"Business ethics: restoring trust"

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Agnes Jongerius, President, FNV, Netherlands
Discussant(s): Carla Coletti, Director, Trade, Employment & Development, International Metalworkers' Federation
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Representatives of both trade unions and private sector firms had their say on how improved business ethics could help to restore public trust in financial and corporate institutions. Despite differing opinions on the roots of the current crisis, both sides agreed that a healthier future economy will be based on trust, transparency and international co-operation on a set of rules governing business ethics. Participants hoped that the OECD, through its Guidelines for Multinational Enterprises, would continue to take the lead in providing international standards for responsible business conduct.

For **Anne-Catherine Husson-Traoré**, "business ethics nowadays symbolises the return of common sense to a world that was greatly lacking it." Ethical principals are mainly about risk management with medium and long-term strategies she said, and the financial crisis reiterated the fact that these principles can only be enforced through the demand pyramid, at the bottom of which sit the shareholders. On the question of implementing ethical standards, Ms. Husson-Traoré suggested that stakeholders employ "counter power," that is the power they have over the valuation of a brand. However, there remain many obstacles to the proper implementation and enforcement of ethical standards, including the lack of clear majorities for many European governments.

Amy Domini described the role of finance as "pivotal" to the success of the ethical business model, along with initiatives to foster greater transparency and accounting practices. Settlement figures for derivatives trading in 2008 (the most recent available) indicate $660 trillion of trades. These figures, she said, showed both the huge discrepancy between the sizes of the real and financial economies and the enormous potential and power within the financial world. This power could be harnessed to benefit society as a whole if accountability could be enforced. With regard to enforcement, Ms Domini highlighted the potentially powerful role of activist shareholders in enforcing higher corporate governance standards.

Ms Domini also noted the significant power wielded by pension funds and mutual funds. The average mutual fund has a 200% turnover rate of assets under management, leading to the suggestion that "no-one owns corporate America anymore." Meanwhile, she claimed that the EU has been very shy about "flexing its financial muscle". Furthermore, Ms Domini differentiated between oversight as a strategic weapon and a tactical weapon. In terms of strategy, ethical oversight would involve the implementation of greater transparency and more rigorous accounting standards. From a tactical perspective, however, shareholder resolutions provide a means to gain more information from companies and influence decisions. With regard to hopes for the ethical business model, she suggested that due to the recent crisis a "light bulb" had now gone off in people's heads, and the question of "what will it take to create a paradigm shift" was now being asked: "If finance is working against the goals of human dignity and ecological sustainability, then governments and civil society will be incapable of achieving those goals of restoring trust."

Agnes Jongerius offered a "worker/citizen" perspective to the debate and insisted that organized labour should have a louder voice in crafting corporate social responsibility programs. While noting that the private sector has started to make positive steps towards "cleaning up its act" in the public eye, she admitted that many unions feel left out of the process. Stronger international co-operation could be the cure and the OECD has shown. Just as governments have attempted to hash out a united response to the financial meltdown, Ms Jongerius hoped that they could involve all stake-holders, including labour, in regulating business conduct in future. Yet such efforts would need to be far-reaching. “It is not enough to just restore trust,” she said.

Representing another side of organized labour, **Carla Coletti** argued that concrete instruments need to be created to regulate business ethics globally. “There is no more time for voluntary displays of goodwill” on the part of management, she said. Yet any actions need to be coordinated globally, otherwise any initiatives could become dangerous for employees. The transfer of power from a “real economy to a jobless economy not based on productivity” means that managers have plenty of work ahead if they are serious about increased business ethics, she said.

Edward Greene pointed to the failure to impose binding international standards at the G20 meeting as no country was willing to cede sovereignty over financial regulation. The challenge for organisations such as the OECD or the IMF was to decide their role. Mr Green noted that the recent crisis highlighted the interconnectivity of markets and the resulting need for global rather than simply national standards. But the development of global standards faces opposition as in some quarters it is seen as eroding national sovereignty. In addition, in order to regulate the sophisticated global financial system we need better quality regulators as well as better regulations. However, he remained unconvinced that shareholders could exert much influence on companies, pointing out that they had failed to make much of a difference when asked to rule on directors’ remuneration.

Addressing the breakdown in trust implicit in the current financial crisis, Mark Schatz offered a sobering view. “This is no crisis in trust – it is a meltdown.” Citing a recent poll that claimed only 4% of Americans trust Wall Street, he called for an entirely new relationship between the private sector and government. The OECD has and should continue to play a role in facilitating this, he said, as most recently seen by its successful work in combating tax havens and corruption.

Ms Jongerius added that there have been a number of examples of situations, in which greater transparency in the area of executive pay has led to higher, rather than lower, compensation packages, as executives have pushed to keep up with the pay packages of their peers in other companies. In that sense, pursuing transparency as a means of restraining executive compensation amounted to a gamble that backfired. Future changes in regulation might prove to be just as much of a gamble, particularly as new financial regulations would be drawn up by the same people that devised the old, failed system.

In defence of the effectiveness of shareholder pressure, Ms Domini noted that fifteen years ago it would have been impossible to accurately monitor which companies were benefiting from the use of sweatshops. But in the meantime shareholder pressure has forced companies to provide the information necessary for investors to be able determine which companies benefit from undesirable labour market practices. In response, Mr Green argued that most individual investors focus on equity indices, rather than individual companies, and so have no commitment to monitoring the practices of individual firms. This significantly undermines the effectiveness of shareholder control.

In conclusion, Mr Arpagian asked the panel members to sum up their view of the prospects for the restoration of a greater degree of trust in business. Ms Husson-Traoré noted that, while it might be tempting to think that we can return to business as usual, this is not a viable option. We need to move quickly to put in place sound rules to govern business conduct, as the cost of failure is high. Ms Domini added that governments need to encourage companies to promote worthwhile goals and impose constraints on less desirable corporate behaviour. In conclusion, Ms Jongerius noted that solutions would only be effective if all stakeholders were included in the debate, including employee representatives, the companies themselves and other interested parties.

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