

The Good Company

Speech for the World Electronics Forum, 14 September 2005

1. Introduction

Ladies and gentlemen,

It is a pleasure for me to have the opportunity to address such a distinguished audience, here at the 11th World Electronics Forum.

As I get older and cumulate years and experience, I realize that, in different areas of life, including business, there are some recurrent issues and fundamental questions. This happens for two reasons: Firstly, because important issues are the ones that has lasting relevance. Secondly, because the answers to the fundamental questions are based on an ever-changing historical and social context and need to be adapted to present circumstances.

For this reason, I think it is extremely pertinent to ask the question once more: What is a good company?

The idea I will present to you in this brief intervention is that currently (and perhaps even more so in the immediate future) one of the most relevant factors in defining a good company is understanding and exercising corporate social responsibility (CSR). Because I do not assume that we all necessarily share the same concept, I will explain my understanding of what CSR means today and how this affects the perception of what I consider to be a good company.

2. Some characteristics of the world in which live

We must firstly address the contemporary context in which we are going to define a good company.

- It is clear that one of today's most relevant characteristics is economic and technological **globalization**. On a political level, the liberal social model, with diverse variants, is the most expansive system. As we all know, in this model, economical and social development is in the hands not only of the governments, but also of small business, large corporations and other civic organizations (associations, non-governmental organizations, foundations, etc.) Without any doubt, companies play the leading role in the economic development and creation of wealth and progress.

Sometimes, companies consciously act in order to make the world more global and bring people together in more efficient ways than those of governments.

- But it is precisely this leading role that gives the company a substantial **social responsibility**. Being such an important stakeholder, means that it cannot ignore relevant problems – some of them serious — that affect humanity: the environment, inappropriate education, strong social inequalities, etc.
- Another factor to take into account is the often insufficient various **policies of governments** in this field. Generally, aware of the business world's decisive role, public powers are tempted to shift the responsibility to industry and they see the need to regulate and standardize corporate social responsibility. This is a very precarious situation for business and depending on what we do and how we are positioned in this critical debate, things could go one way or another.

As I see it, the best thing that could happen would be a combination of two factors: on the one hand, avoiding excessive legislation by public powers and, on the other, acceptance of social responsibility by companies, not as something added-on or superficial but as something that is found within the nucleus of the company and its future vision. (I will return to this point later)

- Another characteristic of our times is the fact that the elements that control, pressure and impact the advancement and future of a company are very diverse (we can call a **multifactor** control). Besides public powers, there are, naturally, shareholders, but also: consumer associations, the media, ecological organizations and, in general, the whole of society, which have easy access to information. Pressure groups no longer seek to advance their political agendas by targeting governments but increasingly they also target large corporations and demand some concrete actions.
- And, finally, an observation on our **electronic sector**. In 2001, less than 25% of electronic companies had a clear CSR strategy. Certain visionary companies in sectors such as the agricultural or the extracting industry have traditionally been close to the community in which they operate and were already implementing real Corporate Social Responsibility programmes in the 19th century. We may not have such an early start, but in the last few years, things have been changing rapidly. We are a sector that can quickly adapt to change and CSR is not an exception. Certainly, within EPSON, I have been able to witness how the issue of CSR has risen to become to one of our top corporate priorities. Indeed, we have set up a global programme, which has culminated in a set of global Guidelines.

We can no longer ignore the fact that we operate within a sector whose products and services play an important role in the overall transformation of society. We should, therefore, be at the forefront of CSR development. While the changes made by our companies to society are very positive and we have, without a doubt, contributed to

society's progress, we must, however, also recognise the dangers, such as a growing "digital gap". This awareness we will lead us to action, as I will explain later on.

3. CSR

In this context, I will put forward my first question: how do we define a good company and, in particular, Corporate Social Responsibility within a good company?

My personal understanding of CSR is that it deals with, on one hand, everything related to a company's own work culture: participation, recognition, confidence, information, transparency, etc. And, on the other hand, with a commitment to society beyond that of the company's specific financial activity; a commitment that means: complying with the current legal demands related to the environment, non-discrimination and equal opportunity, etc and including, even beyond these, initiatives for social improvement and sustainable development.

I would like to highlight the following four points:

- The **involvement of employees**, the **recognition of their work** and their **acceptance of their own responsibilities** in the overall functioning of the corporation continues to be decisive. Here, we can see a sort of circle: people get involved and participate based on the recognition they receive. It is important to say that, in a way, the large organizational structures, the acceleration of everyday life and the mobility of work do not make this personal recognition very easy, and it is precisely for this reason that recognition is a scarce good. When we are able to direct our attention to a specific person, when we can see them not as someone carrying out a function but as an individual who develops his or her personal identity through his or her work, then we are allowing this person to feel acknowledged. This acknowledgement is a condition for involvement as well as the participation of the employee in the company.
- The demand of **transparency** initially directed towards public powers is being extended to private companies. Transparency, more and more, is becoming a guarantee of quality, good practices and of a company that is correctly adapted to a democratic society. This is what in EPSON we call Trustworthy management and we have set up a specific programme to address this important issue.
- The third aspect is a truly **Environmental Commitment**. Recently, the WEEE and RoHS Directives pushed us to make an important effort in terms of rethinking our business. Tomorrow we will have the opportunity to hear more about this from a panel of specialist. In addition to WEEE, our sector, has been directly or indirectly targeted with numerous pieces of legislation relating to environmental protection (EuP, REACH, etc). However, compliance with these strict current and future rules will not make your company stand out from the pack. I believe that an honest commitment to

