

System Design: New Frontier for Ethical Leadership

Marjorie Kelly
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The Legacy Problem

Social mission is squeezed out when founders leave, sell, or go public. After B&J sale, Unilever:

- o Laid off 1 in 5 B&J employees
- o Stopped donating 7.5% profits to foundation
- o Hired CEO Cohen didn't approve of
- o May have stopped sourcing non-rBGH dairy goods from Vermont family farms

B&J Contract with Unilever

Protecting legacy through contract is difficult.

It's been disappointing. Provisions in the Unilever contract are legally binding, but we have not been able to enforce them. It costs money, we would have to do an audit. In the next evolution, enforcement mechanisms should be improved.

– Joe Sibilis, Meadowbrook Lane Capital, investment bank, Springfield, Massachusetts

"Fluff Is Not Enough"

Sandra Waddock paper on how Enron rang all the bells of CSR:

- o 3 yrs 100 Best Co's to Work for in America
- o 6 environmental awards in 2000
- o Issued triple bottom line report
- o Stock in many SRI portfolios
- o CEO gave speeches at ethics conferences
- o Values: "communication, respect, integrity"

CSR measures fail to tell us what's really going on

What's going on is a single thing: unremitting pressure to get the numbers.

I'm inside the most enlightened company, and I'm telling you, it is no more.

– 20-year executive at top firm among Business Ethics' 100 Best Corporate Citizens

System design problem

- o System is designed to serve some and not others.
- o In the waning days of the bull market, 1997 - 2000, the wealth of the Forbes 400 went up by \$1.44 billion each.
- o That's not total wealth: It's INCREASE in wealth. It's an increase of \$1.9 million a day each, every day, for more than 1,000 days on end.

Problem is not bad-guy CEOs

- o CEOs have been indicted for pushing limits in seeking rising share price.

But boards fired them for doing anything less.
1991-93, activist boards fired CEOs at 2 doz.
major firms: IBM, Westinghouse, Borden.

- o CEOs faced a clear choice: get stock price up and become fabulously wealthy, or be fired.
- o Since 1990s, CEO firings more common.

When founder leaves, owners, not CEOs, control social mission

- o Example: Kodak CEO Kay Whitmore
- o CSR tradition traced to Kodak founder George Eastman.
- o One tradition: reduce staff by early retirement.
- o Wall Street pressure 1993: lay off 10,000.
- o CEO Kay Whitmore refused. Was fired.
- o 2 weeks later, layoffs were made.

From founder to system design

- o The necessary evolution for ethics and CSR
- o In CSR, we assume enlightened founders and CEOs are guardians of social mission.
- o This is typical of an aristocratic system, where the highest ideal is the philosopher king: the noble individual who sets things right.
- o In democracy, we set things right through system design.

The Legacy Project

What are the new company forms that can sustain social mission for generations to come?

Goal: bring together founders, CEOs, venture capitalists, legislators, lawyers, social investors, academics – to think together creatively.

- Minneapolis Summit, October 2003
- Boston Summit, Spring 2004
- San Francisco Summit, Fall 2004

Structures that now hold mission

The earnings-centered corporation

- Purpose in law: maximum profit.
- Financial interests alone represented on board.
- Board hires and fires CEO.
- CEO compensation earnings-based.
- Law requires sale to highest bidder.
- Shareholders sue if returns diminished.

New structures for social mission

Imagining the ethical corporation

- Purpose: company charter, or state law
- Management tools: social reporting, sourcing guidelines, compensation
- Ownership: unbundling the bundle of concepts (profit, vote, govern, hire CEO).
- New property rights: community property.

Questions, not answers

Inviting others to help imagine a new ethical corporation

- o How can a firm combine management freedom and stakeholder accountability?
- o Who should vote when a company is sold?
- o Who has a legitimate claim on profits?
- o If a company's purpose is not maximum gain for shareholders, what is its purpose?
- o Who should decide a firm's purpose?
