

THE SOCIETAL PERSPECTIVE

Alexander Rinnooy Kan, Chair Social and Economic Council (SER)

Alexander Rinnooy Kan is chairman of the Social Economic Council. Ranked Number One among the most powerful people in the Netherlands, according to De Volkskrant, he has been professor and rector at Erasmus University; has published on operations research among other subjects; became chair of the employers' organisation VNO-NCW in the early 1990s, and member of the board of directors of ING Group in the period 1996-2006. Since 2006, he has been chairman of the Social Economic Council. He has initiated a discussion on globalisation through the SER, and stimulates volunteers work and worldwide studying.

It is a special experience for me to be back in Rotterdam, on this stage where I have spent so many happy hours in the past, maybe even before many of you were born. It is a real pleasure to return to this building and to do so on this important occasion. In fact my first appointment was in Rotterdam; I started teaching in the economics department back in 1977! My previous job was at the School of Management, then located in Delft, and I realise now that I had just left that institution when the student organisation that is now celebrating its 30th anniversary was founded. It is good to be here! I am conscious of our both having survived those 30 years, and I think the student organisation has done at least as well as I have. So, I am happy to be here, happy to be part of this illustrious event – your life, your future, your day. That sounds like something of an anti-climax, nevertheless it is a significant sequence. I am reminded of the story of the three bakers who lived next door to each other in the same street. The first one put a big sign on his store saying 'Best Baker in the Country'; the second baker thought about this for a few days, then put a big sign on his store saying 'Best Baker in the World'; the third baker was at first really nervous, but after a few days he erected a big sign which read 'Best Baker in the Street'.

The Complexities of Globalisation

It is my task to reflect on some of the topics that have been addressed at this conference. I think I should start my contribution with the topic of globalisation because it has played such a prominent role, especially in the last debate we witnessed here, and to be frank globalisation is rather too complex a topic to deal with in a few minutes. If anything, I would perhaps recommend also returning to it on a future occasion. Let me first of all acknowledge the positive effects of globalisation. We are all fans of globalisation – it is hard not to be. We are all, to some extent, addicted to globalisation and we all witness its positive effects on many occasions. Millions of people are benefiting from the international division of labour and there are a lot of impressive statistics to share, especially from China and from India. As far as India is concerned, one statistic really struck me – that a quarter of a billion people in India can now be properly considered as having a middle-class income – 250 million of them; that's a very large number.

At the same time let us acknowledge the complexity of this development, because Mr Gortzak has a point. With regard to poverty statistics, the story is a bit more complex than we would perhaps like to believe. If you look at global poverty statistics, global aggregate

poverty statistics, and ask yourself the question “Has poverty declined?” – the answer is ‘Yes’ without a doubt. But, as he pointed out, if you remove the figures for China from these global statistics then all of a sudden the answer is much more immediate, because China is an extremely big country and it makes an extremely big difference. That is no reason to back away from globalisation – even if we could. But it is a reason to be more careful, especially in an academic setting, to know exactly what the benefits are, where the risks are and where the flip side exists because of course, as we all know equally well, there is a flip side. And even that flip side is complex. For instance, if you look at the issue of child labour – the one that is most eagerly quoted by people worried about that flip side – it is far too easy to just take the moral high ground regarding child labour and condemn it upfront as something that is utterly immoral, which should not be accepted at any price. Because if you think about it, and especially if you talk about it to people from India for instance, they acknowledge, and obviously cannot ignore, the negative side effects. However, they also point out that if a law against child labour were to be passed then in most cases these children would move on to even worse jobs, in child prostitution and the like. The right answer is more complex, and points to a need for companies that work in that part of the world to perhaps accept children working and at the same time ensure that these children spend part of their time receiving an education, in that sense building their own life and developing their own future in a positive way. Again, I believe that the situation is sometimes more complex than is convenient for us to accept.

Mr Gortzak is absolutely right about many employees being denied fundamental rights, and I think we should support trade unions in their struggle to ensure improvement in this area and to make sure that wherever there are micro pains as a result of macro changes, these micro pains are properly acknowledged. And frankly, if I may say so, I think we should appreciate the fact that the Dutch trade unions, unlike many of their colleagues in other countries, have always been on the right side of this debate. They have always supported free trade, they have always supported the lifting of trade barriers, and they have always come out against protectionism. And in this they are quite rare and pretty exceptional. Indeed they have always accepted outsourcing as an inevitable side effect of globalisation. There is nothing new here. The industrial make-up of this country has changed many, many times – it is how we manage that change that turns us into a fundamentally different country from those that employ very rough tactics to ensure that change proceeds. A civilised country can deal with change in a civilised manner. That is what we have to do. Of course there are other side effects of globalisation that worry us – and that are worthy of your attention. For instance, the way in which it affects the environment we live in, the way it affects the rough and raw exploitation of the resources we have, especially sources of energy. Look at the way in which China is now moving through Africa hunting out its natural resources. Again, these developments are worthy of more serious and deliberate attention than I can possibly give them today.

