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Making Choices – Choosing Futures: A Business Perspective

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The future does not belong to those who are content with today, apathetic toward common problems and their fellow man alike, timid and fearful in the face of new ideas and bold projects. Rather it will belong to those who can blend vision, reason and courage in a personal commitment to the ideals and great enterprises of American Society. Our future may lie beyond our vision, but it is not completely beyond our control. It is the shaping impulse of America that neither fate nor nature nor the irresistible tides of history, but the work of our own hands, matched to reason and principle, that will determine our destiny. There is pride in that, even arrogance, but there is also experience and truth. In any event, it is the only way we can live.

Robert F. Kennedy (1966)

While RFK refers explicitly to the American way, I will contend that it is a universal truth that although our future may lie beyond our vision, it is not completely beyond our control. Societal choices are choices about common futures. Collective consciousness if you will. I hope to provide a nascent business perspective on the role for enterprise to help shape the Ireland of our tomorrows.

The Impact of Globalisation

Irish society has been shaped by the forces of globalisation to a far greater extent than older well-developed economies. The economic and social transformation is more dramatic because of the speed of change within the last 15 years. For the most part, a polarised view of

globalization, its potential and its pitfalls has taken hold of the public imagination. It has often been projected either as a panacea for all the ills of the world or as their primary cause. While it would be simplistic to attribute all the trends discussed in this paper to globalisation, it is accentuating key trends.

The process of globalisation has resulted in significant changes for many companies. Structural changes such as technological developments – and the ‘hollowing out’ of jobs – deregulation and trade liberalisation have resulted either in companies becoming more international themselves or being more exposed to international competition. As a small export-oriented trading economy and a leading destination for multinational investment, Ireland has performed well in the global marketplace.

However, rapid economic growth has far outstripped the development of infrastructure. While there is almost full employment and obvious prosperity, there is a growing unease around what could broadly be termed ‘well-being’ issues including housing provision, family life, traffic congestion, longer commute times, and inadequate health, childcare and eldercare services. The dual earner household is increasingly the social norm and that determines decisions about whether and when to have children. All the issues surrounding it, such as work life balance, have become business issues.

Migration is one of the most visible manifestations of globalisation. Emigration has long been part of the Irish experience and up to the early 1990s the country was experiencing significant net outflow of its population. The speed of transformation to being a destination country for immigrants has been remarkable. In the 2002 census, 7 percent of the population was found to be non-nationals. In the 2006 census, the corresponding figure was 10 percent. We can get a sense of how exceptional this has been if we compare the Irish experience with that of the UK, where the non-national population grew by 2 percentage points over a thirty-year period, between 1960 and 1990.

Diversity has culturally enriched Ireland and, to date, the country has not witnessed the widespread tensions and serious integration problems that are evident in other parts of Europe. This can be largely attributed to almost full employment and relative affluence. However, as the economic cycle inevitably turns, it would be naïve to think Ireland will be automatically spared the hostility witnessed in other economies, particularly amongst groups who perceive that migration has had a significant adverse impact on their own well-being. Migrants have made a significant contribution to economic development and social welfare – often doing jobs that might otherwise have gone unfilled. Therefore business has a responsibility to help to foster integration and to lead the fight against discrimination.

The changing economic structure is also affecting the relationship between business and society. Capital mobility, the expanding possibilities of global communication, technology transfer, and in particular information technology, has allowed companies to organise supply chains globally and outsource functions. Combined with shifts in consumer demand, these changes have had profound affect on Ireland's economic structure and have resulted in new occupational divisions. For example, at least half of existing jobs demand a high level of cognitive and/or personal skills. Yet, one third of the Irish labour force has not completed upper secondary education. The growth of new types of skilled jobs is matched by a large number of service jobs. Women are heavily represented in this low-skilled service sector, with much of the work being part-time. The position of the unskilled – particularly men – is generally deteriorating, especially in traditional manufacturing. There are jobs available, but sometimes they are not in the right place, not as well paid and not jobs some men feel able or comfortable to do, as they require face-to-face social skills outside their traditional experience. Business has a key role in interpreting and managing this transition to a post-industrial, knowledge and service economy.

