



Annual report 2009
Towards a new world economic ethos

Novartis Foundation
for Sustainable Development



The Novartis Foundation for Sustainable Development

Who we are – how we see ourselves

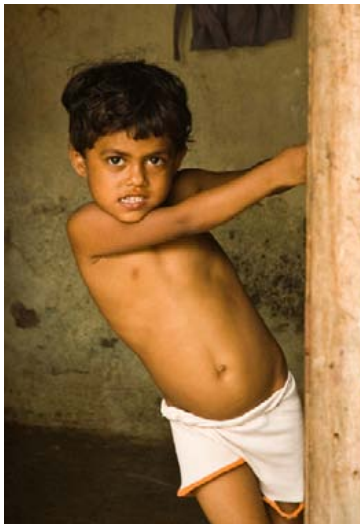
- As a non-profit-based private sector foundation we form part of the corporate responsibility portfolio of Novartis.
- We are a competence center for corporate responsibility and international health cooperation.
- We see ourselves in the role of a facilitator between the private sector, the state and civil society, offering a platform for dialog.

Our vision

We are committed to “development with a human face” and want to help promote the emergence of a lasting social environment where human rights are guaranteed, basic needs are satisfied and there is maximum possible equality of opportunity and social justice for all.

Our objectives

- Through our projects and programs we contribute to improvements in the health of poor people in developing countries. In doing so, we are guided by the World Health Organization’s definition of “health”: Health is a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity.
- Through our own research and advocacy work, we promote and support the development of corporate responsibility practices with reference to developing countries.
- We encourage actors of industry, government and civil society to cooperate in the improvement of the living conditions and health of poor people in developing countries.



*In all aspects of our work we
contribute to global development
with a human face.*

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Foreword from the President

The flood of reports on the current financial and economic crisis reflects worries and frustrations as well as a loss of trust in the market economy and its major actors. The call for business and managerial ethics, although not new, has received a major boost and now resounds worldwide throughout media and politics.

To provide direction for responsible management and business activities, a manifesto for a new Global Business Ethos was drafted by a group of ethicists, business representatives and economists. It is based on the World Ethos Declaration – which was adopted by the Parliament of World's Religions in Chicago in 1993 – but adapted to the economic sphere. The main authors are Hans Küng, President of the Global Ethic Foundation, and Josef Wieland, a business ethicist at the University of Constance. The Novartis Foundation was involved as a peer reviewer and commentator.

The aim of the manifesto is to build a multi-stakeholder dialog addressing all economic interest groups in order to ultimately create a trans-cultural ethical framework that helps avoid future crises in today's globalized world. To do so, five universally acceptable principles and values are outlined: humanity; non-violence and respect for life; justice and solidarity; honesty and tolerance; and mutual esteem and partnership.

The Global Business Ethos is intended to be a complement to the UN Global Compact, focusing more on individual morality while the Global Compact – initiated in 2000 – set forth the responsibilities of corporations (to respect and support human rights, adhere to responsible labor standards, protect the environment according to the precautionary principle, and work against corruption in all its forms).

Signatories of the manifesto commit to “being led by its letter and its spirit in their day-to-day economic decisions, actions and general behavior”. First signatories include Mary Robinson, former President of Ireland and former UN Human Rights Commissioner; Jeffrey Sachs, Director of the Earth Institute at Columbia University; Desmond Tutu, Nobel Peace Prize Laureate; Michel Camdessus, Honorary Governor of the Banque de France; and Daniel Vasella, Chairman and CEO of Novartis.

The Novartis Foundation for Sustainable Development will actively support the dissemination and implementation of the manifesto. This is why we have decided to dedicate our annual report 2009 to the Global Business Ethos.

- Chapter 1 provides guidance on how to implement principles and values in daily business activities.
- In chapter 2, you can find the text of the manifesto for a Global Business Ethos.
- Chapter 3 reports on the launch event of the Global Business Ethos, which took place at the United Nations in New York on 6 October 2009.
- Chapter 4 gives you an update on the Novartis Foundation development projects aiming to improve access to healthcare in developing countries.
- In chapter 5, you can read about our annual symposium on 27 November 2009 at which the Global Business Ethos was put into the context of the current economic crisis and debated by speakers from the South and North.

I truly hope that this manifesto will contribute to enhance corporate responsibility practices and consequently act against the growing imbalance between rich and poor. The burden of responsibility is shared by all of us: governments, international organizations, the private sector, and each individual human being. We must all be willing to do our bit.



Klaus M. Leisinger
Basel, January 2010



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Business ethics by manager ethics

Business Ethics by Manager Ethics

by Klaus M. Leisinger

For the globalization of economic activity to lead to universal and sustainable prosperity, all those who either take part in or are affected by economic activities are dependent on a values-based commercial exchange and cooperation.

General Declaration towards a Global Business Ethos

Understanding the writings on the wall

The flood of reports on the financial and economic crisis of recent months has not only evoked, but can be seen as a sign of, an escalating loss of trust in the market economy and in its major actors. This is demonstrated unanimously in the following four views:

- The *Harvard Business Review*, normally not an organ that is given to suggesting socio-political reforms to the management of large companies, identifies as Trend 3 in “ten trends you have to watch”: “Trust in Business is running out”. The article refers to surveys by Edelman (The Edelman Trust Barometer), which indicate that 62% of adults in 20 countries placed less trust in companies in December 2008 than they did a year before. The *Harvard Business Review* then asks “Why should this concern strategists?” and offers the answer: “Because a low-trust environment makes everything about doing business more difficult.” It therefore recommends:

“The strategic imperative for most companies is to do what they can to regain the trust of stakeholders and to more effectively manage relationships with them. This starts at the top. Corporate leaders need to demonstrate to civil society that they understand popular and political concerns related to executive compensation, risk management, board oversight, and the treatment of employees facing layoffs. Regaining trust also means dispensing with the view that the only objective of management is to in-
- crease shareholder value. Broadening the list of key stakeholders to include employees, customers, suppliers, communities, the press, unions, government, and civil society will help companies to rebuild credibility.”¹
- In an editorial on the first page of its business section, the *Frankfurter Allgemeine Zeitung (FAZ)* – likewise not a newspaper known for hostility to business – criticizes business schools for their inappropriate training models because they are too much slanted toward short-term increases in profit. The newspaper heaps praise on a Hippocratic-style “MBA Oath” for Harvard Business School graduates, which includes a raft of pledges, such as “I will act with utmost integrity and pursue my work in an ethical manner.” It goes on criticizing wrong incentive structures and the fact that a great many employers still tend to promote those people who are best at toeing the line. Out-of-the-box thinkers are frequently seen as troublemakers.³
- Researchers from the UN think tank known as the Millennium Project list 15 key global challenges for the future. In this list, the role of “ethical market economies” in helping to reduce the gap between rich and poor appears in seventh position – behind the problem categories of climate change, provision of clean water, population growth versus dwindling resources, authoritarian

regimes, short-termism of policymakers and the digital divide, but ahead of the threat of new disease pathogens, terrorism, weapons of mass destruction and organized crime.⁴

- Last but not least, various passages in the social encyclical *Caritas in Veritate*, published in July 2009, also take a clear stand on the subject of business and manager ethics:

“Profit is useful if it serves as a means towards an end that provides a sense both of how to produce it and how to make good use of it. Once profit becomes the exclusive goal, if it is produced by improper means and without the common good as its ultimate end, it risks destroying wealth and creating poverty.” (21)

“Economy and finance, as instruments, can be used badly when those at the helm are motivated by purely selfish ends. Instruments that are good in themselves can thereby be transformed into harmful ones. But it is man’s darkened reason that produces these consequences, not the instrument per se. Therefore it is not the instrument that must be called to account, but individuals, their moral conscience and their personal and social responsibility.” (36)

Roughly speaking (and leaving aside the regulatory aspects of the issue), there are two levels of approach towards improving the moral quality of corporate activity: the institutional level and the personal level.

