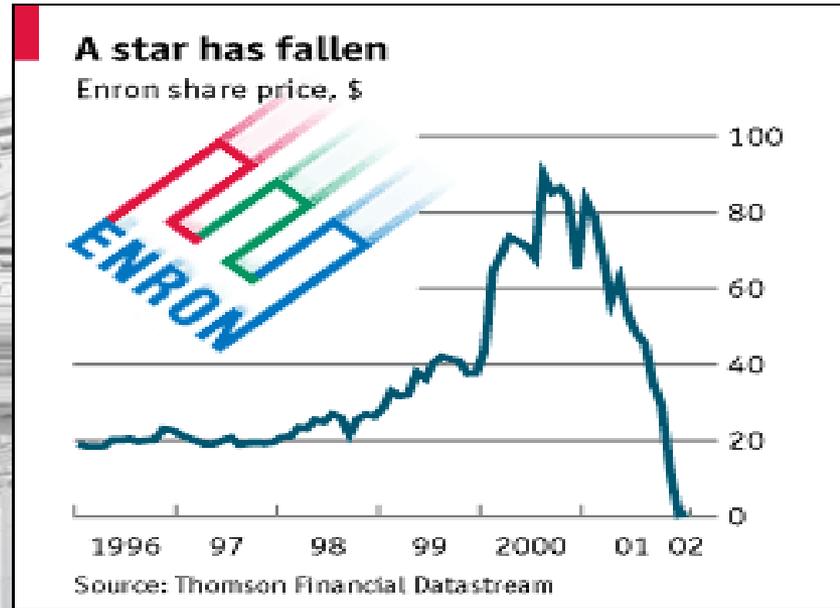
The Regulatory Pillar

Regulatory Pillar

Laws

Sanctions

Enforcement





“I was greedy, yes.”

“When you misrepresent the nature of your company, when you artificially inflate earnings, when you improperly hide losses, when you do things like that to cause your stock price to go up, that is stealing.”

“I’ve destroyed my life. All I can do is ask forgiveness and be the best person I can be.”

Andrew Fastow

Fortune, April 3 2006

**Enron and lessons learned by Andrew Fastow,
November 16, 4th Floor, Henry Sy Sr. Hall**

Normative Pillar



Normative Pillar -- Promotion of “good corporate governance ” behavior by professions and institutions

Lawyers, accountants and managers will need to be reoriented => “Beyond tick-box compliance”

Business associations and media need to promote and recognize ethical management (e.g. Enron’s Andrew Fastow was named “CFO of the Year”)



The Cultural Pillar



Cultural Pillar -- People's common ideas about "good and acceptable behavior"

Schools, associations, media need to debunk feudal ideas about property ownership as source of power.

"All power emanates from the people" – The Philippine Constitution

Millennials will play a major role in this.

Assessing the corporation's level of moral development

- **Stage One: The Amoral Corporation** – Pursues winning at any cost; views employees merely as economic units of production.
- **Stage Two: The Legalistic Corporation** – Concerned with the letter of the law, but not its spirit; adopts legalistic codes of conduct.
- **Stage Three: The Responsive Corporation** – Interested in being a responsible corporate citizen, but primarily because it is expedient, not because it's right; beginnings of codes of ethics.
- **Stage Four: The Emergent Ethical Corporation** – Recognizes the existence of a social contract between business and society, and seeks to instill that attitude throughout the corporation.
- **Stage Five: The Ethical Corporation** – Balances profits and ethics so completely that employees are rewarded for walking away from a compromising action; includes ethical issues in training; has mentors to give moral guidance to new employees.

Where millennials can
contribute

Millennials (also known as Generation Y)

- demographic cohort following Generation X.
- demographers and researchers typically use the early 1980s as starting birth years and the mid-1990s to early 2000s as ending birth years.



