Is Governance for ROE or Sustainability?
—A Draft for Corporate Sustainability Governance—

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Abstract:

This paper discusses a question on the objective of corporate governance in the 21st century: Which of ROE or Corporate Sustainability should be selected as the supreme objective of corporate governance? It is also a question of whether "Investors' Property" or "Social Entity" should be selected as the definition of corporation.

For the discussion, financial data of 460 manufacturing corporations in Japan for the period of 1993–2012 are reviewed to analyze to what extent their R&D competency and Quality Control have declined since 2004 when emerged in Japan a shift of corporation definition from traditional "Social Entity" to "Investors' Property". Also analyzed is a series of the US manufacturing industries' contribution shares to the US GDP for 1997–2013: Having been defined and assumed historically as "Investors' Property", to what extent has the value added creativity of the US manufacturing corporations declined during the past 17 year period?

In conclusion from the analyses, this paper proposes the shift of the objective of corporate governance from maximizing 'ROE' to 'Corporate Sustainability' in order to overcome the recent shrinking or self-consuming cycle of manufacturing corporations in Japan and the USA. It is also a proposal for all industrial corporations in advanced or matured societies to recognize that the time has come for them to liberate corporations from the yoke of monetarism philosophy and mission.

Also proposed are primarily necessary tools and organizational change models for realizing the shift: Balanced Scorecard and advanced corporate sustainability models of Unilever, GE, P&G（Procter & Gamble）, and 12 manufacturing corporations in Japan.

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1. Should Corporate Governance be for "Investors' Property" or "Social Entity"?

Generally all corporations in the US and their management and governance members understand that their supreme goal is to realize the highest ROE. They assume that corporations are "Investors' Property" and that the goal should be the highest priority in executing their responsibilities. Consequently, the objective of the corporate governance is simple enough: Preventing management members from taking stockholders' value or equity excessively for managements' own benefit, or more directly, maximizing stockholders' equity and dividends. (John C. Bogle 2005 'The Battle for the Soul of Capitalism)

Meantime, in the corporations such as Unilever and Nestle questing for the corporate mission of sustainable co-living with natural environment including global societies and further consequently, the mission of the sustainability of corporations themselves, it is apparent that they assume that corporations are "Social Entity" rather than "Investors' Property". ('Captain Planet' Harvard Business Review June 2012)

It would be so, too, when corporations start pursuing and sharing the corporate mission of CSV (Creating Shared Value), a new concept proposed by Michael Porter ('Creating Shared Value' Harvard Business Review Jan. 2011), setting highest priority on creating values among all stakeholders rather than maximizing alone the value for stockholders or investors.

Then, can ROE maximization and corporate sustainability co-exist? The answer is apparently 'NO' as the corporate sustainability mission requires more diversified investments for all stakeholders includ-

ing natural environment than the investments for just maximizing ROE for investors.

Then, whether ROE or corporate sustainability should be assumed? Before answering this question, any corporate management would have to face the reality that maximizing ROE annually is absolutely contradicting to pursuing corporate sustainability. Then, corporate management and governance members would also have to accept the reality that they have to select one of these two contradicting definitions of corporation, "Investors' Property" or "Social Entity" before executing their responsibilities.

Which should be selected for the new generation of corporate management and governance? In exploring the answer to this question, reviewed are a series of historical corporate performance data of manufacturing corporations in Japan for the period of 1993−2012 and a series of historical US GDP data showing the contribution ratios of the US manufacturing industries to the national value-added for the period of 1997−2013.

2. What has happened in the manufacturing industries in Japan since 2004?

From the collective analysis of 20 year financial report data of 460 corporations of two major manufacturing industries in Japan for 1993−2012, 340 electrical equipment and 120 automotive industry corporations, it is found that a turning point of their 'net' operation profit ratio appears coincidentally in the year of 2004 when they started shifting their definition of corporation from "Social Entity" to "Investors' Property".

After the governmental deregulation for foreign fund investment in 1997, starting complying with GAAP requiring the disclosure of consolidated financial statement from 2004, most of market−listed corporations in Japan executed drastic HR cost reduction in 2000−2004, as it was thought to be the most effective corporate strategy for increasing the consolidated ROE to the level preferable to foreign investors within a few year limited period before 2004.

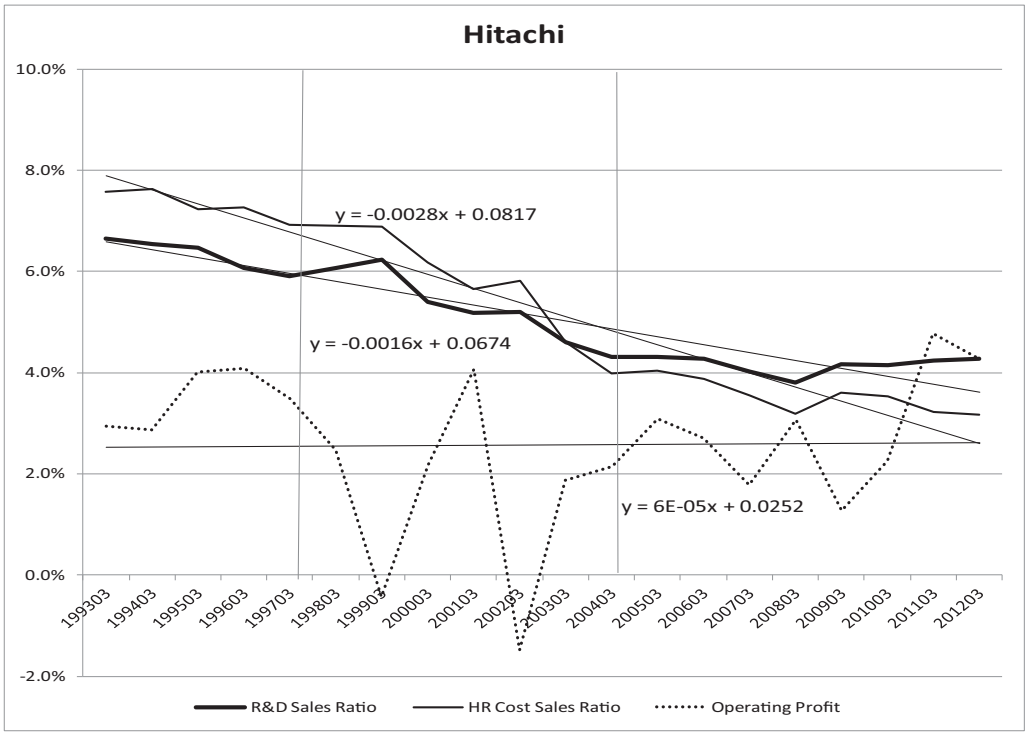
(1) To what extent has electrical equipment industry weakened its R&D competency?

The consolidated financial report data for 1993−2012 of 3 leading corporations of electrical equipment industry, Hitachi, Toshiba, and Sony, show a consecutive drastic reduction of HR cost per sales ratio for 1993−2012 and at the same time, one way declining 'net' operating profitability. While the 'nominal' operating profit ratio kept almost constant, in the same period, HR cost per sales ratio kept declining, which means without the HR cost slashing, OP ratios of the three would have kept declining. They realized constant OP ratio by reducing(sacrificing)HR cost continuously. (Fig. 1－3).

Even in 2007, it was observed officially that some corporate leaders in Japan still believed and spoke out 'in their companies, employees came first, not shareholders' ('Strategy or Stakeholders: Which Comes First?' by R.S. Kaplan, Palladium, HBS Publishing), their perceptions were not necessarily the same as the reality they had realized since 2004: They believed employees kept first but actually shareholders got first when those corporations started complying with global management standards.

Corresponding to the shift of corporate definition from "Social Entity" maintained historically since around 1960 to "Investors' Property" newly introduced after 1997−2004, it is suspected that two major industries in Japan have weakened their R&D competency (Electrical Equipment) and their legendary Quality Control (Automotive).

Fig. 1. Hitachi's Ratios of R&D/Sales, HR Cost/Sales and Operating Profit 1993−2012

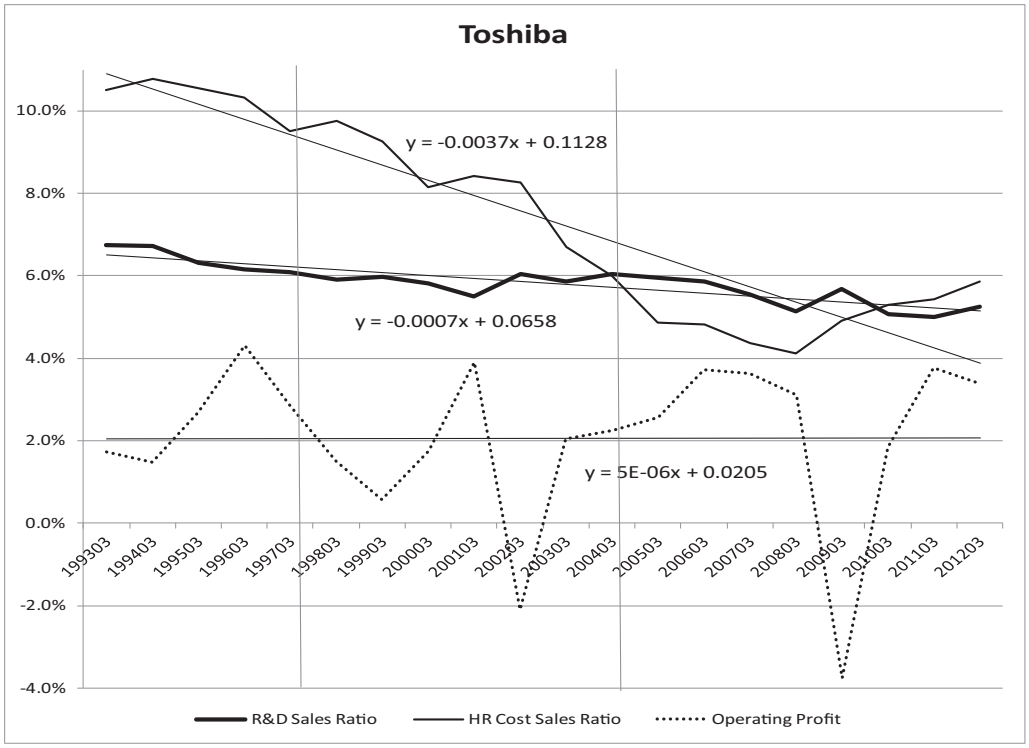


(Hitachi Consolidated Financial Reports to the Ministry of Finance of Japan: 1993－2012)

Hitachi's 1993−2012 averaged OP ratios were kept around 2.5% but during the same period, its HR cost per sales ratios were lowered by 3.5−4.5% from 7.5% in 1993 to 4.0% in 2004 and further to 3.0% in 2008, which shows its 'net' OP ratios were actually lower by the same ratio width of 3.5−4.5%: They were then, on an averaged base, −1.0% in 2004 and −2.0% in 2008.

