



SOCIAL COHESION, GLOBAL GOVERNANCE
AND THE FUTURE OF POLITICS

Promoting Unity of Corporate Governance with Global Governance and Social Governance: Demanding Commitment from Corporate Businesses on Sustaining Stable Social Foundation

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Abstract

In the process of achieving the sustainable growth and to positively transform the world in a balanced manner, corporate businesses play major roles. Nowadays, being a part of the global and local societies, firms' sustainable maximum of profit is not achievable without their contribution to build the sustainable society.

In such a situation, firms are required to adopt corporate governance which needs to attain integrity and unity with global and social governance, and further extend it to comply with SDGs. In addition, further disclosure of corporate information is effective to improve corporate value and for firms to further contribute to the society. Also, new approaches based on technology progress in fulfilling SDGs could help firms to promote their corporate governance and to contribute to the interest of both the society and the stakeholders in a sustainable manner.



Challenge

During the past decades, with the globalization and progress of the technology, the world enjoyed economic growth and the people is experiencing more prosperity. Corporate businesses with human resources, technologies and capitals played major roles to this worldwide progress.

However, this progress and growth has not fulfilled a total success. The world economic growth has, on the other hand, deepened income inequality¹. The growth of global income for top 1% of earners from 1980 to 2016 has doubled that of bottom 50% ², and some negative reactions against the globalization is raising around the world. At the same time, increased global warming and other environmental issues have become one of the major threats to the current global society.

In such a situation, United Nations has set the Sustainable Development Goals (SDGs) designed to positively transform the world in a balanced manner with 17 concrete goals and 169 targets³. These objectives are assigned to each national government and are aimed to be achieved by 2030.

On the other hand, being an integral constituent of the society, private firms are also asked during past years to resolve social issues to improve the value of firms through their contribution to the society in addition to focusing on making maximum of profit. In order to manage multiple and often inconsistent economic and social tasks, corporate governance (the system of rules, practices and processes by which a company is directed and controlled) is introduced in many firms.

With the adoption of SDGs where the targets of economy, environment and society are set, the impacts of corporate business activities are called in question in a more comprehensive manner and now corporate businesses are expected to hold liability for their value chains so to be complied with various social issues for the sustainability of the society and their own business^{4 5 6}.



Proposals

a) Corporate governance needs to attain integrity and unity with global and social governance

Corporate governance is of great importance for corporate managers to carry out their duties in running business to maximize shareholders' profit. This includes giving clear targets, evaluating performance and monitoring of managers' commitment in generating shareholders' profit.

However, stable and sustainable development of society is essential in enhancing corporate performance in long term. In addition, it requires continual awareness of corporate businesses that global infrastructure such as free trade system under multilateralism leads to increase in profit.

Nowadays, corporate governance gives full consideration to the value of stakeholders such as community, employees and shareholders. In other words, with the status of being an integral component of the society, corporate businesses are required not only to maximize shareholders' profit but also contribute to increase the social return including return to employees, partner companies, local communities⁷, nations and the international society.

All told, corporate governance in business management needs to attain integrity and unity with more global and social governance.

The global governance here refers to the adjustment and regulations from international framework of trans-border organizations such as United Nations and World Trade Organization (WTO) to address global issues that are difficult for a single country to handle, including environmental problems, terrorism and refugee problems.

The social governance refers to the framework to preserve social order and realize the public interest by mutual collaboration of various social actors⁸. The non-government sector is increasingly responsible for building a sustainable and stable society, and the responsibility of the corporate businesses is particularly significant.

Under the globalization and polarization of the world economy, corporate



businesses are expected to be the cornerstone to promote mutual collaboration and balanced prosperity of individuals/households as well as connecting different nodes under the multilateralism. To achieve these aspects, while including coexistence with and contribution to the society in the maxim of corporate businesses, existing concept of corporate governance also needs to be extended to a wider governance principle by incorporating the concept of global governance and social governance.