But we can absolutely agree on one thing, and I am sure that many of you must have been as impressed by Jeffrey Sachs and his views as I was. The Millennium Development Goals are worthy goals to go for: the eradication of extreme poverty and hunger; achieving universal primary education; promoting general equality and empowerment of women; reducing child mortality; improving maternal health; combating diseases such as HIV/AIDS, malaria, etc.; ensuring environmental sustainability. With our global partnerships for

development these are excellent and worthy targets, targets worth fighting for. Targets that deserve our full support, and the full support of our politicians. I strongly agree with Mr Sachs that this is not something we should easily give up on. We have had many examples in the past of goals that seemed excessively ambitious but, with hindsight, were eminently achievable. These are big goals – but certainly goals to keep firmly in sight and goals worth fighting for.

Corporate Social Responsibility...

The question I suppose that links this whole topic to the topic of today is the role or roles that companies can play in contributing to those major targets in the age of globalisation; the role of enterprises in alleviating poverty. Poverty is perhaps the overriding concern accompanying these aid targets. And there I think the paper that I have seen and which I recommend to you – included in the introduction to this booklet by Professor Van Tulder – gives us a very interesting framework within which to discuss these issues.

But first, I should also say that I agree with Mr Burgmans when he said that direct investment by foreign private enterprise is the best possible form of development aid. That is absolutely true, and of course if only companies do this on the largest possible scale they can perhaps play the best possible role. However, at the same time we all realise that that role is not enough, that we should do more; that companies should do more. But in what sense should we do more and in what sense should we expect them to do more? I think this is where the introduction to this booklet also makes a very useful contribution. Again, I don't wish to quote it in too much detail, but I think it indicates very clearly that on the one hand the majority of multinational enterprises recognise the message, but on the other hand many of them are still uncomfortable with it and many of them find it difficult to work with it. It is interesting to note that European companies are doing reasonably well in this domain, or comparatively well. About a quarter of European firms now say that they fully support the Millennium Development Goals. Companies like Royal Dutch Shell and ABN AMRO have explicitly linked their sustainable growth to these millennium aid development goals. I was happy to see that banks are doing very well indeed. Another recent publication shows that, of the large international banks, Dutch banks come out very well. The Rabobank has a very good track record in this area. ING, I am relieved to see, also has an excellent track record. There is progress here and we should appreciate and be grateful for that progress.

The question of course is, can we now take this notion, this fashionable notion of corporate social responsibility, that so many companies say they subscribe to, and stretch it to include poverty alleviation as a corporate objective? That is not as far-fetched as it sounds and certainly not far-fetched if you take it as an extension of what Mr Burgmans was saying earlier. Let me talk briefly about the public debate on corporate social responsibility. I am happy to say that the debate in the Netherlands is largely based on a report which the Social and Economic Council, of which I am currently Chairman, issued in the year 2000 – entitled 'Profiting from Values' (or De winst van waarden, as it is called in Dutch). I think it is fair to say that Dutch government policy in this area is based largely on what that report recommends, and on the analysis it provides. The report basically starts from the assumption, which I hope will not require a lot of proof or backing up, that business is about more than just making a profit. So the concept that we advocated, that the Social Economic Council advocated, is that corporate social responsibility goes beyond the classic notion that

the only responsibility of companies is to survive, and that the only way to survive is to generate profit. Typically in the Netherlands we have a tradition that is special – although not unique – of viewing companies as partnerships of stakeholders, not just as the exclusive property of shareholders or owners. Employees also belong to this partnership and there is a wider circle of stakeholders that to some extent and in some sense can also claim to be properly involved: customers, suppliers, competitors even, government agencies, society at large, consumer organisations, environmental organisations, human rights organisations, the media. A company, especially a large company, is a part of society. It cannot ignore the many complex ways in which it is linked to that society and has to derive some implications from that complex structure. The basic observation of the report to which I refer is that, to serve these stakeholders well and faithfully, companies should take an active or proactive approach to their corporate social responsibility, the wider responsibility of the company.

One thing to emphasise in this debate, right from the start, is that this is not about charity. In fact, if anything, corporate responsibility is more often the result of enlightened self-interest; it is a strategy that companies employ freely to bring market focus and market potential, which are crucial ingredients, into line with the requirements imposed by the environment in which they operate. And it is precisely because they want to continue to do that, because they need that 'licence to operate', in those well-known words of Shell, that they engage in that wider social responsibility. Enlightened self-interest, I think, is the motive to keep in mind here. Because when properly executed, corporate social responsibility has a great many positive side effects: it improves the company's reputation, its good name, its positive image, its goodwill; it increases its sales potential and recruiting power. Look at the way in which these characteristics resonate when companies are ranked according to their recruitment potential. Future employees look at the image of a company and its social image when deciding where they want to work. Enlightened self-interest is also the way in which corporate social responsibility motivates employees. People want to be proud of the company they work for; this is the way to make them proud. Corporate social responsibility as enlightened self-interest also enhances the company's insight into its own market opportunities. It creates a long-term perspective; it creates a long-term alliance that also works for the company in the long run. At the end of the day, corporate social responsibility enhances risk management; it demonstrably reduces the chance of scandal or accident or even a court case.