As the continuous declining of the 'net' OP ratio is the indication of the continuing shortage of new innovative products for the period through 2012, it indicates that its R&D competency kept declining throughout the period. And the starting time of the declining corresponds to the period of 1997−2004 when Hitachi started the preparation for GAAP requirement to disclose consolidated financial statements in 2004 and naturally shifted its definition of corporation from their traditional definition of "Social Entity" to "Investors' Property" as shown by the fact that they sacrificed employees' compensation for maximizing ROE.

Fig. 2. Toshiba's Ratios of R&D/Sales, HR Cost/Sales and Operating Profit 1993–2012

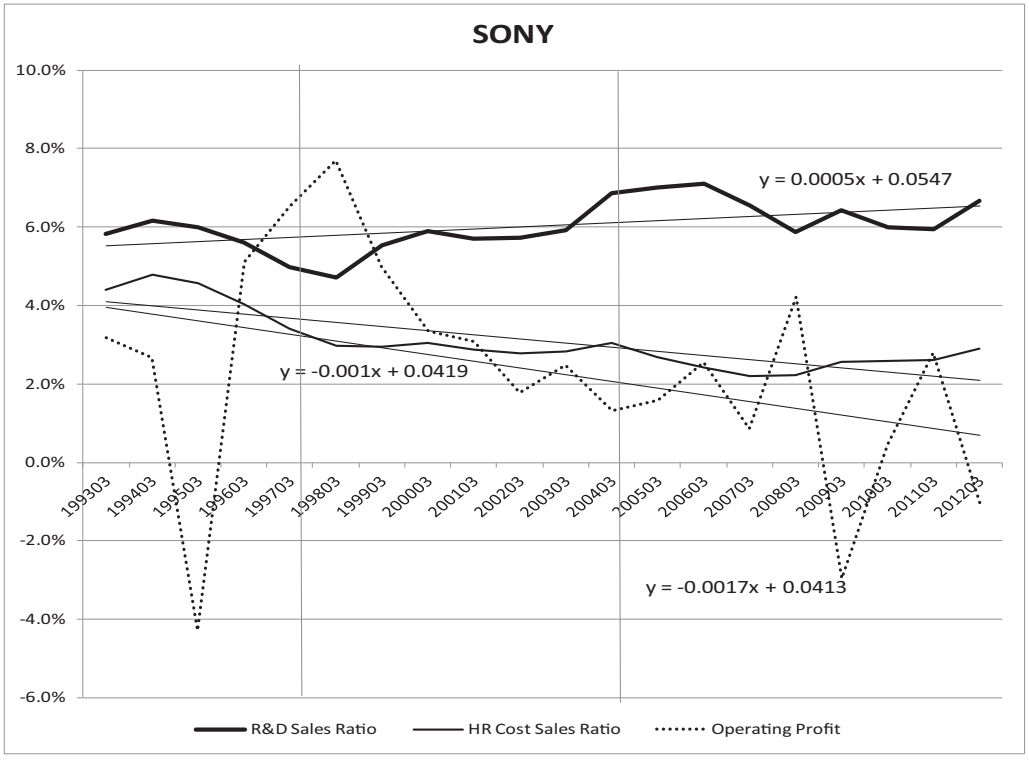


(Toshiba Consolidated Financial Reports to the Ministry of Finance of Japan: 1993–2012)

Toshiba's averaged OP ratios for 1993–2012 were kept around 2.0% but during the same period, its HR cost per sales ratios were lowered by 5.0–7.0% from 11.0% in 1993 to 6.0% in 2004 and further to 4.0% in 2008, which means its 'net' OP Ratios were actually lower by the same ratio width of 5.0–7.0%: They were then, on an averaged base, −3.0% in 2004 and −5.0% in 2008.

As the continuous declining of the 'Net' OP ratio is the indication of the constant shortage of new innovative products for the period through 2012, it indicates that its R&D competency kept declining throughout the period while R&D Sales Ratios were almost constant. And the starting time of the declining again corresponds to the period of 1997–2004.

Fig. 3. SONY's Ratios of R&D/Sales, HR Cost/Sales and Operating Profit 1993–2012



(SONY Consolidated Financial Reports to the Ministry of Finance: 1993–2012)

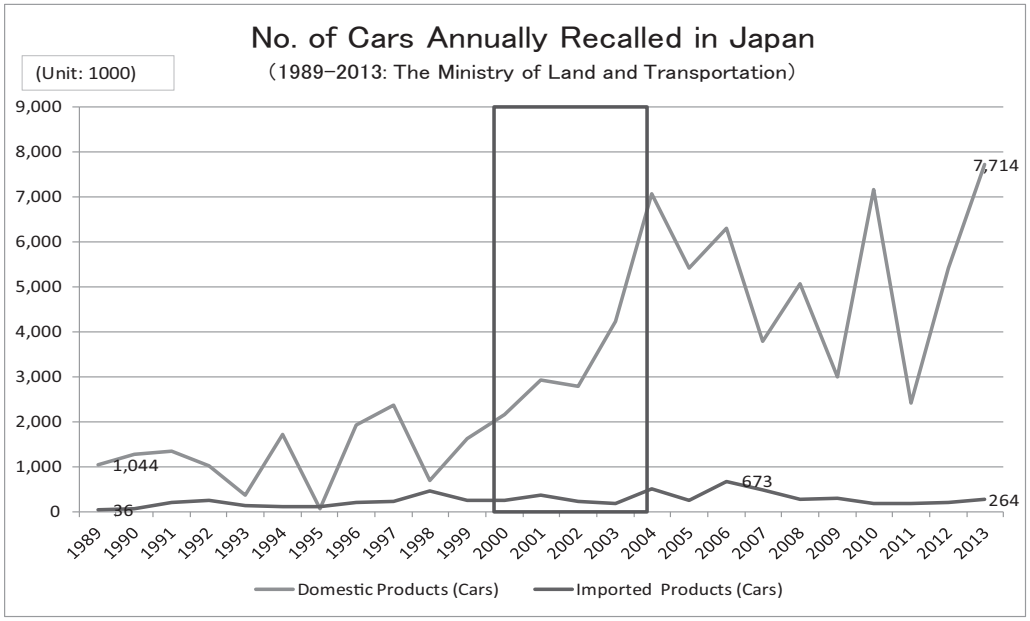
SONY's OP ratios for 1993–2012 were kept around 2.0% but during the same period, its HR cost per sales ratios were lowered by 2.0–3.0% from 5.0% in 1993 to 3.0% in 2004 and further to 2.0% in 2008, which means its 'net' OP ratios were actually lower by the same ratio width of 2.0–3.0%: They were then, on an averaged base, 0% in 2004 and −1.0% in 2008.

Again, as the declining of the' net' OP ratio is the indication of the constant shortage of new innovative products for the period through2012, it indicates that its R&D competency kept declining throughout the period even though R&D Sales Ratios increased slightly. And the starting time of the declining of R &D competency also here again corresponds to the period of 1997 − 2004.

(2) To what extent has automotive industry weakened its Quality Control 1993–2012?

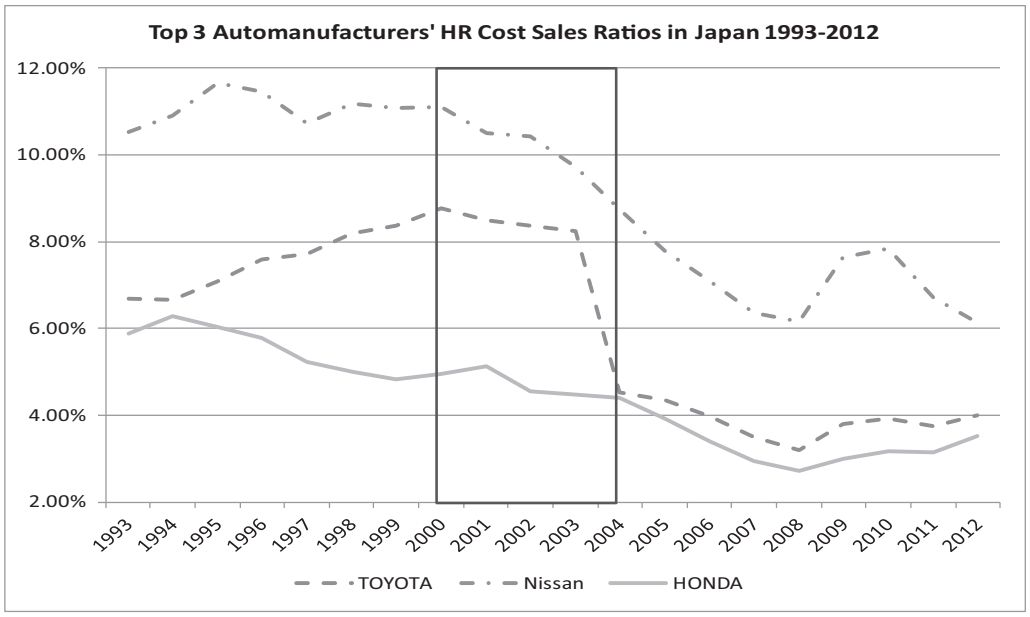
In accordance with the HR Cost/Sales Ratio declining from around 2000–2004, the automotive industry starts weakening its legendary Quality Control, as shown by the fact that domestic recall frequencies and annual number of recalled cars increased steeply after a few year time lag from 2000–2004 period. (Fig. 4). In the period of 2000 − 2004, 3 leading corporations of the industry, TOYOTA, Nissan, HONDA lowered their HR Cost/Sales Ratio drastically as shown in Fig. 5, indicating their shifting the definition of corporation from "Social Entity" to "Investors' Property" regardless the extent they consciously intended it.