constant environmental improvement, from manufacturing to the design of our products, is a business philosophy, which will make the difference when defining a good company. This is something that the internal language of the company must foster and cultivate, at every occasion, with each employee, thereby creating a collective mindset that generates real environmental improvements. In EPSON, partly because of our history and perhaps our initial location, every employee is aware of - and puts into practice - what we called our Environmental Philosophy.

- **Social projects.** I do not want to generalize too much on this point, but it is true that an opportune display of social commitment can often be expressed in the promotion of, or collaboration in, cultural, artistic, sporting or social projects. This way, society shows its rich variety, in which companies, besides their eminently economic activity, I believe also have a role to play.

I know that this may be controversial for some. In my case, I believe that it is all related to the constant evolution of concept of what we understand for “good” or in other words, the concept of ‘quality’ in relation with a company.

At first, the concept of a good company was very much linked with the concept of return on investment. Then we expanded this to include quality of products and services, safety, respect of the environment, good management and human resources policy and most recently the social project or the contribution to society. This new concept of quality is gaining weight among certain buyers and it is already quite common today to discuss ‘green purchasing’. Next to the environmental concerns other interesting trends are also emerging. You may know that the recent Directives on Public Procurement included certain social aspects to be included when evaluating an offer. I will leave this point for more detailed discussions by other speakers, but it is certainly worth spotting these trends and to reflect on how economic instruments can influence developments on CSR.

4. CSR and competitiveness

My second question is the following: What relationship is there between competitiveness and CSR?

My firm conviction is that, contrary to what is often thought, CSR is not a burden for competitiveness, but rather a very important ally, which I will now try to defend:

- **CSR should not be seen as a passing tendency** or as a fad. It is becoming more frequent to integrate the financial balance sheet with the social balance sheet. What will happen is that companies who get involved and take these responsibilities seriously will be the first to receive the best market rate benefits.

- CSR is not a burden but rather a business opportunity, fundamentally to help the diverse economic actors move **from passive satisfaction to involvement and loyalty**.
- As I said earlier, **consumers**, who are well informed and more conscious than ever, demand not only good and safe products but also want to know if what they have purchased was produced in a socially and environmentally responsible manner. The attention given by the media to matters concerning child labour, contamination, or animal testing, has contributed to developing social policies deserving more attention from the average consumer.
- The companies that implement **employee benefit programs** will be able to reduce costs related to absenteeism, contract renewal or temporary leave. Furthermore, CSR can help to attract and retain good employees. Employees want a good salary, good prospects for the future, etc. but, at the same time, and more often than ever, want to feel proud of the company they work for,. Motivation is increasingly based more on values and not exclusively on money.
- A company that takes on a CSR project and knows how to communicate it will surely attract more **investors**. A recent survey by MacKinsey&Company confirmed that institutional investors are prepared to pay a 20% surcharge for shares in companies that have good corporate administration. The companies that focus on ethical, social and environmental responsibilities will have access to capital that they otherwise would not be able to attract.
- The improvement of labour practices relating to **external suppliers** creates, for example, the reduction in the percentage of faulty merchandise. In general, the CSR of a company favours those who create a more efficient and productive supply chain.
- The use of CSR as part of a corporate business strategy can substantially reduce operation costs in relation to the use of energy and natural resources: less waste, lower gas emissions, sale of recycled materials, etc.
- And, last but not least, nobody can ignore that a serious error as regards important social or environmental aspects can have a very high cost for a company and can even result in a irreparable lose of reputation.

All this leads to the conclusion that an effective CSR administration offers a company the opportunity for a competitive advantage.

5. Difficulties for real CSR implementation

I know what you are all thinking: we have to be realistic, we cannot hide the difficulties that arise or could arise in the implementation of a CSR project.

Here are some of them:

- The identification and development of a corporate CSR strategy should be in-line with the capabilities of the company and its specific corporate culture. A serious CSR program implies a serious soul-searching exercise that not all companies are willing to undertake.
- It is important that the whole organization is involved. To do this, besides clearly explaining all parts of the CSR project, it is advisable to start creating interest through continuous training so the organization values the importance of understanding the social revolution and today's demands.
- Cost. It is evident that, in the competitive environment of the electronic industries, cost is one of the key elements to take into account. But this must be done –as I said before— seeing CSR not as a burden but, rather, as an investment.
- Information. It is not easy; nevertheless, it is totally indispensable to establish methods and channels so that all economic actors regularly receive elaborated and reliable information on CSR development.

These are some of the much publicised difficulties, however, the benefits clearly outweigh the potential challenges.

6. Minimum legislation, maximum responsibility

I understand that national and international regulatory bodies ask themselves about the need to legislate on a subject as important as CSR and the need to **establish a general framework and some basic demands**.

