

Good Governance and Responsible Citizenship

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Governance can be looked at in many different ways.

One way is to relate it to law and order. In any natural or formal grouping of men and women- in any social group- the law supplies it, and order demands it.

Thus, in a corporation, the law sets up a governance mechanism: the Board of Directors is vested with the powers to direct and govern its affairs. The same happens with a public Regulatory Commission: the law empowers a "Commission" made up of five persons to take charge.

We would be more familiar with the family and with our city (town) or the country as a whole. The law gives the responsibility to parents to direct and govern the family's affairs. In the case of a city (town) or the country as a whole, the Law also sets up a formal governance structure. We are familiar with the Mayor and the City (Municipal) Council. We also know about

the three branches of government: Executive, Legislative, and Judicial.

Why does the law supply a mechanism for governance? The straightforward answer is: because order demands it. In other words, the good of the group requires it. More generally, the common good of everyone, particularly of all those belonging to the group, asks for it.

In sum, a grouping of men and women in society- any social group, no matter how small (a family) or how large (a country)- needs governance in order to secure the common interest and the general welfare. It goes without saying that **good governance is necessary for the common good of all**. So much is at stake with whether governance is good or bad!

Principles of Good Governance

But how can governance be good?

Again, the straightforward answer is: if it is in line with the principles that the common good naturally lays down as necessary for it to be achieved.

The principles are not many. There are only ten.

The first principle is *independence*. The group enjoys some autonomy and freedom. It can and should be able to stand on its own. This should be true of any self-respecting family and country. In the case of a corporation, its personality in the eyes of the law is

separate and independent of the personality of its owners. Therefore, the interests of the corporation cannot be indiscriminately commingled with or subsumed under the interests of its owners. In the case of a Regulatory Commission, the law mandates its independence so as to free it from the political dictation of other officials in power.

The second principle is the *complementation of rights and duties*. Rights necessarily go with autonomy and freedom. Any grouping in society- from the family, a city or town, a corporation, a Regulatory Commission, to the nation- has rights to act and decide on its own in the pursuit of its common good. The law recognizes such rights; in many instances, the law itself grants and specifies them. But rights always come with duties: it is this complementation between the enjoyment of rights and the fulfillment of duties that helps to secure order and promote the general welfare.

The third principle is the *grant of authority to govern*. A head is empowered to direct and manage the affairs of any social group, be it a family, a city or town, a corporation or a Regulatory Commission, or the nation as a whole. Normally, this is a collegial body that is tasked, or given the power and authority, to decide and act in behalf of the group, as is clear in a corporation or Regulatory Commission. It is no less clear in a city or town or in the country as a whole, where a separation of



powers or authority is mandated.

The fourth principle is the *duty of loyalty*. Those given the power to govern, in particular, owe it to the group for which they have a governance responsibility. Again, this is clear in the case of parents with respect to their family; of board directors to their corporation; of commissioners to the Regulatory Commission; of City (Town) Mayors to their city (town); of the President (and Members of Congress) to the entire nation. And this duty of loyalty must prevail over- and be ahead of- any preference or natural tendency to pursue one's personal or other narrower interests.

The fifth principle is the *promotion of the long-term interest of the social group*. It is long-term value that needs to be maximized; and it is the common good of the entire group that needs to be pursued. In governance, the horizon cannot be limited to the "here and now" or the short-term; a strategic perspective is required so the long-term is given its due and much greater importance. The same strategic perspective extends the horizon way beyond merely narrow interests of specific individuals or sub-groups within the bigger social group: it must cover the common interest and the general welfare of the bigger social body.

The sixth principle is *fairness*. This asks that all decisions and actions taken in behalf of the bigger social group- be it family, city or town, corporation or

Regulatory Commission, or the nation as a whole- should aim at giving what is due to everyone. In the case of a corporation, all decisions and actions taken in its behalf need to be just to all parties with some stakes in (or claims upon) it, whether they are shareholders or other stakeholders.

The seventh principle is *transparency*. This is a call for truthfulness and integrity. Decisions and actions taken in behalf of the group need to be honest and kept above board. Reporting on their results and consequences needs to be truthful and complete, enabling all others- stakeholders and especially shareholders in the case of corporations, or citizens in the case of cities (towns) and the nation as a whole- to make proper judgments on whether in fact they have been given their due.

The eighth principle is *accountability*. This demands a system for measuring performance, giving out appropriate rewards and punishments, and properly managing risks. Generally, a system of checks and balances is essential: it should be one that delegates, limits and clarifies authorities and lines of reporting.

