Private Profit & Common Good
Managing Apparently Contrasting Requirements

How to bring the two key goals – conforming to optimise financial results and following cultural and ethical standards – into the right balance.

Günter Koch

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LEADERSHIPSTANDARD
Karin Bauer (Redaktionsleitung)
Magdalena Wallner (Layout)
Christina Haßlinger, Sabrina Holzner (Anzeigen)

One of the evident contradictions imposed on responsible managers is the tension between the obligation to make profit and, and on the other side, to conform to ethical standards such as excluding certain types of income generation. This conflict is also marked by the paradigm shift in stakeholder priorities. During the last decades the unquestioned expectation was that shareholders and owners of an enterprise have an undisputed right to make an ultimate profit, which, by the way, conforms to the Milton Friedman doctrine of "the purpose of the corporation" which says is to maximise shareholder value.

Larry Fink, Chairman and CEO of the world largest investment company BlackRock, i.e. a world leading "super capitalist" in 2018 wrote in his annual letter to the CEOs of companies in which BlackRock has an investment stake (quote): *"The prevalent beliefs and behaviours within a company are organic but can be shaped by the board and executive leadership through their own example, as well as through principles, policies, and rewarded practices. The quote widely attributed to management expert Peter Drucker – 'culture eats strategy for breakfast' – captures the idea that a strategy incompatible with a company's culture will fail. Culture is woven into engagement on strategy because how a company operates clearly has a strong influence on what it achieves."*

The question, however, managers will ask themselves, is how they can bring the two key goals, a) conforming to optimise financial results on the one hand and b) following cultural and thereby ethical standards into the right balance. A current general debate on a balanced management, can be identified as a growing need which is especially requested by next generation employees. This debate is not affiliated with a specific political direction, yet today we find that students educated in business schools and economic faculties of universities are still being tutored in an outmoded approach, while they rightly ask to be much better informed about alternative models of economy. This movement currently pushed by students in German speaking countries is denoted as "economic pluralism".

To date companies and thereby their managers commit – and by legal obligations are committed – to stick to the criteria of an ethical management following known standards of Corporate Social Responsibility (CSR). Until recently such reporting has been a volunteer exercise. In a new development, however, reports under the heading of Non Financial (Information) Reporting became an obligation imposed by a European directive currently applicable to companies with more than 500 employees. The guidance for implementation however, to meet the NFI terms is little more than five headlines. These are: (1) environmental protection, (2) social responsibility and treatment of employees, (3) respect for human rights (4) anti-corruption and bribery, (5) diversity on company boards (in terms of age, gender, educational and professional background). The Commission through its information service suggests, that the transformation into national laws may be based on references given by the UN Global Compact, and/or OECD's Guidelines for multinational enterprises and/or the norm ISO 26000.

One approach contributing to greater clarification currently being discussed as for the social responsibility is the Public Value Atlas, which obligates any management to make value statements on (1) their task fulfilment, i.e. if their company performs its core business well, (2) social cohesion, (3) quality of life and (4) morality – this last one a most vague category for deliberate definition.

A much more sophisticated and therefore much harder to apply methodology giving practicable guidance to managers is the Balance Sheet for the Economy for the Common Good (in short ECG Balance Sheet). Whereas the Public Value Atlas aims at composing a macroeconomic survey on the attitude of managers and company employees versus the idea of Common Good in general, the Balance Sheet of the Economy for the Common Good addresses 20 different criteria domains assembled in a matrix defined along two dimensions, the first one defining the four value categories of Human Dignity, Solidarity and Social Justice, Environmental Sustainability and Transparency and Co-Determination. In the second dimension five types of stakeholder groups are identified: Suppliers, Owners and Financial Service Providers, Employees, Customers and Business Partners and finally the general Social Context.

The contents of many of the matrix fields are very well known to any experienced manager, i.e. are not really new as categories. The innovative approach of the ECG Balance Sheet is that this reporting method aims at completeness which so far was not covered by traditional CSR standards.

