

Sharing for understanding, building trust for managing interdependence: a few thoughts for a debate¹

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“The European Union has reached a difficult age. This year it turned 50, beset by nagging fears that the old way of doing things does not seem to work, the world is changing, and younger competitors are on the scene. As pessimism is almost a way of life in the European Union, this state of affairs is inevitably described as a crisis, perhaps a mid-life crisis.”²

Today, if old Europe is perceived as old, old China is perceived as young. Too slow to manage change, Europe is muddling through a historically unique process of creating a community of 27-member nations of 490 million people and many cultures. In a hurry to catch up, China is trying to keep together as a country its 1.35 billion people in 33 provinces (and/or administrative units) with over 50 cultures, also a historically unique process. But our challenges, huge, are different and our institutional and governance mechanisms to handle them do not rely upon the same paradigms and values.

Our profound differences in our concepts of society, of economic systems, our different resources endowment, our different philosophy and world vision are either over or under played to build scenarios for our future together. Whatever our mutual perception and our capacity to understand each other, the current globalization process weaves our future together, probably for ever. Whether our current short term concerns promotes an inward looking posture, whether our myopia prevents us – on both sides - to see medium and long term, our interdependence is bound to grow.

In order to be mutually beneficial, such interdependence will need to be managed responsibly.

This will be a challenge.

Asset, resource and competence differentials, differences in strategic orientations, in societal and governance models, in management practices, in culture and history, could open the door to misunderstandings, loss of synergies, tensions or even conflicts.

¹ Note prepared for the China-Europa Forum, to initiate a discussion in the Workshop 31, held in Fontainebleau, October 4-5, 2007

² Parker, G., Benoit, B., New leaders give renewed sense of purpose, *Financial Times*, Special Report, June 4, 2007

Leadership and responsibility, on both sides, will be the key ingredients to prevent or limit the emergence of these dysfunctions. We must find ways to enhance mutual learning for and from interdependence.

We are indeed together on the same boat on this small and finite planet, each one scrambling for limited resources and struggling to identify comparative advantages to find complementarities in each other's market.

In Europe – and now throughout the world - the re-emergence of China as a leading global power dominates the headlines.

However, in spite of the world's attention being focused on China's exceptional economic achievements, we are presented — beyond the hype – with a very blurred view of the multi-causality behind the country's performance (the “knowledge” may be there, but not the “understanding”). Furthermore, significantly different – if not contradictory – scenarios of the consequences of China's growing power upon the rest of the world are being proposed.

This situation may induce European leaders to take inappropriate, short-sighted actions.

In China, the effective management of this accelerated socio-economic transformation presents an extraordinary challenge, particularly given the heritage of the past, the size of the country and the complexity of the problems.

Hence the relevance of the China-Europa Forum.

To achieve ambitious *growth* objectives and socio-economic *development*, visionary leadership at the top will not be enough. The process requires - throughout organizations - leaders capable of managing change on the bumpy road of socio-economic modernization. Though the history and culture of China may not have optimized the cultivation of leadership skills, today, we see a huge demand for leadership talent in organizations - public and private - in SOEs, private companies and foreign corporations.

Furthermore, civil servants and private sector managers, fascinated by – if not hostages to – the pace of the growth process, faced with many opportunities for quick gains, and perhaps not yet fully aware of the scope of their responsibility, can be tempted to privilege short term corporate or individual behavior. Besides, China as a key player on global markets needs the will, the talent and skill to operate within a global context in accordance with accepted norms, regulations and practices. *Awareness* of the need to operate responsibly — both in the domestic market and across the world – is present at the top, but implementation in daily practice requires the development of the necessary attitudes and skills, at all levels.

The situation in Europe:

Europe is changing more than the media leads us to believe. Europeans, attentive to respect of their past want to build the future without forgetting the past, as it can be observed both in the civil society and in corporate environment.

There is a “complex” evolution process visible in the corporate environment with a significant influence of the Anglo-Saxon model but with specific European features. To yesterday’s attractiveness of the Marxist attitude - describing the corporation as the place of exploitation and domination (the devil’s presence on earth) - has given space today to the critical assessment of the firm – and of the neo-liberal model - by anti-globalization (“alter-mondialiste”) groups. They oppose the so visible negative consequences of the globalization and challenge classical economists who still would like to see the enterprise as the wealth creation social instrument where rational decision-making – thanks to increasingly sophisticated models – within a regulatory framework will produce, over time, the best society.

