<u>Global Necessities, Social Responsibility and Corporate Sustainability</u>
<u>Problems, Perspectives and Prospects</u>[*]

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Never has the "big picture" been more complex and, arguably, never have we been more ill equipped for finding solutions. The eerie vacuity of the recent G8 summit in Evian-les-Bains and the near certainty that the forthcoming WTO ministerial meeting in Cancún, Mexico, will be a "second Seattle" – not necessarily in the sense of demonstrations, but in noisily achieving nothing, and thereby putting back the clock on the global trade agenda – bring more cause for consternation.

A chaotic transition to uncertainty

When in 1991 George Bush, Snr, proclaimed the advent of a new world order, Thierry de Montbrial, Director of IFRI (Institut Français des Relations Internationales), countered that it was not a new world order, but a "chaotic transition to uncertainty". The chaos continues and uncertainty prevails. David Honigmann in a recent *Financial Times* review ("From fear to modernity", 7 June 03) vividly encapsulates the current ambience: "The political habits and ways of thinking of a lifetime have been rendered useless, replaced by a scramble to reorient ourselves in a bewilderingly unfamiliar world." In the face of the forces of irrationality that have increasingly dominated the political discourse, no greater imperative arises than engaging in the war of ideas. But, cautions Honigmann, "this is a war for which the west is ill-prepared – too little intellectual ammunition, too little knowledge of the terrain, too many objectors in love with their own conscientiousness".

In the face of the imperatives of moving the world economy forward, the intellectual morass in which we wallow results in what can best be described as the global policy "indecision making process". This paralysis is nowhere more agonisingly apparent than in the current stalemate and sorry state of the Doha Development Round negotiations. On the basis of current developments and trends, almost certainly the expectations that were raised by the declaration the political leaders made in Doha, Qatar, on 14 November 2001 (see www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm) will be shattered and the opportunities of wealth and job creation arising from a more open global economy will be missed. It is perhaps the great and tragic paradox of this age that while liberal capitalism has "won" on the global chessboard – in that it "defeated" communism – it has most emphatically not won over the hearts and minds of citizens and hence has not driven the political agenda. The corporate world has a lot to answer for this state of affairs.

Global necessities

The catalogue of current "necessities" – or tragedies demanding solutions – makes for depressing and alarming reading. A by no means exclusive list includes:

[*] On 2-3 June the efmd (European Foundation for Management Development) hosted a conference on the subject of "Social Responsibility & Corporate Sustainability – Global Necessities Requiring Individual Action", which I was privileged to co-chair with Baron Daniel Janssen, Chairman of the Board of Directors of Solvay SA. This paper is not a summary of the conference, but some purely personal observations, hence not necessarily reflecting the views of the efmd or of my co-chair. I should like to express my gratitude, however, to Baron Janssen, the speakers at the conference and the efmd for some very interesting discussions and insights.

- the 1.1 billion people who do not have access to clean water and a horrendous death toll of six children dying each minute from waterborne diseases;
- the 40% of humanity living under less than $2 per day – in contrast, as a headline from the *East African Standard* of 25 May 2003 pointed out that in light of massive EU agricultural subsidies: "A cow from Europe can afford to live in a five-star hotel in Kenya for a whole year"![+];
- roughly one out of eight countries a recent World Bank study reveals ("Breaking the Conflict Trap", http://econ.worldbank.org/prr/CivilWarPRR/) is engaged in some form of bloody (mainly civil) conflict, encompassing over 1 billion people – whereas in past wars casualties were mainly among soldiers, today the victims are mainly civilians, including children and women;
- the progress of democratisation over the last decade and the collapse of the Soviet empire notwithstanding, somewhere over 2.5 billion people still live under dictatorships;
- the population of 1.12 billion Muslims living in economies essentially isolated from the global market, whose share of trade has dramatically declined and whose total amount of inward foreign direct investment (FDI) is equivalent to total FDI in Sweden, containing a population of 8.8 millions;
- the persistently high rates of illiteracy, especially among women – eg in India where an estimated 65% of the female population is illiterate – and the number of children of primary school age, an estimated 250 million, who will not spend a day in a classroom throughout their lives, but instead lead a life of servitude as indentured labour;
- the high degree of global insecurity engendered by crime, terrorism, illegal trade in drugs, people, and arms, and the spread of contagious diseases.