Of course these ideas are not completely new – they have been an integral part of the debate on business and corporate ethics for many years. What is new, however, is that opinions on these subjects are being voiced in quarters where they were not so clearly heard in the past, if at all. There could be more to this than a temporary mood arousal by the present financial and economic crisis. We could find ourselves in a situation that is in line with a metaphor my friend Vittorio Hösle used many years ago in the context of the ecological crisis: “When you are standing in the middle of a frozen lake, it is not enough to recognize the danger you are in by the cracking of the ice under your feet; you have to find ways to escape the danger. And even if you are surrounded on all sides by swathes of fog, philosophy may still hope to recognize terra firm through the light it

casts; it may perhaps point in the direction one has to go – a direction which cannot then be backwards if the way back is longer than the way forward.”⁵

Knowledge of moral conduct, in business or in other spheres of human life, has always been accessible to anyone who cares.⁶ Roughly speaking (and leaving aside the regulatory aspects of the issue), there are two levels of approach towards improving the moral quality of corporate activity: the *institutional level* (i.e. corporate ethics defined by rules and norms of moral conduct and the establishment of a congruous governance structure) and the *personal level* (i.e. virtuousness of managers and their capability of moral reflection and of demonstrating *moral leadership*).⁷

In the following paragraphs I will try to give examples of what can be done on both levels, but in particular on the individual level, to ensure that the quality of corporate activity meets moral criteria.

The company as a collective moral actor

Companies, as Thomas Donaldson aptly remarked, are an unusual entity in moral terms: they have neither behinds that can be kicked nor a soul that can be damned. They have no conscience to rob them of their sleep and nobody that can be sent to prison.⁸ Nevertheless are companies “legal entities” and thus have certain rights and obligations, including moral ones. They can be prosecuted for past illegitimate actions of managers who even no longer work in the company or are no longer alive. Corporations can be held liable for offenses committed by their employees.

Traditional moral philosophy refers almost exclusively to actions and omissions of individuals – they are the moral subjects. However, today’s corporate landscape and the global economy are characterized by a high degree of complexity, a pronounced division of labor and also an enormous density of interaction. The interplay of these factors means that the application of ethical concepts related to individuals is no longer sufficient: the marked division of labor and responsibilities in relation to narrowly defined spheres of influence can lead to a situation where every single action is ethically neutral *per se*, but the combined

result could be a collective irresponsibility that can no longer be attributed to the individual acting in isolation. In my experience high-publicity damages to people and the environment are not usually caused by unscrupulous perpetrators but most often the cumulative result of many years of minor deficiencies and undesirable developments that were accepted because they were below the threshold of attention or intervention.⁹

Today, most people in modern societies attribute substantially broader and deeper responsibility especially to large international companies than they did 20 or 30 years ago. They expect “good” companies not only to maintain and increase their economic, technical and scientific expertise, but also to be socially aware and act according to higher moral standards. In view of their ability to mobilize and harness human, financial, scientific and technical resources, and the higher social, economical and ecological impact their activities can have, companies must be held more strictly accountable than individuals.¹⁰

Although the human body consists of many different cells, each person represents infinitely more than the sum of those body cells’ characteristics. The same applies to companies and their employees. Organizations are better able than individuals to do different things simultaneously with the same degree of attention; engaging themselves, for example, not only in their operational activities, but also in the constitution, modification and discursive explanation of the standards that guide their operations. There are two sides to the central aspect of corporate morality: one consists in integrating moral aspirations and values into the corporate mission, the other consists in establishing every conceivable institutional framework to ensure that corporate decision-making is informed not only by the business variables, but also by normative variables, e.g. social acceptability, ecological sustainability and respect for human rights.

The degree to which companies can be seen as moral actors depends on a number of different factors.¹¹ The freedom of action granted to a company’s employees by its governance structure (including sanctions-based control mechanisms and incentives)

plays the key role here, because this structure defines accepted modes of action and ultimately also the corporate culture. It also creates predictability and trust within and outside the company. Nevertheless, there is also empowerment and decision-making authority that increases with every level of the hierarchy; this again provides the possibility to take personal responsibility and act according to own moral insight. Only in organizations where people are free to decide between several options for action within the sphere of their professional duties and legal and legitimate boundaries can individuals be held accountable. If individual freedom of action does not exist or is minimal, the corporate governance structure is subject to ethical analysis.

The most important elements of modern integrity and compliance management based on principles and values (in the sense of the “incorporation of moral values and rules in precisely defined regimes of control within and between companies for specific transactions”¹²) are the nature of the organizational structure and the management principles of the organization, the quality of the personal codes of action and behavior, as well as the corporate guidelines for responsible conduct in morally sensitive, incentive-related areas. It is especially important for their quality and relevance of application that these standards are worded in comprehensible language that is free of legalese. Fully integrated systems of targets and incentives, as well as training in the proper application of corporate standards and consistent decision-making processes are of particular importance for an integrity management program. Finally, monitoring, reporting, an ombudsperson and audits are part of the package for the establishment, promotion and life of an ethical corporate culture. With the aid of these tools, those behaviors that are regarded in the company as legitimate can be filtered out of the infinite number of theoretically possible behaviors and set forth in a set of rules.¹³ Today, the recommendations for institutionalizing integrity and compliance in corporations, as laid down in Chapter 8 of the US Federal Sentencing Guidelines, are regarded as state of the art.¹⁴ To offer coherent incentives, bonus and promotion systems, it is important to enrich performance goals and appraisal criteria with ethical aspects.

Analysis of many corporate scandals (not least in the most recent financial crisis) indicates that structural factors such as inappropriate incentive systems and other systemic driving forces, as well as the neglect of context factors, exert enormous pressure on employees in companies so that they may disregard moral norms.¹⁵ Under such circumstances, simply pointing the finger at the misconduct of individual actors would not do justice to the problem, because corrections built on this analysis would leave the actual, systemic factors unresolved.

Analysis of many corporate scandals (not least in the most recent financial crisis) indicates that structural factors such as inappropriate incentive systems and other systemic driving forces, as well as the neglect of context factors, exert enormous pressure on employees in companies so that they may disregard moral norms.

However, a company's governance structure and the various elements of governance do not just appear out of the blue. Guidelines, codes of conduct and organizational and management structures are the outcome of reflection in terms of their importance by *people*, who unequivocally define and formulate their content and ultimately implement them in day-to-day practice. The personal constellation of values, i.e. the ideals, evaluation standards, assessment criteria and also the norms of the most senior managers define the moral resilience of a company's governance. In other words, they specify behavioral preferences and boundaries that are applicable in business. Value based management, however, does cost money (e.g. for due diligence programs, qualifications and further training, social contributions or preferential prices for low-income groups) and needs *added investments* (e.g. in environmental protection), without being immediately compensated by a directly measurable return. Even a return on ethical investment of a non-monetary nature, such as public recognition by politicians, the media or representatives of civil society, does hardly ever materialize for "good" corporations.¹⁶ In my

opinion, public perception of large international companies tends to be negatively biased and stereotyped.¹⁷ Under these circumstances, the ethical quality of actions by the institutional actor we call a "company", i.e. its willingness and ability to implement moral norms in day-to-day business operations, depends almost exclusively on the value-based decision and determination of the top-management.

To avoid the "wheel" having to be constantly reinvented, use should be made not only of the knowledge on business ethics and models of corporate responsibility that exists in the pertinent literature, but also of the numerous examples of good practice that can be found on the internet. However, they should only be used as an impetus to reflect on one's own specific needs. Generic concepts can always only serve as a guide. Even the essential pillars of the *General Declaration towards a Global Business Ethos*, non-violence and respect for life, justice and solidarity, truthfulness and tolerance, as well as mutual respect and partnership need to be "translated" into what they should mean in everyday business life.

