Coming Out of the Investors’ Cave?

Ethical Controversies in Farmland investing

In May 2011 the Oakland Institute accused Emergent Asset Management, a UK investment fund investing in African agriculture, of using clearly unethical tactics to acquire 100,000 hectares of arable land in a dozen Sub-Saharan countries. On 8 June 2011 The Guardian reported: “Harvard and other major American universities are working through British hedge funds and European financial speculators to buy or lease vast areas of African farmland in deals, some of which may force many thousands of people off their land, according to a new study.”

A comparable story was revealed on the front page of the Dutch Volkskrant on 3 December 2011. ABP—together with the diocese of Västerås (Sweden), the Lutheran Church of Sweden and the Norwegian Lutheran Church endowment—was held responsible for unethical appropriation of land in Mozambique and driving the local population of the land.

Finally, according to Oxfam, the International Finance Corporation (IFC) is involved in evicting twenty thousand people, living and working in the Kiboga and Mubende districts in Uganda. The evictions are approved by the Ugandan National Forest Authority to make way for large forest plantations by the UK-based New Forests Company (NFC). According to Oxfam “IFC’s support is through a private equity agribusiness fund called Agri-Vie, whose portfolio includes NFC. Agri-Vie says all of its investee companies have to comply with the IFC performance standards; that it conducted extensive due diligence prior to its investment in NFC; and that it is of the opinion that NFC fully complied with all the IFC performance standards. But these standards have failed to protect the livelihoods of the people displaced in Kiboga and Mubende.”

Over the last decade investors have come to believe that their fiduciary responsibility is the only relevant thing in the world. It is only within the realm of this limited notion of ‘responsibility’ that institutional investors define what is real and what’s not. That is precisely the reason why they live in a cave, caught in their own ideas, their own values, their own standards of (financial) ethics, and their own culture. Moreover, the supervisory and regulatory authorities reinforce the belief that the cave is the only reality. The abovementioned examples show that there is a world outside the cave—a world that makes itself increasingly known to the investors inside the cave. Following Plato’s reasoning, only a few investors will be able to come out of the cave, step into the light and lead the herd towards a
new reality; a reality that not only integrates social, ethical and environmental issues into investors’ decision-making processes, but also that asks them to account for their impact on society.

Looking back, a lot has been achieved in the past 10 years. An increasing number of institutional investors screen the entities they invest in on social, environmental and governance issues; an even larger number vote on their shares. There is, however, a long way to go if responsible investors—either voluntary or mandatory—are to have a positive impact on the lives of individuals, communities and regions across the globe. So far, the evaluation by institutional investors of the impact of their investments on the lives of real people has been minimal. It is only by ‘ex ante’ assessing the (potential) impact of the investment and integrating this assessment in investment decisions, that the interests of people living outside the cave will be properly dealt with. The final step in this process is ‘ex post’ evaluation. By measuring the effects of the investments, the interests of the beneficiaries, the investees, and society can be better managed. Some pension funds, like the Norwegian Government Pension Fund Global or the Dutch Pension Fund for the Health Care Sector, PFZW, already focus on the social case for responsible investing. They have been able to preserve the core idea of the Quakers who, in an open conversation based on the quality of the arguments, decided what was a sound and sustainable investment and what not. They have the potential to become leaders in a world of investors trying to find the right balance between their fiduciary duty and their ethical obligation towards society and the people that make up that society.

It won’t be easy for the leaders to convince the pack, but there is hope. I started this contribution with a quote from Rosa Parks: “Ordinary people working together can change history.” If ordinary people can do this, it must also be possible for institutional investors. As prudent agents, working in the interests of their beneficiaries—who are nothing but a representation of our society—they can have a positive impact on the course of history. Will the leaders be able to lead them out of the cave into the blinding light? Only time will tell.

Endnotes

1. Prof. Dr. Harry Hummels is Full Professor of Ethics, Organisations and Society at the School of Business and Economics at Maastricht University. In addition, he is managing director of SNS Impact Investing, a job he shares with his good friend and colleague Theo Brouwers.

3. The same—and probably even to a larger extent—counts for mainstream investors. One only has to refer to the remuneration policies of investors and investment companies to see the difference with the rest of society.

4. It wasn’t surprising therefore, that one of the first responsible investment funds on the European continent was launched by Friends Provident in 1984 and was called the Stewardship Fund. Joseph Rowntree and Samuel Tuke founded Friends Provident in 1832 as a mutual Friendly Society for Quakers. It offered life insurance to its members.


6. http://www.iccr.org. ICCR currently has some 300 member organizations with collective assets totalling over $100 billion.