These acute problems will not diminish with time. The world is facing a very radical demographic shift. As the "rich" world population stagnates and declines, the population of developing countries will increase by geometric proportions. Over the coming quarter-of-a-century, the population of Asia will increase by the equivalent of the total current population of the European Union and the United States combined. Among the twenty-two countries of the Arab League, where average annual GDP per capita growth has been minus 2.3, 40% of the population of 300 million is below the age of 14.

Synchronous recessions amid synchronous governance crises

In the 1990s there were three quite powerful drivers of the world economy: the IT driven "new economy", the American economy and the Chinese economy. All three tended to razzle-dazzle the media, hence obstructing from view some of the less exhilarating – to put it mildly – aspects of the global economy. The rosy picture was interrupted by occasional thunderstorms, notably the series of financial crises that led, successively, to the collapse of the Mexican peso, the Thai bath, the Indonesia rupiah, the Korean won, the Russian rouble, the Turkish lira, the Brazilian real and the Argentine peso. Many of the so-called "emerging" economies – a euphemism of the 90s for developing countries – proceeded to submerge, while the process of economies "in transition" proved somewhere between painful and catastrophic. Russia's economy contracted by some 75%. By far the direst saga of the nineties was the descent of Japan into an economic quagmire from which it is incapable of extricating itself.

[+] I am grateful to Edward Mungatana, IMD MBA candidate, for drawing this headline and article to my attention (in his examination paper!).

Those were the good times! In the course of the last couple of years there has been simultaneously a synchronous economic slowdown or recession among the world's three leading economies, the US, Germany and Japan, and what might be termed synchronous crises in governance.

The economic recessions appear all the more perilous in that unlike those that appear primarily driven by the business cycle, the spectre haunting economic policy makers is that of deflation. With all efforts and theories over the last fifty years directed at curing inflation, deflation is far more unknown territory – a striking example of the chaotic transition to uncertainty mentioned above. Neither Japan, nor Hong Kong, both of which have been badly infected by deflation, have succeeded in stopping its spiral.

The synchronous crises in governance refer to the three levels of global governance, national governance and corporate governance. In 1995 the WTO was established, seemingly heralding an age that would witness (a) an increasing global convergence of trade and foreign investment oriented market economic policies; (b) the adhesion of a fast increasing number of countries to the multilateral rules-based institution (from 90 members in 1990 to 140 in 2000, with another 30 seeking admission); (c) global liberal governance leading to growth, poverty reduction and overall improved institutions and spread of the rule of law. It was not unrealistic in 1995 to have believed that this would be the case.

Things turned out very differently very quickly. In the winter of 1999, the fiasco of the Seattle WTO ministerial conference heralded a new and more acute phase in the chaotic transition to uncertainty. The rule of the street mob, which emerged as one of the defining forces of global 21st century governance and which has not abated since, was one dimension, while the growing rift between, on the one hand, the EU and the US, on the other the North and the South, combine to have since caused acrimonious paralysis in global governance – in what I refer to as the global policy <u>indecision</u> making process. The collapse in credulity of the WTO has been matched in respect to the World Bank, the IMF, the G8, the UN, etc. The brief coming together in the global gasp that greeted 11 September proved highly illusory, while the wrangling over the subsequent war in Iraq is unlikely quickly to abate.

