

## Catholic Guidance on Corporate Governance

### Catholic Social Teaching

The “*Compendium of the Social Doctrine of the Church*”<sup>1</sup> provides strong and well-documented direction on the values to be followed by the faithful. These teachings also contain guidance that can be used by the Church’s portfolio managers when selecting investment products. Companies can be assessed for the adherence to the guidance and the assessment can help determine the attractiveness of the company as an investment. Specifically, the implementation of the company’s governance through its strategy and approach to its markets, as well as the management of its relationships can be analyzed for consistency with the guidance. This guidance<sup>2</sup> fits into four key themes: human dignity, subsidiarity, solidarity, and the universal destination of goods.

To enhance the reality of human dignity it is first necessary to prevent abuses of power – both public and private. When businesses have transparent and respectful relationships with their stakeholders, abuses of power are much less likely. Relationships are constructive and the dignity of each individual and/or business is more likely to be maintained.

Subsidiarity is more enabled when decision-making capacity emerges at lower levels of social, political, economic and cultural hierarchies. Where economic activity is concerned, autonomy of enterprise is fostered where general rules and standards are used to prevent abuses of power, and managers are left relatively free to decide for themselves and to bear the burden of the consequences of their decisions – for better or for worse. When businesses collect input from stakeholders and enable the stakeholders to make decisions in the respective stakeholders’ interest, decisions are made at all levels of hierarchies.

Solidarity becomes more likely to happen when people trust each other and can rely on others to reciprocate good for good. Businesses promote solidarity through clear and open relationships with stakeholders, where the businesses actually provide what they promise.

The Universal Destination of Goods implies that even private goods are subject to multiple demands. Wealth is not solely for personal appropriation

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<sup>1</sup> [www.vatican.va](http://www.vatican.va)

<sup>2</sup> “*Compendium of the Social Doctrine of the Church*” Chapters 7 and 8.

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and thus allowed to be removed from the course of commerce and industry. The destination of economic goods is not fixed and finite. Many individuals should have the opportunity to access and use economic goods fairly and with due deference to the claims of others for human dignity, for receiving solidarity and for being trusted with the powers of subsidiarity. The principle is “to obtain for all people the conditions necessary for their integral development so that everyone can contribute to making a more humane world”. Ethical competition among competitors and ethical relationships with suppliers enable fair access to, and use of, economic goods.

The ***Catholic Values Assessment*** is a unique tool which determines a company’s adherence to high-quality corporate governance practices derived from these teachings. This assessment is designed to incorporate external information about a company and measures company performance against each of the four themes. A company is then assessed for its accomplishments in each of the four themes with respect to six stakeholder constituencies.

## Translating Catholic Social Teachings into a Corporate Governance

The table on the next page explains the implications for the relationships with stakeholders.

Themes from “ <i>Compendium of the Social Doctrine of the Church</i> ”	
Human Dignity	<ul style="list-style-type: none"> <li>• Does the company seek a deep knowledge and understanding of its customers?</li> <li>• Are the company’s products and services meritorious by respecting the autonomy and moral worth of its customers?</li> <li>• Does the company offer commensurate quality for the price it charges for its products and services?</li> <li>• Does the company respect the opinions of its customers and the community and engage with them over their concerns?</li> <li>• Does the company maximize opportunities for its employees to contribute to its commercial success?</li> <li>• Does the company provide health and wellness programs and education opportunities for its employees?</li> <li>• Does the company consider employees as important and thoughtful assets instead of merely a source of labor?</li> <li>• Does the company seek strong and proactive relationships with existing shareholders?</li> <li>• Is the company a good citizen in the communities where it operates?</li> <li>• Does the company have programs to enhance the quality of life in local communities and make the environment better where it operates?</li> <li>• Does the company have programs to strengthen local educational systems in the communities where it operates?</li> </ul>
Subsidiarity	<ul style="list-style-type: none"> <li>• Does the company proactively resolve customer, employee, and supplier concerns and complaints in an objective manner?</li> <li>• Does the company have a strong program to obtain customer feedback on their satisfaction?</li> <li>• Does the company encourage and reward employee growth of skills and capabilities?</li> <li>• Does the company seek customer, employee, owner, and supplier input?</li> <li>• Does the company encourage and reward employee innovation?</li> <li>• Does the company decentralize decision-making?</li> <li>• Does the company respect community interests and norms?</li> </ul>

## Themes from “*Compendium of the Social Doctrine of the Church*”

Solidarity	<ul style="list-style-type: none"><li>• Does the company seek long-term relationships as opposed to transactional sales?</li><li>• Does the company develop a culture where employees demonstrate loyalty to the company?</li><li>• Does quality of service a core component of the company’s reputation and brand equity?</li><li>• Do the owners understand the business and feel management is there to grow the owners’ equity?</li><li>• Does the company provide open communications and help educate owners?</li><li>• Does the company avoid imposing its interests unilaterally on stakeholders, including the environment and community?</li><li>• Is the company a good steward of its powers and influence?</li><li>• Does the company clearly express core values of service and quality?</li><li>• Does the company proactively resolve employee concerns and complaints in an objective manner?</li><li>• Does the company help employees feel that they are integral parts of a mission with a positive purpose that is larger than getting a paycheck?</li></ul>
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Themes from “ <i>Compendium of the Social Doctrine of the Church</i> ”	
Universal Destination of Goods	<ul style="list-style-type: none"><li>• Do customers routinely experience the promised benefits of the products and services?</li><li>• Does the company use life-cycle design criteria in its products?</li><li>• Are the marketing and advertising materials consistent with the customers’ experience?</li><li>• Is use of the products and services beneficial to the customers’ employees and the customers’ customers?</li><li>• Does the company obey the spirit and letter of the law, especially laws against collusion, price-fixing, and corrupt purchase of market opportunities?</li><li>• Do suppliers rely on the contracts and purchasing process to be open and transparent?</li><li>• Does the company avoid excessive and/or exploitive purchasing or competitive tactics?</li><li>• Do the customer contracts respect the physical and intellectual property of customers?</li><li>• Does the company provide good stewardship of its property and assets, including physical, financial, intellectual, and human?</li><li>• Does the company respect the property, including intellectual property, of competitors?</li><li>• Does the company actively seek to reduce its use of natural capital such as water, energy, and unrecyclable raw materials?</li></ul>