One of the greatest constraints is that Ireland is a small, open, regional economy. Regional economies can experience temporary periods of high growth, but are vulnerable for going out of fashion. The regional

economies in the US provide examples where highly specialised regions fall out of favour when a technology shift occurs: activity simply moves on. An example is the 1980s high-technology boom in New England. The region experienced capital inflows during the boom years, but as technology shifted from large mainframe machines to personal computers, rapid capital outflows ensued. In the Irish context, the greatest risk is the exposure to mobile multinational corporations. While their investment has been hugely beneficial for Ireland, should we fall out of favour the consequences for the economy can be severe.

One of the choices Ireland must make is how to manage and maintain its attractiveness as a regional economy. First and foremost, Ireland must remain flexible. Implicit in this is the need to maintain an adaptable and open labour market and reduce red tape. However, the need for flexibility is more far-reaching: ultimately, it is about enhancing the productive capacity of the economy, both in terms of physical and human capital. Ireland's infrastructure gap in relation to other developed economies must be closed; implementing the National Development Plan is an essential component in this. Education will be another key ingredient: a population armed with a good education and plenty of 'all-round' skills will be well able to navigate the modern, mobile labour market, where a job for life no longer exists.

Rapid acceleration in global economic activity has also led to dramatically increased demands for critical, finite natural resources. The imperative of designing a more environmentally sustainable economy to ensure that long-term energy needs are met, and to tackle the looming threats of climate change, have become a major imperative.

Underpinning this is the traditional mantra of business: 'the need to maintain competitiveness'. This has traditionally been defined in terms of lower costs and increased productivity but this concept needs to be defined more broadly.

Globalisation is not an optional choice for Ireland. Participation is essential if we are to deliver continuing economic success. However it

also presents significant social challenges as the above issues demonstrate. These challenges also demonstrate that social and business concerns are intertwined and interdependent. It is our biggest societal challenge and one, which is destined to reshape the relationship between business and society.

The Business Perspective

Having been asked to provide a ‘business perspective’ on a range of social policy issues, I first wish to consider whether such a perspective actually exists. After all, Friedman (1970) argued that ‘there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud’. This *laissez-faire* outlook reaches back to Adam Smith’s doctrine of the ‘invisible hand’ which argues that those who seek wealth by following their individual self-interest assist society as a whole and build the common good.

More recently, *The Economist* newspaper (2005) has argued with this pluralist and *laissez faire* approach to the relationship between business and society at a policy level. It contends that the goals of business and the goals of government are different and any ‘partnership’ between those two should always arouse intense suspicion. Arguing that managers, acting in their professional capacity, ought not to concern themselves with the public good, it states, ‘They are not competent to do it, they lack the democratic credentials for it, and their day jobs should leave them no time even to think about it’.

Despite the fulminations of the *The Economist* newspaper, business involvement in societal issues – either through engagement with policy-makers or individual initiatives which can be loosely grouped under the heading of ‘Corporate Social Responsibility (CSR) has emerged as an unavoidable priority for business leaders. In fact, CSR has almost become an industry in its own right. There are executive-

education programmes in CSR, business-school chairs in CSR, CSR professional organisations, CSR websites and CSR newsletters. These have been accompanied by a growth in CSR ratings and rankings such as the Dow Jones Sustainability Index, the FTSE4 Good Index and Triple Bottom Line Reporting (Elkington 1997) which measures organisational success using economic, environmental and social criteria.

However Porter and Kramer (2006) argue that traditional approaches to CSR have the same weakness: a focus on the tension between business and society rather than on their interdependence. They propose a new way to look at the relationship between business and society that does not treat corporate success and social welfare as a zero-sum game. Successful corporations need a healthy society, while education, healthcare and equal opportunity are essential to a productive workforce. At the same time, they point out, no social programme can rival the business sector when it comes to creating the jobs, wealth and innovation that improve living standards. Choosing which social issues to address, they argue: ‘...is not whether a cause is worthy but whether it presents an opportunity to create shared value – that is a meaningful benefit for society that is also valuable to business. Efforts to find shared value in operating practices and in the social dimensions of competitive context have the potential not only to foster economic and social development but to change the way companies and society think about each other.’