In this context, evidences show positive correlation between corporate profit and social contribution but it varies from country to country (Allouche, J. and Laroche, P., 2005)⁹. Also, Endo (2018) points out that ESG (Environment, Social and Governance) factors are not equally weighted by firms while the Governance Factor (G) is considered to be more important than the Environmental factors (E) and Social factors (S)¹⁰. However, the importance of corporate businesses being fully aware of the social contribution as mentioned in SDGs promoted by United Nations and ESG is becoming more and more evident.. It is vital for corporate businesses to have the perception that their contribution to SDGs will ultimately realize the goals of the world economy, goals for the social cohesion for the environmental sustainability and for their own business sustainability.

Finally, it is worthy to note that in Japan, many corporate businesses have been carrying out the 'Japanese-style management' for a long time that takes all the stakeholder interests into consideration. The Japanese-style management focuses on increasing return to all interested parties including employees, partner companies, clients and local communities, and this harmonious coexistence with the interested parties has been helping not only corporate businesses to reinforce its foundations¹¹ but also the society to be more sustainable.

Indeed, among the 5,586 firms around the world with more than 200 years of history, 56% (3,146 firms) are Japanese firms¹². According to various surveys, many of them have corporate creeds often stating 'trust', 'serving the society' at the top of priority but not 'maximization of profit'. This fact shows quite clearly that some of the major factors leading firms to sustain and flourish is the coexistence with the society and the contribution of corporate activities to all stakeholders including not only clients and partner companies but also



employees and local communities and so on.

b) **Further disclosure of corporate information supports firms to contribute to the society**

It is necessary for firms to fulfill governance that is in unity with global governance and social governance.

This approach assures positive impact of commitment for SDGs within the corporate business activities together with international collaborations, it also has to be consistent with corporate businesses to share the burden of ensuring improvement of social welfare and prosperity.

According to Bartkus and Glassman (2008), although social issues such as the environmental problems and diversity are less frequently included in corporate mission statements, their mention is significantly associated with corporate behaviors regarding these issues. In addition, since the study also found no relationship between firms with mission statements that mention specific stakeholder groups (employees, customers, community) and their behaviors regarding these stakeholders, it suggests that the inclusion of specific social issues in corporate missions is related to policy decisions¹³.

Also, for U.S. firms, the term “community or communities” has become commonly used in corporate mission statements over the past eleven years from 2001 to 2012. And, it is worth note that economic environment and stakeholder’s opinion also influence on corporate governance as well as on corporate behaviors. In this regard, U.S. corporate mission statements started stress ethics and ethical practices to a significant degree with increased pressure from investors and creditors on corporate accountability after the collapse of IT bubble¹⁴.

In addition, there are some countries in which pension fund trustees are legally required to consider CSR in addition to financial performance when screening corporations for potential investment. Even without the obligation, such kind of engagement has a positive impact⁸. Judicial



precedents support companies to put higher priority for taking social factors into consideration as a component of shareholder returns⁸.

Thus, the change of economic and financial environment as well as the stakeholder's opinion are important factors to modify corporate governance so that more and more social factors are taken into consideration in recent years. On the other hand, firms are more conscious of carrying out social responsibilities which are becoming more and more important in the evaluation of the value of the firms.

In this regard, firms are asked to further disclose corporate informations like the remuneration of firm's executives in order for firms not only to get fair and positive evaluation from the market and from the stakeholders but also to contribute to build a more sustainable society. And, such corporate governance stressing importance on the stakeholders and on the contribution to the society in the maxim of corporate businesses can serve as an effective tool and indicator to solve various social problems.

c) Effective use of technological progress to guide corporate businesses¹⁵

Technology advancement is changing the world both through the creation of new products and new services and the emergence of new needs.

This technology progress might lead the world into a greater income disparity, but also might be a great opportunity to resolve societal challenges by utilizing the new technologies.

Policymakers should actively introduce new technologies to analyze and to resolve societal challenges based on SDGs as guidelines. On the other hand, if the measures and/or the structure proposed by using new technology are economically efficient, corporate businesses have no reason not to introduce such approaches.



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