Fig. 4. No. of Cars Annually Recalled in Japan 1989–2013



(Recall Reports of the Ministry of Land and Transportation 1989–2013)

Fig. 5. HR Cost/Sales Ratio of TOYOTA, Nissan and HONDA 1993–2012



(Consolidated Financial Reports to the Ministry of Finance: 1993–2012)

（3）Can the legend of Japanese corporation still alive?

Even in 2007, most of corporate leaders in Japan still believed and spoke out stating that ‘in their companies, employees came first, not shareholders’（‘Strategy or Stakeholders: Which Comes First?’ by R.S. Kaplan, Palladium, HBS Publishing）. These Japanese industry leaders seem to have not understood the actual reality that their companies had been in since 2004.

They believed employees had priority on the value sharing process as “Social Entity”, but actually shareholders became prioritized when those same Japanese corporations started complying with global management standards assuming corporations as “Investors’ Property”.

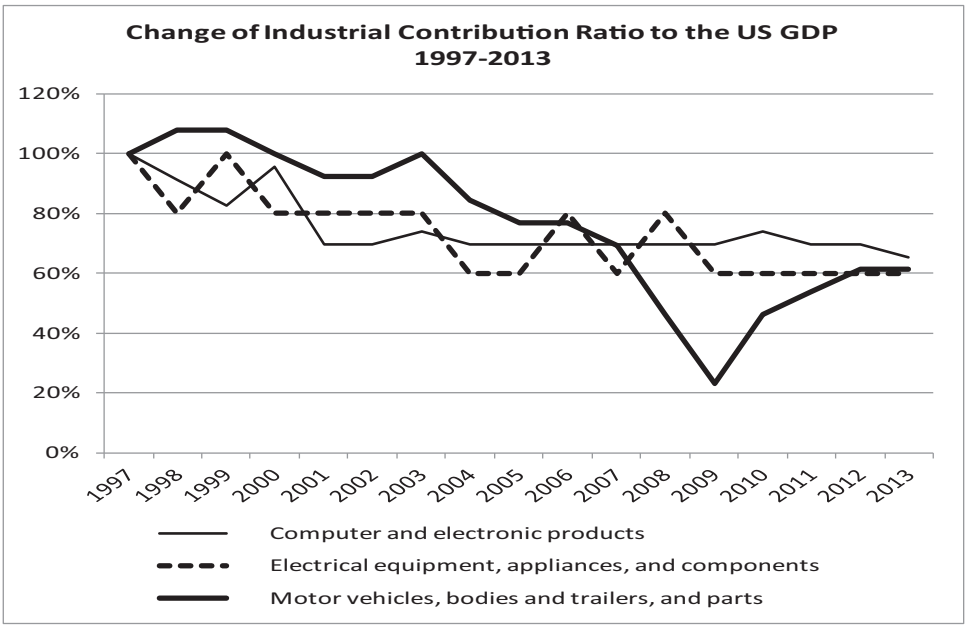
Corresponding to the shift of corporate definition from “Social Entity” maintained historically since around 1960 to “Investors’ Property” newly introduced after 1997−2004, it is observed that at least two major industries in Japan have weakened the legend of “bottom up innovations” and consequently their R&D competency（Electrical Equipment）and legendary Quality Control（Automotive）.

Can the legend of Japanese corporation survive? While there is no sure answer to this question yet in 2015, as long as the cause having weakened it could be fixed, there shall be sure possibility of resuming it.

3. What has happened in the manufacturing industries in the US for the past 17 years?

What has happened in the US manufacturing industries where the corporate definition of "Investors' Property" has been traditionally maintained? There is an indication in the historically declining trend of its contribution ratio to the US GDP value added. In Fig. 6, from 1997 to 2013, the US Auto industry's contribution ratio to the US GDP decreased to 60%. Electrical Equip. industry's contribution decreased to 60%, Computer and Electronics Products industry's to 70 %. (The data before 1997 unavailable in U. S.BEA DB in Jan. 2015.)

Fig. 6. Historical Contribution Ratios of Manufacturing Industry to the US GDP 1997-2013



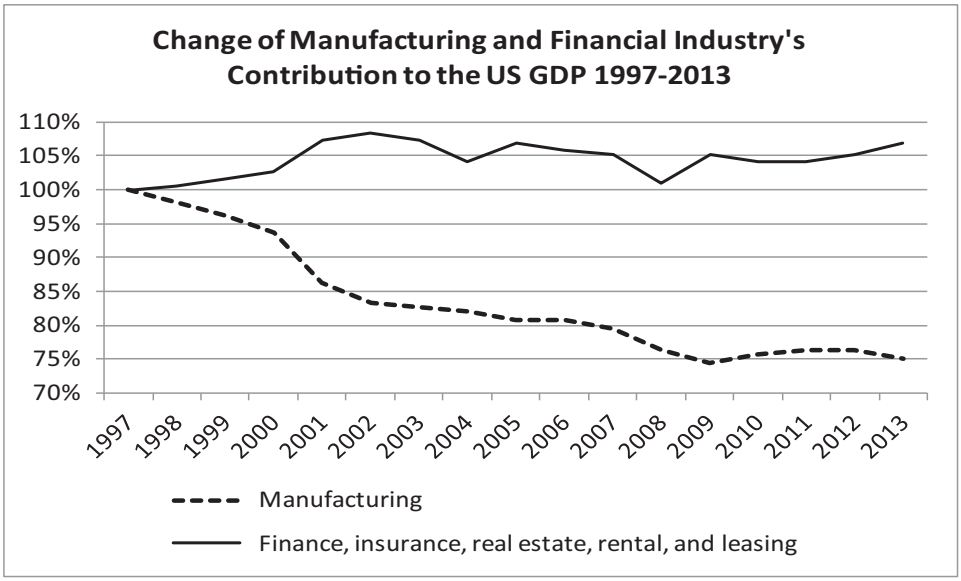
(U.S. Dept. of Commerce, Bureau of Economic Analysis, 1997-2013 Data)

From the declining of the three manufacturing industries' value added to the US GDP, the declining of their value added creativity could be suspected: In Fig. 7, from 1997 to 2013, even the total manufacturing industry's contribution to the US GDP declined to 75%, while the total financial industry's contribution increased to 107%.

If we consider the fact that the US manufacturing industry's GDP figures include their profit amount from their own financial operations and financial business models such as auto loan and consumer finance, 'net' manufacturing industry's value-added contributions to the US GDP would be further lower and reversely 'net' financial industry's contribution would be further higher actually than those figures shown in Fig. 7. For an example, GE, as one of most successful hybrid corporation of financial and industrial business models, has an averaged 45% of its recent 3 year operating profit coming

from its finance business.（GE Financial Reports 2012–14）

Fig. 7. Manufacturing and Financial Industry's Contribution to the US GDP 1997–2013



（U.S. Dept. of Commerce, Bureau of Economic Analysis, 1997–2013 Data）

From the historical trend shown in Fig. 6 and Fig. 7, the US manufacturing industry as a whole, or at least, its leading three industries, Computer and Electronic Products, Electrical Equip. and Auto have kept reducing their value added creativity while the US Financial industry overall has increased it.

What has caused the manufacturing industries' value added shrinkage?

If what has happened in Japan since 2004 is also taken into consideration, it could be suspected that the traditional notion that corporations are "Investors' Property" might have propelled corporate management and governance together to maximize ROE and prioritize less long term investment in R&D and employee development.

Then, it can be also suspected that the notion of "Investors' Property" itself might be one of the major causes of the creativity shrinkage, of the R&D competency weakening and then of the consequential GDP value added declining. Management and governance team might have been successful in maximizing ROE and the benefit to stockholders in the US manufacturing industry but instead they possibly have sacrificed corporate creativity to increase GDP value added and have damaged the source for sustainable growth with innovation by nothing else but unconditionally accepting the definition of corporation as "Investors' Property".

4. Hasn't got reversed the bargaining power balance between investors and corporations?

In Sep. 2014, CalPERS (The California Public Employees' Retirement System) announced to terminate the relationship with hedge funds. In Europe, Unilever did announce the similar relationship termination on the first day of the current CEO Paul Polman in 2009. Also Unilever has stopped publishing quarterly reports since then. ('Captain Planet' HBR, June 2012)

The number of MBO (management buyout) keeps increasing in the US as well as in Japan. In 2014, the total MBO amount in Japan is 30 US$ Billion and 180 US$ Billion in the US. Both are historically high and close to the level of 2008. Symbolically also Dell withdrew its 100% stocks back from the market early 2013.

And 'Stewardship Code' asking investors to be supporters to corporations to grow in long term is being increasingly introduced in Japan since 2014. GPIF (Government Pension Investment Fund), the largest pension fund with 1.3 US$ trillion asset in Japan, has announced to introduce UK origin Stewardship Codes in 2014, aiming to enhance the relationship between fund managers and corporations to co-work for realizing long-term returns. The codes introduction can be also understood as one of CSV pursuits.