Obama's New Boss / Syria face-off / McCain vs. Brzezinski / PLUS: Summer's best movies & more

TIME

THE ME ME ME GENERATION

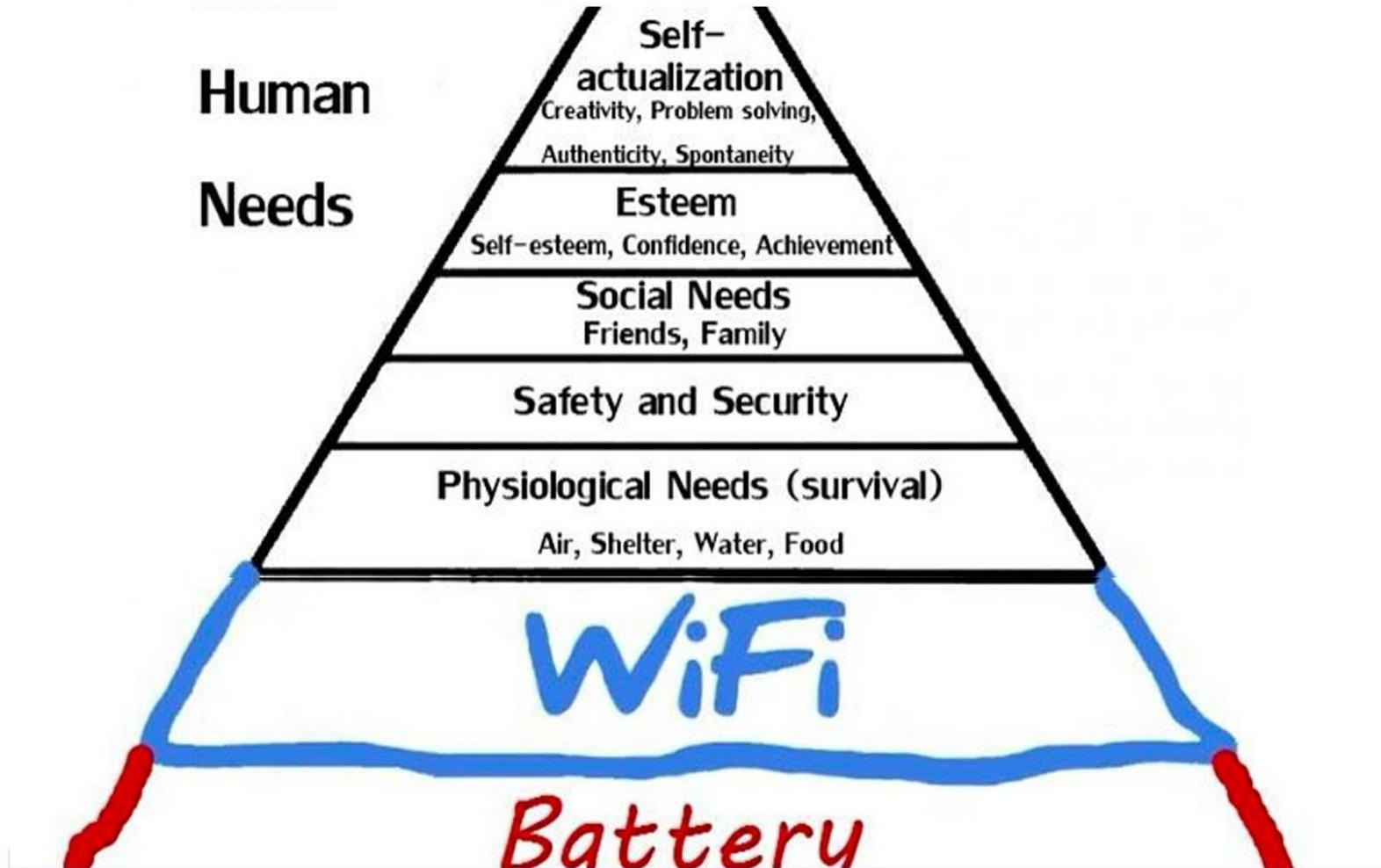
Millennials are lazy, entitled narcissists
who still live with their parents

Why they'll save us all

BY JOEL STEIN



Millennial motivational structure?



Millennial characteristics

- Millennials are more demanding, more in touch and more skeptical.
- Social media adept so wants to express an opinion and not merely told
- Smartphone generation – exceeded PC sales in 2012. Some millennials do not buy PCs at all. “Living in the cloud”. AI on demand (eg. Waze and apps).
- More informed about the problems of the world: social, economic, environmental, technological

Are millennials the missing voice in the board room?

Transparency and accountability

- post-Enron world
- aware that dishonest financial reporting, ignoring government rules and a general lack of transparency and accountability can be disastrous for business.
- higher respect for proper government regulation and public opinion and look at these as inputs for company welfare and not as obstacles to doing business.