For a while people thought that corporate social responsibility was a lot of hype, something that would come and go, but I think it is fair to say that it is here to stay, and it should be. The good news of course is that it is nothing new. Corporate social responsibility is really part of an evolution, not a revolution, because as a phenomenon it is as old as companies themselves. In the nineteenth century many companies, especially in the domain of manufacturing, quite privately and independent of any Government involvement, felt a sense of responsibility; they set up savings funds for their employees and funds to support them when they were ill or sick, or for when employees' widows needed financial support – way before pensions even existed. That was corporate social responsibility more than a hundred years ago. And it was certainly not just a Dutch phenomenon either. I wish I could claim that, but I cannot. It has been widely seen all over the globe, and as many of you may know it is properly reflected in the OECD guidelines for multinational enterprises published as long ago as 1976 – before the Social and Economic Council even existed. Corporate social responsibility has been around for a long time, and it has a long and proud history.

...in the global village

The globalisation of the economy that I referred to earlier and the opportunities created by technology, especially by information technology, most especially by the Internet, have turned the world into what can properly be called the global village - a very great and inspiring concept. What is more, the global village has demonstrated all sorts of surprising side effects. One thing that we are all witnessing is that the powers that used to be are in retreat, governments are in retreat: their powers are waning. Whether they like it or not, companies, together with certain civil society organisations, have inherited a great deal of that power; a great deal of that visibility; a great deal of the knowledge and, unfortunately perhaps for them, many of the responsibilities. Whether we like it or not, the world that we live in sees that ethical and moral spotlights have been switched away from churches, switched away from governments, and are now shining on the civil society and business. So whether they like it or not, enterprises will be increasingly asked to account for that corporate social responsibility – by numerous stakeholders, by numerous external parties: consumers, citizens, interest groups and NGOs. We all know the famous examples – not necessarily cases we would be proud of. Take the Brent Spar case and Shell. In retrospect Shell was ready to do what was environmentally right and nevertheless for whatever reason was put under so much pressure that it had to back down from that original decision. Look at recent cases where child labour in the production of shoes and clothing has been attacked, and successfully attacked, and look also at the way in which companies are now responding. It is very encouraging. In farming, for instance, where farmers realise they will not survive commercially if their methods do not meet with public approval. A very recent case that really struck me was that there are now pig farmers who install cameras in their sheds to convince customers, via the Internet, of their good intentions. This is an amazing example of how companies can be forced to adapt their behaviour under public pressure. So basically, and I share this view with Mr Burgmans, I am optimistic here. I am optimistic that we are making progress; that this corporate social responsibility is a natural response that comes to companies more and more naturally over time. This is one of the two big trends that form part of this story.

The role of managers and management schools in the knowledge economy

There is another trend that I wish to address and I can be brief about this because I think you will recognise it quite easily from the classes you take and the books that you read. It is the role of the manager in this new world that we live in - the world of the global economy - that is also increasingly dominated by knowledge as a production factor. We live, especially in countries like the Netherlands, in knowledge economies, where knowledge is crucial, and knowledge economies require different leadership styles, very different leadership styles: less authoritarian, less patronising, more initiating, and more inspiring. This is a second fundamental trend. I don't want to go into this at too much length because I am sure you recognise the ingredients, but let me just summarise them very briefly. These knowledge economies that we are part of are truly and crucially network economies that consist of many interlinked networks. Organisational boundaries blur – it becomes less and less clear where one organisation ends and another one begins – and innovation becomes the key to corporate survival. As innovation takes place via co-operation with others and more frequently in an open innovation setting, the edges continue to blur. Instead of the hierarchical systems with which many of us grew up, we see these networks, these

partnerships, emerging with shared interests being the key, and with reputation and trust as a crucial cultural ingredient.

What do managers need in order to survive and to prosper, to make careers in this kind of setting? What does management literature say about this? You probably know this much better than I do. Let me just quote a few ingredients that seem to make sense to me and that seem to be important. First of all, management has to remain open to change and people must act accordingly. Innovation again is the key, and it should be a key that follows naturally from what companies are setting out to do in accordance with their mission and their vision. There is a crucial need to communicate this clearly, to all the stakeholders, especially to employees, and to provide them with the proper instruments. Instruments, for instance, like setting up internal innovation targets, measured in whatever fashion. Making sure that you have the right mix between what needs to be done on a short-term basis and what you need to accomplish in the long term: the difference between exploitation and exploration.

