

THE COMPANY: BETWEEN SHAREHOLDER AND CUSTOMER

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Abstract

A good company is a company which produces wealth. The question is what kind of wealth, in which environment, for whom, how, where and for how long. Most companies are totally dependent on external factors and actors. The true boss of a company is the customer (without customers there is no company). The other boss is the shareholder. But relationships between shareholders and the actors of a company are becoming anonymous and complex; and nevertheless, by acquiring shares, we become responsible for the way a company develops! A company is like a human being. It was created to be good but it has to face an external environment which is not guided by “common good”. As part of this environment, companies have a responsibility to serve the community but also to fight illegal or inappropriate practices.

I. Introduction

When reading the texts on the position of the Catholic Church (referring mainly to the “*Compendium of the social doctrine of Church*” published by the Pontifical Council “*Justice and Peace*” in 2005), we are in agreement with the principles and the words. But these texts do not point out well enough the fact that managing a company is all about managing risks and uncertainty, whereas employees are looking for stability and security. All the principles of good governance may be applied to a company (competence of managers, integrity policies, legal compliance, good working conditions for staff, responsibilities, initiative, delegation etc.). However, if your customers or your shareholders change their minds, you can become a bad company. A company which creates wealth for its own benefit, by voluntarily ignoring the impact of its business on the external environment, cannot be seen as a good company. The competition, whether it be normal or unfair, can change your company from a good company to a bad one. These external factors are continually increasing their influence in today’s context of the acceleration of the economy.

II. A changing environment

- **Relation with “time”** has changed. Whereas the human being needs time for his development, working activity means dealing with short term objectives. Annual financial and commercial reports have been shortened to quarterly reports, and even in some cases to daily reports.

- **Markets** are changing very quickly with the development of communication tools and the modernization of industries from some parts of the world. For instance, China and India are strong competitors in terms of low prices and technology. China will, for example, rapidly increase its influence in Africa versus Europe. In such a “chaotic” environment, customers are more and more volatile, while employees (producing products or services) are looking for continuity in their work.

- **Financiarisation** of the economy has erected “money” as the main value versus other material values and non material human values. With the sophisticated and complex financiarisation of the economy, a company can be sold and repurchased several times, without any possible action from the internal stakeholders. Their interests are sometimes in opposition with a company’s long term views and human dignity. We know the paradoxical situation of the enrichment of the shareholders, without producing any added value, by announcing layoffs of staff to improve profitability. How do you combine the fluctuation of a company’s results with the aspiration of its people, who wish at least to maintain or to continuously improve their way of life ? Offering excellent working conditions, solely based on short-term financial results, does not mean that a company is acting like a good company.

- **Globalisation and means of communication** have increased the competition with a positive effect but also a negative effect on how wealth is created. We are familiar with the positive sides of competition (e.g. diversity, lower prices, choice etc), but it can also be to the detriment of the “common good” and can reinforce the gaps between poor and already wealthy organisations and individuals. For instance, mergers of companies could be technically justified by economies of scale to remain competitive. However, in most cases there are negative consequences on employment, both internally and externally. Relationships with suppliers of merged companies can be discontinued, regardless of their previous performances.

- **Decrease of some natural resources** is another sensitive change in the environment. This can lead to the creation of artificial wealth, made possible by the shortage of natural resources such as gas, petrol and other natural resources controlled by governments or big companies. In such cases, wealth is increased for some already wealthy people or companies and leads to a decrease of wealth for others. From a Catholic point of view, this is unacceptable and incompatible with the principle of “common good”.

- **Progress in technology** seems to be overtaking the view we have of the capacity of the human brain. As a consequence, one point of view is that people have become secondary versus technology. It is for this reason that Christians have to make a contribution in reconsidering a person and his value as the centre of any economic objective.

III. A company as a “total quality chain”

Thus, how do you define a good company? How do you deal with the constant paradoxical situations, such as ensuring personal development of staff and talking about confidence in employees, when you evidently cannot manage the external factors?

Managing a company is all about managing paradoxes and finding a common interest for all stakeholders concerned. Sometimes we have to accept certain incoherencies. If we refer to the Bible, we also find a lot of paradoxical situations and contradictions. Nevertheless, our approach can be that of the kingdom of God, because in each example, a person’s human dignity is paramount. The Old and New Testament encouraged us to have an open mind as to the ways in which to reach results. The Parable of the Talents, the Workers in a Vineyard and the Prodigal Son lead us to have a different point of view when looking at individual situations versus conventional rules. Besides, are we sure that as individuals we always have a coherent attitude depending on the situation in which we find ourselves, whether it be as shareholder, employee, manager or customer?