Are millennials the missing voice in the board room?

Inclusive business

- aware of the growing and disturbing economic inequality in the world.
- the wealth difference between the rich who own capital and those who rely only on labor income will tend to grow over time.
- Millennials will open up equity to broader ownership.

Are millennials the missing voice in the board room?

Environment friendliness

- They will push for a cleaner environment because their futures will literally depend on it.

Millennial Calling for Conscience

“A millennial wants to see an outcome of good governance. They are only interested in the conscience of the company - how it (the product) is made, what it does to the community and do they care? Companies need to show transparency, authenticity, ethics, a conscience, and if they don't, millennials just vote with their feet.”

The millennial factor in corporate governance

Michael Judin, Report on Corporate Governance

Issues for the future needing a millennial voice

- disruptive challenges looming in the horizon:
- the growing shared economy (e.g., Uber),
- cryptocurrencies (e.g. Bitcoin),
- artificial intelligence and robotics (e.g., driverless vehicles),
- managing social media reputation in the era of fake news,

The Power of Young People

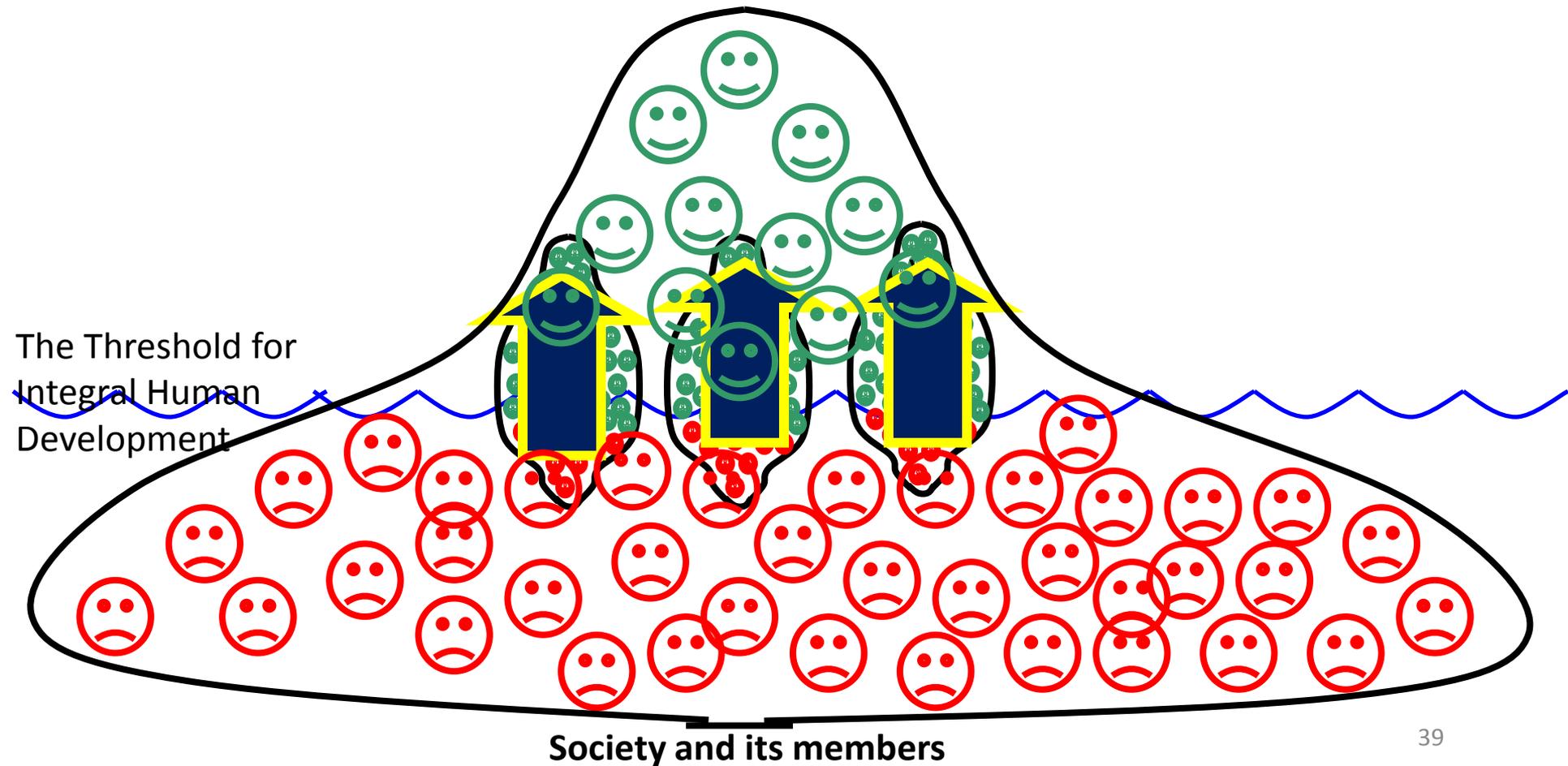
“The youth are
the hope of the
Fatherland.”