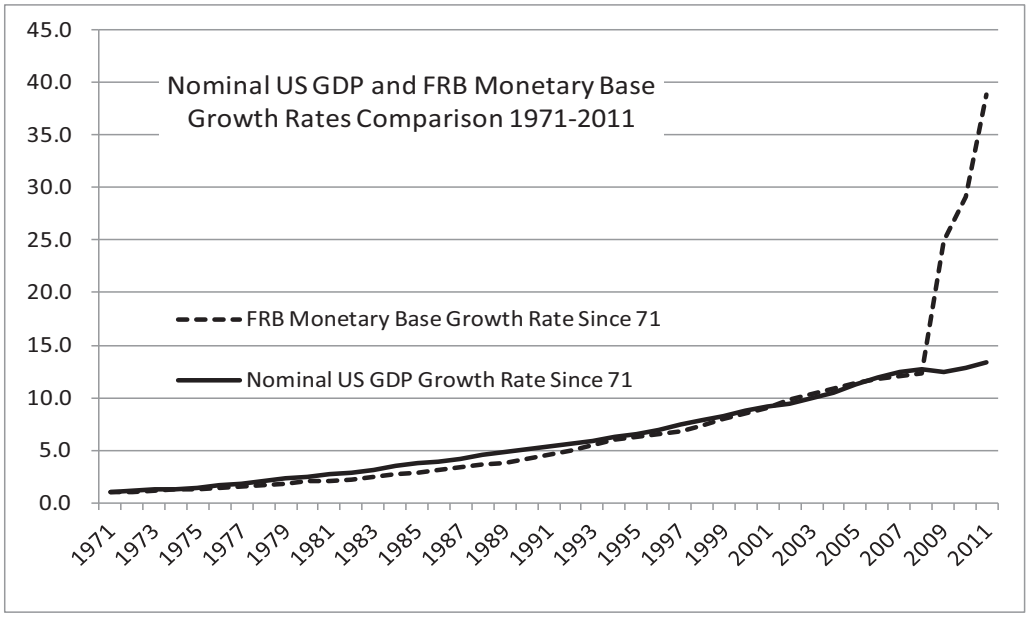
What do all of the above indicate?

One would be a reversing of the bargaining power balance between investors and corporations. It is not caused by any ideology or regulation but simply by a simple economic principle of demand and supply balance: excessive monetary supply has weakened its bargaining power as capital or financial fund. The excessiveness is observed in Fig. 8 and 9: the comparisons between the growth rates of FRB monetary base and those of real and nominal US GDP.

It is well known that it was only after the 2008 subprime shock that money supply growth rates started to exceed GDP growth rates drastically. However, as Fig. 9 shows, it started even from 1971 when the dollar convertibility with gold ended.

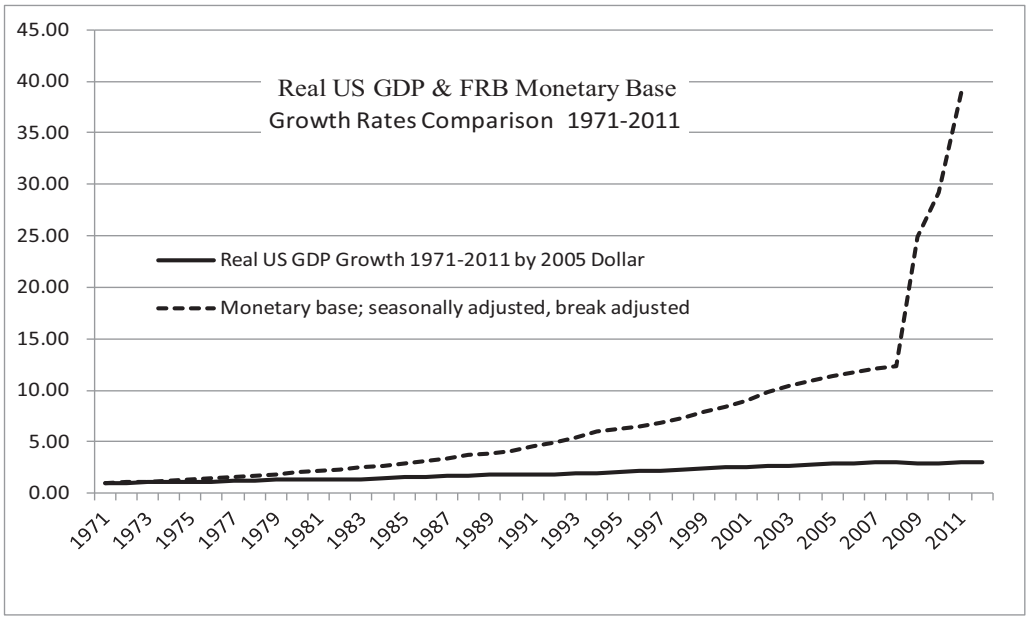
The reversing of bargaining power balance would mean two things: First, central banks can no longer boost real economy nor enhance creativity and challenge of corporations by either their traditional interest rate control or asset purchasing control. Second, financial industry cannot exist as just the source of capital but is required to support proactively real economy corporations to grow with sustainable innovation. The economic growth, especially in matured societies, is fully dependent on the creativity of real economy corporations or more strictly on whether real economy corporations or manufacturing industries can resume and develop their sustainable long term R&D activities or not.

Fig. 8. Growth Rates of FRB Monetary Base and of Nominal US GDP 1971–2011



(FRB Reports and U.S. DOT BEA Data 1971–2011)

Fig. 9. Growth Rates of FRB Monetary Base and of Real US GDP 1971–2011



(FRB Reports and U.S. DOT BEA Data 1971–2011)

5. Balanced Scorecard again for Corporate Governance

Which of maximizing ROE or Corporate Sustainability should corporate management and governance teams aim at? If we agree with the fact that excessively accumulated monetary funds and their continuous pressures to corporations to maximize short term or annual ROE, keep shrinking the core industry of the real economy, manufacturing industries, the answer is apparent. Highest priority is to be put on Corporate Sustainability and then ROE is to be positioned as just one of critical conditions to realize corporate sustainability.

Then what measurements or evaluation indexes should corporate management and governance teams rely on in order to explore corporate sustainability?

There is a legendary corporate performance evaluation model, Balanced Scorecard, proposed by Robert S. Kaplan and David P. Norton early1990's. It has got benignly neglected in not a few US corporations, however, soon after it was published, most probably, mainly because it modifies the maximization of annual ROE by proposing long term investment in good balance. Therefore, the reason why it has been neglected proves its effectiveness as the measurement system for corporate management and governance teams together aiming at corporate sustainability or sustainable growth by innovation.

6. Utilization of Balanced Scorecard model for Corporate Sustainability

(1) Understanding the fundamental structure of BS measurements

Balanced Scorecard classifies corporate performance measurements into 4 regions with two axes of Returns vs Investments (Originally described as Results and Methods or Strategies) and External vs Internal Focus Achievements as shown in Fig. 10 and Fig. 11 below.

Fig. 10. 4 regions of Balanced Scorecard

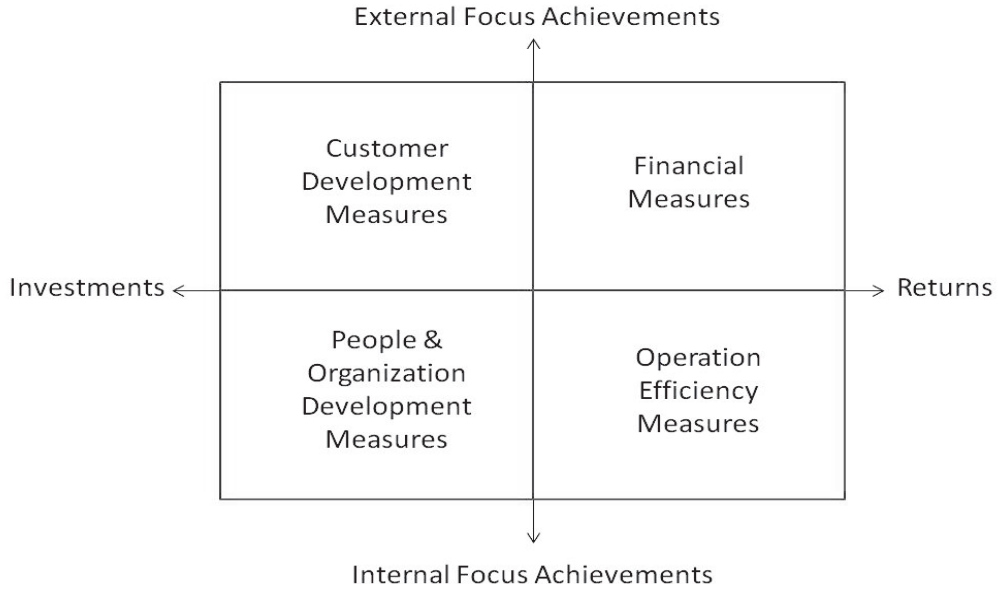
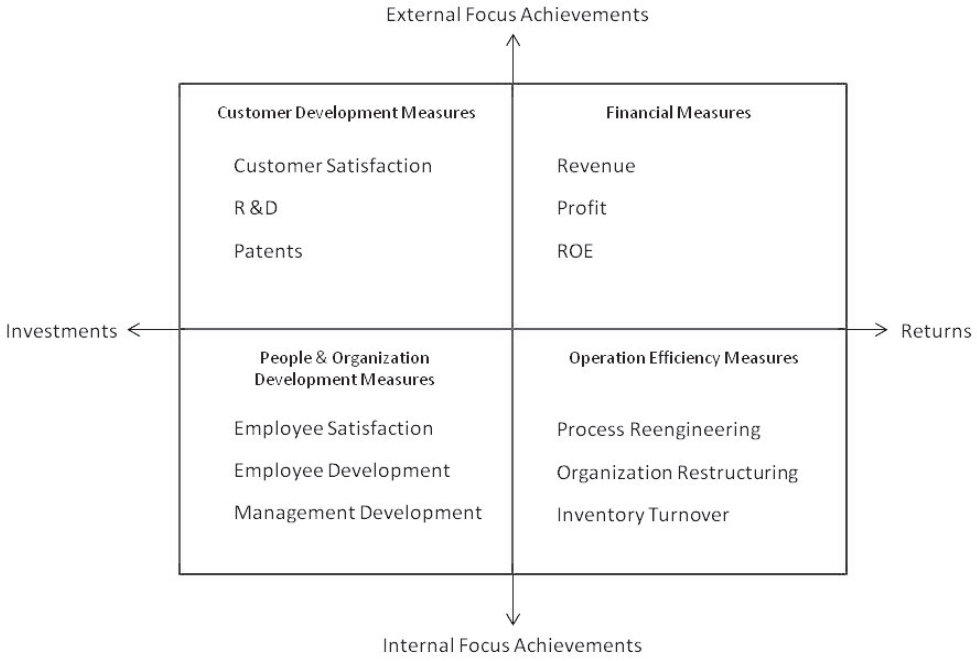


Fig. 11. Core measurement indexes of the 4 regions



As shown in Fig. 10, the 4 performance measurement regions of Balanced Scorecard are Financial Measures, Operation Efficiency Measures, Customer Development Measures, and People and Organization Development Measures.

