

*Rebuilding the trust-proposition between companies
and society through Being Businessworthy.*

Per L. Saxegaard, Chairman
Business for Peace Foundation – Oslo, 2011



BUSINESS
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An increasingly adversarial relationship between business and society led to the emergence of Corporate Social Responsibility (CSR), as companies saw a need to deliver evidence of their desire to conduct business responsibly. Experience has shown, however, that CSR falls short of the goal for a variety of reasons: it is rarely proactive, instead often reactive and as a result seen to be apologizing for transgressions; and it is rarely strategic and long-term, instead seen as scattershot and random. In both instances, CSR may actually work to the detriment of the business seeking to draw benefits from it. Efforts are often seen by a skeptical society as band-aids to serious problems, and leading business thinkers point to the paradox that CSR has opened up businesses for more criticism, not less. Terms such as 'whitewash' and 'greenwash' are frequently used to characterize CSR efforts, and often with justification.

We are now in a situation where business has come to see society as hampering its growth through excessive regulation; and society tends to see business as prospering at the expense of the wider community. It has become important to explore how one can rebuild the trust that has been lost between business and society.

Enhancing the Trust-Proposition

The Business for Peace Foundation believes that what is required is a stronger focus on the trust-proposition between business and society, and that companies must examine their activities with this ethical element in the foreground. Scattershot CSR-activities that seek to show good intent, apart from a company's other activities, are not enough.

As will be shown, what may be required is a reorientation of the performance, processes and purpose of a business, to accord with universally recognized principles of ethical and responsible conduct.

In one sense, the loss of trust from society suffered by business, is a consequence of the *laissez-faire* principles a majority of business actors follow as their guiding light. «The business of business is business», is still voiced by many, though not as confidently as a few decades ago. And even as strong an advocate of self-regulation as former Federal Reserve chairman Alan Greenspan has declared he had put too much faith in the self-correcting power of free markets, and that he was in a state of shocked disbelief after the financial crisis of 2008.¹ Elizabeth Warren, now a Special Advisor to the Consumer Financial Protection Bureau, penned an op-ed to the Wall Street Journal that focused on the squandering of trust: «Banking is based on trust. The banks get our paychecks and hold our savings; they know where we spend our money and they keep it private. If we don't trust them, the whole system breaks

¹ <http://www.nytimes.com/2008/10/24/business/economy/24panel.html?adxnnl=1&adxnnlx=1301563533-9GNEdhnUyMuVL2UsqL8mkg>

down. Yet for years, Wall Street CEOs have thrown away customer trust like so much worthless trash.»²

Trust arises when potential partners discover it is to their mutual benefit to collaborate, and possibly to prosper from such collaboration. When this proposition becomes one-sided, trust deteriorates and eventually disappears. Many business actors are finding that society has lost trust in their good faith, and this constitutes a serious challenge to business everywhere. If business isn't trusted, society will impose stricter regulation overseeing business activity.

In a recent article in the Harvard Business Review, Professor Michael E. Porter is critical of businesses that wonder why society has come to believe companies are prospering at the expense of the wider community:

«A big part of the problem lies with companies themselves, which remain trapped in an outdated approach to value creation that has emerged over the past few decades. They continue to view value creation narrowly, optimizing short-term financial performance in a bubble while missing the most important customer needs and ignoring the broader influences that determine their longer-term success. How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of communities in which they produce and sell? How else could companies think that simply shifting activities to locations with ever lower wages was a sustainable «solution» to competitive challenges?»³

Professor Porter, considered one of the world's foremost authorities on competitive strategy, sees an absolute need for companies to «take the lead in bringing business and society back together.» And if businesses are to succeed in doing so, they must reconsider their approach to value creation. Porter and Kramer state unequivocally that «Not all profit is equal. Profits involving a social purpose represent a higher form of capitalism, one that creates a positive cycle of company and community prosperity.»⁴

The Business for Peace Foundation was established upon the conviction that the world needs to be made aware of the transformative and positive change that business can create. The Foundation is convinced of the gainful nature of a higher form of capitalism, and we seek to create global awareness among all stakeholders of this better way of doing business.

The Foundation finds inspiration in a dictum of the business philosopher Adam Smith, who declared that «Markets could not flourish without a strong underlying moral culture, animated by empathy and fellow-feeling, by our ability to understand our common bond as human beings and to recognize the needs of others.» When the Foundation coined the term Businessworthy, it was from a desire to redefine modern business practice through Smith's moral sentiment as to what makes markets flourish. Being Businessworthy goes beyond creditworthiness. To be Businessworthy is to work towards contributing to the «positive cycle of company and community prosperity» called for by Porter. For modern businesses, this is likely to entail a reexamination followed by a reorientation of how one does business.