Yankelovich’s (2007) conception of ‘stewardship ethics’ also retains profit-making as a top corporate priority but argues that market capitalism needs to advance to a new stage of enlightened self-interest. He argues that business needs to develop a new ethic to counteract the forces leading to business scandals and to meet the challenges of the global economy.

Davis (2005) also argues that business leaders need to recast this debate in a way that has more subtlety than Friedman’s ‘the business of business is business’ view and is less defensive than most current CSR

approaches. Davis argues that by moving away from a rigid linguistic focus on shareholder value, business can also make clear to a broad audience that it understands the trade-offs that are inherent in its social contract. The debate between business and society is essentially one over the management of, and agreement over, those trade-offs.

Of course, none of this is new. For example, in 1870 Edward Cecil Guinness, established a free dispensary for his workforce in order to create a relationship between his firm and its workforce that was ‘something more than the paying and receiving of a weekly wage’ (AAlen 1990). The motivation of the Victorian philanthropists and social reformers has been much discussed but without clear conclusions emerging. Suggested explanations range from calculated self-interest to evangelical piety. Their actions might seem to be at a far remove from the modern CSR paraphernalia of triple bottom line reporting, sustainability indices and carbon neutral travel. However, they share a traditional value of ‘enlightened self-interest’ – the notion that in serving their own interests, far-sighted individuals and institutions also can serve the greater good. Indeed it might be described as a Bentham utilitarianism view of the “the greatest happiness for the greatest number”.

I would argue that the business of business is not just business, it is enterprise. Friedman’s view need not be rejected outright. The potential growth of the economy is founded on combining four types of capital: human, natural, physical and social. Entrepreneurial talent is the quintessential element that brings these four capital types together. The business community in Ireland has shown itself to have the capacity to combine with workers and government to sustain economic growth through successfully competing in global markets. This, in turn gives rise to higher income levels, enabling greatly improved social amenities and a more satisfying quality of life.

Therefore, the business of business may be ‘a different kind of business’. But the ability to unleash the positive power of enlightened self interest depends on an older, more ethically responsible, form of

individualism. Capitalism has always aligned itself with this concept. The key question is how best to apply it in the 21st century.

Prices, Costs and Values

Having, hopefully, established the legitimacy of a business ‘perspective’, I now wish to consider what ‘added value’, it might bring.

Business knows how to efficiently and effectively combine the factors of production. It understands the basic sets of transactional analyses around value and prices that go on in any human interaction and believes it has the best way to conduct these, through a market-based system. Whether it is social, human, physical or natural capital, it is pretty much the same prism. Business also has the discipline of quantification and awareness that resources are finite, so trade-offs and tough decisions must be taken.

As human beings, we operate within a certain value system, comprising both personal and social values, and make decisions based on the values we hold. Less appreciated, however, is that the choices we make impose certain costs; a dichotomy is imposed on prices and values, rather than viewing them as two sides of the same coin. The habitual distinction made is that values are normative, encompassing non-monetary judgements that cannot be expressed in the narrow, descriptive definition of price. Certainly not all values we hold can be expressed in monetary terms, but the fact remains that most decisions, public and private, have monetary consequences, whether or not we are aware of them.

In the context of the choices we need to make now to see the future Ireland we desire it is even more important to know the price tag that may come with the values we hold. If the costs remain as implicit, undefined shadow prices, we cannot make an informed decision on how and where to best direct the scarce resources at our disposal. Not

having the knowledge can lead to a gap between how much we profess to value something and how much we are actually willing to pay for it. Environmental protection is a pertinent example: we are all green, until the time comes to take a financial hit or make an inconvenient behavioural adjustment.

We must use utmost care, however, in the quantification process. Part of the reason why price is not always an accurate signal for value is the existence of market failure and externalities, costs and benefits incurred by parties not involved in a given economic transaction. For instance, releasing green house gases into the atmosphere is a negative externality, as the consequence (global warming) is not fully incorporated into the price of the goods and services we consume. As the science behind global warming has become accepted, it is now important to determine how much it will cost to limit the impact. In a very practical sense, it is important to know the cost of the various options we have at hand. This is necessary so that we know which measures we should implement and in what order.