Dr. Jose Rizal

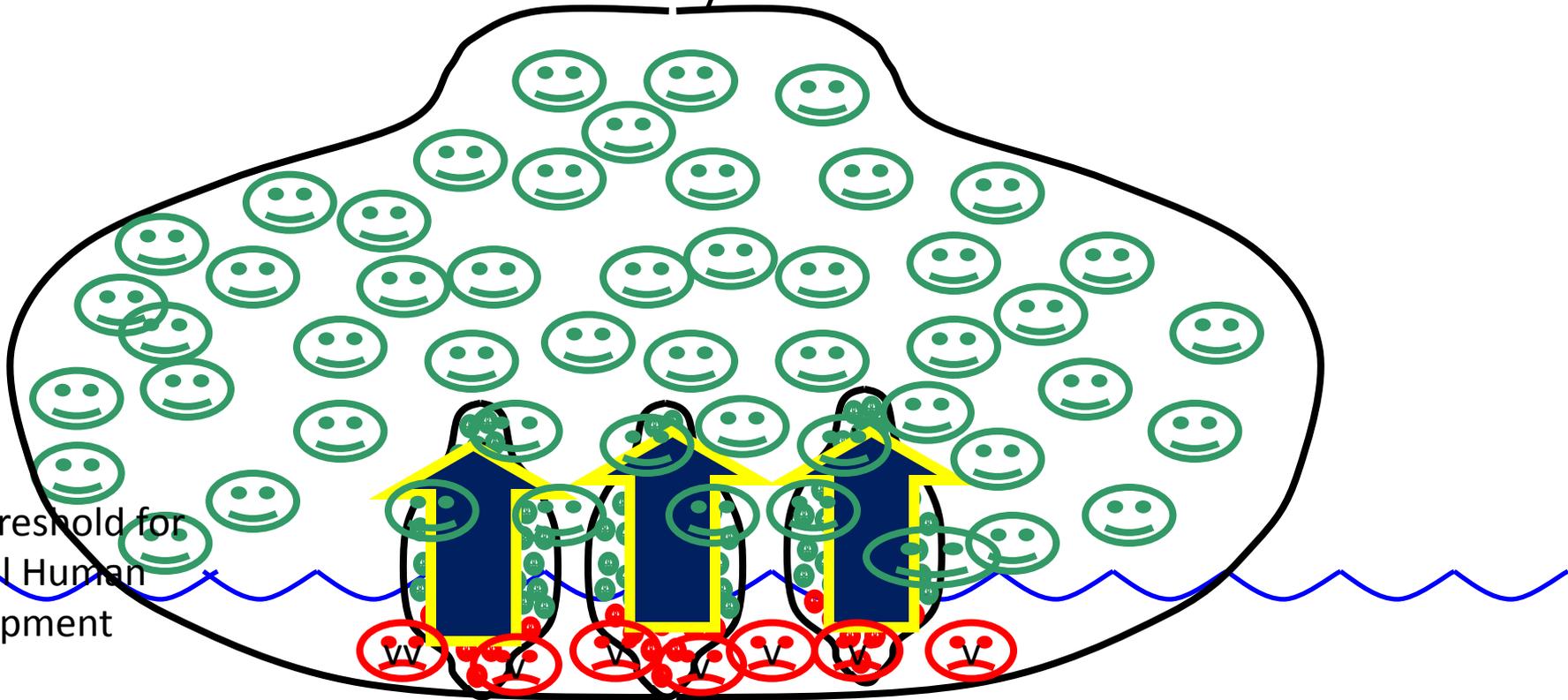
National Hero of the Philippines



Using Corporations to Build an Inclusive Society: Before