As shown in Fig. 11, specific core measures are Revenue, Profit and ROE for Financial, Process Reengineering, Organization Restructuring and Inventory Turnover for Operation Efficiency, Customer Satisfaction, R&D and Patents for Customer Development, and Employee Satisfaction, Employee Development and Management Development for People and Organization Development.

(2) Reflecting into BS the shift of corporate mission from ROE to Corporate Sustainability

In order to reflect the shift of corporate mission from ROE with the corporate definition of "Investors' Property" to Corporate Sustainability with "Social Entity", the perception or image of the 4 region relationship of BS should be changed from Fig. 12 to Fig. 13.

In Fig12, the corporate mission of maximizing ROE as highest priority assumes 'financial measures' as subject and the other three region measures as means or strategies for realizing the subject.

In Fig. 13, the corporate mission of pursuing Corporate Sustainability assumes 'customer development measures' and 'people and organization development measures' together as subjects, 'financial measures' as measures to judge the extent of the achievement of the two subjects by assuming that financial measures are consequences of the investments of the two region subjects with some time lag for real-

izing investment returns, and finally 'operation efficiency development' as the resource for the investment of the two region subjects as well as the source contributing to 'financial measures'.

Fig. 12. BS image aiming at maximizing ROE as corporate mission

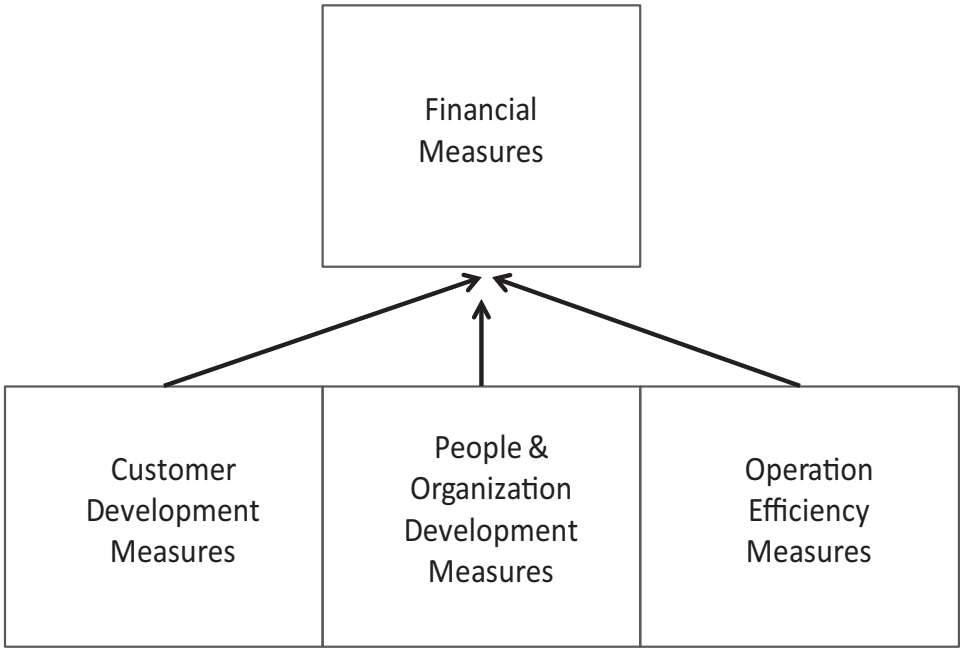
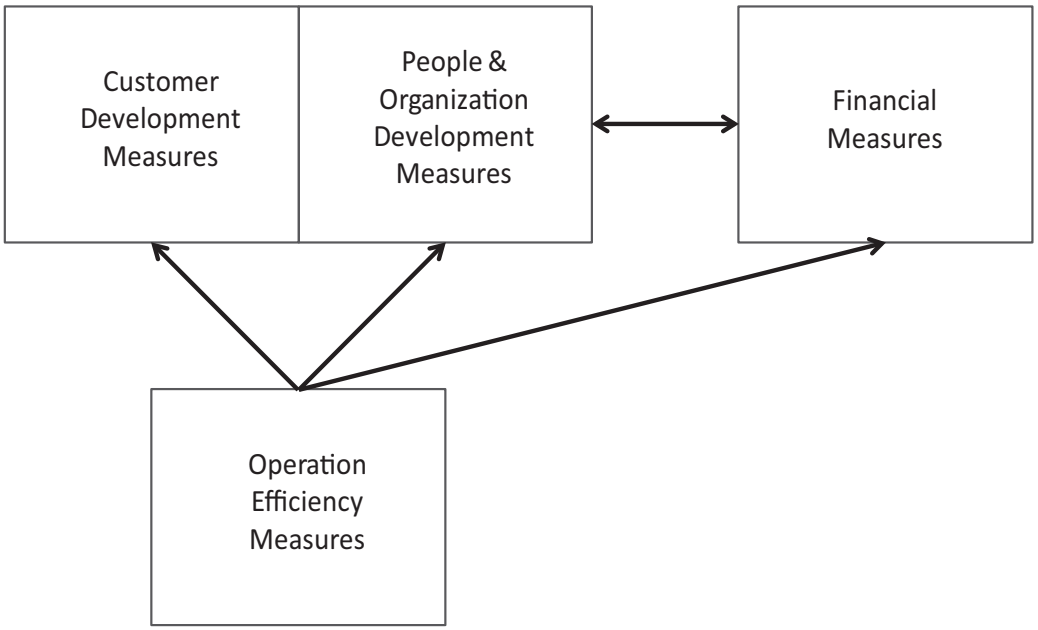


Fig. 13. BS image aiming at pursuing Corporate Sustainability as corporate mission



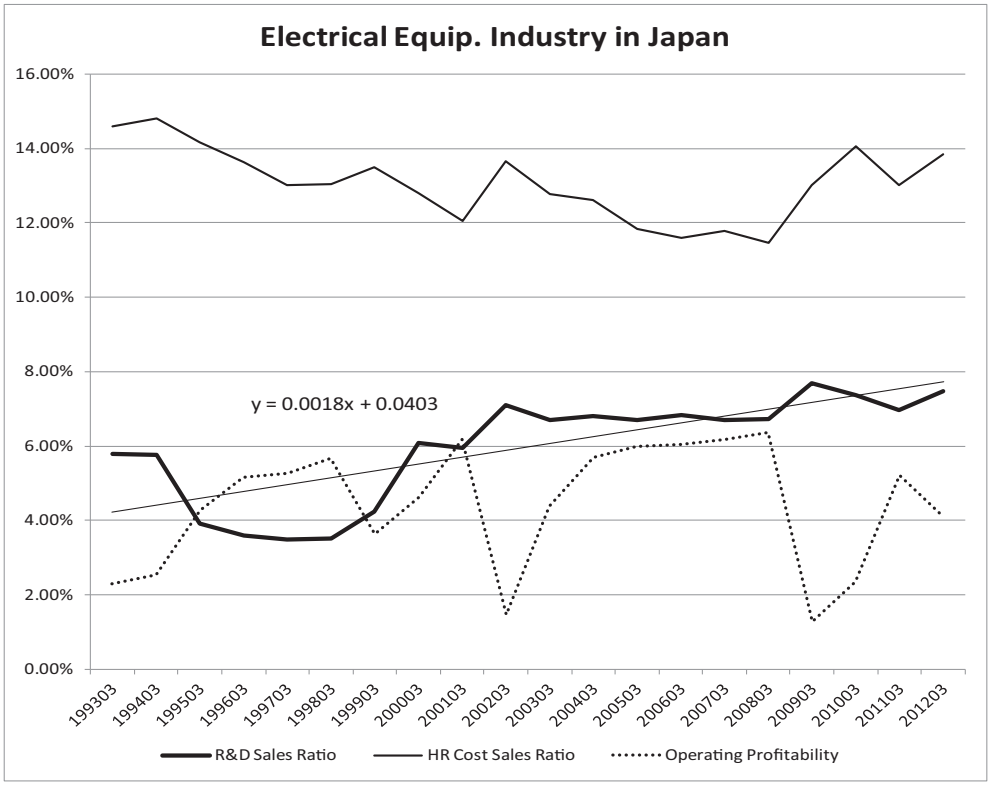
（3）Specifying investment indexes for measuring Corporate Sustainability

（i）Sustainability of R&D per Sales Ratio

One of indexes to measure corporate sustainability in the region of Customer Development would be the constancy of R&D per Sales Ratio.

