

Good Is Good for Everybody

The similarities of corporate governance across faiths

In many ways humanity is in a better place than it ever has been. From a material standpoint, the last few decades have seen immense numbers of people move out of poverty. For example, China alone has moved hundreds of millions out of poverty. People are connected through technology and travel more than ever before. Global travel occurs routinely for many business people. Social media connections are global and people can instantly know about events in the far corners of the world. Internet connections allow phone and video calls at little to no expense.

Yet, large numbers of people are fearful and even depressed. They are dissatisfied with part or all of their lives. In developed countries there are concerns about economic inequality and rigged systems. In emerging and under developed countries there are concerns about bad and non-representative governments where leaders can accumulate wealth for themselves at the expense of the people. The recent “Panama Papers” incident highlights these realities as people see governmental leaders hiding ill-gotten funds in secret locations. The result has been elevated anxiety around the world.

The targets of the anger and frustration have been governments, and increasingly businesses, with people having lost trust and faith in these institutions. Perceptions of crony capitalism and outright corruption have stained these institutions. Even if the institutions intend to do good things, the decreased trust and faith, like the rust that forms on corroded pipes, makes the institutions less effective. Corroded trust and faith is a large and growing problem as governments and companies are the ones with the potential power to fix the issues impacting people.

Good governance is like stainless steel. Stainless steel is impervious to corrosion. If institutions can strengthen their governance, the trust and faith in these organizations will return and grow over time. Further, the existence of good governance will help prevent future corrosion of trust and faith.

People around the world turn to their religion on questions of faith and ethics. Religion is the source of stainless steel in our daily lives. Perhaps religion can use values and ethics to prevent further corrosion, and even reverse prior corrosion, within institutions. Since there are multiple religions, a critical issue is the degree to which religions collectively are providing cohesive guidance on governance. To the extent that religions have divergent views, then the anti-corrosive power of religions on institutions would be diffused and less impactful.

At a time when the world needs good news, here is some. Corporate governance based on religious teachings show a high degree of similarity and, very importantly, a very cohesive set of desired company behaviors. Simply put: good governance is basically the same for everybody everywhere.

It is easy to talk about good governance, yet we historically have not had a clear prescriptive view of good governance and there hasn't been global acceptance of good governance standards. A starting point for an investigation of the cohesiveness of religious guidance on governance needs to include a governance model.

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Magni Global Asset Management LLC is an American research and asset management company focused on governance¹. Magni measures countries on the degree to which each country adheres to the good governance and economic concepts most conducive to sustainable and equitable growth.

Magni also measures companies on the degree to which they behave in a manner consistent with good governance. Magni has three corporate governance models: one for Islam, one for Catholicism, and one for secular uses. A comparison of these three corporate governance models demonstrates the high degree of similarity and cohesiveness of desired company behaviors.

Understanding The Three Corporate Governance Models

To understand the commonalities and differences, the three corporate governance models need to be explained. The secular corporate governance model is derived from the work of the Caux Round Table² and its Global Executive Director, Stephen Young³. The secular model is called “Magni Sustainable Value Creation” and covers 35 topics across the major stakeholders of a company⁴.

The Catholic corporate governance model is called Catholic Social Teaching and starts with the “*Compendium of Social Doctrine of the Church*”⁵. Catholic guidance on companies has four key themes: human dignity, subsidiarity, solidarity, and the universal destination of goods. These themes provide a moral compass to Catholic corporate governance.

The Islamic corporate governance model is called Islamic Stewardship and starts with Islamic guidance from the *Quran* and *Hadith* with the five values most relevant to companies and investing: *Amanah* (trust), *Adl* (justice), *Shurah* (consultation), *Ijtihad* (juristic reasoning), and *Rahmah* (mercy). In addition, Shariah has five *Maqasid*, broad overarching purposes, that are relevant to companies and investing.⁶ Collectively these five values and five overarching purposes provide a moral compass to Islamic corporate governance.

Similarity of Corporate Governance Models

When the three corporate governance models are compared, 24 of the 35 topics from the secular model (more than 68%) are identical across the three models. The remaining 11 topics from the secular model have similar, though not identical wording in the Catholic and Islamic models. While the wording

¹ More information on Magni Global Asset Management can be found at www.magniglobal.com. The author of this article is Kurt Lieberman, Chief Executive Officer and Chief Research Officer of Magni. For reference, Kurt Lieberman was born and raised Unitarian. For those not familiar with Unitarians, it is a Christian religion (<https://en.wikipedia.org/wiki/Unitarianism>).

² The Caux Round table is an international network of experienced business leaders who believe that capitalism is a force for good in the world (www.cauxroundtable.org).

³ Stephen Young is also considered one of the 23 most important people in the corporate social responsibility movement per Sandra Waddock’s book “*The Difference Makers*”.

⁴ Magni Sustainable Value Creation uses the standard stakeholders: customers, employees, owners, suppliers, competitors, and community.

⁵ See www.vatican.va

⁶ Respect for and promotion of life; respect for and promotion of good values and human morality (religion and civilization or *din*); respect for and promotion of knowledge and thoughtful conduct; respect for and promotion of property; respect for and promotion of family and progeny.

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changes are important to align with the respective religious guidance, companies being assessed on these 11 topics would receive similar scores in all three models.

For example, all three models expect companies to be concerned with the skills and capabilities of their employees. The secular model focuses on the programs a company uses to encourage and reward employee growth of skills and capabilities. The Catholic model applies human dignity to broaden the employee-related topic to include a requirement that companies maximize opportunities for employees. The Islamic model applies the *Maqasid* on promoting knowledge and thoughtful conduct to broaden this topic to include a requirement that companies help and support the intellectual growth of the employees. People assessing companies from a secular perspective would find the broadening from the Catholic and Islamic models as good ideas, but not necessarily required of companies. Further, Catholics would find the concept of intellectual growth as good, while Muslims would find the idea of maximizing opportunities as good. Even with the additional topics, companies are likely to score similarly across the three models.

The Catholic model adds six topics to the 35 topics in the secular model. Human dignity creates the expectation that companies offer commensurate quality for the price they charge. Subsidiarity creates the expectation that companies decentralize decision making where practical and appropriate. Solidarity creates the expectation that companies should: (1) achieve the loyalty of their employees, (2) balance the long term and short term priorities, (3) avoid imposing their interest on their supply chain unfairly, and (4) be good stewards of their power and influence. People assessing companies from a secular perspective and Muslims using the Islamic model would find the additional topics as good ideas, but not necessarily required of companies.

The Islamic model adds three topics to the 35 topics in the secular model. Companies must have and honor warranties to fulfill their *Amanah* obligations. The products and services of companies need to be beneficial and not cause harm or require illicit activities per the *Maqasid* on promoting life and the *Maqasid* on promoting good values and human nature. Companies must be pro-family in their employee programs and community development programs per the *Maqasid* on promoting life. Similar to the prior discussion, people assessing companies from a secular perspective and Catholics using the Catholic model would find the additional topics as good ideas, but not necessarily required of companies.

Implications for Muslims and all of Mankind

The *Qur'an* intends for all Muslims to be happy. To make the world better and more joyful, we need to build our institutions with the stainless steel available from Islamic guidance on good governance. There are now standards where both countries and companies can be assessed for the quality of governance. Existing institutions also now have a path to better governance. Improving governance can reduce, and possibly reverse, the corrosion of trust. Even better, religious people around the world can work together to build better institutions through good governance, while having the confidence that we are providing cohesive direction.