The 10 principles of the UN Global Compact (UNGC) – which represents the corporate responsibility concept most widely accepted internationally – can also have very different specificities in practice depending on the priorities of the management. Management responsibility begins with asking the "right" questions – in this case e.g.: What is our role in society? How are the UNGC principles translated into internal guidelines for employees? What specific imperatives to act or desist from action result from these principles? How narrowly or broadly do we define key terms such as "sphere of influence"? What specific consequences do the two human rights principles have for business policy? How can we implement our normative convictions into practical business actions? Ultimately, these and many other questions must not only be asked, but also answered by the top management of a company. The people working there do this not only as a consequence of their specialist knowledge and their material skills, but also in light of their value-based premises, their social conscience, their social skills and their moral creativeness, which also empowers them to think "outside the box".

And this brings us to the individual and his or her “ethical musicality”.

People in companies are the essential moral actors

No company acts only as an abstract legal institution, but always through the many different people working at different levels of the hierarchy. This is the reason why social systems such as companies per se can only be moral or immoral to a limited extent: morality – or lack of morality – is introduced to a social system by the people, their values and level of integrity. Companies are only subject to normative controls by real people. Needless to say, every kind of organization develops its own institutional life and its specific culture – and of course this means that inherent in every decision within an institution is an important element of heteronomy that arises from the specified institutional context, e.g. the corporate culture and the resulting management behavior. The corporate culture impacts on the individual actors. But this does not lessen their responsibility – they play an essential part in helping to shape this culture; they define the legitimate scope of action in management committees. The ultimate decision on a specific action or omission is always an individual moral decision. Thus the *people* – in whatever institutional setting – have to be held responsible as moral actors. The extent to which this responsibility can be met without moral heroism in a morally insensitive setting depends on the quality of the governance elements mentioned above.

Morality – or lack of morality – is introduced to a social system by the people, their values and level of integrity. Companies are only subject to normative controls by real people.

Needless to say, this does not “only” apply to members of top management by any means. Employees at all levels of a company have specialist knowledge, professional experience and social skills. They themselves are thus also under an obligation to take responsibility for the people affected by their decisions and for the achievement of the corporate objectives. From an ethical perspective they also have an obligation to stand up for their moral convictions. There is very little evidence of purely a “just following orders” mentality within companies.¹⁸ Anyone who wants to exert moral influence can do this and is therefore in a position to raise the ethical quality of group decisions.¹⁹ Of course, it is easier for individuals to claim morally justified actions as they are encouraged by the internal governance systems. But as a rule, individual possibilities of contradicting moral impositions are considerable, without having to suffer unacceptable personal pressure. In most cases, then, it remains possible for people to *behave differently* than a thoughtless *così fan tutte* “culture” might suggest – in most cases, the reference to “systemic constraints” is most likely a self-imposed “constraint of the mind”.

Management elites in all institutions, however, always have a particular responsibility – also in companies. The particular responsibility in companies consists of value creation and profitability while doing business with integrity. By virtue of their authority, however, the members of top management in particular have a decisive, non-delegable influence on the values structure and moral culture of the company.²⁰ The members of top management set and communicate the right “tone” and inspire others as a role model for good personal and corporate conduct. They send out signals – for example by signing the *General Declaration towards a Global Business Ethos* – both within and outside the company to show that ethical concerns are important and that they are concerned with things that go beyond the day-to-day routine and are of importance beyond the economic sphere. As a result, management elites have immense influence on the creation of a coherent “moral community” – this is true in the widest variety of cultures.²¹ In this regard, the executive committees and their chairpersons have a major responsibility.²²

Exemplary management behavior consists not only in defining and communicating the structure of the basic values and creating appropriate tools with which they can be implemented in practice, but also in setting an example through one's own coherent and consistent actions.

The members of top management also play the central role in matters of corporate responsibility, because they have the task of introducing morally sensitive governance structures to set up the collective actor we call the “company” in such a way that individuals can act morally – precisely when they are under time pressure and face limited resources, moral dilemmas and high levels of uncertainty – without possibly having to become “tragic” moral heroes. They meet this responsibility by deciding whether

- the *corporate purpose* and *mission* are holistically defined, i.e. comprise more than just the business sphere;
- the *codes of conduct*, which make it clear what values the employees should live by when they go about their work, cover all relevant fields of action in their content and use a wording that is unequivocal and capable of being practiced;
- the *corporate guidelines* for activities in sensitive areas likewise cover all relevant fields of action and are worded in such a way that compliance with the guidelines can be unequivocally measured;
- *objectives* and *performance appraisal processes* cover not only business-specific, scientific and technical criteria, but also ethical criteria;
- *everything that is defined as legitimate activity* is also implemented in day-to-day business using the known tools of *compliance management*.²³

With the decisions taken as a result, they define the identity of “their” company as moral actor and the moral nature of the processes in the company’s day-to-day life. Of particular importance in times of globalization is the company’s sensitivity to the difference between national legality in a particular country and what is perceived as legitimate in most modern societies. Discrepancies of this kind have been – and are repeatedly – cause for reputation-damaging criticism of companies. Filling the space between legality and legitimacy in a constructive way is one of the most important tasks of ethical management.

The credibility of these governance elements, of the top management and the whole company depends on whether the words are also followed by corresponding actions. Inconsistencies between value statements and actual deeds have fatal consequences on the morale, the satisfaction and motivation of the staff.²⁴ The balance of the last few years shows dozens of examples in which discrepancies between the “talk” and the “walk” and also the ignoring of brilliantly formulated internal guidelines and control processes led not only to widespread cynicism, but ultimately also to the bankruptcy of once highly respected companies. Exemplary management behavior consists not only in defining and communicating the structure of the basic values and creating appropriate tools with which they can be implemented in practice, but also in setting an example through one’s own coherent and consistent actions. Where managers succeed in creating an atmosphere of trust, employees are able to speak about ethical problems and dilemmas and make suggestions to resolve them. This can substantially reduce whistleblowing.²⁵

The proposition to entrust only “good” people with management responsibility sounds sensible, but does not get us much further in practice. I assume that the Gaussian distribution of people in companies does not differ essentially from that of individuals who work elsewhere, and that people normally join a company long after their primary and secondary socialization. We will find a few “saints” and “geniuses” at one end of the normal distribution curve and a few “rogues” and “idiots” at the other end and – in between – those “average people” who shape our society. It is therefore also part of good governance to expect “the average defects of people”, as Max Weber puts it in his essay “Politics as vocation”.²⁶

The only possibility of making a “top company” out of an ethically “average company” lies in developing the management personnel, the selection criteria and the promotion practices in such a way that as large a number of managers as possible are recruited from the right end of the normal distribution curve.

The only possibility of making a “top company” out of an ethically “average company” lies in developing the management personnel, the selection criteria and the promotion practices in such a way that as large a number of managers as possible are recruited from the right end of the normal distribution curve. The requirements that people entrusted with important positions should fulfill are known since more than 2500 years and can be found in many classical texts. They should be personalities of integrity and not simply specialists in their own field, people who stand out from the “average person” in terms of numerous characteristics:

- Intelligence, trustworthiness, humaneness, courage and perseverance;²⁷
- A sense of reason that has matured into wisdom, justice, honesty, courage and prudence;²⁸
- Passion for the cause, a sense of responsibility for the consequences of their own actions in the interest of the matter in hand and also a sense of proportion in the sense of the ability to consider realities as they are while retaining inner calm and composure and to preserve the necessary distance to things and people;²⁹
- Mindfulness with regard to the concerns of those affected by decisions, fairness, social skills, civil courage, ability to learn and the ability to change one’s mind when deeper understanding leads to better insights³⁰ – perhaps also charisma in the sense of Augustine, who maintained that what you seek to inflame in others must burn inside you; and finally also
- Moral creativeness, the ability also to view situations from a completely different perspective, strength of character to avoid the “group think” phenomenon³¹ and to re-evalu-

ate things, even if the customary anecdotal “evidence” in the company (“we’ve always done it that way”, “what’s that got to do with us?”) appears to suggest routine procedures.³²