The ninth principle is *ethics*. A moral tone is set, especially at the top, and a distinctive ethical mark is stamped upon the culture that is made to pervade and influence the social group. A culture of compliance with ethical standards, laws and regulations needs to be

cultivated so that all decisions and actions in behalf of the social group are taken in line with the dictates of a properly formed conscience, and with great sensitivity to as well as respect for moral norms.

The tenth principle is social responsibility. All the decisions and actions taken in behalf of the group should reflect a deep awareness of their social, cultural, environmental impact on the broader system within which the group operates. There is a wider world out there, and this can be affected, for good or for ill, by the decisions and actions that a family, a city (or town), a corporation or Regulatory Commission, a nation may take. Thus, any social group cannot limit its sense of responsibility to itself and its members; it also has to take into account the influence it can have on the broader community with which it is closely linked, and of which it is a part.

Good governance principles may be formulated in many different ways. The ten-way formulation above is a way of summarizing and simplifying the key principles that have been articulated in various global conventions. In the case of global conventions for corporations, the OECD corporate governance principles articulate the same ten principles listed above, although expressing them differently. In the ongoing work aimed at raising the standards of public governance, the same ten principles are echoed, although at a different

vibration and pitch or form of expression.

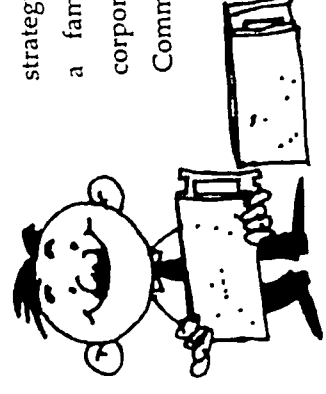
Proper Governance Practices

Principles determine proper practices.

From the ten principles listed above, guidelines for proper practices can be drawn. These guidelines in turn should lead to more concrete specifications of governance adapted to the requirements of the common good of a family, city (town), corporation or Regulatory Commission, and even of the nation as a whole. In some instances, these requirements may demand only a short list of specifications of proper practices; in others, the list may well be longer and much more dynamic.

Independence leads to guidelines for a Charter. In the case of a corporation, this takes the form of the Articles of Incorporation; and in the case of a country, it has its basic or fundamental law, often referred to as its Constitution. In every case, however, what is called for is a basic document that lays out the mission, core values, the vision and the over-arching

strategy for the social group, i.e. a family, a city (town), a corporation or Regulatory Commission, the country. And on Charter Day, it is good practice to reflect upon all these,



renew commitment to them, and where necessary bring them up to date.

The complementation of rights and duties leads to guidelines for a *Code of Governance*. The Code acknowledges the rights to which proper claim can be made as it recognizes the duties that necessarily come with the exercise of rights. It also governs the manner in which relations with other parties need to be conducted in the light of basic rights and duties of all concerned. On the occasion of an annual Corporate Retreat, it is good practice to review it and refresh consciousness and adherence to it.

The grant of authority to govern leads to guidelines on the *Role of the Chairman and the Chief Executive Officer*. Increasingly, these two roles are assigned to two different persons in order to underscore the differences between governance and management. The separation of the role of a Chairman from that of the CEO is believed to reinforce the system of checks and balances (of which more below). Good practice calls for guidelines in this regard to be included in the Code of Governance.

The duty of loyalty leads to guidelines on the *Role of Directors and Commissioners in a corporation and in a Regulatory Commission as well as of Members of the City (Municipal) Council in a city (town)*. A member of a board, or council, or Congress owes primary allegiance

to the entire corporation or Regulatory Commission, to the entire city (municipality), or the entire country. And a member of a collegial body is bound to follow certain norms of behavior. These include those referring to:

- honesty and good faith
- discharge of fiduciary duties
- respect for the law
- diligence
- confidentiality
- disclosure
- access to information
- orientation and training.

The promotion of the long-term interest of the social group leads to guidelines on the *Strategy Role of Directors and of Commissioners in a Regulatory Commission as well as Members of the City (Municipal) Council or of Congress*. These guidelines underscore the long-term horizon of strategy (as opposed to the mostly short-term concern of operations) and of the broader and more systemic or inter-related character of the issues it covers (as opposed to the narrower and more specifically focused nature of operations). It is good practice to ascertain, at least during the annual Corporate Retreat, whether in fact sufficient time and attention are given to the fulfillment of this role.