The giddy 1990s produced, among other things, that magic wand given the rather infelicitous label of "Washington consensus". The one-size-fits-all implication of a policy compound consisting of trade and capital market liberalisation, privatisation and deregulation would achieve the desired ends in promoting growth. Initially in some cases growth did indeed occur, eg Argentina in the early part of the decade, only later to collapse amidst a good deal of social débris. The problem that policy thinkers and some policy makers are only beginning to come to terms with is that it was not so much the medicine that was at fault, but the incapacity or unwillingness of the body politic of most countries to undertake the required reforms in order to make the medicine work in a sustainable fashion. That is a rather oblique way of saying that the real problem lies in the fact that governance in most societies, especially (but by no means exclusively) developing countries, stinks. Argentina, a century ago one of the richest countries in the world, has in more recent decades been a case study in failure. The sudden surge in the early nineties seemed to presage a new phase in the country's history. That illusion has been completely shattered. Recent trends would seem to confirm that the bad old days are back!

Can there be any hope when societies are so badly governed? Can it be possible for a country, say, like Senegal, to emerge from backwardness when it takes an average of 165 days (and goodness knows how much money) to get a license to open even a very small business? Can there be any hope when public administrations are not only so blatantly corrupt, but even more blatantly incompetent?

Then there is the acute dysentery of corporate governance. Though we (justifiably) decry the vandalism and destruction of the militant anti-globalisation demonstrators, in fact this is less than half-a-peanut in comparison to the vandalism and wealth destruction perpetrated not only by companies that have been governed by criminals (eg Enron), but also by the so many that seem to have been governed simply by incompetents (eg Crédit Suisse). The combination of criminality and incompetence may have been in part fostered by the cult of the CEO personality that seized much of the media, analysts and business schools. The adulation, for example, heaped on ABB's Percy Barnevik for sure must explain the hubris that ultimately destroyed his reputation.

Perhaps the direst consequence in this apparent collapse in corporate governance has been the crisis of confidence that has engulfed the world of business. Survey after survey after survey converge to demonstrate that the public has little respect and certainly little faith in the world of business. In a survey carried out by Edelman, a leading Canadian PA firm (http://www.edelman.com/), among the findings were the fact that whereas only 28% of European respondents, drawn from opinion leaders across the professions, generally expressed confidence in global firms, a very small 7% said they believed what firms said about their activities and policies in relation to the environment and a tiny 3% when asked about human rights.

Clearly the governance situation is unsustainable.

In 1910 Normal Angell published a book that turned out to be a huge best seller entitled *The Great Illusion*. Angell's main thesis was that the world's economies had become so interdependent that military power and territorial gain no longer corresponded to contemporary realities and that both were destined for oblivion. I have often wondered whether future historians might not draw a parallel between Norman Angell's 1910 opus and the publication in 1994 of *The End of History*, in which Fukuyama brilliantly, highly eruditely and without qualification declares that liberalism has won, the great epic ideological battles of the world are over!

This need not be the case. History is history, not destiny. It need not repeat itself. But in order for the current governance crises to be solved and the trends reversed, a lot of energy and very serious and long-term efforts will be called for.

Confronting the Corporate Conundrum

The purpose here will not be to address the global and national governance challenges[*], except indirectly, but to focus on some of the problems, perspectives and prospects in respect to corporate governance in relation to the global necessities and "social responsibility".

The very poor publicity and rising opprobrium directed at companies has led many corporate leaders to run around not unlike headless chickens in search of the corporate holy grail of "corporate social responsibility". Annual reports, corporate speeches, etc, are increasingly filled with sanctimonious statements about commitments to the environment, society, culture, etc. Much (most) of this is reactive, consisting of PR departments' attempts at responding to the attacks of NGOs, and using their language. This results, as Ethan Kapstein has compellingly argued ("The Corporate Ethics Crusade", *Foreign Affairs,* September/October 2001) in the corporate ethical agenda being hijacked.

It is not because a bandwagon exists, or even that it is accelerating, that it should necessarily be jumped upon.