A Loss of Control

² <http://online.wsj.com/article/SB10001424052748703630404575053514188773400.html>

³ *Creating Shared Value - How to reinvent capitalism - and unleash a wave of innovation and growth*, by Michael E. Porter and Mark R. Kramer, Harvard Business Review, Jan-Feb 2011.

⁴ *ibid.*

Previously authoritarian structures, whether of commerce or government, are experiencing a loss of control due to the emergence of new media, and new ways of connectedness and information sharing. Attempts to control the dissemination of information fail against the openness, speed and transparency of today's information flow. Businesses have been slow to catch on to this fact, believing that it is still possible to buy a reputation through PR and market communication - only to discover that in the new information age a disconnect between what a company says it does, and what it actually does, is swiftly revealed. The inverse relationship between the need to control and the promotion of trust is catching up with companies used to being able to control their image.

As such, this is directly related to the trust-proposition. Companies must respond to how they are actually seen to do business, rather than how they would like to be seen by society. In essence, this is proof of the adage that 'you can not buy trust, you must earn it'. Not that long ago, information which could impact a business negatively could be suppressed, and if it did come out it was rare that it spread widely. Today, information travels worldwide in milliseconds, and is received, understood and shared by engaged parties everywhere. Attempting to strictly control opinion and information against this backdrop is futile - now, more than ever, companies are their reputation, and they are definitely not the sole authors of their reputation. More than ever, the creation of business value will be about relationships, and the ability to be a trusted partner in these relationships.

Responding by withdrawing to less demanding societies can not be a viable long-term solution. Companies must contribute to the communities where they buy and sell, in order to ensure the maintenance or emergence of a customer base capable of supporting the company. Seeking to create such positive cycles should be the goal of business, it makes financial and ethical sense, as it strengthens the preconditions for a flourishing of the market.

Three Levels of Trust

What is required to rebuild the trust-proposition between business and society?

Timothy L. Fort is the Lindner-Gambal Professor of Business Ethics at George Washington University. He has seen a need to distinguish between three levels of trust, for businesses to better understand how they can manage and grow this important asset against the demands of today's society.

We are used to focus on building trust through business *performance*. The stress on efficiency will surely not be reduced, but rather increased going forward. Yet this only represents the base level required to sustain success against new demands from society. We need to complement performance by reexamining the *processes* in all the relationships of a business, as well as the *purpose* of the business, and how these factors together impact the trust-proposition.

1. Hard Trust. To build trust in our performance, we need to comply with laws and regulations - we need to do as expected by society. This is the bedrock of building trust for a corporation. Professor Fort calls this *hard trust*, and finds it a necessary foundation, but not sufficient to comply with the demands of society.
2. Real Trust. To build trust through *processes*, we need to consciously develop and manage our relationships, internal as well as external. In a transparent society with instant information flow to stakeholders, trust is built by acting ethically and responsibly. It is built by living up to our promises, being honest and acting fairly. Fort describes trust established through processes as *real trust*.

3. Good Trust. To build trust in the *purpose* of the business, we need to be conscious of its ability to foster economic value creation that also creates values for society. Societal need, not just conventional economic needs, define markets. The power of such a purpose can be a tremendous motivator for an organization, creating personal meaningfulness and passion that individuals identify with. Professor Fort sees trust engendered by the declared purpose of an organization as *good trust*.⁵

How a company manages the interplay between these three levels will define it in the eyes of society. Professor Fort is seen as a leader in the 'peace through commerce' movement, and has described a management framework he calls Total Integrity Management, as a viable path for a business to build trust in ways that can promote stability and peace.

The Foundation also believes that decision-making towards a good trust purpose for companies begins with individual businesspersons, which is why the Oslo Business for Peace Award is presented to individuals for their proven ethical and responsible decision making, and not to companies.

The Business for Peace Foundation names Honourees we believe can serve as exemplars of how one best achieves an interplay between these levels of trust. The Honourees are living proof that it is possible to marry solid business performance with higher purposes, as a counter to those who claim that «the business of business is business.» Mr. Anders Dahlvig of Sweden, who was a 2009 Honouree, and at the time CEO of IKEA, described the motivational strength found in good trust when he accepted his award:

«Companies such as IKEA, whose purpose and vision have a social ambition, that goes beyond the traditional objectives of maximising shareholder wealth, have an advantage.