Fairness leads to guidelines on the *Policy Role of Directors (and of Commissioners, Members of the City or Municipal Council, Members of Congress)*. Through

policies that are adopted and articulated, clear directives are given regarding all the inter-related aspects of operations to ensure that all parties, with claims upon and stakes in the social group, are at bottom treated according to the tenets of justice. Good practice asks that this role is played pro-actively; it being a proper role for Directors should not be fully delegated to a point where Directors and others with equivalent role become mere rubber stamps for others.

Transparency leads to guidelines on the Monitoring Role of Directors (and of Commissioners, Members of the City or Municipal Council, Members of Congress). Through arrangements and mechanisms put in place, all aspects of operations are properly and systematically monitored, and reports on operating results are assessed and analyzed.

Accountability leads to guidelines on the Audit & Risk Oversight Role of Directors (and Commissioners, Members of the City or Municipal Council, Members of Congress). As responsibilities are delegated, and authorities specified, following a system of checks and balances, performance needs to be properly evaluated and risks prudently managed. Proper practice now calls for the creation of Board Committees that would focus on the highly technical aspects of the role and subsequently recommend to the entire Board the necessary actions to be taken...

Ethics leads to guidelines on the Code of Ethics that Directors or Commissioners, Members of the City or Municipal Council, and the Members of Congress need to formulate and promulgate. The norms of behavior specified follow global standards and should reinforce or raise the decibel of, as well as the standards of compliance with, the voice of conscience in the social group.

Social Responsibility leads to guidelines on the Code of Social Responsibility. These provide directives that provide flesh and substance to civic duty, contribution to social cohesion and progress, protection and enhancement of the physical, economic, political, social, and cultural environment in the bigger world, of which the social group is a part.

From charters to different codes, including the specification of roles, the guidelines to proper practices drawn from the principles of good governance place the Board (Directors or Commissioners, Members of City (Municipal) Councils and Members of Congress) in a pivotal role. They are given a very key role- although not an exclusive one because Chief Executives such as City (Municipal) Mayors and Presidents under the division of powers also have extremely important governance roles- in the formulation of charters and codes as well as in the discharge of strategy and policy functions and of monitoring and accountability functions.

Through all the apparent clutter and need for further details and specifications, there is danger of missing the entire forest from looking too closely and concentrating on the trees.

Governance, in view of its fundamental principles and the proper practices drawn from those principles, is simply a way of securing the ABCs of order for the common good.

It is about Actions and decisions that should bring about results making a positive difference for the common good of all, one that can be sustained over the long term.

It is also about Balance between effectiveness and limits to power, timeliness of decisions and participation, substance and quality with broad support and legitimacy.

Finally, it is also about Complementation of efforts between the governors and the governed, between officials invested with public duties and responsible citizens. These must unite in the common undertaking of working for the general interest and welfare of all.

Good governance, then, is not only about good government: this all public officials are duty bound to deliver. It is also about responsible citizenship: this all citizens, the ordinary people, are also duty bound to bring to the common undertaking for the common good.

The Demands of Responsible Citizenship

Responsible citizenship draws from the same set of values underlying the fundamental principles of good governance.

And the most fundamental value is *freedom*. Freedom demands a culture of independence and autonomy: these translate into the personal ideal of being able to stand on one's own and to be in a position to shape one's fate.

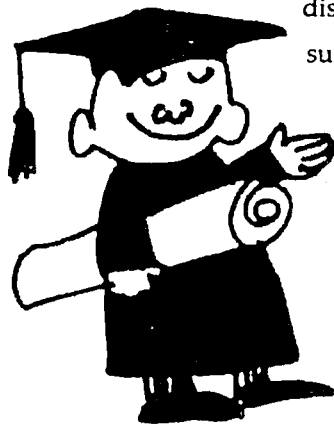
A personal culture of independence and autonomy leads to further demands, of which three are important.

The first is for personal *integrity* or more simply the ability to keep oneself whole. Wholeness implies consistency between convictions and actions, ideals and deeds, principles and practices. In this light, a free person, and therefore a responsible citizen, always seeks to act in line with convictions and engage in practices properly aligned with principles.

The second is for personal *discipline* or more simply the ability to restrain oneself. Self-restraint recognizes that we are drawn between good and evil, between what is proper and improper, between being selfish and being selfless. In this light, as free persons, and therefore as responsible citizens, we use not self and self interest or personal preferences or whims and caprices as the measure or guide to our actions and

decisions. Rather, consideration of others, the promotion of the common welfare, and an external standard for goodness and propriety become our objective and operative measure and guide.

