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**RECASTING THE BOTTOM LINE: EDUCATING FOR
CAPITALISM IN THE 21ST CENTURY**

**by Oliver F. Williams, C.S.C.
University of Notre Dame**

Alan Greenspan, the chair of the U.S. Federal Reserve from 1987 to 2006, testifying before the U.S. House Oversight and Reform Committee on October 23, 2008, made a startling statement:

“Those of us who looked to the self-interest of lending institutions to protect shareholder’s equity (myself especially) are in a state of shocked disbelief.”

Greenspan’s position was that the market’s self-corrective tendencies, the enlightened self-interest of owners and managers of financial institutions, did not function to avoid serious harm to human welfare in the financial crises of 2008-9 and he was “deeply dismayed” that ethical failures were so rampant.

The Roots of the Problem

There is a school of thought that believes that the only obligation of a “capitalist” is to maximize shareholder wealth and, as long as one does not violate any laws, there are no moral obligations to employees, the community and other stakeholders. Citing Adam Smith in *The Wealth of Nations*, the belief is that the “hidden hand” will make all turn out for the common good as long as one is pursuing wealth. This position is a misunderstanding of Adam Smith,

evident from reading his earlier work, *The Theory of Moral Sentiments*. Smith assumes that “self-interest” would not be equivalent to selfishness or greed, but rather that the self would be shaped by the moral forces in society, especially the family. A person so shaped would have a conscious care for the dignity of persons and would not lightly take inordinate risks with other people’s money without informing them and receiving permission. Managers must consciously and deliberately work for the common good when the dignity of the person is at stake and no “hidden hand” excuses unethical behavior.

Many characterize business leaders, who charted the course that got us into the financial crisis and who received very high salaries and bonuses, as scoundrels who are totally lacking in integrity. I argue a contrary position: What these business leaders lacked was not integrity but the courage to spell out what was really going on. They were involved with self-deception or insincerity with themselves. What is life all about for these leaders? Their hopes, fears, aims, and guides for conduct? In my view, some of the business leaders involved with the financial crisis were vivid examples of the human phenomenon of self-deception. Arthur Miller, in *Death of a Salesman*, captures the heart of the problem when he had Bif, the son of the salesman, Willy Loman, speaking of his father, say: “He had the wrong dreams. He never knew who he was.”

In my view, the ethical failures alluded to by Alan Greenspan would not have been avoided by a better analysis of the situation because at root these failures stem from the lack of an adequate vision of what constitutes a good life – a vision of the kind of persons we want to be and the kind of communities we want to form. The role of moral obligations is to preserve a way of life and without some coherent notion of the desired way of life; there is little sense in

speaking of moral obligation.¹ It is for this reason that I support the United Nations Global Compact, for it offers a set of universal principles that outline a way of life that has been embraced worldwide.

What Alan Greenspan seems to have missed is that self-interest, even enlightened self-interest, can easily be clouded by rationalization and self-deception, especially when large sums of money are at stake. A coherent vision of the good life provides a sense of purpose and identity for business leaders and enables them to put monetary rewards in perspective. The UN Global Compact provides a set of ideals for the worldwide economy and it can offer much to university schools of business in educating future leaders with a sense of purpose and identity. The Principles for Responsible Management Education (PRME) advocates incorporating the Global Compact vision into the teaching and research of business schools and it may be an important corrective for our times.

Some Background

When the Global Compact was first promulgated in 2000, there was a clear vision of the problem, but only a broad outline of the solution. The problem was that globalization of markets, while it created vast amounts of new wealth, did not distribute this new wealth very well. Millions of people in India and China were lifted out of poverty, but many people in the world were victims rather than beneficiaries of this new engine of wealth creation. Whether it be blue collar workers who lost lucrative jobs on auto assembly lines in Detroit, populations of major cities in China that lost clean air to breathe or poor peasants who were subjected to sweat shop conditions in Asia and Latin America, increasing discontent was in the air. In former times

of great economic volatility, nation states took measures that restored social harmony and political stability.

For example, the Great Depression of the United States of some 65 years ago was the birthplace of the social safety net, evolving into such programs as social security, medical benefits, unemployment insurance, food stamps and so on. The problems today are global in scope and even where nation-states might be willing or able to regulate, they are reluctant to do so for fear of losing new investment to nations with less stringent regulations. The race to the bottom is a fact of life in developing countries.

If globalization and its ability to create massive wealth was to continue, there must be a set of ideals which would guide business and insure that the legitimate concerns of all, especially the least advantaged, were not neglected. This set of ideals would concern not only the traditional financial bottom line but also economic, social and environmental issues.