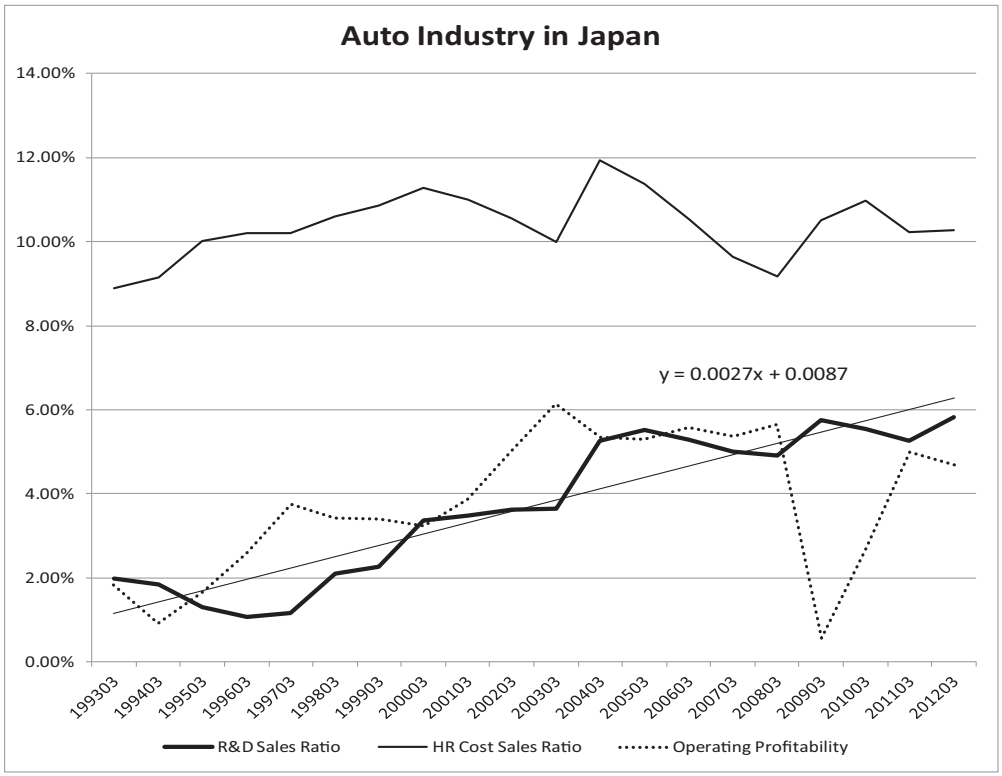
Even the two industries in Japan, Electrical Equip. industry and Auto industry（including all Transportation Equipment manufacturers）referred as those having weakened their R&D competency and QC after around 2004, still keep R&D per Sales Ratio constant throughout the period of 1993−2012 as shown in Fig. 14, and, 15. In Auto industry, the R&D per Sales Ratio even increases throughout the period of 1993−2012.

Fig. 14. R&D per Sales Ratio and OP Ratio of Electrical Equip. Industry in Japan 1993−2012



（Averaged Statistics of 340 Electric Equip. Industry corporations in Japan 1993−2012）

Fig. 15. R&D per Sales Ratio and OP Ratio of Auto Industry in Japan 1993–2012



（Averaged Statistics of 120 Auto Industry corporations in Japan 1993–2012）

All the other industries in Japan have shown the same statistical trend on R&D per Sales Ratios for the period of 1993–2012. From the viewpoint of this R&D measurement index, all manufacturing industries in Japan have satisfied this requirement for corporate sustainability.

（ii）Sustainability of HR Cost per Sales Ratio

In industrial statistics, all industries in Japan except for Agricultural Product, Ocean and Forest Products and Construction industries, have kept decreasing HR Cost Ratio since around 2004: Those of Food, Steel, Metal, Machinery, Auto, Medical, Rubber and Glass, Electrical Equip., Chemical, Textile, Computers and IT, Electricity and Gas, and Precision Machineries, have not satisfied the constancy requirement of HR Cost per Sales Ratio.

（iii）Sustainability of 'Net' Operating Profit Ratio

If 'Net' Operating Profit Ratio of a corporation is kept constant for a certain long term such as 1993–2012 without the intentional reduction of Sales and General Administration cost for the purpose of maintaining OP ratio appropriately, the corporation satisfies this requirement, because the constant or increasing net OP ratios for a certain long term of 20 years indicate that corporation kept realizing and marketing new, competitive and innovative products overcoming their product deterioration cycle during the

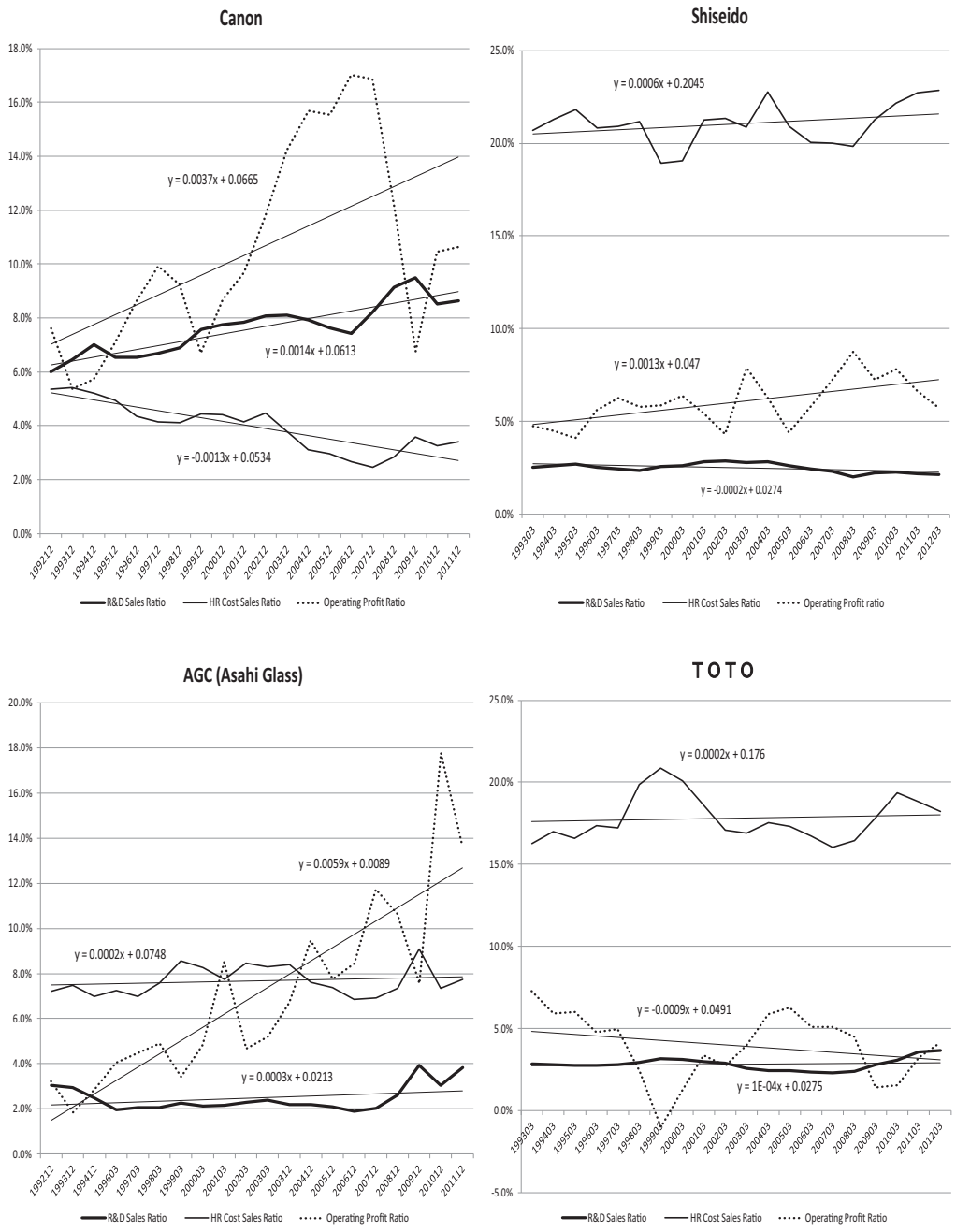
period.

While in Japan most of all corporations have decreased HR Cost per Sales Ratio after 2004 as mentioned before, only some corporations whose OP Ratio increase is more than the decrease of their HR Cost per Sales Ratio can be evaluated as satisfying this requirement.

Some typical examples of those satisfying this requirement among manufacturing corporations in Japan are shown in Fig. 16, Fig. 17and Fig. 18: Canon（Precision Machinery）, Shiseido（Cosmetics）, AGC（Glass）, TOTO（Ceramic）, KIRIN（Brewery and Pharm）, Fanuc（Industrial Machinery & Robotics）, Takeda（Pharmaceutical）, TERUMO（Medical Equip）, Komatsu（Transportation）, Kubota（Farm Machinery）, Tokyo Electron（Electronic Machinery）and TOYOTA（Auto）.

