

# No need for Asia to be woke - Responsible Capitalism through an Asian lens

WED, MAR 02, 2022 - 7:42 PM

## DAN W PUCHNIAK

LARRY Fink's 2018 proclamation that every company must show "how it makes a positive contribution to society" ostensibly woke American CEOs to the need for companies to fulfil a societal purpose beyond profit maximisation. The American Business Roundtable's 2019 commitment that a business should no longer be run purely for profit is cited as another woke moment for American CEOs to the new reality that corporate purpose matters. However, just as the sun rises first in Asia, there is no need for Asia's CEOs to be woke to the reality that corporate purpose matters.

Two decades ago, in Asia's largest economy, the inaugural 2002 Chinese Corporate Governance Code (CCGC) encouraged listed companies to "be concerned with the welfare, environmental protection, and public interests of the community" and to "pay attention to the company's social responsibilities". The 2006 Chinese Company Law required companies to "undertake social responsibility". The 2018 CCGC goes even further by encouraging listed companies to "actively implement the concept of green development, integrate ecological and environmental protection requirements into the development strategy and corporate governance process, actively participate in the construction of ecological civilization, and play an exemplary role in pollution prevention, resource conservation, and ecological protection". As if that was not purposeful enough, it encourages listed companies to assist "poverty-stricken counties or villages, and actively connect with and earnestly support poverty-stricken areas to develop local industries, train talents, and promote employment". The newly issued draft of the revised PRC Company Law is also all about purpose; it states that "companies should fully consider the interests of the company's employees, consumers and other stakeholders, as well as ecological and environmental protection and other social public interests, to assume social responsibility. The State encourages companies to participate in social welfare activities and publish social responsibility reports".

China was clearly awake to corporate purpose long before Fink's proclamation; on paper, it is as purposeful as can be. What is less clear, is whether Chinese companies can fulfil these lofty purposes. Another question that looms large is: Can Chinese companies stay on their world-changing trajectory in an economy where the Chinese Communist Party appears to be ratcheting up its control over which purposes companies may serve? Fewer purposes and a narrower focus on maximising shareholder value may be exactly what is required in China at this moment - the opposite of what America's awakening prescribes.



The story of Japanese corporate governance also makes America's woke moment appear like bad medicine. Japan is (in)famous for its "company community" corporate governance model in which lifetime employees, not shareholders, define corporate purpose. As Asia's second-largest economy, the world watched as former prime minister Shinzo Abe launched an arrow which aimed to make shareholder primacy the target for corporate Japan. This never fully materialised and now, as reported by *The Economist*, his successor, Fumio Kishida, under the slogan of "new capitalism", "talks about the importance of other stakeholders in businesses, such as workers and customers, evoking the Edo-era merchant philosophy of *sanpo-yoshi*, or 'three-way good' for buyers, sellers and society". Again, many believe that Japan should be moving away from its stakeholder-centred approach towards having a more shareholder primacy focus - the opposite of what America's awakening prescribes.

Corporate governance in India, Asia's third-largest economy, seems to repeat this story yet again. It has historically adopted a stakeholder approach and doubled down on stakeholderism in the India Companies Act 2013. The Companies Act requires directors to "act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment". More strikingly, it mandates large companies to spend 2 per cent of average net profit on corporate social responsibility. This hardly seems like a corporate governance system that needed to be woke by Fink.

Throughout Asia, listed state-owned enterprises define a new form of capitalism which combines the state as the controlling shareholder with private investors as minority shareholders in "mixed-ownership companies". Singapore arguably provides the most successful example of "mixed-ownership" where the state is indirectly the country's largest shareholder and it has developed an economy with a per capita GDP higher than every G7 country. The Singapore mixed-ownership system has been successful because the state has developed an institutional architecture to ensure that profit maximisation - and not politics - drives how its mixed-ownership listed companies are governed.

However, as the government benefits from the success of these companies and Singapore citizens in turn benefit from the government's social programmes, the Republic's model may ultimately be the most purposeful of all. That its success lies in the unique institutional architecture that ensures state-controlled companies focus on profit maximisation runs against Fink's proclamation.

This is where the idea of "responsible capitalism" may have some intellectual and practical leverage - provided it is framed properly. Asia demonstrates that different jurisdictions have different understandings of the purpose that corporations should serve and there is no one model that fits all. But corporations must be governed, within the context of their environment, in a way that benefits the public good. This much is certain. How this is achieved will vary from jurisdiction to jurisdiction, and within each jurisdiction over time. Being responsible means ensuring that the purpose that corporations (should) serve is aligned with maximising the public good in each jurisdiction at any given time.

What is also certain is that the existential threat of climate change can only be successfully addressed through intervention on a global scale. Global action will require accepting diversity in approaches, allowing each system to achieve climate change goals in their own way. As such, outcomes should be the focus of responsible capitalism, not prescribed methods of achieving those outcomes. In short, Fink's proclamation should be cabined within US borders - where empirical evidence suggests it will likely, in any event, amount to nothing.

The writer is an associate professor in the Faculty of Law, National University of Singapore.

The above is a simplified version of a post on ECGI Blog, of which he is the co-editor-in-chief