

Profits are Important – but not at any Price

Interview with Professor Klaus Leisinger on Shaping the Future of Corporate Social Responsibility

by OLIVIA HELVADJIAN and ELLEN TATHAM

Klaus Michael Leisinger, founder and president of the Global Values Alliance is Professor of Sociology at the University of Basel, special adviser on business ethics to the Global Compact of the United Nations and on the post-2015 development policy agenda upon termination of the Millennium Development Goals period. He is a member of the Leadership Council of the Sustainable Development Solutions Network and of the steering committee of the initiative "Ethics in Action" of the Pontifical Academy of the Sciences. German Chamber Ticker had the chance to meet with him in Shanghai and to talk about his visit to China, and his views on the future of CSR.

What brought you to Shanghai today?

I am participating in a conference on the Confucian Entrepreneur that is organized by the World Ethics Institute Beijing, which is part of the Beijing University and financed by the German Karl Schlecht Stiftung. Such conferences have already been taking place for four years in Beijing and is now held in Hangzhou for the first time.

Can you tell us more about this conference?

We discuss questions such as "how can one apply the values that have been accepted and acknowledged over time by all religions and all cultures – Hans Kueng called it Weltethos – on business practices in the Confucian context of cultural China?" It is important that such a discussion does not stay "academic" but involves business leaders. Without practitioners, we might end up with philosophical insights that are not transferable to business thinking. This is one of the reasons that we held the conference in Hangzhou, this is an industrial place.

How do these ideas related to doing business?

All over the world there is a diffuse uneasiness on how business in general is pursued. There are things like corruption, exploitation of labor, environmental pollution and growing



disparities of income and wealth and we all know that in the long run, we can only thrive if the social and natural capital – that's the society and the environment – are not harmed. I hear from Chinese friends that many in the Chinese decision makers want a reflection on Chinese values becoming a more important element also for business.

Philosophy plays a key role in your approach to CSR, can you elaborate a little more?

I think there is definitely a place for philosophy in the sense that you want to reflect on your vision, your mission and your values at the very beginning of starting a business. "What are our basic values?" "How should the world that I want for my grandchildren look and what is the role of my company in society?" "If we face a dilemma, which values have priority?" In a second step one analyses the consequences of the first three answers: How do we hire what kind of people, how do we measure success, how do we do performance appraisals, how do we set targets or how do we give bonuses? This reflection is needed because philosophy without a context "down to earth" remains in heaven. Doing business without reflection is just muddling through. People deliver what gets measured and rewarded. You have to build a bridge between philosophy and business practice and this is what we are trying to do in our conferences.

Profits are important, but not at any human, social or ecological price. This is sometimes easier said than implemented, one cannot just turn the page or pull the plug. But it is important to start a reflection and discussion process. It is our role to support business people in such a process – but also to listen and learn from them.

How important is the cultural context for the understanding of CSR?

There are substantial cultural differences in the understanding of corporate responsibility. I am part of a Corporate Responsibility project at the university of Basel that interviews asks people in China what "do's" and "don'ts" they associate with Corporate Responsibility. We do the same in India, Germany, South Africa, Switzerland, and the United States. We are living in a pluralistic world society and Chinese citizens have all the rights to think their way, the Germans their way – and other in countries as well. To have a minimum of common understanding on "the right thing to do" we must define what we consider to be "Rome", and leave it up to the people of the different cultural contexts to find their "road leading to Rome". As long as we end up in "Rome", the roads are of secondary importance.

What are the differences between China and Germany in the way of approaching CSR?

Germany has a 100 years of CSR culture and an overall approach to its socio-economic and political governance that goes back to "der Rheinische Kapitalismus." In this context there are harmonious labor relations and the leaders' role is a "patron", not a "boss". China has had a unique development since 1979, and I would not expect Chinese business leaders to do exactly the same as their German counterparts, since we are dealing with different historical, political, social and economic circumstances.

But, having read the minutes of the 2015 party congress, it seems to me that there is high awareness about ecological and social externalities of business. I understand political and business leaders who see the necessity to implement a change of course in a way that doesn't create economic and social hardship. This is part of their responsibility. One cannot for example turn off all the small enterprises that pollute the air without creating mass

unemployment. There is great awareness about the issues and China's leaders are implementing a smooth process in small but consecutive steps.

Why should companies engage in CSR?

I try to see corporate responsibility as a matter of enlightened self-interest, as a long-term business case. If you talk to big companies, they say we want the best two percent graduates from the best one percent of universities. These graduates usually can get hired by any company at comparable conditions, so they basically can choose where they want to work. They will not go to a company with a bad reputation. Look at the international banks: as a result of past irresponsibility they have now problems in hiring good people. This is going to negatively impact their business over the next ten years, much more than the – high! – punishment fees they have to pay at the moment. "Responsible business companies" have lower fluctuation rates since they have a positive corporate culture. Also, companies who have a good responsibility track record possess an a priori credibility, that makes the public look at incidents, when they happen, in a more indulgent way.

Of course, every company still has to produce black figures. A CEO cannot go to the financial analysts and say "I didn't meet my profit target this year because we worked very responsibly". However, a high responsibility performance usually gives companies over time a competitive advantage: if the prices are competitive customers tend to buy from companies they have a positive association with. Overall it amounts to the art of management: If you can be among the market leaders turnover-wise but you have a good record with regard to being responsible, you are likely to be more successful over the next years because you will attract customers who are sensitive about responsibility issues.

