BUSINESS LEADERSHIP IN A POST-CRISIS ERA

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1. The landscape of contemporary corporations is changing. Since the financialization of the economy in the early 1980s, corporate governance practices tightly linked the purpose of business with maximizing shareholder value. However, as the XXI century pushes on, there has been an increased emphasis on other stakeholder values, particularly social and environmental concerns. This trend in corporate governance has fuelled the emergence of new organizational forms. So far attention has been devoted mainly to the business model. Time has come to reconsider the role of the management model also.

Empirical evidence shows that the major crises of our time are a result of the way we conduct business. The traditional corporate form has in many ways monopolized our understanding of how we think and talk about business. The rise of new forms of organization will require re-imagining what are the fundamental building blocks of business.

As C. Mayer has recently written: "The corporation has evolved substantially over the past hundred years, but the very evolutionary processes that might have been expected to make it better suited to the world in which we live, have done exactly the opposite". (*Firm Commitment*, OUP, 2013, p.2). One cause of this is certainly our own misconception about the nature and role of the company. It is dangerously reductionist to characterise it as a mere "nexus of contracts" between different parties, such as employees, suppliers, investors, clients, community. According to the received view, the company exists for the benefit of its owners – the shareholders – and those charged with running it – the directors – have the duty to further their interests. Today we know that this approach has serious defects, as was remarked, among others, by pope Benedict XVI in his encyclical *Caritas in Veritate*: "Business management cannot concern itself only with the interests of the proprietors, but must also assume responsibility for all the other stakeholders who contribute to the life of the business". (2009, n.40).

The recently published Report by UN *(Impact. Transforming Business, Changing the World*, New York, 2015) on the results achieved during the first fifteen years since the launch of the UN Global Compact, gives evidence that corporate practices are changing, albeit in slow motion, as a consequence of high-profile clashes between companies and civil society. It has becoming increasingly clear that the single-minded goal of profit maximization at any cost is fracturing societies and destroying the environment. Essentially, business has been threatening the very elements that underpin its own existence. Today, the umbrella of corporate sustainability (both social and environmental) covers a much broader range of issues than before. However, there is still a very long way to go before sustainability is fully embedded into the DNA of business globally, but there are clear signs of progress. In this regard, a strategically important role has been and will be played by civil society organizations such as UNIAPAC, that contributes to a cognitive overhaul around the purpose of business and its obligations to society, inspiring a new narrative around business as a force for good.

2. The question arises: which factors should be held responsible of the serious reductionism mentioned above? There is no doubt that a major factor has to do with the benign neglect towards the ethical dimension in the discourse concerning business life. Indeed, while principles of morality are well developed in relations to individuals, they are not in respect of companies. Yet, the corporation is a moral agent in so far as it is a juridical person. In fact, the competitive advantage of nations depends on the moral fibre of its corporations. The risk of moral decay through market interactions has been discussed extensively in politics, ethics, sociology, but not in economics. Yet, empirical evidence shows that market interaction causally affects the willingness to accept negative consequences for a third party-what in the economic literature are called pecuniary externalities, not to be confused with technical externalities. Ethics in business schools tends toward economic instrumentality and a utilitarian outlook. This attitude is prone to the so-called “cut flowers syndrome”: the language of values may look attractive for a while, but severed from their cultural and spiritual roots, they wither. (G. Hamel, “The 15 diseases of leadership according to pope Francis”, *Harvard Business Review*, April, 2015).

A relevant piece of evidence about the “cult flowers syndrome” comes from the recent experiment carried on by A. Cohn, E. Fehr, M. Marechal (“Business culture and dishonesty in the banking industry”, *Nature*, Dec.2014) concerning the financial sector’s business culture – a sector that in recent years has been involved in numerous scandals that have undermined confidence in the financial industry. The results suggest that the prevailing business culture in the sector favours dishonest behaviour, implying that measures to re-establish an honest culture are of decisive importance. For example, several experts and regulators have proposed that bank employees should take a professional oath, analogous to the Hippocratic oath for physicians. Such an oath, supported by ethics training, could prompt employees to consider the impact of their behaviour on society rather than focusing on their own short-term benefits. A norm change also requires that companies remove financial incentives that reward employees for dishonest behaviours. These measures are an important step towards fostering desirable and sustainable changes in business culture.