In Europe, six years after the collapse of Enron and its dramatic consequences across the Atlantic, it is important to identify what has been learnt and what has changed in corporate governance and stakeholder’s management. It has accelerated the shift from a dominant “shareholder” paradigm to a “stakeholder” model, integrating progressively concern for other stakeholders beyond the shareholder. A number of large European corporations, increasingly embedded in the global economy are shifting their paradigm from a “what is good for General Motors is good for the rest of the world” to “what is good for the rest of the world is good for L’Oreal or Microsoft”, thus accelerating the integration of corporate social responsibility (CSR) and its internalization beyond annual reports, in boardrooms and in daily strategy implementation.

This evolution – and the post Enron regulatory change (e.g. Sarbanes-Oxley) in the US – has not prevented the occurrence in Europe of major corporate scandals Ahold (Netherlands), Parmalat (Italy), Siemens (Germany), Vivendi (France) ... where both regulators and institutional shareholders did not play their oversight role, thus making lapses possible. We will probably see in Europe corporate governance moving in an Anglo-Saxon direction though this does not imply a progressive systemic convergence - as particularities will remain and, across the Atlantic, learning is not always one way.

With the critical importance of pension funds and institutional investors, with the growing role of hedge funds and private equity as the wildest animals in the emerging global financial capitalism jungle, the employee sees the owner has increasingly distant, anonym and this does not contribute to the development of a sense of community

Beyond corporate governance practices, union-management relationships are also slowly evolving, with a decline of union membership, inviting to think through a change in union's attitude, role and negotiation strategy. Change here is also overdue.

Business leaders' concerns:

Listening to enlightened European business leaders, exploring their concerns and mindset, I see how a (slowly growing) number of them realize the dysfunctions of the current dominant paradigm of growth measured in terms of GDP (therefore not accounting for negative externalities), built on *liberalization, deregulation, privatization* and fueled by competition (on a global basis). They are "concerned" by a number of observations:

- the *health* of the planet deteriorating (global warming, non-renewable resource depletion, nature deterioration)
- the *wealth* of the planet becoming increasingly uneven (at the global and national levels)
- pandemics (e.g. AIDS) taking a growing toll of human life
- social problems proving hard to control: unemployment, violence (in the city, the family, the school, the corporation ...), drug usage, etc...
- traditional values increasingly eroded while material and immediate satisfaction takes over, giving priority to self-centered behavior, inducing often a visible search for "meaning"
- population movements growing, often not well accepted and managed, becoming source of potential communal tensions
- the concept and control capacity of the "*nation-state*" challenged while, occasionally, the democratic process itself appears to be questioned and the concept of "progress" itself is now in doubt
- *tensions* between communities not decreasing, while terrorism seems spreading
- new competitors emerging (e.g. BRICS) with a different competition paradigm and a different set of values

But European leaders also acknowledge that:

- Our planet has never been so rich (in terms of GDP) and is becoming significantly richer year after year:
- OECD countries have never been so affluent
- Science and technology has produced many breakthroughs in knowledge (e.g. genome decoding) and innovations (e.g. internet ...) that have been pervasive and are changing our way of life. Medicine – in particular – has improved and extended life
- The democratic process is progressively, albeit slowly, taking root throughout the planet

- International organizations are increasingly promoting global standards and rules of law (labor, environment, safety, human rights...)
- Corporate power has never be so extended (on a global basis) and so mighty
- Demonstration of generosity, of cause-dedication, of compassion is very visible (e.g. Tsunami), while a number of NGOs endeavor to walk the talk in promoting the common good.
- Mankind seems to have achieved some success in its attempt to master: time, distance,
- The cost of technology regularly decreasing (e.g. the capacity and price of a Blackberry 8700 compared to the first PC (using Intel 486 chip, in 1989): \$300 vs. \$13,999.³
- Capital is plentiful (and efficient): an ocean of money (e.g. venture capital, private equity, LBO funds) sloshing around the planet in search of opportunity⁴

In short they say:

Life on earth becomes more fragile, global apartheid is looming. We seem to be effective in producing value (growth), in managing value-creation, but not proficient in managing its *distribution*. In a highly uncertain environment, our short-term orientation geared toward profit maximization, in a finite-resources world addicted to oil, where countries, corporations and systems are highly interdependent lead us to worry not only about the grandchildren of our grandchildren, but already about the next generation. They openly raise questions such as: What world are we going to leave to our children? How to break the oil addiction, to cure the climate crisis? What can we do?