The Global Compact²

This set of ideals, what has become known as the Global Compact, consists of ten principles. Over five thousand businesses throughout the world have already signed on as participants. (As of May 2009, there were 6,660 participants including 5,003 businesses in 135 countries and over 1,500 non-business stakeholders, of which over 600 are NGOs).

The ten principles of the Global Compact focus on human rights, labor rights, concern for the environment and corruption and are taken directly from commitments made by governments through the UN: The Universal Declaration of Human Rights (1948); the Rio Declaration on

Environment and Development (1992); the International Labor Organization's Fundamental Principles and Rights at Work (1998); and the UN Convention Against Corruption (2003). The principles are as follows:

Human Rights

- **Principle 1:** *Businesses should support and respect the protection of internationally proclaimed human rights; and*
- **Principle 2:** *make sure that they are not complicit in human rights above.*

Labor Standards

- **Principle 3:** *Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.*
- **Principle 4:** *the elimination of all forms of forced and compulsory labor;*
- **Principle 5:** *the effective abolition of child labor; and*
- **Principle 6:** *the elimination of discrimination in respect of employment and occupation.*

Environment

- **Principle 7:** *Businesses should support a precautionary approach to environmental challenge;*
- **Principle 8:** *undertake initiatives to promote greater environmental responsibility; and*

- **Principle 9:** *encourage the development and diffusion of environmentally friendly technologies.*

Anti-Corruption

- **Principle 10:** *Businesses should work against corruption in all its forms, including extortion and bribery.*

Principles one and two acknowledge that everyone has certain entitlement (rights) by virtue of being human for they have a dignity that should be promoted and protected. The 1948 Universal Declaration of Human Rights (UDHR) lists a number of rights in the areas of equality, life and security, personal freedom, and economic, social and cultural freedom. Businesses are asked to develop a company policy and strategy to support human rights. While a business may decide to meet certain human rights in a locality, for example, meeting the right to medicines and health by providing antiretrovirals, there is no moral obligations to do so under these principles. That is the duty of the state and the only moral obligation of the businesses is to do no harm to individuals and to respect rights in its operations. Business should never be the reason rights are violated.

Principles two, avoiding complicity in human rights abuses, requires that companies do a human rights assessment, engaging with human-rights organizations about possible complicity.

Principles three to six are fundamental principles in workplace and refer to the right to collective bargaining, freedom of association, precluding forced or compulsory labor, child labor and unfair discrimination. Child labor is especially harmful when it destroys the possibility of a

child being educated and thus to developing talents. There is some relativity in what age is considered improper for child labor depending on the age of completing compulsory schooling as well as the state of development of the economic and educational facilities.

Principle six advocates non-discrimination which means awarding positions on the basis of ability to do the job and not an irrelevant characteristic such as race, color, sex, religion, and social origin.

Principles seven, eight and nine focus on the physical environment and encourage business to promote cleaner production and responsible entrepreneurship. A precautionary approach is suggested. This is an approach which takes action to preserve the environment even when scientific proof is not fully developed. This “preventive anticipation” may save the environment as well as costly litigation. Environmentally friendly technologies are encouraged. For example, in the area of climate change, technologies that emit lower volumes of greenhouse gases, especially carbon dioxide, are especially encouraged.

Principle ten concerns corruption and encourages business to develop policies to combat corruption in all its forms. The NGO Transparency International (TI) offers wide ranging assistance to business in this struggles; TI defines corruption as “the abuse of entrusted power for private gain” and the definition includes bribery as well as extortion. The research of TI demonstrates that corruption undermines the free enterprise system and seriously harms society, especially the least advantaged.

The brief summary of the ten principles of the Global Compact is meant to show how the principles offer broad contours of a way of life, a way of life that values human rights, environmental stewardship as well as integrity in all dealings. These are the ideals outlined for the global society by the leaders of the world and they provide business leaders with a widened sense of their responsibility. Business leaders have a wider role in society than simply maximizing shareholder value for they are long-term economic stewards and this expanded role demands some attention the social values that embed economic enterprises. This expanded sense of purpose gives a business leader a sense of the sort of persons they ought to try to become and the sort of communities they ought to try to form.