I believe that most people want a purpose and a meaning with what they do for a living. If this purpose contributes to doing good work for others, it is a tremendous motivator.»⁶

Defining Good Trust

The *hard trust* and *real trust* levels described by *performance* and *processes* are generally grasped without significant difficulty, and a major portion of the efforts of companies are focused at these levels. However, without a well defined purpose that also takes into account the impact of the business upon the communities where it is active, it is quite possible that one's efforts on the performance and process levels instead end up reducing trust between the business and society, rather than enhancing it.

This is a challenge, as many perceive the *purpose* level - that which establishes *good trust* - to be nebulous and difficult to pin down. It is also often claimed to run counter to the harsh realities purpose of a business. A good illustration lies in the quandaries experienced by the Norwegian Government Pension Fund⁷, which is one of the world's largest sovereign funds. The fund could have invested solely with an eye to maximum yield, which would seem to be the most sensible strategy, as the goal of the fund is to secure the continued financing of the Norwegian welfare state into the distant future. It didn't take long, however, before the government realized it was necessary to

⁵ *Business, Integrity, and Peace: Beyond Geopolitical and Disciplinary Boundaries*, by Timothy L. Fort, Cambridge University Press, 2007

⁶ Acceptance speech of Anders Dahlvig, then IKEA CEO, at the 2009 Oslo Business for Peace Summit

⁷ <http://www.regjeringen.no/en/dep/fin/Selected-topics/the-government-pension-fund.html>

establish guidelines for the fund, in order to delineate which investments were acceptable. It was recognized that the strategies underlying the fund had to correlate to the persona expressed by the Norwegian government and institutions in their other dealings with the world. The ethical discussion that resulted was chiefly concerned with defining how the *good trust* level of the fund could be supported, and how its *purpose* could inform decisions on the performance level. Short-term, this may be seen to be unwise from a maximum yield point-of-view, but longer-term one has ensured that the official voice with which Norway speaks on the world stage is not undercut by the investment decisions of one of the world's largest sovereign funds.

The Business for Peace Foundation seeks to assist in the work required to define how Good Trust can inform and guide business decisions. One prerequisite in this respect is to help raise the eyes of both business and society to a greater realization of what business can do. It was for this purpose that the word Businessworthy was coined, as a derivative from creditworthy. Businessworthy indicates a sphere of operations where one has to become worthy of doing business - in the eyes of the communities one affects. One has to be seen to contribute positively to the cycle of prosperity between business and society.

The criteria of the Foundation describe the three levels of trust, and how a businessperson has engaged to express a higher purpose through each. Together with our nominating partners we are searching worldwide for individual exemplars who have clearly demonstrated that it is possible to build a long-term profitable and successful business, while supporting the wellbeing of society in a meaningful way. Through such actions, businesses can demonstrate how they can contribute to establishing lasting trust, build stability and promote peace. In light of this, the vision of the original «Merchants of Peace», who founded the International Chamber of Commerce, is a realistic appraisal of what business can do, when business tries its best.

It is a worthwhile goal to support such business endeavors. The Foundation believes that by providing enlightened businesspersons with a platform from which they can share their business wisdom with the world, we can help other businesses realign with a higher purpose to their activities. Seeing that this is both longer-term profitable and meaningful to build good trust, should help convince shareholders, members of the board and other stakeholders that a business should reconnect with society.

The Foundation is working together with the International Chamber of Commerce in searching the world for potential Honourees; and it is working together with academics such as Professor Fort to help define how companies can explore a viable higher purpose that will assist its growth both as a business and as a partner to the wider community. Our Doctoral Scholarship program is dedicated to investigating this relationship, in order to deliver concrete guidelines by which to measure the impact of a business upon society.

What Professor Michael Porter calls «shared values» corresponds well with Professor Fort's level of purpose and «good trust» - and both expressions are encompassed by the Foundation's call for Being Businessworthy. Capitalism stands at the threshold of an evolution, where many factors are calling for a reexamination of the principles hereto followed. «The moment for an expanded view of value creation has come,» writes Professor Porter. «A host of factors, such as the growing social awareness of employees and citizens and the increased scarcity of natural resources, will drive unprecedented opportunities to create shared value.»⁸

⁸ *ibid.*

Professor Porter adds that «creating shared value represents a broader conception of Adam Smith's invisible hand.»

The Foundation is encouraged by the fact that it is well aligned in its work with leading business thinkers. When we created the award we present to the Honourees who are showing the way to a higher form of capitalism, we decided to make a handshake - the universal symbol of mutual trust - the central feature. The Business for Peace Foundation believes that we now need Adam Smith 2.0, where the invisible hand that was used to justify *laissez-faire* economics, is replaced by «the invisible handshake» in a trusted relationship between business and society, both dedicated to their mutual prosperity.