7. A case in point is Russell Sparkes’s book in 2002. On page 23 he writes: “Although my earlier book [dating from 1995, HH] used the phrase ‘ethical investment’, I now prefer ‘socially responsible investment’.” Referring to the change that already took place in the US Sparkes mentions: “I would guess that the reason for the change is the ‘mainstreaming of SRI’, i.e., the move to SRI being dominated by institutional investors rather than retail SRI Funds.”

8. In 2011 the name was changed from United Nations Principles for Responsible Investing to the Principles of Responsible Investing (while sometimes the qualification ‘UN-backed’ is added).


16. MSCI has taken over formerly independent information providers like ISS, IRRC, KLD, Innovest, and Risk Metrics.

17. Examples of networks in the area of responsible investing are, among others, the Social Investment Forum (SIF), EuroSIF (and the national networks which are part of EuroSIF), AsRIA, the Carbon Disclosure Project, and the PRI.


21. An important initiative in this field is the EU IMPACT Project. The European Commission’s 7th Framework Programme took the initiative for the project. Its most important objective is to systematically measure the impact of CSR on social, economic and environmental goals of the European Union. In addition, the Project aims at providing insights on corporate and institutional factors that drive the creation of CSR impact. See www.csr-impact.eu for more information.

22. For an overview of tools and resources to assess social impact the TRASI-website of the US Foundation Center is a useful resource: http://trasi.foundationcenter.org/

23. Other instruments that have a clear cost-benefit character are, for instance, Acumen’s Best Available Charitable Option (BACO) tool, the Trucost tool, or Abt Associates Benefit-Cost Analysis


27. http://www.eurosif.org/research/eurosif-sri-study. The assets, according to Eurosif, can be devied in three categories: those which use an integrated approach, those that are engaged, and those using an exclusion policy.

28. Out of a total of 979 members, 499 of them were coming from European countries—the UK (122), France (82), and the Netherlands (62) leading the pack, followed by Switzerland (50), Denmark (32), Finland (29), and Sweden (25). Unfortunately, it is not possible to trace the amount of capital that these investors represent.

29. Together with David Wood of the IRI and PwC I have discussed this tendency before in a survey of mainstream responsible investors in 2005 (Hummels and Wood 2005).


References


From CSR to Sustainable Business—
Transformational Leadership in Action

Keynote Address at EABIS Decennial Meeting on
February 1, 2012

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Abstract: This contribution to the Decennial volume brings together the insights of a seasoned business practitioner on the sustainability imperatives that corporations face, and a response from an academic who works in the field of sustainability and business ethics. Dr. Straub draws on Peter Drucker to reassert the importance of fulfilling the economic mission of the enterprise, but argues that it needs repositioning. Business must be responsive to customer and employee needs, and in order to do so, transformational leadership is required. In her response, Prof. Mollie Painter-Morland argues that in order to succeed in building sustainable enterprises, an urgent evaluation of what is meant by “need” is required. She also contends that in mainstreaming the sustainability agenda, systemic leadership is needed in addition to transformational leaders.

Key Words: Drucker, transformational leadership, public expectations, need, systemic leadership

I am not an insider to your community but I have a lot of linkages from my EFMD role or in my capacity as the president of the Drucker Society Europe.

Since I left my permanent IBM job some 6 years ago, I enjoy no more being constrained by those requirements of political correctness that you need to observe as a corporate executive. In my new life I consider myself as a Jester of sorts—for those who want to listen, I am ready to be a sounding board: providing feed-back
that they would not get from those who have a relationship of dependency with them. To some degree I would want to do this here as well—I will try to create some cognitive dissonances in your community, as I am convinced we need permanently to question the way we are looking at issues and avoid thinking that we hold the one and only key to truth. Critical and independent thinking includes the capacity to question the lenses through which we see the world. If critical thinking is one of the key characteristics of the much-vaunted transformational leader, it should apply to us as well. Intolerance is born from beliefs that are no longer critically questioned and everybody else is expected to blindly follow. Critical thinkers who may have a well-founded divergent position are then treated as heretics and renegades. I have seen a lot of this happening in some strands of the ecological movement. However, this obviously is not the case in this community.

Let me add another provocation to this opening statement—in the survey that is being presented to you I have seen the acronym ESGE, standing for Environmental, Social, Governance and Economics. I would recommend to change the sequence such that Economic is in the first place—this can be done without changing the acronym….. If the business does not achieve its economic purpose in the first place, no other criteria comes to bear—it cannot provide jobs, products and services and any other value for society. With putting economics first we remind ourselves to pre-eminent responsibilities that Drucker has defined for Management in a generic and still valid way.

1. Achieve the economic mission of the enterprise
2. Enable people to be effective
3. Manage the social and environmental impact of the business.

In my talk I will focus on item one and two. I believe for Nr. 3 you have better experts present here than myself.