It is the values of the management elite that determine how the company and its role in the social setting are defined; it is the value-based premises and personal virtues of the managers that determine the selection of those options for action which are regarded as legitimate and insist on them being put into practice. It is the personal and personnel-specific value-based thinking that determines what approach, selection and criteria of assessment are given preference when faced with problems that need to be resolved and what is considered to be important, desirable, good or bad. From my practical experience stretching back over 30 years, the personal value-based premises of top management, the social awareness and the civil courage also to stand up for one’s own convictions in face of a “head wind” were the most important determinants for the ethical quality of a company. This makes the personnel-specific virtues of managers and the whole workforce the most important resources and competencies of a company – along with its specialist knowledge. Since there are no ethical questions in companies that do not at the same time also imply present or future restrictions on business activity, top management also has to strike the right balance and make sure it becomes established, as far as possible without friction, through interaction with its stakeholders. Of course, managers with these “ideal” qualities must still be able to achieve the kind profits that are customary in the industry concerned, to develop strategic visions, to act innovatively and adapt to changes, to take decisions and make sure they are acted on and thus to meet the company targets that have been set.³³ Successful work at the top of a company has become considerably more complex with globalization.

Anyone can find out what kind of “stuff” they are made of, those management personalities who steer their companies in a responsible and legitimate way within ethically considered guardrails. But where and how do we find the “ideal type” in real life to fill all those positions in which management responsibility,

also of an ethical nature, actually has to be taken? It would seem to be easier to describe than to develop the “ideal type” in the reality of corporate life and then to hoist this type into the right position. The following institutional measures can help to ensure that the selection and development processes (management development) of companies are better adjusted in terms of non-economic requirements.

Normatively “enriched” content of objectives, performance appraisal criteria and incentive systems

In most companies, regular appraisals are held to evaluate the performance of employees. Line managers and their direct reports have an opportunity in these meetings to talk calmly and openly about the achievement or non-achievement of set targets, the quality of the work and all aspects related to work. Targets, performance appraisals and incentive systems are management tools and offer not only the opportunity to talk openly about mutual expectations and anything that might need correction, but also the rational basis for bonus allocations, changes in salary and ultimately also possible promotions. Holistically conceived systems of targets, performance appraisals and incentives also contain normative questions. Instruments of this kind have an influence on the motivation of employees to do or not do certain things; they are therefore very important for employees and companies.

Exclusive management by quantified economic targets carries the risk of social, ecological or other options for action being neglected in order to meet ambitious short-term business targets

Where companies do not include normative criteria in the content of their objectives, the criteria of assessment and the incentive systems, it would be naive to believe that a great deal of importance is attributed in practice to the ethical dimension of the performance portfolio. People usually make an effort to follow rules, especially where they may lead to better results and personal advantages. In the course of their careers, managers are generally tested for their capabilities in various areas of responsibility. Their income and their further career crucially hinge on *short-term* visible results. *Exclusive* management by quantified economic targets carries the risk of social, ecological or other options for action being neglected in order to meet ambitious short-term business targets.

It is human nature to consider “short and close interests”, as Hans Jonas put it, more important than “remote obligations”.³⁴ With incentive and appraisal systems that are insufficiently broad in their conception because they neglect moral aspects, there is a temptation to give priority routinely to what is useful in the short term over what is necessary in the long term, and in ethically ambivalent situations (if they are recognized as such) in favor of one’s own financial or career-oriented advantage.³⁵ If this is the case, investments on which the performance and also the social and ecological acceptability of the company depend in the long term are either not made or are postponed, because they generate costs in the short term and (viewed superficially) have a negative impact on the balance sheet. The current debate on long-term elements of remuneration, which was triggered by the financial crisis, also merits considerable attention from this perspective.³⁶

Where moral conduct and intentions are regarded as a company resource – and not as a restriction in a market environment that neglects morals – upright customs and practices lose their potential irritant nature and competitive disadvantage. Where a social environment sees the introduction of this resource as positive and is prepared to be discriminating in its judgments on different qualities of corporate action, a positive added value emerges for society and the company.

To promote moral business conduct, not only the conventional business and technical performance criteria should be included, but also ethical criteria. These reflect corporate values in terms of integrity and social responsibility. Virtues such as sincerity, trustworthiness or fairness in cooperation with others should be no less important here than the attainment of quantitative objectives.³⁷

All corporate moral reflections and obligations derived from these ultimately achieve little if the content of targets, performance appraisal criteria and incentive systems in the company are not structured in such a way that morally sober actions are also worthwhile from an egoistic point of view – in short, if it is ensured that the “good” are not the “stupid” ones.

It is undisputable that child labor or forced labor and other sorts of indecencies must be unequivocally forbidden in one's own company and among one's suppliers. However, proscribing such obviously unscrupulous activities, or applying negative ethics (the “Do no harm” principle), is only *one* aspect of appropriate corporate governance – and the simplest one, because here it only requires intelligence and law abidance. It is more difficult “to do good” in a sustainable and credible way, because this calls for complex action based on discourse ethics, social and emotional skills and also affirmative action – but this is difficult to measure in performance appraisals. Since moral integrity, social awareness and interpersonal mindfulness of corporate conduct cannot usually be measured directly and in the short term in monetary units, creativity must be applied to come up with measurement criteria with which behavior can be positively influenced and a balance of interests made achievable.

If a company works with holistic incentives, then not only the objective, but also the path towards achieving it must be assessed. Moral norms – counterfactually to what is regarded as desirable in an ideal situation – also have a broader impact the more consistently their observance is monitored and

compliance rewarded or breaches penalized.³⁸ Companies that lay down a “moral law” which is deemed internally binding through their “rules of play” (codes, guidelines for sensitive areas), incentive systems and sanction mechanisms are (better) able to overcome potential conflicts between financial and moral targets. As the breadth of their impact increases, the general problem of the prisoner dilemma is reduced, as is the need for “moral heroism” within the company on the part of those who a priori exclude immoral activities out of an intrinsic, personal motivation.

One way of avoiding short-term pseudo-success could be to break down performance appraisals into short, medium and long-term components where appropriate and feasible. A comparable principle applies when assessing cost behavior. If employees are only measured by the costs they save, there is a risk that cuts will also be made or investments avoided in those areas where e.g. cuts are not permissible because of the negative implications for the health of people or an intact environment. In such cases, the short-term economic benefit would have undesirable long-term consequences for humans and the environment, and often also financial damage to the company later on.

If those people who achieve business success by irresponsible or illegitimate ways and means are promoted or financially rewarded because of their good short-term business performance, signals are sent out within the company that render other efforts to increase the moral quality of corporate activity largely useless. Colleagues and employees look closely at who is given promotion and have a good feel for what appears “worthwhile” in career terms. All corporate moral reflections and obligations derived from these ultimately achieve little if the content of targets, performance appraisal criteria and incentive systems in the company are not structured in such a way that morally sober actions are also worthwhile from an egoistic point of view – in short, if it is ensured that the “good” are not the “stupid” ones. The “moral guidance” then no longer takes place (solely) through the reaction of society or the market to the individual conduct of corporate actors, but through internal accord, company incentives and peer pressure to comply with the “rules of play” that are commonly seen as mandatory.

Ethics training as a compulsory institutionalized part of internal and external corporate learning

It may not be quite plain at first glance why, in addition to the job-specific training and continuing education that a company provides, it should also take on the task of training its people in ethics, which everyone would be expected to bring with them from their home and school education. Where and when complaints are to be made about a lack of moral education of people, then the criticism should be directed at an earlier stage in the process – at the family and education system³⁹ and not at companies. But this would be a too narrow approach and would also not be in line with what we know today.