Nevertheless, I am convinced that it is possible to define the criteria for a “Good company”. Ideally, a good company is like a “total quality chain” which creates a share of wealth for each part of the chain. The person who invests his money is entitled to receive a fair return on

his investment. Suppliers must make a profit out of their work. It is not always the case when, for example, some of them are forced to sell their raw material at very low prices with a negative effect on their own revenue or employees' remuneration. Employees from top management to staff, who produce products or services, must receive a fair and just wage for their work, which is in line with their individual contribution, responsibilities and results. An appropriate remuneration (salary and benefits) corresponds to the recognition of the employee in his individual dignity according to his means and his needs. Whereas a fair remuneration encompasses a collective aspect which guarantees fairness among the different contributors.

In a nutshell, such concerns are in line with the catholic social thoughts because they enable an equitable distribution of profit between employees and the shareholders, without threatening customers' and suppliers' interests.

A good company is one which considers that the above chain must be continuous and coherent, without any breaks. A good company is one which recognizes that there is a human being at each part of the chain, from raw material suppliers to the final customer. A good company is aware that any discontinuity in the chain will affect each person of this chain. This reinforces the role of the connections between the links of the chain. As well as good communication, the implementation of codes of conduct, mission statements for the various stakeholders can make these relationships work better.

As for the total quality of a product, the total quality of equal interest for all actors does not mean the highest quality, but that the same level of quality is maintained throughout the chain. This chain can be extended to people who are not connected to the company. Due to its external responsibility, it is appropriate for a good company to dedicate a part of its wealth, internal resources or financial profit to non profitable external activities such as charity foundations or non governmental organizations. This enables them to counterbalance global disparities or to prevent undesirable actions in other parts of the world. For instance against human rights, mainly related to working conditions, political pressures or the natural environment.

IV. Seven managerial practices

After stating that Human Resources are a key factor and the most important asset of the company, it is necessary to include some additional managerial practices among the basic principles of good governance (see above). These practices are flexibility, organization, anticipation, subsidiarity, confidence, coaching and multicultural approaches for international companies.

Firstly, **flexibility** to react quickly to the above external factors (customers, markets, shareholders). This can be explained and accepted by the employees if the rules are clearly defined and agreed by all partners. Flexibility can be compatible with security provided it fits in with the other practices mentioned below.

Secondly, **organization** because, from experience, successful companies are the ones which have a good organization (an excellent person with high potential will not perform if the organization is not good, except if he can change it!). Organization and flexibility are both necessary for a company to be efficient.

Thirdly, **anticipation** is key, especially in an uncertain environment. This principle is obviously applicable to the market and to financial aspects. It is, however, also regarding

training to maintain internal and external “employability”. Training policies have to be developed at all levels of responsibility (not only for managerial functions), so that knowledge is shared and transmitted and people learn how to act when faced with new situations and changes in the technical and non technical environment. Anticipation is also important when setting up financial reserves in case of temporary unemployment, by offering fair social coverage in case of illness, by assigning a part of the short term profit to reserves to retirement time, and by preparing permanent scenarios for the future, including the consequences of a decrease or a cease of activity (as mentioned above). For example, in the case of customer company mergers or a change in customer demand. Anticipation is also key to avoid the risk of becoming dependent on exclusive customers or suppliers:

The fourth practice, **subsidiarity**, stipulates that anything which can be accomplished by a person’s own initiative and by his own means, whether it be a person or a group of inferior level, should neither be claimed nor controlled by the upper level except if the law requires it. This practice provides appropriate responsibility at each level of the company. This practice, which is in principle a basic reference for the Catholic Church hierarchy, has been used by politicians in the context of European organisation and reinforced in companies as a management method. It combines freedom of thought and action for individuals while protecting the “common good”, which is totally in line with Catholic thoughts in terms of dignity and recognition of a human being’s possibilities.

The fifth practice, **confidence**, is not a technique but a product of the mind and an emotional attitude. It is probably one of the most important factors contributing towards being a good company, provided that confidence exists at all levels of the above mentioned chain. It is interesting to notice that the development of technology and the geographical distance between stakeholders increase the necessity for confidence. This confidence can be transmitted through the chairman, a financial adviser or the press. When we buy a car we are less and less able to understand the inside technology but we are confident that it will work. At the other side of the chain, most of the decisions to buy or sell shares are linked to the confidence one has in the future of the company. Confidence may be affected if people’s attitudes change. There are many examples of a sudden lack of confidence towards a company causing the financial value of a company to fall sharply in a single day. Such a situation clearly does not reflect the real value of the company! Confidence must also be linked to flexibility and subsidiarity. Management needs confidence in order to react rapidly. If not, flexibility is perceived as precariousness.

Confidence is also directly linked to recognizing each human being’s dignity. The use of a performance appraisal system is one of the most positive means of recognition, provided a certain number of factors are considered: the system needs to be conducted according to clear rules which are well known by all parties concerned, a positive and honest frame of mind is required, and the information regarding the job that has been carried out needs to be thorough. Confidence is different from delegation and does not exclude the evaluation of the results of work, considered to be a kind of acknowledgement. Confidence is not the privilege of Christians, it is however a fundamental concept for Christians because it is linked to human values.

The sixth is “**coaching**” which has recently been developed in companies as a management technique. It emphasizes the personal development of an employee by unlocking and stimulating his potential. It also respects individual freedom to decide which is the best way to operate through the transmission of experience instead of formal training.