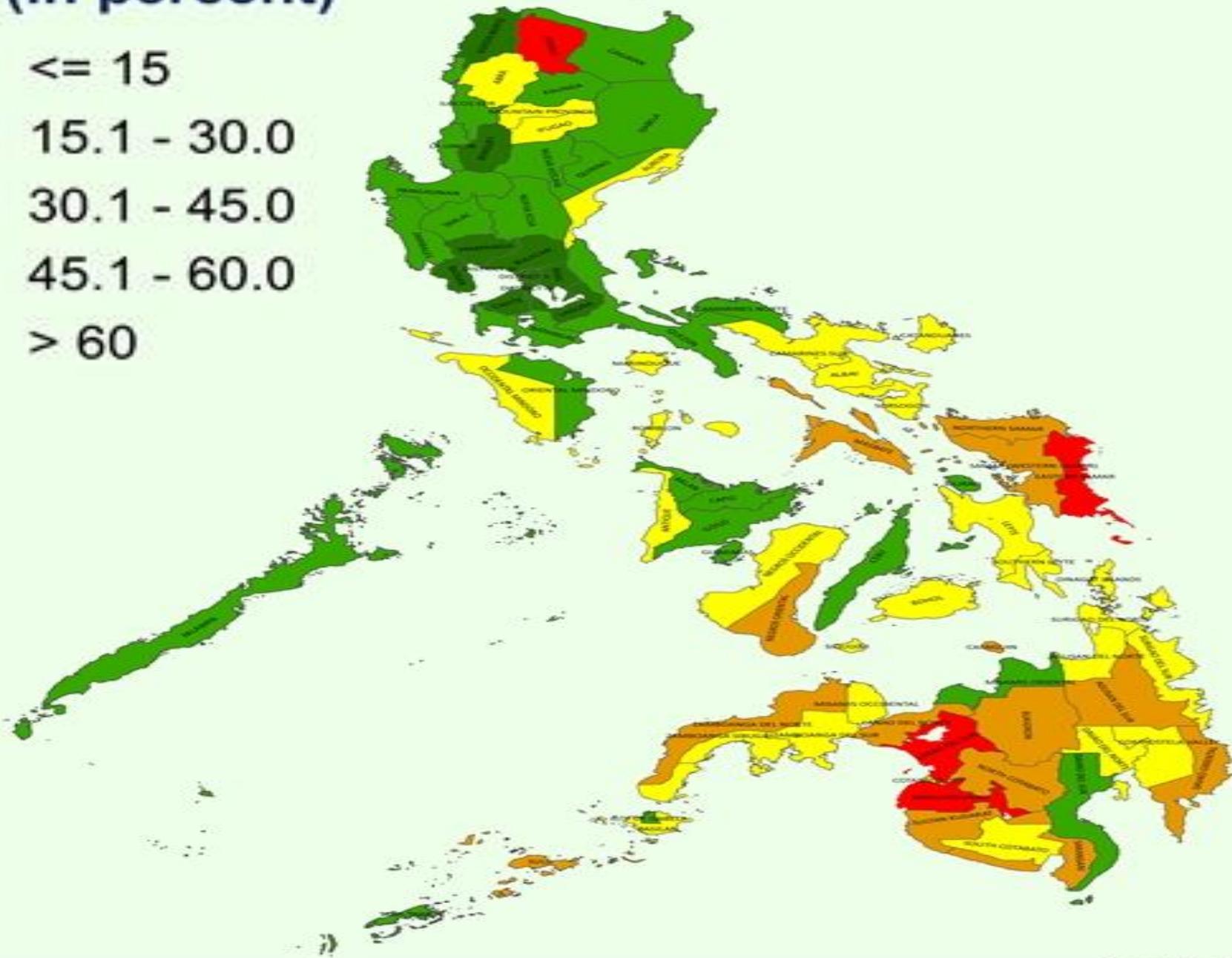


Using Corporations to Build an Inclusive Society: After



The Threshold for
Integral Human
Development

2012 (in percent)





Thank you