Large companies that operate in different countries, are highly specialized in numerous fields and heavily based on the division of labor are the embodiment of highly fragmented responsibility. It is almost impossible to imagine that a large international company can create and preserve its identity beyond the uniformity of the company logo and the letterhead if not on the basis of shared moral values and norms. The recommendation to companies to reflect on an identity-preserving, moral basis and to pass on accordant values in internal courses is therefore critical.

Internal courses can make clear in practical terms which values cannot be traded off in day-to-day business – even if they ostensibly appear to be in conflict with practices that are customary in far-off countries.

To the question whether this effort is also worthwhile, whether the power of moral judgment can be learned at all once primary and secondary socialization have taken place, there is an answer from a prominent philosopher which is not exactly encouraging. Immanuel Kant was known to be rather pessimistic in this regard: “it is not possible to fashion anything completely straight from such crooked wood as Man is made of.”⁴⁰ As far as the inclusion of ethics in management development is concerned, there are not only many positive reports⁴¹ but also a few negative ones⁴². The thrust of these is that, however well-intentioned later ethics training might be, it can only have a passing and superficial influence, if any at all.⁴³

But this does not have to be the case if this training is approached properly; at all events, there has been a “climate change” in the idea of ethics training in companies. As cited in the introduction, the conventional training model of business schools and internal human resources departments, which were too focused on business skills, are coming in for increasing criticism, because it plainly fails to satisfy the complexity of proper and sustainable corporate conduct. Internal courses can make clear in practical terms which values cannot be traded off in day-to-day business – even if they ostensibly appear to be in conflict with practices that are customary in far-off countries. Holistic management development imparts value-based training, in addition to business expertise, and practices this with case studies in concrete, real life situations.

I agree with Albert Schweitzer’s view that all reflections on ethics lead to an elevation and enlivenment of the moral disposition of human beings.⁴⁴ Therefore, a minimum of value-based training is useful and necessary. But in my experience, moral awareness should be raised by means of annotated “literature homework” with comments and not by lecturing on various philosophical schools starting with pre-Socratic philosophers. Undoubtedly, reading Kant’s “Metaphysics of Morals” is an uplifting experience that triggers a great many thoughts, and certainly the statements made there that “the teachings of morality” are binding for all free humans blessed with practical reason, “regardless of individual inclinations and the advantage which can accrue as a result” are correct. And it is certainly also true that “observing the commandments of reason –

especially when this includes wisdom – brings greater advantages on average”.⁴⁵ Lectures of this kind, however, have the disadvantage that the correlation with company practice is usually not appreciated by the “students”, because the new knowledge is perceived and adopted as being disconnected from one’s own area of responsibility. As a result the aim of sensitization for moral concerns is not achieved. It may be of help here to combine basic knowledge of ethics with group work on real case studies. In this way, the identification of potential moral problems can be practiced, analysis of the ethical problems (in contradistinction to legal, technical, economic or social problems) can be learned and appropriate decision-making grids can be established.⁴⁶ These may be case studies of a constructed general nature⁴⁷, but may also be examples of concrete moral dilemma encountered in real business life. In companies that have “moral codes” in place, it should be made clear with reference to business case studies what “compass” is to be applied in dilemma situations.

Also extremely valuable are case studies that analyze and reflect on the wrong decisions of others ex post (e.g. in the context of the Challenger accident⁴⁸) or from the past of one’s own company. The mistakes made in one’s own company, critically coming to terms with these mistakes and the lessons and conclusions drawn from them should, wherever possible, be the subject of courses held in one’s own company. This not only helps to avoid a repetition of such mistakes, but also enhances the credibility of the efforts made. Equally well suited are case studies with corporate decision situations which resemble the prisoner dilemma⁴⁹. Finally, case studies in which a morally high-risk corporate decision is broken down into many individual decisions provide an opportunity to show that the moral quality of each specific individual step gives no cause for concern, but when added together can be a problem.

A publication that is as hugely topical as ever is the “veterans article” by Saul Gellerman; in terms of its content, it can be applied to any company and analyzed for the corresponding consequences. Gellermann explored the question as to why “good” managers make “bad” ethical decisions – decisions which ultimately have also been

associated with enormous disadvantages for the companies concerned, and in some cases with their ruin.⁵⁰ Gellerman’s results show that it is predominantly four perceptions of reality that lead managers to stray from the path of virtue:

- “A belief that the activity is within reasonable ethical and legal limits – that is, that it is not ‘really’ illegal or immoral”.
- “A belief that the activity is in the individual’s or the corporation’s best interests – that the individual would somehow be expected to undertake the activity”.⁵²
- “A belief that the activity is ‘safe’ because it will never be found out or publicized; the classic crime-and-punishment issue of discovery”.
- “A belief that because the activity helps the company the company will condone it and even protect the person who engages in it”.

In practice, the behavior which is “just about still” acceptable or where the borderline lies between “clever” and immoral action is often not found out until the borderline has been crossed and the mistake made. Yet in most cases, three simple questions to the managers concerned would be enough to alert them to potential or actual moral problems: Can you plausibly explain your decision to your family or good friends without any effort or cosmetic adjustments? Would you feel comfortable if a news magazine in the press or television reported openly about your decision and its background and impact? Could you also accept the decision taken by you as fair and appropriate if it were taken by your boss and you yourself were affected by it? If the person asked starts to ponder, then in all likelihood this is a sign of moral hazard.

With regard to the second set of problems highlighted by Gellerman, there are likely to be concrete experiences in any company from which one’s own employees can learn. Gellerman’s experience in this regard is the “sad truth” that a lot of short-lived “stars” are promoted before an unfortunate successor has to carry the can for the problems created – making it doubly unfair. Unusually good results that cannot be explained under the existing conditions should therefore always be checked for the circumstances behind their achievement.

The statement by Max Frisch that “We called for workforce and got people” applies equally to companies that hire managers from “outside”. Companies hire them because of their actual (or presumed) achievement records – but also get specific personalities into the bargain, with all their characteristics, values and behavioral preferences.

As regards the third problem area identified by Gellerman, it has to be said that actually there is always some immoral behavior somewhere that goes undetected. What is perceived to have a low likelihood of detection while offering the possibility of substantial personal advantage could be a great temptation for a normal mortal. Finally, by processing case studies it is also possible to rectify the belief that the immoral activity concerned is helping the company and that the company would therefore discreetly look the other way or even protect the person behaving immorally. In case studies (and of course all the more in everyday company practice) it should be made clear that loyalty to the company stops at the point where laws are broken and rights of others are violated.

Another element to be named here is discussed by many observers with ambivalent feelings:

Integrity assessments / expanding the hiring model

The statement by Max Frisch that “We called for workforce and got people” applies equally to companies that hire managers from “outside”. Companies hire them because of their actual (or presumed) achievement records – but also get specific personalities into the bargain, with all their characteristics, values and behavioral preferences. In other words, they look for specific qualifications and end up with a whole “package” of undesirable personality features. It is clear that intelligence as a cognitive faculty based on the combination of talent, knowledge, the ability to understand, to rationally apply what is understood and to act reasonably does not exclude moral incompetence. It is also clear that intelligence in combination with lack of morality can wreak enormous damage – this damage is all the greater, the higher up such personalities are in the company hierarchy.⁵² This begs the question whether the morality of people can be measured by tests.

Indeed, various institutes offer tests to “screen” potential candidates and gain insight on candidates’ “moral characteristics”.⁵³

For the normal Central European, the idea of such a “character test” initially gives rise to an uneasy feeling: Who is testing what aspects of my character with what legitimacy and according to what standards? Is it a new form of inquisition? Are the most private things such as one’s own morality anything at all to do with the employer – or does even the attempt to bring such things into the (albeit limited) public eye not itself smack of immorality, because it is an invasion of privacy?