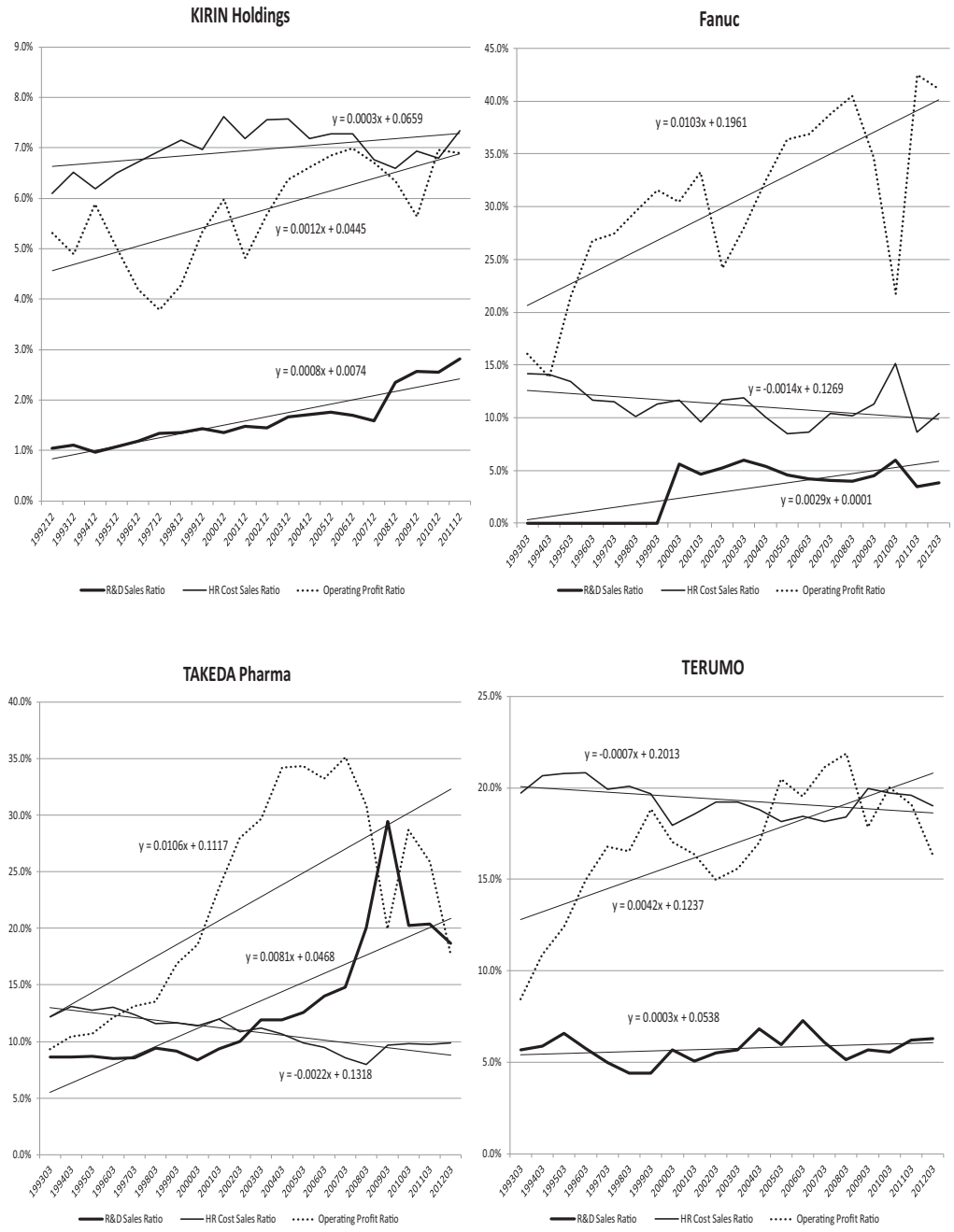
While the observations are only for the limited time period of 20 years, the fact that all of the above 12 corporations are industrial leaders in Japan and that some of them, Fanuc, TERUMO, Cannon, TOTO, AGC, Komatsu and TOYOTA have maintained globally dominant market share at least for the 20 year period would be or could be an indication of the validity of this measurement index, the constancy of 'Net' OP Ratio, for corporate sustainability.

Fig. 16. Examples of corporations satisfying 'Net' OP Ratio Constancy in Japan (Part 1)



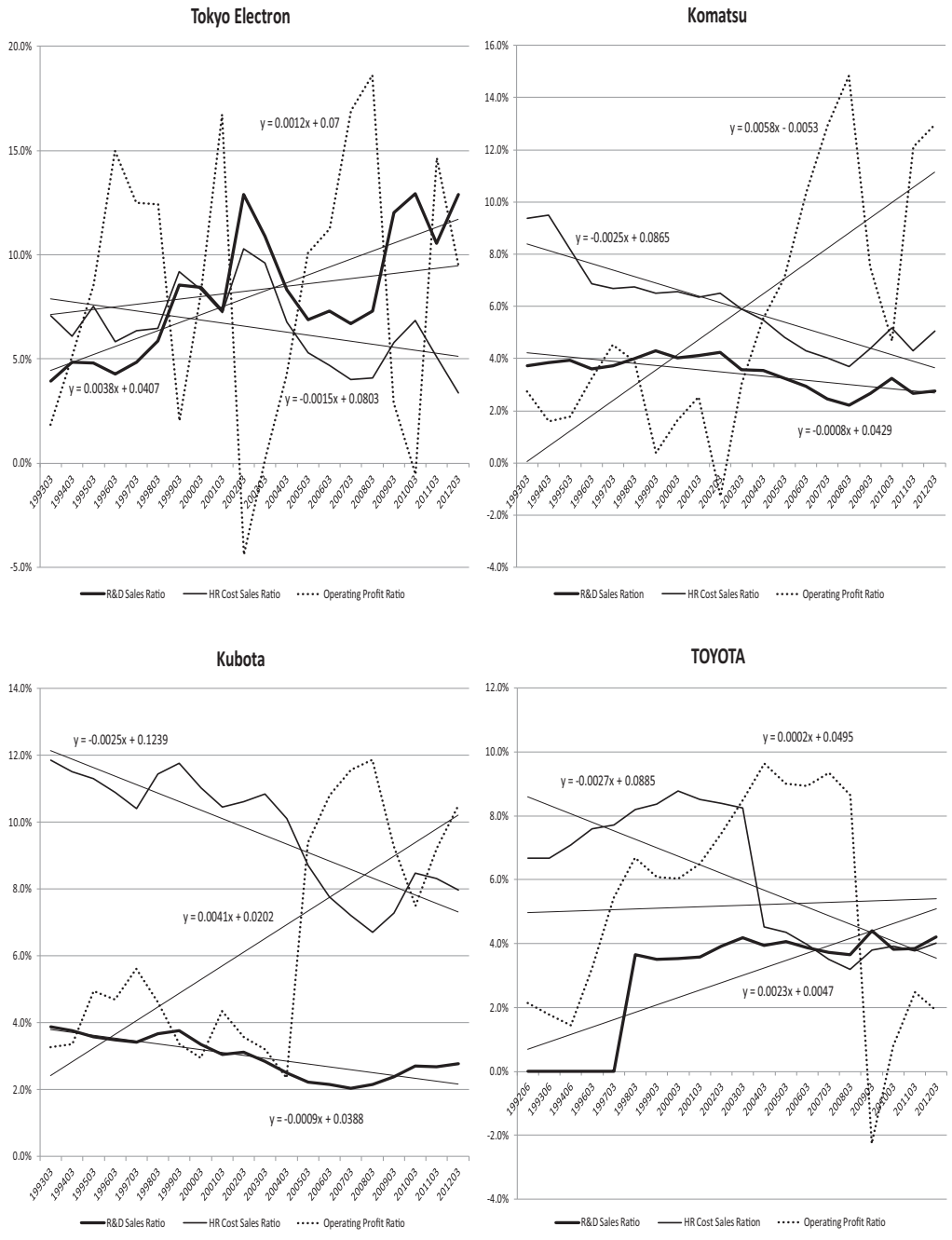
(Financial Reports to the Ministry of Finance 1993–2012)

Fig. 17. Examples of corporations satisfying 'Net' OP Ratio Constancy in Japan (Part 2)



(Financial Reports to the Ministry of Finance 1993–2012)

Fig. 18. Examples of corporations satisfying 'Net' OP Ratio Constancy in Japan (Part 3)



(Financial Reports to the Ministry of Finance 1993–2012)

7. Major organizational changes to support realizing Corporate Sustainability

(1) Separating innovative growth organizations from cash generation organizations

This is an inevitable organizational change to support innovation and incubation for corporate sustainability, because, otherwise, any innovation or incubation projects would be abandoned soon after their starting due to the relative poorness of their profitability in comparison to the profitability of currently successful cash generating business models. Moreover, any management or employee engaging in both business models would prefer to concentrate on the current success model, cash generators, for immediate win, as suggested by Clayton M. Christensen's 'The Innovator's Dilemma' 1997.

GE could be one of successful showcases sheltering innovation business organizations from the currently successful organizations of cash generators. Since around 2004, GE has started to classify its business into two categories: Cash Generator and Growth Engine. Energy, Infrastructure, Healthcare, Transportation, Consumer Finance, Commercial Finance and NBC are classified as Growth Engines. Advanced Materials, Equipment Services, Consumer and Industrial Services are Cash Generators.

Having divided its business into the above two categories, GE has also assigned independent and different missions with a set of associated performance measurements to each of the two so that each can pursuit its own missions independently: The mission of efficiency pursuit for Cash Generators and the mission of creativity pursuit for Growth Engines.

Also GE aligned management competency requirement to each classification by defining the management for Cash Generator as 'problem solvers' with the experience of multiple business and functions and the management for Growth Engine as 'growth leaders' with market depth, customer tough, and technical understanding. ('GE's Growth Strategy: The Immelt Initiative' HBS Case Nov. 2006)

(2) Enhancing 'Learning' competency to complement 'Administrative' competency

What GE has tried in the above differentiation of management competency requirement in accordance with the organizational mission of pursuing innovation or cash generation would be translated as a quest for management competency for creativity.

The traditional administrative competency, by the fundamental nature of its pursuit of scientific rationalization, cannot realize innovation of creating value but can only do problem solving for maximizing cost & benefit, and, in other words, can only realize the innovation of pursuing higher efficiency. As realizing higher efficiency on the current business model can result in an immediate and sure win with cost & benefit calculation rather than pursuing creating new value toward the uncertainty future, it makes rational sense to pursue cost & benefit efficiency rather than uncertain value creation. Also there is quite a natural tendency that any management newly recruited tends to pursue short term win to respond to the 360 expectations, especially to the expectation from investors and stock market. Then any corporation getting into such an environment of management successions starts self-consumption cycle while for the very limited short term it looks maximizing the financial value of corporation. This is the most substan-

tial cause of the emerging calls for corporate sustainability management.