The seventh is to practice **multicultural approaches**. Since catholic social thought is universal, social responsibility must be taken into consideration by international companies. With globalization, multinational companies have to consider the totality of the chain of production. The Catholic Church recognizes the quality of each human being, whatever his condition and origin are. International companies have to consider the human being as a whole. How can Christians accept that the condition of Liberian workers, harvesting latex under harsh conditions, is totally disconnected from the highly profitable tyre industry?

V. A need for social “doctrines” for responsible companies?

Finally, how do you go about implementing these concepts and practices within companies in an environment of globalisation ?

Most companies have created good governance policies by defining the role and responsibilities of the different stakeholders, thereby creating an approach of human solidarity with formal links at each stage of the chain. This concerns company conventions, company projects, codes of conduct, ethics of conducting business, codes for suppliers and subcontractors to commit themselves to respect local and social laws or to ban some practices (such as child labour, even if it is still a common practice in some countries). Codes for employees are more behaviour-oriented than procedure-oriented. Codes between companies and shareholders are less frequently implemented. The key elements in succeeding with the implementation of these codes are firstly, to have an adapted and - more importantly - credible and coherent communication policy, and secondly, the support of all partners.

Of course, these codes will not make good products. But for the future, the difference between a good and a “not so good” company will not be about the product itself (which can easily be copied) but about the service, which is more directly a question of attitude, behaviour and confidence of the various human actors. The difference will be seen in their codes, which should contribute towards considering the individual person as the most important asset of the company.

Regarding all aspects, we could draw a parallel between how to use the company codes of conduct and how to live the Social doctrine of the catholic Church. In the same way as we read the Bible, codes of conduct of a good company can be used as a reference even if they are not totally applicable in all circumstances. Neither of these texts tell you what to achieve but how to achieve the objectives. They are not procedures, however they give a vision of the way to conduct business. They are related to human attitudes versus other people. Examples have shown that economic decisions concerning people can be achieved by using very different approaches, according to the idea we have of human dignity from the shareholder, staff and customer. We have examples that a necessary reduction of staff in a company can be carried out in different ways at equal economic costs. Instead of just one redundancy plan, companies can choose to propose measures that genuinely take into consideration individual situations in terms of psychological, family, financial and social impact. By doing so, they consequently take dignity and common interest into consideration. The key attitude is once again human dignity and the wealth of each individual, whatever his circumstances in life are. For example, most companies have a code of conduct which deals with conflicts of interest with suppliers. But how do you make such a code compatible if their chairman (who owns an important number of shares) makes decisions, guided by the potential short term increase of these shares, for his own benefit? Such contradictions between collective behaviour codes and individual practices have unfortunately increased mistrust and scepticism towards these codes. Moreover, we have seen that in a context of poor results, these codes can easily become vulnerable.

VI. Referential organizations for good companies

Some organizations are more inclined than others to achieve the total quality chain from shareholder to customer, such as cooperative societies, small and middle-sized companies, small-scale production companies or family-owned companies. My experience of a large family-owned international company is in favour of one possible reference. Why? Because, in such a structure, shareholders are family members and confidence is a key value, just as it would be in any family. Moreover, management is not at the mercy of external people willing to continually increase profit sharing. As a consequence, employees are considered to be part of a large family and in a wider sense, frequently consider the company as part of their family. Moreover, family-owned companies are more concerned by continuity than by short term results. Because of this concern for continuity, the different stakeholders are more inclined to remain confident if there is a temporary difficulty or even if their confidence is challenged. In general, family-owned companies are more concerned by the reaction of customers, because their products or services have a human face, even if the face to face contact does not exist. It seems that family-owned companies have no obligation to spread profit over a large number of shareholders. By doing so, they can accumulate savings which allow them to “absorb” a temporary decrease in activity or temporary poor results. Risks due to innovation are more acceptable, since return on investment is expected to be medium term instead of short term. It also enables these companies to practise external solidarity without expecting any return on investment.

Of course, we must be careful to avoid generalisations. Public non family owned companies can obviously be good companies practising social responsibility by taking care of the above chain. This is specifically the case of some public companies which consider the common good as a priority.

Consequently, the human qualities of management are more fundamentally important than their technical competence. Top management is responsible for managing both sides of the “quality” value chain. It must be exemplary in terms of integrity and confidence. Generally, in a good company employees do not work directly for the company, but first of all for a good management team. They are proud to play a part in the company’s results. This places Human Resources as the key role within a good company. As for the economic principle which says that we have to “think globally and act locally”, a good company should think for the “common good” and maintain global solidarity between all internal and external actors. But it should also behave individually to recognise the importance and the wealth of each individual.

As a conclusion, a good company should contribute towards producing wealth for all internal and external actors, considering that wealth is not only about profitability and money, but is also about non material values such as solidarity, dignity, recognition, dialogue, justice, responsibility, and personal development... without forgetting a love of people !