The fact is that integrity tests in practice are not very popular either with companies or with other organizations. Many bodies that are responsible for the final selection of top managers shy away from formal assessments of values and character as a part of their screening criteria. One of the main reasons lies in the fact that good candidates could see this as demeaning and be deterred from submitting an application.⁵⁴ Other reasons include uneasy feelings in handling this subject.⁵⁵ The problems with integrity assessments are manifold:⁵⁶

- Desirable and therefore sought-after qualities, such as “moral competence”, “sensitivity to ethical and social concerns” or “integrity” in general, are high up on the wish lists for job applicants or candidates for promotion⁵⁷ – but they are difficult to measure and verify.
- Evaluations on whether the value-based attitudes to be measured are actually “lived” and not just demonstrated in well-prepared scenarios would require different evaluators, differing assessment methods and their application in different situations – but that would be a protracted process that many qualified top managers would not be prepared get involved in.
- There is also a risk that the specific value-based premises of the various jurors would make for a certain inconsistency – especially in an intercultural context.⁵⁸
- Social skills cannot be measured in tests, but only developed in collaboration with others and in concrete situations.

Although there are also many indications suggesting the usefulness of such tests⁵⁹, the prevailing overall feeling remains one of caution rather than enthusiasm. It is therefore preferred to do the “test” in-house, over a lengthy period and under real conditions:

If intervals between promotions are too short, this could also be perceived within the company as a sign that one needs to look as good as possible in the short term in order to make a career.

Minimum intervals between promotions to positions of higher responsibility

As mentioned earlier, the people we realistically have to do with in all societies, everywhere in the world and in all (political, economic and other) institutions are “average people” as regards all their characteristics and personal features. Filtering and selection processes are therefore needed to fill management positions with people who come close to what has been described as the ideal – and these processes need time. People are able to “simulate” or “play-act” and can fake characteristics and personality features from which they hope to gain advantage. This may deceive even sensitized observers in the short term. But over a longer period, in different situations and under constraints of time and resources, the “true” character and the “genuine” personality will always be revealed – ethically reflective activity is a process, not a singular event.

If intervals between promotions are too short, this could also be perceived within the company as a sign that one needs to look as good as possible in the *short term* in order to make a career. In many respects, looking “good” in the short term is also possible using illegitimate means and the problems created as a result may not become apparent until the successor is in place and, in the worst-case scenario, may even be attributed to the successor. The person who really caused the problem then unduly looks even better *ex post* than he already appeared in the short term – a demotivating problem of fairness.

The problem addressed here arises especially when preference for functions carrying a high level of responsibility is given to external candidates who are “imported” from other institutions. In such cases, not only does the advantage of the long-term view no longer apply, but additional risks arise through the importing of corporate cultural specifics that may not be compatible with those of one’s own company.

A further problem – that of the price that may have to be paid by companies for changes in management development practices – should not be ignored: restraint in the alacrity with which people are promoted

can result in excellent employees moving to competitor companies that have a less cautious approach to the promotion logic of requiring a certain minimum period of time in a specific position of responsibility.

The fact remains that where a company, through its personnel and promotions policy, secures the services of management personalities with a “post-conventional” level of judgment⁶⁰ – i.e. people whose judgment is based not on blind subjugation to existing laws and regulations, but on morally responsible weighing of rights and wrongs – there is a sense of something happening in that company which makes moral failure less likely. This is not wishful thinking; it is backed up by increasing empirical evidence.⁶¹

Outlook

It is clear that, in view of the marked division of duties, the complexity and the international nature of work in companies, an exclusively individualistic ethic is no longer sufficient to come to grips with the problem of moral responsibility. Corporate conduct is more than individual conduct. But there is no corporate conduct without individual conduct, and companies are thus also only secondary moral actors. The individual is and remains the primary moral actor.

Despite all the economic damage and social stresses, the present financial and economic crisis is a crisis of trust not only in the major economic and regulatory institutions, but even more and above all in the integrity of their management personnel.

Despite all the economic damage and social stresses, the present financial and economic crisis is a crisis of trust not only in the major economic and regulatory institutions, but even more and above all in the integrity of their management personnel. In addition to the political, financial and risk management-specific causes of the current crisis, there is also a need for the ethical causes to be analyzed: What role did the immoral activity of people in all spheres of society play? How can we encourage and enhance institu-

tionally sustainable norms of behavior to which people conform because they feel personally committed? How can shrewd government, industry and self-regulation instill socially ethical elements into a market logic that is defined in purely economic terms? How do we find the “right” people for positions of responsibility and management in terms of their moral compass, people who know how to strike the right balance between business needs and ethical requirements and strive to achieve this in practice to the best of their knowledge and belief?

In crisis situations, people not only seek retrospective analysis, but also expect guidance and management. For this reason, the intellectual, social, financial and moral elites in particular are required to come up with answers to the questions posed as a result of the crisis-related problems and to point a way out of the crisis: in this situation, managers of the type described here perform their role model function for the social whole. Admitting without emotion to the mistakes made, systemically correcting them in a transparent way and showing hard work and perseverance to make a new start that draws lessons from the crisis.

When the top management of a company strays from the “path of virtue”, cynicism spreads and the trust and loyalty of employees, customers and suppliers are lost – between the perceived integrity of top management and the attitude of employees in this regard there is a strong positive relationship.⁶² Further empirically measurable positive impacts of a top management that displays a high degree of morality are greater job satisfaction among employees and greater appeal for above-average talents.⁶²

The promotion of a normative corporate culture and normative structuring of management instruments pays off not only in a reduction of transaction costs through confidence building, not only in the avoidance of damaged reputations or even fines as a result of activities either perceived as illegitimate or even illegal, and not only in greater security of expectation for customers and stakeholders, but also in a greater appeal for present and potential employees with an affinity for ethical situations. This leads to a

The current new thoughtfulness regarding the sense and parameters of sustainable business activity is an opportunity to have another go at the issues of manager ethics and business ethics.

positive selection of applicants and ultimately a workforce that supports and enhances an ethically motivated corporate culture. All this suggests that to integrate moral elements into the decision-making process and apply corresponding criteria when selecting managers is also a rational choice from an economic perspective.

The current new thoughtfulness regarding the sense and parameters of sustainable business activity is an opportunity to have another go at the issues of manager ethics and business ethics. The context of the following quotation from Shakespeare may not be exactly a model for ethical activity (Brutus is seeking support for his plan to murder Caesar) – but the message is universally applicable:

There is a tide in the affairs of men,

which taken at the flood, leads on to fortune;

Omitted, all the voyage of their life is bound in shallows and in miseries.

On such a full sea are we now afloat, and we must take the current when it serves,