For the pursuit of corporate sustainability, therefore, a new management competency complementary to and fulfilling the lack of administrative competency: A management competency for creating value is needed critically. While even Immelt's GE doesn't seem to have specified the competency for creating values yet, it is the competency of 'learning'.

'Learning' competency can be summarized as 'External-In' competency that stimulates and creates new ideas based on the external information such as the needs of customers, markets and societies', meanwhile 'Administrative' competency as 'Internal-Out' one that controls outside based on the internal information such as managers' knowledge, experiences, desires, and given commands. Hence, just because of its External-In characteristics against Internal-Out ones of administrative competency, the learning competency is fully complemental to the administrative competency and enables creating values as it helps people learn from new demands and changes of external environments and envision ideas responding to them.

To grow and support innovation business models and organizations, therefore, management has to master these two contradicting competencies together, not alone administrative one obtained at business school. One good news is in developing learning competency, mastering the administrative one beforehand is an advantage, as the learning competency is mirror reverse to the administrative as shown in Table. 1. If the relationship is understood, whoever masters administrative competency can master smoothly the entire set of learning competency factors as reverse levers to administration. (‘Emotional Intelligence' D. Goleman and 'The Fifth Discipline' P. Senge)

Table 1. Comparison of the factors of 'Learning' and 'Administrative' competency

	Administrative	Learning
Value:	Scientific Rationalization	Social Harmony and Humanity
	Maximizing Cost & Benefit	Exploring Sustainable Evolution
	Efficiency Competitiveness	Value Creativity
Thought:	Analytic	Synthetic
Communication:	Logical	Emotional
Action:	Internal-Out Control	External-In Creation
Desire:	Harvesting	Investing
	Risk Averse against Uncertainty	Challenge to Uncertainty
	Competition for Earning	Dedication for Evolution

(3) Redefining the competency requirements for middle managers

As could be thought of from the above comparison of Learning and Administrative competency, the former is for middle management of innovative growth to master and implement in order to enhance organizational creativity, while the latter is for middle management of cash generators in order to pursue its

mission to maximize return on investment.

(4) Shifting corporate culture to "Corporative" : 'Human Resource' to be 'Human Being'

However, in order to enhance organizational creativity, it is not enough that middle managers of innovative growth alone master and implement learning competency. All employees, at least, in innovative growth segment organizations should master and implement the learning competency. In other words, the learning competency needs to be planted as corporate culture rather than just a set of management competency, as proposed by W. E. Deming when he tried to enhance Quality Control of Ford corporation 1984-93 ('The New Economics for Industry, Government, Education' and 'Out of the Crisis') as well as by one of his successors, Peter Senge, in 'The Fifth Discipline'.

It would also mean that the third definition of corporation, "Corporative", needs to be also introduced and shared besides the two previously discussed; "Investors' Property" and "Social Entity". "Corporative" assumes all employees to be partnership members of corporations and therefore recognize them to be human beings more than human resources. It is, by common sense, making sense because only human beings can creatively envision the future. And the learning and grows of organizations cannot be realized without human beings creativity. Or it could be said that human beings creativity is the only source for any organizational or social evolution.

In other words, if they were kept defined as human resources regardless of the extent the expression means literarily, their motivation for creativity would risk being limited within just the scope of their wage and accountability. Or even their implementing creativity would not be preferred or prohibited to prevent them from behaving irrationally or deviating from the original expectation as rational resource. The shift would get acceptable or inevitable sooner or later if we face the reality of the recent common sense forecast that within half a century to come, rather majority of the works by the human resources if meant literarily would be taken place by artificial intelligence and robot. Being given the destiny to envision creatively only human beings would and could evolve themselves, organizations and societies sustainably even in the age of AI and robots.

(5) What should we specifically do to realize the employees of human beings?

However, shifting corporate definition to "Corporative" should not mean to accumulate any additional amount of benefit, unfair to the other stakeholders, to employees. It should be realized just by opening up and supporting the individual freedom of employees to create values for and serve to others. While the administrating competency, by definition, cannot support that direction as it assumes to control rational human resources, its reverse competency, the learning, can enhance individual freedom to serve others and societies, which is why the learning competency is an inevitable tool for corporate sustainability.

Also in order to lead specifically the cultural shift, there is a new corporate management evaluation model, 'Strategy Map', proposed by the founders of Balanced Scorecard, R.S. Kaplan and D. P. Norton

('Balanced Scorecard Report: Managing Regulatory and Societal Process' HBR Reprint No. B0307A). In Strategy Map, Learning and Growth Perceptive is positioned in the bottom of the tower of the other three kinds of perceptive, Financial, Customer and Internal Process, which would be translated as indicating and proposing that learning (as well as its consequence, growth) is the foundation of corporate management.

The model would also indicate, if we dare to observe it further, that the learning competency should be utilized by employees and managers for the purpose of dedicating themselves to the other stakeholders' benefit realization and not for themselves. It can be shown by the fact that in Strategy Map, the other three perspectives, especially two, Finance (Stockholders) and Customer perspective are shown as targets and objectives of learning and growth. Also underlying the model would be a natural common sense that human beings have the destiny as the only existence to serve each other and to their society with their own free will and that by simply recognizing and liberating the destiny, they or we make sustainable innovation and evolution possible. Here is another indication, or a common sense on creativity requirement we might have forgotten. It would be that the learning competency creates new value for customers, societies and future only when it is utilized to serve others, societies and the world.

(6) Redefining the competency requirements for corporate executives

For executives and CEO pursuing corporate wide sustainable innovation, whether learning or administrative competency is to be required? The answer would be clear, it is nothing but the learning competency. Any CEO or executive candidate knowing and executing only administrative competency is not ready for the position because he or she would be unable to envision new values creatively against uncertain future but would just administrate for maximizing only tangible return on investment. Therefore, if the governance team intends to support corporate sustainability, it has to make sure that the candidate has established both of administrative and learning competency, understands the critical importance of learning for corporate sustainability, and get accustomed to execute it.

To evaluate to what extent CEO and executives are implementing learning competency, there is a practical index: the time allocation they spent for the two regions of investment in Balanced Scorecards, for people as well as customers. One benchmarking could be found from GE's Immelt's time allocation information. He said, "I'm probably spending 20% of my time with customers, 30% of my time on people, teaching and coaching... [and] 10% of my time with governance, working with the board, and meeting with investors." The fact that 60% of the GE CEO's time is spent on people and customers could be a best practice benchmarking. ("GE's Growth Strategy: The Immelt Initiative" HBS Case by C. A. Bartlett)

(7) Allowing several years for CEO candidates to develop learning competency

Another GE's case: Spending several years for finalizing the selection of CEO among the finalists of a few, then, could be making sense, as the observation of candidates' learning competency would take periodical time before the consequences of their learning activities come out. Then, also makes sense, P

&G CEO Alan Lafley's proposal to take enough time not only to observe but also to support candidates to develop the learning competency during the final observation period.（'The Art and Science of Finding the Right CEO' HBR, 2012）

（8）Assuming and assigning longer term to CEO

If corporate sustainability is introduced and assumed to be corporate mission, it would make sense that the term of CEO should be set longer than at least the product cycle of the corporation, or the multiple product cycle time. Recent GE's CEO terms, such as 20 years of Jack Welch and so far 15 years of Jeffery Immelt, could be an advanced model, as shown by the fact that Jeffery Immelt can devote himself in his way of corporate sustainability pursuit with 'Ecomagination' agenda being supported by his predecessor's encouraging marathon style management（'GE's Growth Strategy: The Immelt Initiative' HBS Case Nov. 2006）and now in 2014 with 'the pursuit of a kind of industrial company'. Then, also the responsibility of the governance board would have to include to realize the long term CEO engagement. Accordingly their strategies for selecting, developing and supporting CEO to work longer term should be re-designed. First of all, a fundamental change in CEO performance evaluation and compensation system would be required.

（9）Applying BS measurement indexes to CEO performance and compensation system

In evaluating and supporting CEO for the long term and for corporate sustainability, governance board has to shift their priority of measurement indexes from traditional financial measures to customer and people & organization development measure in Balanced Scorecard model: To what extent CEO and his corporate management team have invested, supported and realized 'Customer Development' and 'People and Organization Development' would become highest measurement indexes to CEO and corporate executives.

Then, ROE and Stock Price are still one of critically necessary measurements but no longer sufficient or the highest priority for CEO and executives. They are rather critical measures for middle management performance evaluations, for the middle is directly responsible to realize them in the front and field. Moreover, if the long term cycle of cause and consequence relationship between investing and harvesting is taken into consideration, ROE and Stock Price are fundamentally the achievement of the investing by previous generations of corporate managements and that of the harvesting by current middle managers. Then, current CEO and executives are obliged to invest and support for sustainable growth with innovative investment toward the future of uncertainty.

In this regard, in the long run, CEO's compensation system is also to be drastically changed from the currently dominating snap shot type compensation to the long term pension type compensation, such as long term stock options, in accordance with the performance evaluation on his or her sustainability initiatives and their consequences.

(10) A new mission of governance team in establishing new CEO

If governance team could not find any 'good' CEO candidate by this long term compensation system, the governance members should question their commitment to corporate sustainability. And if a preferable CEO candidate isn't satisfied with the long term pension type compensation, governance team should exclude the candidate immediately, as by that fact alone, the candidate has shown the critical shortage of his or her competency and commitment on corporate sustainability. If governance team cannot implement those strategies of corporate sustainability from the moment of CEO selection, from the very beginning of its responsibility execution, or if it keeps same strategies as before in searching, selecting and supporting CEO, it would be concluded that the governance team succeeds the destiny that the corporation it governs cannot realize corporate sustainability at least for the coming period, as the change for corporate sustainability should start from getting CEO's full commitment on it.

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