The Global Compact in Practice

The Global Compact was designed as a voluntary initiative. A company subscribing to the Principles is invited to make a clear statement of support and must include some references in its annual report or other public documents on the progress it is making on internalizing the Principles within its operations. This Communication on Progress (COP) must also be submitted to be posted on the Global Compact Website. For a good sample of the projects companies have undertaken to advance human rights, labor rights, environmental stewardship, and the struggle against corruption, see the *UN Global Compact Annual Review: 2007 Leaders Summit and Human Rights, Labor, Environment, Anti-Corruption: Partnerships for Development*.³ Failure to submit a COP within two years of becoming a signatory to the Compact (and subsequently every year) will result in being delisted. As of January 2009, 824 companies have been removed from the list of participants for failure to communicate progress. Scholars have suggested the ethical codes are of two major types, aspirational or directional. An aspirational code offers a set

of ideals, general in nature, that members of an organization are expected to hold but it does not have any enforcement mechanism. A directional code provides detailed guidelines and sanctions for all members. The Global Compact falls in the middle of this continuum with clear ideals and limited enforcement. The unique mission of the Compact is to foster the growth of humane values in the global society, a challenge heretofore managed by nation-states for their own domestic situation. To advance the 10 principles, the Global Compact has established over seventy country and regional networks where dialogue, learning and projects are carried forward in a local context. Ban Ki-moon, UN Secretary General, expressed it well: “We need business to give practical meaning and reach to the values and principles that connect cultures and people everywhere.”

The Principles for Responsible Investment

To be sure, there is a business case for corporate responsibility and the work of the Compact. Not only does following the Principles have a high likelihood of saving the company money by avoiding costly litigation but it also enhances reputation capital, builds brands, enables a company to attract and retain valuable employees, develops trust, and so on. In addition, creating sustainable value in a company by attending to environmental, social and governance (ESG) issues is increasingly rewarded by the investment community. The Global Compact is one of the factors advancing the trend toward a broadening of the criteria by which the market assesses the performance of companies. This broadening of criteria is reflected in movement inspired by the Global Compact in the investment community. *The Principles of Responsible Investment (PRI)* is a credo subscribed to by over 470 global investment institutions throughout the world and currently has over \$18 trillion of assets under its management (as of May 2009). The PRI provide a framework so that investors can assess the performance of portfolios with

regard to the ESG issues. Working closely with the UN Global Compact, the PRI strongly encourages businesses to become signatories of the Compact. This was expressed well by an officer of one of the investment institutions in the PRI:

“There is now a critical mass of institutional investors who believe management of corporate responsibility or ESG issues is highly relevant to the long-term financial success of their investments. And the UN Global Compact’s system of reporting, which demands the production of a Communication on Progress (COP), provides an important way for the investment community to analyze a company’s performance on those ESG issues.”⁴

In the climate after the financial crises of 2008-09, the issue of restoring trust in business is especially acute. It is here that the Global Compact may play a crucial role. The root cause of a lack of trust is a perception by members of society of a growing divide between the values of business and those of society. In short, members of society assumed that business would tell the truth, be trustworthy, keep its promises, and so on. Many in society today feel betrayed by business. In the face of this perception of business’s lack of ethical values, the normal response is public pressure for additional regulation and legislation to control business, what economists call “transaction costs.”

While there may be a clear need for some additional regulation, the irony here is that the legislated control system may actually inhibit the development of trust. The good behavior of business is now perceived to be the result of law rather than because of the perception of integrity and benevolence, the normal reasons why one would trust another. Business actions encouraged by the Global Compact would very likely slowly restore the perceptions that

business is actually intent on being benevolent and having integrity. The kinds of actions encouraged by the Global Compact—responsible corporate citizenship, transparency, and participation in ESG matters—and the reporting on these in the Communication on Progress(COP) from each company is an opening to the kind of dialogue that is likely to restore trust. In the context of the Global Compact, supporters and critics alike know that they are able to engage in dialogue with officials of a business and that they will be treated with respect. This is the way to begin to restore trust.

The Principles for Responsible Management Education

In July 2007 at the Global Compact Leaders Summit in Geneva, under the leadership of UN Secretary-General Ban Ki-moon, *The Principles for Responsible Management Education (PRME)* was officially launched.⁵ A number of academic stakeholders in the Global Compact had long been suggesting that academic institutions, especially business schools, advance corporate responsibility and sustainability through the incorporation of universal values into curricula and research. A task force of some sixty deans, university presidents and representatives of business schools proposed the six principles listed below which have become known as the Principles for Responsible Management Education.

Principle 1

Purpose: We will develop the capabilities of students to be future generators of sustainable value for business and society at large and to work for an inclusive and sustainable global economy.

Principle 2

Values: We will incorporate into our academic activities and curricula the values of global social responsibility as portrayed in international initiatives such as the United Nations Global Compact.

Principle 3

Method: We will create educational frameworks, materials, processes and environments that enable effective learning experiences for responsible leadership.

Principle 4

Research: We will engage in conceptual and empirical research that advances our understanding about the role, dynamics, and impact of corporations in the creation of sustainable social, environmental and economic value.