or lose our ventures.⁶⁵

Footnotes

- 1 Harvard Business Review, July-August 2009, p. 57.
- 2 Harvard Business Review, July-August 2009, p. 91.
- 3 Frankfurter Allgemeine Zeitung, Tuesday, 23 June 2009, no. 142, p. 11 (Wirtschaft).
- 4 Millennium Project: State of the Future 2009, New York 2009.
- 5 Hösle V.: Philosophie der ökologischen Krise. Moskauer Vorträge, Beck'sche Reihe, Munich 1991, p. 16. (Translation KML.)
- 6 For an introduction, see Leisinger K.M.: Unternehmensethik. Globale Verantwortung und Modernes Management. C. H. Beck, Munich 1997; Steinmann, H., Löhr, A. (ed.): Unternehmensethik. Verlag C.E.Poeschel, Stuttgart 1989; Wieland J.: Die Ethik der Governance. Metropolis Verlag, Marburg 1999; Wieland J.: Governanceethik und Diskursethik – ein zwangloser Diskurs, Metropolis 2007; essential reading: Ulrich P.: Integrative Wirtschaftsethik. Grundlage einer lebensdienlichen Ökonomie. 4th edition Bern 2008; also Donaldson T., Werhane, P.: Ethical Issues in Business. A Philosophical Approach. Pearson, Prentice Hall 2008; Crane A., Matten D.: Business Ethics, Oxford University Press, 2nd edition 2007; De George R.T.: Business Ethics. New York (Macmillan) 4th edition 1995 and De George R.: Competing with Integrity in International Business. Oxford University Press, New York 1993 and Donaldson T., Dunfee T. W.: Ties that Bind. A Social Contracts Approach to Business Ethics. Harvard Business School Press, Boston 1999.
- 7 As defined by Josef Wieland: Die Tugend kollektiver Akteure. In: Wieland J. (ed.): Die moralische Verantwortung kollektiver Akteure. Physica-Verlag, Heidelberg 2001, p.24. See also Wieland J.: Die Tugend der Governance, (Metropolis) Marburg 2006.
- 8 Donaldson, T.: Corporations and Morality. Prentice-Hall, Englewood Cliffs, 1982.
- 9 There have been isolated cases of top management being aware of such deficits but, whether out of opportunism or under imagined pressure of time or pressure to act, ignoring them in spite of warnings from internal experts. One crass example among many is the problem of the cold-induced brittleness of the "O rings" that were ultimately responsible for the astronauts in the Challenger spacecraft. See Russel P. Boisjoly, Ellen Foster Curtis, Eugene Mellican: Roger Boisjoly and the Challenger Disaster: The Ethical Dimensions. In: Journal of Business Ethics Vol. 8 (1989), pp. 217-230; Patricia H. Werhane: Engineers and Management: The Challenge of the Challenger Incident. In: Journal of Business Ethics Vol. 10 (1991), pp. 605 – 616; Joseph R. Herkert: Management's Hat Trick: Misuse of "Engineering Judgment" in the Challenger Incident. In: Journal of Business Ethics Vol. 10 (1991), pp. 617 – 620; and also Thomas W. Norton: Understanding Professional Misconduct: The Moral Responsibilities of Professionals. In: Journal of Business Ethics Vol. 10 (1991), pp. 621 – 623. The case of Jayson Blair at the New York Times can be cited as a "textbook example" of the loner with criminal energy whose misconduct failed to show up early enough on the radar screens of management.
- 10 Hans Geser drew attention to this aspect early on; see Geser H.: Organisation als moralische Akteure. Ein Thesenpapier. In: Arbeitshefte für ethische Forschung, no. 21, Zurich April 1989, p. 33 et seq.
- 11 See Wieland J. (ed.): Die moralische Verantwortung kollektiver Akteure. Physica-Verlag, Heidelberg 2001, in particular the contribution by Maring M.: Verantwortung von Korporationen, pp. 103 – 145.
- 12 Wieland J.: Die Ethik der Governance, Metropolis, Marburg 1999, p. 8.
- 13 See Fürst M.: Grundprinzipien und Gestaltung eines nachhaltigen Integritätsmanagements. In: Wieland, J. / Grueninger, St. / Steinmeyer, R. (eds): Handbuch nachhaltiges Compliance-Management. Berlin, Erich Schmidt Verlag ESV, 2009.
- 14 http://www.ussc.gov/2007guid/8b2_1.html
- 15 See Fürst M.: Risiko-Governance. Die Wahrnehmung und Steuerung moralökonomischer Risiken. (Metropolis) Marburg 2005.
- 16 This statement applies only to the external sphere – as regards the internal sphere there is empirical evidence of clearly measurable positive changes, such as the motivation of employees, their commitment or attractiveness of the employer.
- 17 See e.g. Laufer Green Isaac (2004) Hidden Agendas: Stereotypes and Cultural Barriers to Corporate-Community Partnerships; Linda Merieau: The Human Factor: Addressing United Nations Staff Perceptions of the Business Community when forming Cross-sector Partnerships In: Journal of Corporate Citizenship Issue 31 (Autumn 2008) p. 23 et seq.
- 18 Bazerman M.: Evaluating your Business Ethics: A Harvard professor explains why good people do unethical things. In: Gallup Management Journal online, June, 2008, p. 1 – 5; Jones Th.M., Gauthier F.H.: Will the Ethics of Business Change? A Survey of Future Executives. In: Journal of Business Ethics, Vol. 7, No. 4, 1988, pp. 231 – 248.
- 19 White D. / Lean E.: The Impact of Perceived Leader Integrity on Subordinates in a Work Team Environment. In: Journal of Business Ethics, Vol. 81, No.4 (September 15, 2008), pp. 765 – 778; Posner B.Z.: Individuals' Moral Judgement and its Impact on Group Processes. In: International Journal of Management, Vol. 3, No. 2, June 1986, pp. 5 11. Nichols, M.L./Day, V.E.: A comparison of moral reasoning of groups and individuals on the "defining issue test". In: Academy of Management Journal. Vol. 25, 1982, pp. 201 – 208.
- 20 See Ardichvili A., Mitchell J., Jondle D.: Characteristics of Ethical Business Cultures In: Journal of Business Ethics 2009, Vol. 85 (4), p. 445 et seq., Thomas T., Schermerhorn Jr. J., Dienhart J.: Strategic leadership of ethical behavior in business. In: Academy of Management Executive (serial online). May 2004; vol. 18 (2), pp. 56 – 66; and also Ciulla J.B., Price T.L., Murphy S.E. (Eds.) The Quest for Moral Leaders: Essays in Leadership Ethics (Barnes & Noble) Cheltenham 2005.
- 21 See Resick C., Hanges P., Dickson M., Mitchelson J.A.: Cross Cultural Examination of the Endorsement of Ethical Leadership. In: Journal of Business Ethics (serial online) February 15, 2006, Vol. 63 (4), pp.345-359, and also Sama L., Shoaf V.: Ethical Leadership for the Professions: Fostering a Moral Community. In: Journal of Business Ethics (serial online) March 2008 Vol. 78 (1/2), pp. 39 – 46 and Schwartz M., Dunfee T., Kline M.: Tone at the Top: An Ethics Code for Directors? In: Journal of Business Ethics (serial online) April 15, 2005, Vol. 58 (1-3), pp. 79-100.
- 22 See Caldwell C., Hayes L., Bernal P., Karri R.: Ethical Stewardship – Implications for Leadership and Trust. In: Journal of Business Ethics (serial online) March 2008, Vol. 78 (1/2), pp. 153 –164 and also Chun R.: Ethical Character and Virtue of Organizations: An Empirical Assessment and Strategic Implication. In: Journal of Business Ethics (serial online) March 30, 2005, Vol. 57 (3), pp. 269 – 284.
- 23 On the great importance of compliance management, see Tyler T., Dienhart J., Thomas T.: The Ethical Commitment to Compliance: Building Value-Based Cultures. In: California Management Review (Serial online) February 2008. Vol. 50 (2), pp. 31 – 51.
- 24 Davis A., Rothstein H.: The Effects of the Perceived Behavioral Integrity of Managers on Employee Attitudes: A Meta-Analysis. In: Journal of Business Ethics (serial online) September 15, 2006, Vol. 67 (4), pp. 407 – 419.
- 25 See Leisinger K.M.: Whistleblowing und Corporate Reputation Management. Rainer Hampp Verlag (sfwu, Schriftenreihe für Wirtschafts- und Unternehmensethik), Munich and Mering 2003.
- 26 Weber, M.: Politik als Beruf. In: Weber, M.: Gesammelte politische Schriften. J.C.B. Mohr, UTB (Paul Siebeck), Tübingen, 5th edition 1988, p. 551 et seq.
- 27 See e.g. Sun Tzu: The Art of War. (Shambhala), London 1991, p. 4 (written around 500 BC).
- 28 Plato: Der Staat (Politeia). DTB, Artemis (Bibliothek der Antike), Munich 1991 (written around 400 BC).
- 29 Weber, M.: Politik als Beruf. In: Weber, M.: Gesammelte politische Schriften. J.C.B. Mohr, UTB (Paul Siebeck), Tübingen, 5th edition 1988, p. 551 et seq. (given as a lecture in Munich in 1919).
- 30 See also Leisinger K.M.: Unternehmensethik. Globale Verantwortung und modernes Management, (C.H. Beck), Munich 1997, pp. 141 – 174.
- 31 See Leisinger K.M.: Unternehmensethik. Globale Verantwortung und modernes Management. C.H.Beck Munich 1997, pp.149 – 155; for in-depth reading: Janis I.L.: Groupthink. Psychological Studies of Policy Decisions and Fiascoes, Houghton Mifflin. Boston, MA, 1982.
- 32 See Werhane P.H. / Moriarty B.: Moral Imagination and Management Decision Making (Business Roundtable Institute for Corporate Ethics) Darden (University of Virginia), 2009 and the case studies "Ford Pinto" and "Challenger" analysed there.