[*] See Jean-Pierre Lehmann, "Global and Domestic Governance & the Challenge of Peace and Prosperity in the 21st Century", Evian Group Compendium of Policy Briefs (http://www.eviangroup.org/publications/)

Corporations, especially multinational corporations, have an immensely important role to play in generating poverty reduction and much improved welfare (in society, ecology, culture). But how to play that role requires thought, conviction and strategy. There is very little of any of that in any way conspicuous by its presence presently.

The problem of understanding

Daniel Litvin has written a remarkable book, (*Empires of Profit: Commerce, Conquest and Corporate Responsibility*, 2003), which analyses the quality of political analysis and the extent of political influence of multinational corporations extending back to the East India Company in the 18th century up to the Murdoch empire in the 21st. A major finding and theme throughout the book has been the poor quality of corporate intelligence and understanding of social and political forces. This, Litvin argues, arises in part because of lack of effort and lack of allocation of appropriate resources. Efforts and resources are focused more internally, on the proverbial bottom line, with the result, as he shows, that too often external dynamics and changes result ultimately in a drastic deterioration of the bottom line or, worse, in the eradication of the company.

If anything, the myopia and shallowness that tend to characterise corporate understanding of the external social and political environment have become even more acute in recent decades. The corporate world, especially the multinational corporate world, is one geared to fast action and bold decisions. The rapidly rising level of competitiveness and globalisation have accentuated the need for speed and boldness. This allows little time, and, perhaps even more, little “culture” for thought and reflection[*].

The proliferation of business schools and executive programmes has, arguably, also contributed to the erosion of understanding. Business studies, like its subject matter, are highly results-oriented, geared more at finding solutions than in depth analysis. The working hypothesis is generally indeed that solutions exist and must rapidly be found. This approach becomes much more problematical in political science.

This facet of business culture is likely to remain a critical impediment to developing a more robust and in-depth understanding of the socio-political environment, hence limiting the influence business can have, and in all likelihood resulting in more of the reactive kind of CSR that Kapstein decries, which in any case ultimately is not only wasteful, but almost certainly self-destructive.

The problem of terminology and its implications

Jumping on the CSR bandwagon and appearing, as born-again Christians, to be spreading its gospel, conveys the impression that until a recent cathartic moment arrived the corporations and its leaders were behaving in a socially irresponsible fashion! This too is very much connected to the Kapstein argument about reactiveness and also the point I have stressed about the lack of thought and reflection. Having attended a number of presentations on CSR by corporations, one goes away with an impression combining naïveté and insincerity. CSR, to mix acronyms, has become PC! That is very flimsy, and ultimately expensive fluff. Corporations should be especially concerned in conveying the message that they are, by definition and unless proven otherwise, socially responsible.

[*] My father was the president of the subsidiary of a French chemical multinational company in Japan for twenty years, from 1949 to 1969. He returned home for lunch every day, read voraciously, travelled extensively throughout the country visiting temples and other historical sites and staying in traditional Japanese inns, and he had a very wide circle of Japanese friends, including musicians, architects, as well as business leaders. Although he denied it out of modesty, in fact he got to know Japan very well. Such a lifestyle would be unthinkable in this age and very few expatriate business executives are granted the opportunity, let alone the “leisure”, of studying in depth the societies in which they operate.

Protesting too much, as some are currently prone to, may undermine that position, ultimately therefore doing more damage than good.

Conceptual confusions

In the CSR discourse engaged in by corporates, consultants and academics, there appears to be often a lack of rigour in terminology and the usage of concepts, something that may also come to cause more problems and that therefore requires greater perspective.

The most serious element of potentially dangerous confusion is the tendency in which the discourse tends to make "responsibility" synonymous with ethics and morality. This is coupled by the fact that in most discussions on CSR, the dirty "p" word (profits) tends to go unmentioned, as if it were an embarrassment, or worse, a corporate congenital disease. In fact <u>the</u> responsibility above all of the corporation is to be profitable. Of course it should be profitable by ethical and legal means. But profitable it must be because of the responsibility it has not only to shareholders, but also to all stakeholders and to society more broadly in creating wealth.