Principle 5

Partnership: We will interact with managers of business corporations to extend our knowledge of their challenges in meeting social and environmental responsibilities and to explore jointly effective approaches to meeting these challenges.

Principles 6

Dialogue: *We will facilitate and support dialog and debate among educators, business, government, consumers, media, civil society organizations and other interested groups and stakeholders on critical issues related to global social responsibility and sustainability.*

We understand that our own organizational practices should serve as example of the values and attitudes we convey to our students.

The goal is to gradually embed the universal values of human rights, environmental sustainability and business integrity in the mainstream of business education. This will include advancement not only in curricula but also in research and teaching methodologies. As of May 2009 over 210 academic institutions have become signatories of PRME.

The Global Compact: Making the World A Better Place

While many companies find the business case for the Global Compact compelling, it is the moral case that has the interest of some leading NGOs and critics of globalizations. These critics are concerned that in developing countries where there is no enforced statutory framework to protect workers and the environment, MNCs are acting unethically with impunity. Many NGOs have risen to the occasion and mobilized public opinion about the need for some global standards. Reviewing the signatory companies of the Global Compact, there is evidence that

businesses are walking the talk. A recent survey of the CEOs of companies participating in the Compact by McKinsey & Company revealed that 93% of the companies are incorporating environmental, social and governance issues into their firm's core strategy more than they were 5 years ago. And many CEOs were interested in ensuring that the benefits of globalization reached the poor of the world. (*See Shaping the New Rules of Competition: UN Global Compact Participation Mirror*)⁶

Under the leadership of UN Secretary-General Ban Ki-moon, the Global Compact has undertaken some major new initiatives. Two are worthy of note here: The CEO Water Mandate and the Caring for Climate Program. The CEO Water Mandate is a private-public program focused on developing corporate strategies and solutions to the impending water shortage in many areas of the world. The Caring for Climate Program focuses on business's role in issues relating to climate change, including energy efficiency, reducing carbon emissions, and undertaking leadership in society on these matters. As a citizen of South Korea, Ban Ki-moon reflects the leadership of South Korea in the community of nations on these issues. South Korea is to be congratulated on leading the world in the percentage of its recent stimulus package targeted for ecological modernization of the economy. The "Green New Deal" will invest 50 trillion won (\$ 38 billion) over four years on issues such as energy conservation, recycling, carbon reduction, low carbon vehicles and river and forest restoration.

The ten Principles of the Global Compact have been given added force by the UN Millennium Development Goals (MDGs), a blueprint for action agreed to by all the countries of the world as well as leading development institutions. With the target date of 2015 for completion, the eight MDGs are (1) eradicate extreme poverty and hunger; (2) achieve universal

primary education; (3) promote gender equality and empower women; (4) reduce child mortality; (5) improve maternal health; (6) combat HIV/AIDS, malaria and other diseases; (7) ensure environmental sustainability; and (8) develop a global partnership for development. Facilitated by the Global Compact Office, commitment to these ideals has brought businesses into new collaborative relationships with nongovernment organizations (NGOs) throughout the world.

The Global Compact: A Process to Create a Sustainable Future

In conclusion, I advocate the United Nations Global Compact as a forum and an instrument to bring the best minds together from business and civil society. There is a growing consensus that with the large aggregates of money and power, multinational corporations (MNCs) have a moral obligation as corporate citizens to assist the poor in the global community, but the extent of these obligations is unclear. The Global Compact offers a forum under the umbrella of the United Nations – with its visibility, global reach and convening power – where some of the best members of civil society – non-governmental organizations, academic and public policy institutions, individual companies, business associations and labor representatives – can come together to discuss the changing role of business and its *moral* purpose. This project requires well-educated business leaders and *The Principles for Responsible Management Education* offers guidance to enable this vision to be realized now and in the future.⁷

¹ The discussion of self-deception here closely follows my earlier essay, “Other People’s Money: A Study in Self-Deception,” in *The Moral Imagination: How Literature and Films Can Stimulate Ethical Reflection in the Business World*, ed. Oliver F. Williams (Notre Dame, Indiana: University of Notre Dame Press, 1997), 71-82.

² See the Global Compact website at www.unglobalcompact.org for a comprehensive discussion of the organization.

³ The report is available on the Global Compact website.

⁴ See the website for the Principles of Responsible Investment at www.unpri.org.

⁵ See the website for the Principles of Responsible Management Education at www.unprme.org.

⁶ This report is available on the Global Compact website.

⁷ Some of the text here is taken directly from my recent book, *Peace Through Commerce: Responsible Corporate Citizenship and the Ideals of the United Nations Global Compact*, (Notre Dame, Indiana: University of Notre Dame, 2008)