However, my position is clear:

Minimise the legislation, maximise the responsibility.

More than 25 centuries ago, the great Greek philosopher, Plato, saw the excess of laws and “legislative mania” as a symptom of political illness. When things are working well, legislation should be minimal. It is when things start to go bad that laws begin to multiply. Complexity is one thing and complication is another; from the first to the second, there is negative evolution. Complication is the unnecessary addition to complexity, a symptom of a foolish, gratuitous and deceptive process. It is one thing that our society is complex and another that we complicate it. The latter is what we should worry about, because after complication comes confusion.

If we legislate too much on CSR we will kill the incentive for companies to innovate in the way that they interact with society, thereby killing what I believe will become an important competitive advantage.

However, if there were a more flexible approach towards regulation, then companies would have a wider margin to freely define their own CSR, adjusted to their corporate background, interests and competitive standing.

Perhaps the magic formula would be something like: “minimum legislation, but maximum responsibility”. It would be in the hands of the companies to meet their responsibilities. This could be articulated in the form of a loose pact with political powers. I believe that after many years building wealth and contributing to a better society companies need to be trusted. I encourage public authorities to trust industry on the development of CSR and I am optimistic that in return the companies will make a good job.

7. From the worry of how they will see us to seeing clearly

And now, in the final part of my speech, I would like to comment on the acceptance of responsibilities.

I think I have found an unequivocal way to reach this and it has to do with, above all, a change of attitude.

Sometimes, I have the impression that, in general, companies are like many of us: we are too worried about how people see us. I'm not saying that this shouldn't be taken into account because it deals basically with our social presence and how others perceive us. However, what I'm saying is that if we are ONLY worried about this, we end up overlooking the most important thing, which is not how others see us but how we see the others and the world around us.

In today's corporate world it is difficult to see clearly. It feels like there are many who look but don't see. Already back in the 17th century, Baltasar Gracián, a great Spanish writer said something like: “Not all that see have opened their eyes, nor all those that look can see.”

At this stage, you may be wondering what is the relation between this and ethical and responsible conduct.

I would put it to you that the person that better sees the situation will better comprehend it, and the person that better comprehends is more capable of acting accordingly.



I also assume that you have been wondering about the Chinese ideogram projected above my head!

Let me define for you the meaning of this beautiful symbol, which in the Western world is translated as “virtue” or “ethics”. This ideogram brings together the symbols of walking, the number ten, an eye and a heart. How do we interpret the interrelation of these elements?

If we put ourselves in a culture of social appearances and shame, then we could say that the virtuous action is that which is done when we think a lot of people –ten eyes— are observing us. In other words: in such a context, it is decisive to act thinking about what we want others to see.

However, the ideogram could also be interpreted in another way - a responsible way - with the virtuous action consisting of watching carefully what you do –as if you had ten eyes— and doing it from the heart –honestly–.

In our traditional Western culture, this idea is not new and can already be found in the Greek concept of phronesis, which translated means caution. Caution doesn't consist of being fearful or not taking action or avoiding risks; caution means acting knowing –seeing clearly— what you're doing. Classical authors such as Aristotle and Cicero agreed when they highlighted that one of the key elements of caution is the sharpness of our glance, which allows us to clearly identify the singularity and specificity of each situation.

This is the way and change of attitude that I was referring to: instead of worrying so much about how people see us, we need to make an effort to see clearly. And, I must emphasise the need for this effort because seeing clearly is not easy. Let's remember what Goethe wrote: “What is most laborious? That which seems easy: being able to see with your eyes what you have before you.”

Making an effort to see means: understanding our situation and identifying in which direction we want to work, what type of world and society we want to contribute to creating, etc. If there is a proper effort to comprehend, the decisions that we make later on and the actions we carry out will follow on from this and therefore be responsible.

So here is a good company: one which makes an effort to see and clearly manages to act responsibly. All economic participants will feel involved in the effort and action. Managers, work groups, clients and shareholders –in different ways– could, in the best-case scenario, share a fruitful dialogue. Often, the need for communication is underlined in order to reach agreements. But couldn't we also see dialogue as an opportunity for everyone together to better understand the situation? Communication is an effort to understand. (So many group dynamics would change if this was the objective, instead of each person defending their own opinion!)

If we act in this way, we do not need to fear criticism from stakeholders that our CSR programs are purely “window dressing” and that are marketing bluffs.

Corporate Social Responsibility is a demand for caution, to see clearly. This means that a good company will be that which truly listens and is open to dialogue. I am not talking about listening to your customers but listening to all stakeholders and then acting accordingly, looking for common ground and shared interests. If we could see clearly, we could advise society on what they need and our actions would only be responsible ones. The classics also said this: that virtue comes from knowledge, from seeing correctly, on the other hand, error can only come of ignorance.

I hope I have managed to put across some of my thinking and I also hope that this can contribute to introducing the more detailed debates that will follow tomorrow.

Before I close my intervention, I would like to thank the organisers of the World Electronics Forum for this terrific opportunity and I am looking forward to **listening** and **seeing** all the comments and questions that you may have.

Thank you very much.

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