The third is for *long-term sustainability* or more simply the ability to stay the course and persevere up to the end, and in the process becoming stronger, more self-reliant, and more able to help others as well as contribute to the common cause of society. We recognize that we have to be better and more properly equipped, not only to make our staying power longer, but also to make our reaching out and helping others more effective and of wider reach. As responsible citizens, our aim is not merely to have more, although this is important to achieve; it is also to be better, and this is crucial for us to be able to help many others in society.



These three: personal integrity, personal discipline, and long-term sustainability only serve to underscore *subsidiarity*, which is at the very core of a culture of personal independence and autonomy. *Subsidiarity* gives a special and powerful light to the importance of every

person in any social group, in any society. The strength of every individual, indeed the integrity, discipline, and long-term, sustained commitment of every responsible citizen in any society determines its over-all strength.

We therefore have to look at every responsible citizen- at the level of integrity, discipline, and long-term, sustained commitment of every free person, living up to a culture of independence and autonomy- as a building block with which society is built. The stronger each building block is- the stronger each one of us is- the stronger our society can become.

The second fundamental value, integrally connected with freedom itself, is *responsibility*. This demands a culture of service that connects rights with duties, privileges with obligations. This culture translates into placing ourselves in the same boat where others are. Thus, we have to give as we receive, think of others and what good we can do for them as we naturally think of ourselves and pursue what is in our interest.

Such a culture of service to others leads to further demands, of which three are important.

The first is for *openness* or more simply the ability to take into consideration the needs and convenience of others. This necessarily broadens our horizons: no longer limited to our concerns and convenience, expanded into the wider world around us, where others become the focus of our attention and

interest. As free persons, as responsible citizens, our world is no longer narrowly confined; it is able to take on the many different problems and challenges that can be converted into opportunities to serve others and make a positive difference for their benefit.

The second is for *networking* or more simply the ability to see and forge inter-connections between peoples, events, circumstances, and aspects of life. Through these inter-connections, opportunities for dialogue and communication, for cooperation and even for coordination can be seized so that in teamwork with others we can reach higher goals and get farther, faster, and much more effectively. As free persons and as responsible citizens, we can push the cart in the same direction as others are shoving it towards. In the process we can take advantage of economies arising from scale and harmonization. We thereby build institutions, promote the rule of law, and strengthen systems, making them work more efficiently.

The third is for *dynamism* or more simply the ability to respond positively and creatively to inexorable changes that keep occurring in the wider world around us. These changes demand that we keep on re-inventing ourselves. Thus, as free persons and responsible citizens, there is no end to educating ourselves, equipping ourselves with new skills, acquiring new knowledge, and putting on new mental paradigms. Thus, instead of

stubbornly hanging on to the status quo, we constantly look for ways and means by which to conserve the best of what we already have and to introduce improvements so we can get to a higher level of achievement as individuals, as a social group, and as a society. This often implies that we have to be ready, willing and able not only to protect the wider environment- physical and cultural, economic and social, moral and political- but also improve it, and if necessary reform it (at times even radically).

These three: openness, networking, and dynamism only serve to underscore *solidarity*, which is at the very core of the culture of service. **Solidarity gives special and powerful light to the imperative for outreach, stemming from a deep conviction that we cannot be islands unto ourselves, separate from others, and cut off from the mainstream and cross currents of inter-action with our fellow citizens. Precisely because we do have rights to pursue our own goals, we necessarily have to inter-act with others in pursuit of those goals, which are as yet beyond us and therefore are external to us. And in that inter-action, as we exercise our rights and impose ourselves, so to speak, on others, we take on duties towards them. As we enjoy the privileges that must be given to us as we pursue our goals, we contract obligations to give unto others accordingly.**

We do have to count upon every responsible

citizen- and upon the level of openness, willingness for networking, and dynamism to respond to change of every free person living up to a culture of service to others in society- as the foundation of any society. The higher the level of responsibility of each citizen, indeed the more open, willing for networking, and dynamic we all are, the higher the progress our society can attain.

Subsidiarity and solidarity complement each other. The first focuses on freedom; the second stresses responsibility. Both freedom and responsibility have to come together in dynamic and mutual reinforcement for each other so as to promote the common good and achieve a higher level of progress for all. As citizens we do have take our freedom seriously as we exercise our rights. We also have to be equally conscientious and responsible in the discharge of our duties.

Responsible citizenship as an essential complement to good governance translates into the general welfare for all and a higher culture, development and progress in society.

The author has been conferred the Laureate Award by the International Corporate Governance Network. He currently heads two Institutes committed to governance reforms: the Institute of Corporate Directors which focuses on corporate governance, and the Institute for Solidarity in Asia which deals with national governance. He holds a Ph.D. in Economics from Harvard University.

CHAPTER 4