In a knowledge economy we need knowledgeable managers. Managers need to know a great deal more than they used to know. Different categories of knowledge: technological knowledge; market knowledge; product knowledge; distribution knowledge. You must have the ability to spot new information, and to recognise whether it is relevant. Managers need to be outward looking, ready to learn, ready to listen, ready to participate in their own networks, ready to recognise opportunities, ready to recognise threats, ready to process that information and ready to pass it on effectively. The knowledge economy, of which we are part and which we should be happy to be part of, is an exciting kind of institutional arrangement that requires a very different way of managing employees. I have already referred to that briefly, but of course one of the main and most visible trends is the movement away from centralisation – decentralised management styles, delegation to decentralised levels, and the evolution of new structures and new working relations. The one lesson that both large and small companies are learning is that there is an enormous amount of expertise and creativity embedded in their own organisations, in the minds of the people who work for them, which is seriously under-explored. To explore that knowledge, that eagerness to change, that ability to create, is one of the crucial roles of managers in the future. Companies that do it well will survive and prosper in the knowledge economy that we are building. To find the right people, to make sure that you exploit their talents to the full, to make sure that they can exploit their own talents and build on them and go forward is one of the crucial roles that managers will have. Indeed, they are making sure that that the lifelong learning process that we have already been theorising about for so long becomes a reality. That is one of the big challenges for the economy as a whole.

When all is said and done, the challenge of diversity is to make sure that that the base of people that you work with and build on is a properly diverse base. I believe that this is perhaps one of the big messages from the private to the public sector of this country. In my opinion, the Netherlands right now shows all the signs of being a part of the world where we dwell too much on the negative effects of diversity. We see the distrust it can generate, we see the anger it can create, we see the suspicion it can sow and we simply under-explore the positive effects of that diversity. Large companies know from experience that diversity also generates creativity, that it generates opportunities for growth and creativity. It seems to me that currently in the Netherlands we are not getting that balance right at all. Perhaps this is

where the private sector can lead the way, as it has done so often in the past. Here we have, if you will, the two big trends that ultimately transform companies into knowledge networks that operate within a global economy and, at the end of my presentation, let me just bring them together and show how they ultimately interact at the level of the future manager.

Because I am sure that is what many of you are, or want to be – senior business students looking forward to a management career that will start in a few years' time and that may well span your entire professional life. However well-prepared you will be by then for such a career, if only from attending such wonderful conferences as this, there is no doubt that the role you are seeking to play will demand a combination of capabilities that is extremely broad and very challenging.

First and foremost, and this in the first place is where globalisation comes in, the global marketplace in which all of you will have to find your way will force you, whether you like it or not, to work with and also to compete against a huge global army of talent, a global army of talent that is claiming its fair share of the wealth and the opportunities that the world offers, a global army of talent that will not easily take 'No' for an answer. It's a tough world out there and that global marketplace is, as I said before, not something that we can ignore; it is not something for us to use selectively. It is there; it extends right into our own backyard. The companies that you will either create – and I hope you will create companies – or work for, whether they are big multinational enterprises – the Unilever's of this world – or the small start-ups, will not wish to ignore, and cannot afford to ignore, the temptations of the global marketplace. But at the same time these companies, large or small, cannot remain deaf to the insistent demand that they do more in return for those opportunities than just add to the personal wealth of their owners and their employees. Again, corporate social responsibility is not charity; it is a prerequisite on the basis of which companies can exercise their licence to operate that would otherwise sooner or later surely be denied to them. As future managers you will be asked to excel in recognising both the needs of the people that work for you and the needs of the people that your company works for. The people that work for you will give you their loyalty conditional on your ability to allow them to grow and develop as individual employees, and the people your company works for will give your company their loyalty conditional on its ability to enrich their lives and conditional on its contribution to the future of this small planet that we all live on.

The irony of the global village is that the smaller and more compact it gets, and it gets smaller and more compact by the day, the less it allows anyone to escape. As future managers, you will ultimately be accountable to both internal and external forums. You will not succeed if you cannot accommodate these two forums simultaneously. The more senior you become as a manager, the more people will expect you to act as an effective intermediary between these two. Effective intermediaries have to ensure on the one hand that the external shareholders and the external stakeholders of your company are effectively in touch with that company. And conversely, that the company itself is properly represented externally in the global debate in which we are all required to participate. This is not a choice – we are not invited, we are forced - we are required to be accountable to that big external world. The corporate social responsibility of companies can only be effective if it is an extension of your personal responsibility as a manager who wants to be and has to be a global citizen. The future of our economy will depend greatly on your ability to exercise these two joint responsibilities wisely.