The problem here is that there are many persons, schools of thought, institutions, etc, which through religious and/or ideological reasons contest the very morality of profits. For them profitability, by definition, is immoral. This is not an argument that corporates should get engaged in, but rather leave to philosophers and others of that ilk.

This is obviously not to say that ethical and moral issues do not arise. Of course they do. The point is, however, that the corporation will never be a paragon of virtue, and that there will always be, especially for the multinational firm, not easily resolvable ethical dilemmas. Ethics must be inculcated in the firm, but the firm must not seek to portray itself or its "responsibilities" in such a manner that it may not be able to live up to. That risks opening a real Pandora's box.

CSR as colonialism

When Japan invaded Manchuria in 1931 it was virulently condemned by the League of Nations. A Japanese leader, Admiral Yamamoto (who later was responsible for planning the attack on Pearl Harbor), commented: "the Western powers taught us how to play poker; now that they have all the chips, they have taken up contract bridge". While I obviously do not condone the Japanese invasion of Manchuria (!), I have often referred to this phrase.

There is in CSR a danger of hypocritical ethical proselytism, cultural colonialism, and, as many policy makers and policy thinkers in developing countries suspect, a form of hidden protectionism. The West industrialised, so the argument goes, on the basis of exploiting workers, including women and children – and in the case of the US until the mid-1860s, the usage of slavery – and colonial subjects. Nor was even scant attention paid to the environment. Now that Western nations are prosperous, they wish to preserve their advantages and deny developing countries the prospects of greater prosperity by imposing double standards. The attempts by Europe and the US, for example, to include labour and environmental standards in trade negotiations represent a particularly flagrant example of this protectionism masquerading as moral proselytism.

While recognising the importance and advantages to be gained from building the global market, recognition must also be given to the fact that the global village is composed of highly diverse and heterogeneous communities, with different historical experiences, not to mention different levels of economic development. Some things are clearly and absolutely wrong and some things are clearly and absolutely right. But most of reality, especially, but by no means exclusively, in the business world, occupies a vast grey zone in between.

The "moral conscience" of a well-heeled European anti-globalisation activist should not be dictating the criteria of corporate responsibility in poor countries. Context counts. For example, whereas it would indeed be morally questionable (not to mention illegal) to employ 13 year-olds in textile factories in Antwerp, such is not necessarily the case in Dhaka.

This is by no means to suggest that what goes on in developing countries needs to be understood, let alone condoned, in terms of context and cultural relativism. On the contrary, I have strongly asserted earlier that much of what goes by way of governance in developing countries stinks. There are two points that need to be stressed.

In this globalised world, living together in harmony and, hopefully, prosperity is going to require a lot of efforts at learning about one another, listening, dialoguing on the basis of mutual respect and tolerance. Especially in the West, where we have been so fortunate over the last half-century, significant efforts need to be directed at understanding the sentiments and aspirations of people emerging from different experiences, whether from repression or deprivation, and often a combination of both.

Corporate responsibility is important and something that the West should emphasise in so far as its own behaviour is concerned, both at home and abroad; but it must not be yet another illustration of Western colonial cultural proselytism and insensitivity.

Corporate responsibility, confidence and respect

While the possible pitfalls of corporate responsibility must be recognised, indeed highlighted, so must its potential and indeed its importance. There is without doubt a lack of a moral compass in the capitalist corporate world. There have been far too many shenanigans for argument to the contrary. This arises partly from the bottom-line driven drive to enhance shareholder value, but also from the excessive importance attached to the purely monetary dimension of "wealth creation". The excessive materialistic egotism displayed by too many corporate leaders has done a great deal of damage in the arena of social responsibility.

There is also here the problem of education. Not only has this to do, as many argue, possibly with the business school curriculum, but also with the fact that increasingly far too many executives are educated pretty much exclusively in business and commercial studies, and hence have had very little education at all in fields such as philosophy, theology, history, anthropology, literature, etc[*].