In the search of origins of unethical behaviour by entrepreneurs, attention has been given to the potential influence of a cognitive process known as moral disengagement that serves to deactivate the self-regulatory process that normality deter individuals from actions that violate their own moral standards. (A. Bandura, *Moral Disengagement*, New York, 2016). Three basic mechanisms tend to generate moral disengagement. Firstly, individuals can cognitively distort reprehensible acts so that they appear benign (e.g., "true, we did pump our waste into the lake, but the pollution we generate is trivial"). Secondly, people minimize their personal role in the unethical decisions through diffusion of responsibilities. (E.g., I evade taxes, since the tax pressure is too high). Finally, people can hold victims as responsible for the harm they experience. (E.g., they did not pay attention, so it is their fault if they are suffering). Indeed, a full understanding of morality must explain not only how people come to behave morally, but also how they can behave inhumanely and still retain their self-respect and feel good about themselves.

3. Which consequences stem from the phenomenon briefly outlined in the previous paragraph? A first major consequence is the scandalous increase of global inequality (B. Milanovic, *Global Inequality*, 2016) that is today one of our most urgent social problem. Curbed in the decades after World War II, it has returned in the past thirty years with a vengeance. We all know the scale of the problem, but there has been little discussion of what we can do but despair. Yet, a comprehensive set of policies that could bring about a genuine shift in the distribution of income and wealth is possible. We need fresh ideas, and in this context the role of entrepreneurs is fundamental. In particular, we have to go beyond placing new taxes on the wealthy to fund existing programs. We need new policies in areas such ad technology, employment, social security, the sharing of capital and also taxation. Above all, we need to go against the widespread arguments and excuses for inaction: that intervention will shrink the economy, that globalization makes action impossible, and that new policies cannot be afforded. All this is simply untrue.

The truth is that the inequalities we observe are the result more of power relationships, generated by the unfettered market's tendency toward monopoly, than of marginal product. Today, sectors such as telecoms, cable TV, digital branches, health insurance, finance, pharmaceuticals, agro-business and few others cannot be understood through the lens of competition. These sectors are simply oligopolies maintaining a huge market power. It should be noticed that the increase in inequality affect not only individuals and families, but also firms. For example, the 90th percentile firm in USA sees returns on investment in capital that are more than five times the median. A quarter of a century ago, this ratio was two. The implications are profound. The social and political legitimacy of market economy is based on the assumption of the competitive model. But if markets are monopolistic, hence based on exploitation, the rationale for laissez-faire disappears. Our economies have fallen short of any conception of a good economy – an economy offering a life of richness for all. The preoccupations are targeted to prospering, not to flourishing.

Authentic inclusion cannot be regarded merely as the product of material outcomes, for example a function of ensuring adequate levels of equality of income in a society. Solidarity is not just a matter of redistribution of wealth. Rather, inclusion is a matter of participation in the common good, a participation through which persons and their communities become truly "dignified protagonists of their own destiny", as Pope Francis has put it. Inclusion in this full sense requires us to take human freedom into account. We cannot simply provide more things to people but rather must foster the conditions in which their own agency can be engaged and employed in constructing together the common good of all.

It is for this reason that *subsidiarity* is a necessary condition for the generation of authentic solidarity and inclusion. Subsiadirity is not merely a tool for maximizing efficiency in the delivery of social services. Instead, it is grounded on the requirements of human dignity and the need for persons to participate freely in realizing their own good and the good of others with whom they are in community.

The essential centrality of subsidiarity to fostering inclusive solidarity can be confirmed concretely by a variety of recent empirical studies as well. For example, it helps explain why some distance adoption programs work better than others, why mentorship is much more effective than business skills training in generating successful entrepreneurship among the poor, and why government human rights interventions to reduce domestic violence in city slims have less impact than local initiatives to foster women's education and employment, and adequate child care.

While subsidiarity is essential to building inclusive solidarity in this way, it is also true that solidarity is needed to prevent the principle of subsidiarity from becoming merely a form of devolution and decentralization. Only in relationship to the common good can one judge when and how a community like the state should intervene with a *subsidium* for a primary, more local, community. Subsidiarity without solidarity can become abandonment of the poor and marginalized to their own conditions rather that fostering their freedom, agency, and participation.