Managing the economic performance is essential but I would argue it needs repositioning these days. Based on the agency theory and the ensuing shareholder value philosophy, corporate executives are increasingly operating in a market of expectations as Roger Martin calls it in his recent book “Fixing the Game.” This has removed executive management from the focus on business reality and hence from the customer. The senior executives live in a world of numbers that are supposed to represent the real world. But do they really? Drucker (1954) has defined the purpose of the business to create a customer. Based on this he saw marketing and innovation as the core functions of a business. However, with focus on the expectations of financial markets we can see innovation suffering as corporate management...
has the overriding priority to deliver the EPS each quarter as demanded. This is the holy cow—rather than missing EPS you miss the long term prosperity of the enterprise and cut investment in innovation just as you cut “head-counts” (a terrible term widely used in the corporate executives suites) as another adjustment variable. Hence, what I am talking about is the sustainability of the business itself in the long term. I believe this is a subject we should be worried about when it comes to the intersection of business and society. The lack of investment in innovation and the deficiency in long-term-oriented stewardship for the business brings a high cost to society—in the long run. Yet, in five years from now the current investors will have dumped their shares in some “profit taking” exercise or in some panic movement and executive management will have been exchanged. Just look at the average tenure times these days. So why worry about the long term—when, as Keynes put it “in the long term we are all dead”? This is where transformational leadership is needed most urgently in a time of crisis—to make the business sustainable in the first place to be able to deliver all the good things that we are expecting it to provide in the long term—meaningful jobs, products and services that customers value. Are we sacrificing the future on the altar of shareholder value?

The signs are on the wall—loud and clear. The recent GE Innovation Barometer was just released. It is indeed a wake-up call. Nine out of ten executives see their ability to innovate deeply impacted in today’s situation. With regard to the sustainability of the business as a key contributor to the functioning of today’s societies—isn’t innovation a social responsibility of the enterprise? Without a step change in innovation we cannot get back to growth and prosperity to provide decent lives to all those living in today’s complex societies. Hence I would claim that Drucker was right: managing business for survival and prosperity in the long term is the fundamental responsibility of management.

Let me now come to the 2nd big management duty according to Peter Drucker (1954) i.e., making people effective in organizations based on their strengths. Concepts that traditionally went along with this ideal are knowledge worker autonomy, knowledge productivity, delegation of authority and empowerment. Despite mantra-like lip-services most corporations have been unable to delegate decision making to the levels where the knowledge resides. Worse—Teresa Amabile and Steven Kramer (2012) demonstrate with ample research how leaders even kill meaning at work. Organizations are being built based on abstract concepts, increasingly with cost-saving considerations as a priority but shamefully neglecting the human factor. They have become too complex, over-matrixed and removed from the local reality. A study conducted in France in 2010 based on the request of the Prime
Minister because of the increase in burnouts and even suicides in large organizations pointed to the problems. Issues such as ever changing organization structures, over-reliance on globalized ICT enabled centralized processes, excessive pressure on short term financial results at all levels of the organization and a lack of people management with proximity had dramatically deteriorated the working conditions in most large organizations. And it was large organizations who came to conclusions by themselves—led by the chairman of Schneider Electric, Henri Lachman with participation of France Telecom, IBM, Capgemini, PSA, Renault, Adecco and many others. It was encouraging to see this degree of openness, self-critical reasoning and honesty in contrast to the usual political statements that everything is just fine. However, what has changed ever since? Has this alarming report led to major improvements in HR practices at a broad scale since the report was released? I hope the next French Prime Minister (after the May elections) will invite the same companies come together later in the year to show what the progress has been.

Many factors point into the direction that we are still far from achieving the management mandate to make workers effective i.e., to unleash their real capabilities—which includes cultural, organizational and operational factors. Yet it does not have to be this way—even during the crisis. Again, transformational leaders make all the difference. Here is an anecdote to substantiate this—EFMD conducted a so-called CLIP review (standing for Corporate Learning improvement Process) in a large European Bank. It is an accreditation process for Corporate Universities modeled along the lines of the world leading EQUIS accreditation for Business Schools developed by EFMD. It includes interviews with all key stakeholders of the Corporate University. And here comes the point—despite the acute crisis that this bank has to manage day-by-day the CEO took a full hour to sit down with the review team. Can you have a better illustration that Learning and Development of the employees is a genuine concern to this CEO? And there are many other examples—the so called German Mittelstands-Companies, who are world leaders in many industrial fields, have been managed during the height of the crisis in way that was directed to long term business sustainability and not to profit maximization. Human resources were dealt with as people, as humans. They were not subject to immediate restructuring to meet the short term profit objectives. Their knowledge and their networks have been preserved and protected, ultimately to the benefit of both—the individuals and the business. Many of these companies are also role models in unleashing the creativity and innovation capacity of their knowledge workers. This is a major element of their global success.
Leaders have to withstand unprecedented pressures in times of crisis. However, there are also new opportunities emerging how to transform organizations and make them more effective. Social media provide unprecedented capabilities to communicate share and collaborate beyond the boundaries of traditional hierarchies and company borders. Enterprise web 2.0 and eventually semantic web can literally turn organizations upside down. It can potentially free up the immense human potential that is currently locked up and underexploited in large organizations. However, this will need courage and a major change in the management philosophy of most companies. It means changing the organization from a top down hierarchy with strong bureaucratic features into a network, where horizontal communication and collaboration defy the old silos. Here technology can play a tremendous enabling role—however, it will only achieve its potential if management plays its role as transformational leaders on the people side. Technology is a necessary condition but by no means sufficient.