Some leaders search paths to alleviate their concerns: they see the necessity to move toward a world where there will be more *justice*, more *solidarity* and built on a sense of belonging to a global *community*. To create such a world, working with business leaders for many years, I have identified five critical dimensions: Awareness, Vision, Imagination, Responsibility, and Action to be promoted and developed at the individual, level, at the corporate level and at the societal level. For each dimension, a question:

How to increase **awareness** of: the globality of our situation and its consequences; our dominant paradigm of global competition and its dysfunctions; the common alibis not to act (e.g. it should be *the other*: e.g. government, international organizations, politicians, civil society)?

What **vision** do we have of the future (not only for Europe, but for the world)?

³ Karlgaard, R., Digital Rules, *Forbes Asia*, November 27, 2006, p.16

⁴ *Ibid.*

The path proposed emphasizes the need for a vision of what the world, our corporations, our environment (and society) are likely to be if we keep the same model or the next 20 years. It brings questions such as:

- what kind of world are we likely to have in 20 years from now if we keep running the world, our corporations, our environment (and society) the way we are doing currently?
- how do we see ourselves, our corporations and our planet in 20 years from now?

Can we **imagine** an alternative?

- for the corporation and its leaders?
- for those who are preparing and developing them?
- for ways to develop the type of corporate behavior, of corporate environment likely to be more conducive to the type of society we want to create
- for the process(es) to be used to transform the society, to implement the change we want to promote

Who should be *responsible* (to manage the required change)?

Because, today, the corporation is *the most effective value-creation institution* in our society since it creates jobs, produces products and services, pay taxes, innovates, contributes to the community, to the arts, lobbies, etc...I suggest it is one of the most powerful vehicle to induce change.

As corporations have power (*significant* power, e.g. oil companies, financial services, distribution groups, manufacturing and financial services, etc...) not only do they have a major responsibility for the situation in which we are today (being part of the problem), but they can be a powerful vehicle to introduce change (to be part of the solution).

To change corporate behavior, it must come from the top, from *business leaders*, and then from executives and managers in charge of those corporations.

I therefore propose to start inducing the change necessary by influencing the mindset of the leaders, particularly the business leaders. I am convinced it has to start with a *change of mindset of top management*, as they run corporations (those most effective value creation instruments), and also the effort must be to influence the values and behavior of the *future generation of global responsible leaders* (MBA programmes).

Action, in other words, should start at (but obviously not limited to) the top.

How to proceed?

Where is the mindset of *business leaders* shaped? Through education and experience. As many leaders have been educated in business schools, business schools have a critical role to play.

To go beyond awareness, vision, imagination, responsibility into **action**, I therefore suggest to change the business schools culture, starting with influencing the mindsets of Deans to enhance their awareness of the limits of the models taught in their institutions, the research they currently carry out, in order to have them active as responsible leaders of an educational process having huge consequences. According to Fortune over 40% of its list of 500 biggest companies are managed by CEOs with MBA education. Business schools, therefore, have a huge responsibility in the education process they manage: by the models they teach, the theories they propose, the concepts they promote they shape the mindset of their MBA students and of the many managers who participate in their Executive Education programmes. Their influence stems also from the type of research they do, the issues they are researching - as they make choices, set priorities in research resource allocation. Those choices are not neutral. By changing curriculum and programme content, this will not change the world, but it will have overtime an impact on attitudes and values promoted through management training and the education of business leaders and their deputies.

As change is not decision, but a process, one must start:

- where one has the maximum chance of having an impact (the education of leaders)
- where such impact will have the maximum leverage (the corporation as the effective value creation instrument of today's society)

My experience suggests that if we could change the mindset of business leaders around the world, we would change the way corporations operate, and we would so doing contribute to evolve toward a society more respectful of human dignity, more attentive to justice and more conducive to solidarity through the building of a stronger sense of belonging to a community.

Obviously, the change process should *not* be limited to business schools, and the whole education process in society should actively be engaged in the promotion of ideas and values conducive to the development of responsible, global citizens, who care for the other.

My proposal would probably also, over time, contribute to help individuals to find more meaning in their life, more concern for the other and for the common good. It is a long journey, but today we do not have too many paths.

We all know that Europe needs to change, many see the direction necessary, but we seem to have great difficulties to draw the implications of the dynamics of our small world and experience great pain to identify how to implement change, and where to start.

My proposal is modest, potentially effective if one has the long view Europe needs to cope with what is coming, and the strategic courage to get into action, now. China, observing how Europe is – painfully - coping with the globally induced pressure for change, might find useful paths to manage its own process of modernization, through a learning process that will not aim at cloning European approaches, but that will innovate to acculturate ideas to its own reality. We, Europeans, have learnt a lot from China a few centuries ago, today the road takes us to a reciprocal process, where each one's experience can fertilize learning for the other.

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