Despite charges in general political circles, that the ECG approach follows socialist concepts, neither the inventors nor the users of the ECG Balance Sheet methodology consider themselves to be obliged to apply completely and perfectly the whole scope of criteria. Fulfilment of criteria of the matrix is measured by allocating so called Common Good Points which can be added positively or, in case of negative fulfilment can be weighted negatively, i.e. subtractive as well.

The ideal result – if all criteria were met completely – would be 1000 points. However, even the best achievers applying this method have so far only reached around 600 points – a demonstration that the ECG Balance method is neither prescriptive nor fits to all companies acting in the market, nor does it assume that all companies meet every criterion. No question: the ideal aim would be to achieve a maximum number of points; however, being realistic, every company has to deal with the tension between external and internal forces which never can be brought into the one-sided ideal position that the ECG balance algorithm would imply. (By the way, the total sum for negative points can be as low as –3.600 points).

The author of this article – known as the inventor of a widely accepted intellectual capital reporting methodology that is structurally close to the ECG balance sheet methodology – would state from his own practical experience, that whatever CSR model is applied to an enterprise, it always produces positive effects towards a change for the better. The remaining question is what this "better" would be.

The ECG approach, through its many and demanding criteria may induce more stress on managers to fulfil the often-contradictory requirements from different stakeholder groups, which might be characterised as profit versus morality. It offers clear and easy-to-check indicators of good and bad, but it doesn't make prescriptions on how to run an organisation. One thing is certain: meeting the ECG criteria with positive results is very challenging because it requires a more intensive analysis than just quickly answering some multiple choice questions.

For example take the matrix field on Transparency and Co-Determination with respect to the stakeholder group of customers. The information to be collected would be (quoting from the ECG balance sheet preparation workbook):

- Number of product and service innovations contributing to greater social and environmental sustainability that have been co-developed by participation of customers
- Proportion of products with fully disclosed material / content composition
- Proportion of products and services for which price calculation breakdowns are made available to the public

In endorsing the ECG approach, it is clear enough and admitted, that it is painful to make such data public and transparent. It charges management with some extra analysis and policy decisions. Small companies are unlikely to have sophisticated data collections to conclude the information easily from their databases. Clear enough also the fact that the requirements "ideologically" are influenced by an ideal and idealistic philosophy how companies serving the society should be orientated and behave.

As practitioners and realists we, supporters of the ECG approach, are well aware, that human and societies' nature is dominated by dichotomies which cannot be easily resolved by taking a decision in the one or other direction. If we aim to make society and its associated economy better, we need to find compromises on the naturally diverging interests of the many different stakeholders participating in the economy.

Although there may be a suspicion, that the ECG way of modelling and implementing economy is inclined to favour one side of the balance bar as introduced in the beginning of this article, the uncontested argument is, that 90 percent of the ECG balance sheet criteria comply with commonly accepted humanistic-ethical and constitutional value references. They have been developed in democratic societies since the Age of Enlightenment, in essence saying that economic – and thereby managerial – activities have to serve society and its members and not the other way around.

To make this last statement effective it evidently requires that the neoliberal paradigm of today's economy has to be turned upside down and put back on its feet. This, however, necessitates a "reprogramming" of the mindset of managers who, so far in the majority, have been educated in an economic philosophy favouring the maximization of financial profits and the aggregation of wealth at the cost of most of the non-financial, humanistic and environmental benefits.

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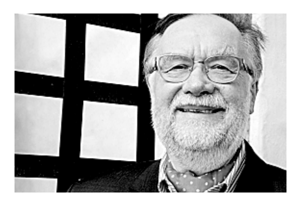

GÜNTER KOCH
is President of the Humboldt Cosmos Multiversity, Tenerife, and chairman of the Research Association of the Economy for the Common Good in Vienna.
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