What I was describing as fundamental roles and responsibilities of managers and business leaders has significant impact on society at large. It is not only about tactical improvement of the business performance. In the aftermath of the crisis, management has lost a significant part of its trust capital in society. The latest Edelman trust barometer reflects this development. Business is far from meeting expectations of the public with the most notable gap in the treatment of employees. While it is considered of utmost importance (64 percent) the actual performance is perceived at 27 percent, leaving a huge “Trust-Gap.” Other key areas such as Customers before profits or ethical business practices don’t fare much better and all point in the direction of a serious loss in credibility as a player in society.

How can trust be restored and legitimacy regained? Business needs to repair the way the core business is being run—by genuine transformational leadership. Responsible leadership will manage the business for long term sustainability as a business providing long term value to all its key stakeholders.

Let me finish with a story that was recently recounted by the great management thinker Manfred Kets de Vries, when he talked about reflective leadership. It makes the essential point of where to start when setting out for the journey to improve the world.

Above the Temple of Apollo in ancient Delphi was written: “Know thyself.” This observation is as true today as it was in those bygone times. If we want to develop more effective leaders we have to start with ourselves. But as I have discovered, to paraphrase Goethe, what is often hardest to see is what is right in front of your eyes.
I once read the following words on a tombstone in Westminster Abbey:

When I was young and free and my imagination had no limits
I dreamed of changing the world.

as I grew older…I discovered the world would not change,
so I shortened my sights and decided to change only my country.
but it, too, seemed immovable.

As I grew into my twilight years, in one last desperate attempt,
I settled for changing my family…those close to me,
but alas, they would have none of it.

And now as I lie on my deathbed, I realize:
If I had only changed myself first, then by example,
I might have changed my family.

From their inspiration and encouragement,
I would have been able to better my country,
And, who knows, I may have even changed the world.

Q52-69. How important is each of the following actions to building your TRUST in a company? Use a nine-point scale where one means that actions is "not at all important to building your trust" and nine means it is "extremely important to building your trust" in a company. (Top 2 Box, Very/Extremely Important) General Population in 25 country global total (excludes 'Don’t know' responses); Q103-118. Please rate [INSERT COMPANY] on how well you think they are performing on each of the following attributes. Use a nine-point scale where one means they are performing "extremely poorly" and nine means they are performing "extremely well". (Top 2 Box, Performing Very/Extremely Well) General Population in 25 country global total

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Academic Response

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In his introduction, Dr. Straub announces his intention to create cognitive dissonance within our community of thought leaders in Business and Society, and to challenge us to critically interrogate the lenses through which we see the world. I would like to take up this challenge by offering some suggestions on how this cognitive dissonance registers within academic scholarship around sustainability, in essence, in questions around the purpose of the firm. In this brief response, I will offer some reflections on how sustainability has been defined and the key challenges this poses to the frames of reference within which contemporary business operates. I will suggest that in moving sustainable enterprise forward we need to ask serious questions on the purpose of business in society. I will then attempt to draw out some key insights within the contemporary leadership literature, which may allow us to reconsider the ways in which leadership for sustainability is typically described.

Dr. Straub’s communication provides us with the opportunity to reflect on some of the challenges that we face in moving the sustainability agenda in business ahead at the scale and speed that are required. It reminds us of the conceptions of business that continue to remain firmly in place. As such, it requires of us careful consideration of the way in which this may create certain blindspots, or at least conceptual challenges, in our attempts to mainstream the sustainability agenda into everyday business operations. Let us start with the priority that Dr. Straub’s places on the achievement of the economic mission of the enterprise, and his reiteration of Drucker’s contention business’s main purpose is to create and keep a customer. We will then look at the way in which this may influence our understanding of “sustainability.”

Sustainability is typically defined as “meeting current needs without compromising the ability of others, or future generations to meet their needs” (Brundtland 1987). If we take seriously Drucker’s contention that the main purpose of business is to create and keep a customer, we quickly recognize the challenge. Since