The concept of the social wage is another example where the values we hold have implicit shadow price. Since the inception of Social Partnership in 1987, the focus of employee remuneration in Ireland has been take-home pay. Government, trade unions and employers together agreed that wage moderation, coupled with tax cuts, was the way to tackle inflation, then in double-digits. Ireland now has one of the lowest income tax levels and smallest tax wedges in the OECD. In contrast to the focus on individual net income, social wage is a wider concept comprising public services, funded of course by taxation, as well as an individual's net earnings. Higher taxes, however, introduce distortions in the economy: the shadow price is a negative impact on employment. Ultimately, informed debate and decision-making can only occur when the cost of our values is quantified.

The choice of metric is therefore extremely important. Sometimes choosing your future can be as narrow as choosing the metric you use to measure your progress. We must avoid as Shakespeare advised us

“our dreadful marches to delightful measures”. For example, NESC has argued for the use of GNP rather than GDP as a measure of Ireland’s economic welfare on a per capita basis. The rationale seems to be that GNP is a better measure of Irish resources, since it excludes incomes earned by foreign companies. GDP, however, is a measure of economic activity physically located in Ireland. Since it is a better gauge of employment, it may then arguably be a better measure of welfare at one level. Neither has primacy, indeed both are flawed.

Here again RFK provided a timely reminder that “*Gross National Product measures neither the health of our children, the quality of their education, nor the joy of their play. It measures neither the beauty of our poetry, nor the strength of our marriages. It is indifferent to the decency of our factories and the safety of our streets alike. It measures neither our wisdom nor our learning, neither our wit nor our courage, neither our compassion nor our devotion to our country. It measures everything in short, except that which makes life worth living. It can tell us everything about our country, except those things that make us proud to be a part of it.*”

The importance of what social choice theorists term ‘informational broadening’ can also be applied to other areas of social welfare analysis. For example on the question of poverty Sen (1999) suggests that deprivation is ultimately a lack of opportunity to lead a minimally acceptable life, which can be influenced by a number of considerations, including of course personal income, but also physical and environmental characteristics, and other variables (such as the availability and costs of medical and other facilities). This alternative approach leads to a rather different diagnosis of poverty from the ones that a purely income-based analysis can yield.

Embedding Values

Lest I begin to sound like Wilde’s definition of the cynic ‘who knows the price of everything and value of nothing’, I am not suggesting that

to achieve a just and efficient society, we should let the market work its magic. The market and entrepreneurial talent have the power to transform societies by spurring innovation, creativity and better living standards. Some of the most far-reaching innovations in the recent past have been produced by this dynamic. But it is incorrect to assume that a free market has moral virtues over and above its ability to allocate resources efficiently.

The traditional approach to CSR remains strongly imbued with a ‘moral imperative’ in the mistaken belief that businesses rather than people have ‘morals’. In some areas, such as operating within the law, moral considerations are straightforward to apply to individuals working within corporations. However, it is the nature of moral mandates to be absolute values and most business people realise that social choices involve balancing competing values, interests and costs. Failure to acknowledge this has led many approaches to CSR to be, at best, fragmented and disconnected or, at worst, tokenistic and cynical.

The assertion that values matter is a contested issue in economics and in many areas of public policy. I have come to believe that they do, but developing a framework that acknowledges business realities and authentically connects to people’s personal values remains the challenge. This is particularly difficult given that society’s values develop and change. Schwartz (2005) has sought to establish the ‘core universal moral values by which corporate codes of ethics can be ethically constructed and evaluated.’ It examined companies’ codes of ethics, global codes of ethics and business literature. From these, six ‘universal moral values were extracted: trustworthiness, respect, responsibility, fairness, caring and citizenship.