4. A second important consequence of moral disengagement has to do with a peculiar phenomenon of the present epoch. The digital revolution has heralded an age of improved communications, flexible work, increased automation, substitution of labour with technology. And yet, the numbers tell an entirely different story. Despite the enormous growth in computer power and a myriad of technological inventions, productivity has largely stalled. OECD (*Productivity*

Growth, Paris, 2014) has considered the period 1970-2013, divided in two parts. Using G7 countries data, productivity grew by 2.6% on average per year between 1970-1990; in the second subperiod it grew by only 1.7% on average per year. It is certainly true that the second subperiod encompasses the Dot-com Bust of 2001 and the 2007-08 financial crisis; but also the first subperiod includes financial troubles of no less calamity (two oil crises; the market crash of 1986 etc.).

So why the advent of the 4^{th} Industrial Revolution failed to translate into higher productivity and income growth? (The real GDP grew by 3.3% in 1970-1990 and by 1.9% afterwords). Several are the explanations that have been provided so far. The one I deem more relevant is known as “the great war management problem”, based on an historical analogy. World war I saw an unprecedented advancement of military technology with respect to the French-Prussian war of 1870. However, despite all these advances in technology, military strategy had remained unchanged since 1870. This led to a virtual stalemate, a prolonged war of attrition and countless casualties. Today, technology has grown so fast that it has supased our strategies. Management is still rooted – with few exceptions – deep in the past, at the time of the Tayloristic model of organization, where intrinsic motivations; well-being of employees; work-family balance, etc. never played any relevant role. This problem is akin to the “displacement of goals” (Robert Merton) in a bureaucracy. Rules and procedures that initially served to prevent administrative and financial chaos became goals of their owns. The bureaucrat works toward rules and regulations as a goal. In the same way, managers work toward maintaining structures that are dated in the Digital Age. Business leaders are called to radically revise their model of organization, overcoming the fallacy of materialistic management. (See Pont. Council for Justice and Peace, *Business Leader*, Vatican City, 2015).

In the environment briefly described above business leaders need to shape the conditions for continued prosperity. In a most interesting Report by UN Global Compact and Accenture (*CEO Study on sustainability*, Sept. 2013, one reads: “The global economy is on the wrong track and business is not playing its part in forging a sustainable future”. This is a study of more than 1000 CEOs from 27 industries across 103 countries: the largest study to date. CEOs are committed to take action. They recognize that market rules need to be shaped to create a level playing field and a race to the top that rewards socially responsible performances.

A corporate leadership agenda to shape the future is today particularly urgent. The great challenge is to balance two apparently conflicting objective. First, business leaders need to secure the sustainability and prosperity of their own companies. Second, they need to shape the conditions for continued and more inclusive economic prosperity and for global economic integration.

5. A final consideration. A profound disruption is happening to-day in the workplace and in the economy at large, as the relentless march of technology had brought us to a point where machines and software are not just outworking us, but starting to *outhink* us in more and more realms. If machines can compete with people in thinking, what makes us humans unique? And what will enable us to continue to create social and economic value? The answer is the one thing machines will never have: a heart. Humans can love and can have compassion. This implies that the tech revolution will force human beings to create more value with hearts and between hearts. Whence the growing importance of more human – to – human connections. “Machines can be programmed to do the next thing right. But only humans can do the next right thing”. (Dov Seidman, CEO of LRN, which advises companies on leadership).

We know that by the rules of reason alone one can certainly rationalize the existing, but cannot invent much. Indeed, in order to really invent one needs to cast a sketch of sense beyond customary rationality. It seems to me that for this task those who recognize an eschatological dimension are better equipped than those who live within a pure enlightened rational dimension, which is surely capable of bringing to rigorous analysis, much less so to creative problem solving. This is perhaps the most significant contribution of Catholic Social Teaching towards overcoming the neo-Machiavellian trend and the sentiment of despair so massively present in today’s culture. Indeed, it is the lack of hope, to-day, which is a major impediment to the spreading of the sense of possibility which is so necessary in order to change our cognitive maps and to allow entrepreneurs of all kinds to play their critical role in bringing ideas to life. This is what ultimately defines the mission of an association like UNIAPAC.

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