Thus CSR may perhaps, above all, have a compelling logic inside the firm. The distance between professional life and personal life, especially family life, needs to be shortened. Especially those executives with teenage children find it increasingly demoralising to be arraigned by their idealistic children engaged in movements to save the planet (or whatever) accusing them of all sorts of sins whether by omission or commission. In the cinema, business executives are three times more likely to be the "bad guys" than other professions.

So CSR, if genuinely undertaken, should serve to allow individuals to regain confidence – and look their teenage children in the eye! It is also a truism that a sense of

[*] Business schools might reflect upon their admission criteria and priorities for MBA programmes. Greater emphasis should be given perhaps to including more people from the humanities than currently appears to be the case in many business schools.

self-worth is more likely to engender a sense of ethical behaviour and of the different points of the ethical compass.

Computing Corporate Responsibility

Though corporate responsibility lies mainly in the soft areas of corporate culture, ultimately it is necessary, as a means of both external and internal credibility, to apply forms of measurement in order to determine the degree of progress – or regress – which is being obtained. There have to be benchmarks.

The kind of serious research that developing appropriate matrices will demand will be one way to try to ensure that the movement does not become ephemeral. Corporate responsibility to contribute to corporate sustainability must be sustainable itself!

Vision, vision, vision and leadership

The speed with which times have changed and the turbulence in which most of us have become engulfed has resulted in very few persons being capable of raising their eyes above the parapet. It has been very striking, certainly to me, how over the course of the last few years people with vision seem to have disappeared. This is true not only in political and academic circles and in so-called civil society, but perhaps especially so in the business world. Perhaps it is in part due to circumstances. The speed with which CEOs emerge and submerge is depressingly daunting. This engenders short-term-ism. But it also engenders an "*après moi le déluge" mentality*.

One of the major causes, no doubt, for the current problems of corporate responsibility is that too many CEOs have too flagrantly displayed shocking irresponsibility vis-à-vis their own corporations. The crisis of governance at the corporate level, just as at the global and national levels, is indissolubly linked to a crisis of leadership in all fields.

To get out of this morass, a much broader, deeper and longer view is called for, ie vision. We know where we are now. Where do we want to be? If the business world can articulate and adhere to a vision of the future and make attaining that vision the overriding concern in terms of "responsibility", there should be a greater sense of direction and momentum.

Articulating a global vision is not something firms are good at or should indulge in. There is, however, a vision that has been articulated in the form of the "millennium goals" (http://www.undp.org/mdg/) to be met by 2015. They consist of:

1. eradicating extreme poverty and hunger by halving the number of people living on less than $1 a day;
2. achieving universal primary education;
3. promoting gender equality and empowering women;
4. reducing child mortality by two-thirds;
5. combat HIV/AIDS, malaria, and other diseases;
6. ensuring environmental sustainability;
7. developing a global partnership for development.

The millennium goals, all of which are quantified, are ambitious, as they should be, but not impossible. A priori, there is no reason why absolute poverty cannot be halved in the next 12 years. The main obstruction lies in man-made obstruction, hence it can also be man-"unmade". The same point applies to the other goals. (For example, total subsidies by OECD countries for agriculture amount to $350 billion *per annum*. It has been calculated that achieving universal primary education in developing countries not engaged in a state of war would require an initial investment of about $50 billion *per annum*.)

Corporate responsibility should be aligned at determining how the corporation can contribute – in its own manner, on the basis of its own competencies, in its areas of activity – by 2015 to achieving these goals and by doing so in a concrete and measurable form. This strategy must be in accordance with the overall corporate strategy and it must contribute to, or at least not impede, profitability. But by definition it will also require longer-term thinking.

In the long term, as Keynes said, we are all dead. But many of us have children. What kind of world we wish to bequeath should be the responsibility of all citizens. Corporate executives are also citizens … and parents.