Professor Hans Kung’s analysis of cross-cultural ethical values covers the Koran, the Hebrew Bible, the Buddhist Canon, the New Testament, Indian and Chinese’s religions and humanist philosophies. He concluded that common core values and standards ‘do not lie’ and ‘do not steal’ and that the principle of reciprocity – ‘Treat others as you would like to be treated’ – lies at the heart of all traditions. A form of

Gordon Brown’s Golden Rule for Investment for those of you living in the more immediate fiscal reality!

Values are defined in words but tested in deeds. It takes time, resources and persistence to embed values to ensure that they are lived in practice.

A simpler way to frame a more ‘enlightened’ view of the relationship between business and society, and with which to consider public policy, might lie in one of the best known contemporary laissez faire apologists, The Economist (2005), which poses two questions to all acts of ‘supposedly enlightened corporate citizenship: (1) Does it improve the company’s long-term profitability? (2) Does it advance the public good? If it doesn’t meet both criteria, we probably shouldn’t be pursuing it. In fact, this appears to constitute sound criteria for both evaluating the social responsibility of individual companies, and providing a ‘compass’ with which the business community as a whole can shape the debate about socio-political issues. It acknowledges the interrelationship between business and society. These criteria can underpin the shared values with which business leaders can identify and with which a shared definition of social reality can be developed

Sustainability

The principle of ‘sustainability’ is powerful because it re-introduces the traditional idea of enlightened self-interest and raises the question of trade-offs. As I have argued above, business, in essence involves a series of complex and continually evolving social trade-offs, of which business leaders need to raise the public’s understanding. But what does ‘sustainability’ mean?

According to Timothy O’Riordan, Emeritus Professor at the School of Environmental Sciences, University of East Anglia, defining sustainability is like “exploration into a tangled conceptual jungle where watchful eyes lurk at every bend”. The Economist Intelligence

Unit (EIU) (2008) has called sustainable those policies and processes which enhance the financial, environmental, societal, human, and other resources on which the company involved depends for its long-term health. Sustainability is the result of having such sustainable policies and processes, and aligning them so that goals in one area are not compromised in favour of those in another.

Although currently being driven by growing anxiety over the impact of climate change, the underlying questions about the relationship of business and society has been given a new urgency by the impact of globalisation. The social and environmental benefits of sustainable business practices are what governments and citizens are likely to demand in return for an open world economy.

As the EIU has pointed out, *‘In the end, sustainability will require changes, but not perhaps those the public expects. Business people have long realised that the image of an immoral private sector motivated only by greed is a caricature, and a poor one at that. Most think that their economic activity serves the public good... The innovation that sustainability demands is to integrate these values into the structures, processes and incentives that mould behaviour inside companies. Social and environmental initiatives should not be something that firms do in addition to making profit: instead, they should become a central part of the strategy for corporate prosperity.’*

What Future Will Business Choose?

This conference has challenged us to consider what future we want to see emerging.

I believe that tomorrow’s companies will play a larger and more proactive role in society, be more engaged in public debate and be recognised as a source of economic, social and environmental progress. In Ireland we already have the basic structures in place with which to engage. Social partnership, after all, is based on this very realisation

that the goals of business and the wider society are mutually compatible. The process needs now to be taken a step further. Here Ireland's small size can be an advantage, as there is scope to take advantage of existing networks in order to work collectively. Business engagement in making the choices for the future can be a key ingredient in 'future proofing' Ireland as a place that is good for business, thus protecting society from the dangers inherent for a small regional economy.

Business will be a positive force in Ireland – both as a creator of wealth and an agent of change that delivers practical solutions to set the world on a more sustainable course. However, it needs to be in tune with how the world and society's expectations are changing and be able to translate these challenges into opportunities to develop new products and markets, or if necessary reinvent them and itself. This will help it to be adaptive as it will have to manage risk, remain competitive and to continue to make profits and shareholder returns. It needs to understand that providing returns and ensuring the future health of the environment and society are not at odds with each other and redefine its purpose and its view of success in line with this.

Now is the time for us to “blend vision, reason and courage” to define our shared values and deliver a future of our choice. Never has a generation of Irish people been more endowed with resources to achieve social actualisation. What we lack is a catalyst for change. More of the same is an option for the future but is it enough?

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