So basically, it is all about the long-term perspective?

Yes, and this is the Catch-22. A lot of things we ask people to do today will not have an immediate positive impact – but will appear as costs in the quarterly report. If you do more environmental protection, it will cost you more, if you do more training for your people, it will cost you more. If that happens in a competitive environment where the majority of others look at business with a quarterly results perspective, you need strong convictions and a long breath. One must look at responsibility costs as an investment item – and decide wisely about timing and amount. But – this is at least my conviction – also in this field there is a "first-mover-advantage".

If CSR stands for upfront investment, how can companies be motivated to go beyond the legal minimum?

This is a value decision that has to be taken at the top of the company, where the strategy is set. It is from there where you have to communicate that these are globally valid non-negotiables. Of course, head-quarters must listen and understand the local context and you can be flexible in timing – but not with regard to the essentials: Values set for the whole company are not up for discussion in a local context. The motivation is that it is the "right thing to do". There is empirical experience that those who start early, e.g. with environmental protection that goes

beyond local regulation at a given time save money in the long run and earn acknowledgment and trust.

What is the best approach to implement these long-term plans?

One can e.g. look at the Agenda 2030 for sustainable development. It contains 17 goals and 169 targets to be achieved in 14 years from now. A company should know the goals and do a SWOT analysis. Then one commits to at least the goal of strategic importance and then go backwards from 2030: What has to be done today, where do we want to be in five years from now, where do have to be in ten years etc. A 15-year process is not something you start in the 14th year. You build your action plan up and implement it consecutively. In a reform process over 15 years, you can proceed in small steps that are not hurting. Big steps will always create disruption. Cut the process into 15 small pieces and look where the low hanging fruits are and go there first, because it motivates people to talk about success.

The "Agenda 2030" of the UNGC is concerned with the most important strategic courses of action regarding what will in the future be recognized as responsible action in our society. What is the main goal on the agenda?

The ultimate goal is a sustainable world – or in the words of Laudato Si' the sustainable development encyclical letter of Pope Francis: a world characterized by justice, peace and integrity of creation.

Is this achievable in 14 years from now?

Look back at what are the experiences we have made with the Millennium Development Goals. The world community was deciding in the year 2000 that by 2015 poverty would be cut by half, maternal and child mortality even more, etc. This was put into action by the governments and they had to come back to the UN General Assembly once a year and report on their progress. You might get away in the first year if you don't have any or very little progress, you might also get away in the second year, but you will not get away in the long run. After the third year, it will become very embarrassing...

So, the key was peer pressure. This will work the same way with sustainable development, except now, for the first time we have the situation, that from a sustainable development perspective, all countries are developing countries. There will be a differentiated approach between countries such as e.g. Germany, Britain or the US, compared to China, Brazil or Nigeria. The richer countries are expected to have more responsible investments and lower emissions, so that the poorer countries still have space to grow. We need a lot of technological innovation to prevent that sustainable development becomes a zero-sum game.

What in your opinion are the necessary tools to make this work?

I would expect that technology transfer becomes an item of development cooperation: If for example, we in Germany come up with innovation that represents a quantum jump for environmental protection, it makes sense to transfer these technologies to China or to India or to Nigeria or to Brazil at differential prices so that it is affordable. This has to do with

intellectual property and we can find innovative ways to make it available at prices different from market prices. One can think of tax incentives to companies or other incentives. Only if cutting edge technology is available at affordable prices can we prevent, that emerging countries are industrializing according to a pattern that we had in Europe in the 70s and 80s.

It is also a question of "Let's be creative, let's use the intellectual capacity we have". I am very optimistic in that regard. We have more engineers, social scientists, medical doctors, and biologists – we have more graduates than we ever had in world history. We have better computer facilities and more connectivity than we ever had in human history. We have so much more means and better understanding that I am optimistic that we will have technological break throughs in a lot of areas.

In the German Chamber's CSR Initiative, *More than a Market, we aim to promote best practices of social engagement by German companies in China. What is your take on improving CSR awareness in China?*

I am here in Shanghai to discuss and see how the 10 Principles of the UN Global Compact can be adapted to a "Shanghai Compact." I think such a Shanghai Compact is an ideal vector because it takes the Global Compact and asks what would that mean in the context of our work here in Shanghai and that's exactly what is important. Maybe we could also think about – in a next step – even going further and opening up the initiative to more people, even to competitors, because in the end, the Global Compact wants to create a level playing field, it wants to create a "competing with integrity" situation where the "good ones" do not get punished for doing the right thing.

A final question – Why did you choose to dedicate your career to CSR?

First of all: I love what I am doing, it is a fascinating, intellectual and practical work – and I want to contribute with whatever I can to making the world a better place. I also think that those who have broader shoulders should carry more. Being born at the right time and the right place, having not to suffer from war or poverty and getting the opportunity of a good education is a privilege – it is not earned. With privilege comes duty – or at least responsibility. Maybe this is one of the more philosophical points, that could also be applied to big profitable companies: The have more duties than small and medium sized borderline profitable companies.

Professor Leisinger, thank you very much for your time!