- 33 Thus the profile of skills that the Club of Rome considers necessary for "leadership" in modern times: Club of Rome: Die Globale Revolution. Bericht des Club of Rome 1991. (Spiegel Spezial No. 2), Hamburg 1991, p. 109.
- 34 In his last interview, see: Jonas, H.: Der ethischen Perspektive muß eine neue Dimension hinzugefügt werden. In: Deutsche Zeitschrift für Philosophie, vol. 41, no. 1, 1993, p. 98. From this fact he derived a critical view of democracy e.g. for solving the environmental crisis. Where elections are held every four years, he feels there is a risk that long-term or "remote obligations" are not fulfilled because of the day-to-day interests and near-term interests that need to be satisfied.
- 35 See Gellerman, S.W.: Why 'good' managers make bad ethical choices. In: Harvard Business Review, July-August 1986, pp. 85 – 90.
- 36 See e.g. Hofstetter K. / Hostettler St.: Langfristige variable Vergütungen als zentrale Anreize für Topmanager. In: Neue Zürcher Zeitung no. 190 (19 August 2009), p. 25.
- 37 See the interview with Novartis COO Jörg Reinhardt in Ernst & Young (ed.): Entrepreneur. Stuttgart 2009, pp. 64 – 71.
- 38 See e.g. Badenhorst, J.A.: Unethical Behaviour in Procurement. A Perspective on Causes and Solutions. In: Journal of Business Ethics, Vol. 13, No. 9, 1994, pp. 739-745.
- 39 Just as Johann Heinrich Pestalozzi did about 150 years ago.
- 40 See Kant, I.: Ideen zu einer allgemeinen Geschichte in weltbürgerlicher Absicht. In: Schriften zur Anthropologie, Geschichtsphilosophie, Politik und Pädagogik I. Ed.: Weischedel, W. Werkausgabe vol. XI. Suhrkamp Taschenbuch Wissenschaft, Frankfurt a.M. 1968, p. 41. In the same essay, however, there is a statement which could be taken as a cue for the desirability of further moral training: "We are to a large degree cultivated by art and science. We are civilized, to excess, for all kinds of social pleasantries and decency. But there is still a great deal to be done before we can regard ourselves as moralized." (p. 44).
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2

Manifesto Global Economic Ethic – Consequences for Global Businesses

Manifesto

Global Economic Ethic – Consequences for Global Businesses

Preamble

For the globalization of economic activity to lead to universal and sustainable prosperity, all those who either take part in or are affected by economic activities are dependent on a values-based commercial exchange and cooperation. This is one of the fundamental lessons of today's worldwide crisis of the financial and product markets.

Further, fair commercial exchange and cooperation will only achieve sustainable societal goals when people's activities to realize their legitimate private interests and prosperity are imbedded in a global ethical framework that enjoys broad acceptance. Such an agreement on globally accepted norms for economic actions and decisions – in short, for “an ethic of doing business” – is still in its infancy.

A global economic ethic – a common fundamental vision of what is legitimate, just, and fair – relies on moral principles and values that from time immemorial have been shared by all cultures and have been supported by common practical experience. Each one of us – in our diverse roles as entrepreneurs, investors, creditors, workers, consumers, and members of different interest groups in all countries – bears a common and essential responsibility, together with our political institutions and international organizations, to recognize and apply this kind of global economic ethic.

For these reasons, the signatories of this declaration express their support of the following Manifesto.

Manifesto for a Global Economic Ethic

In this declaration, the fundamental principles and values of a global economy are set forth, according to the Declaration toward a Global Ethic issued by the Parliament of World Religions in Chicago in 1993. The principles in this manifesto can be endorsed by all men and women with ethical convictions, whether these be religiously grounded or not. The signatories of this declaration commit themselves to being led by its letter and its spirit in their day-to-day economic decisions, actions, and general behavior. This Manifesto for a Global Economic Ethic takes seriously the rules of the market and of competition; it intends to put these rules on a solid ethical basis for the welfare of all.

Nothing less than the experience of the current crisis affecting the whole economic sphere underlines the need for those internationally accepted ethical principles and moral standards, which we all need to breathe life into in our day-to-day business practices.

I. The principle of humanity

The ethical frame of reference: *Differences between cultural traditions should not be an obstacle to engaging in active cooperation for esteem, defense, and fulfillment of human rights. Every human being – without distinction for age, sex, race, skin color, physical or mental ability, language, religion, political view, or national or social origin – possesses an inalienable and untouchable dignity. Everyone, the individual as well as the state, is therefore obliged to honor this dignity and protect it. Humans must always be the subjects of rights, must be ends and never mere means, and must never be the objects of commercialization and industrialization in economics, politics, and the media, in research institutes, or in industrial corporations.*

The fundamental principle of a desirable global economic ethic is humanity: Being human must be the ethical yardstick for all economic action: It becomes concrete in the following guidelines for doing business in a way that creates value and is oriented to values for the common good.

Article 1

The ethical goal of sustainable economic action, as well as its social prerequisite, is the creation of a fundamental framework for sustainably fulfilling human beings' basic needs so that they can live in dignity. For that reason, in all economic decisions the uppermost precept should be that such actions always serve the formation and development of all the individual resources and capabilities that are needed for a truly human development of the individual and for living together happily.

Article 2

Humanity flourishes only in a culture of respect for the individual. The dignity and self-esteem of all human beings – be they superiors, co-workers, business partners, customers, or other interested persons – are inviolable. Never may human beings be treated badly, either through individual ways of conduct or through dishonorable trading or working conditions. The exploitation and the abuse of situations of depen-

dence as well as the arbitrary discrimination of persons are irreconcilable with the principle of humanity.

Article 3

To promote good and avoid evil is a duty of all human beings. Thus this duty must be applied as a moral yardstick to all economic decisions and courses of action. It is legitimate to pursue one's own interests, but the deliberate pursuit of personal advantage to the detriment to one's partners – that is, with unethical means – is irreconcilable with sustainable economic activity to mutual advantage.

Article 4

What you do not wish done to yourself, do not do to others. This Golden Rule of reciprocity, which for thousands of years has been acknowledged in all religious and humanist traditions, promotes mutual responsibility, solidarity, fairness, tolerance, and respect for all persons involved.

Such attitudes or virtues are the basic pillars of a global economic ethos. Fairness in competition and cooperation for mutual benefit are fundamental principles of a sustainably developing global economy that is in conformity with the Golden Rule.

II. Basic values for global economic activity

The following basic values for doing business globally further develop the fundamental principle of humanity and make concrete suggestions for decisions, actions, and general behavior in the practical sphere of economic life.

Basic values: non-violence and respect for life

The ethical frame of reference: *To be authentically human in the spirit of our great religious and ethical traditions means that in public as well as in private life we must be concerned for others and ready to help. Every people, every race, every religion must show tolerance and respect – indeed high appreciation – for every other. Minorities – be they racial, ethnic, or religious – require protection and support by the majority.*

Article 5

All human beings have the duty to respect the right to life and its development. Respect for human life is a particularly lofty good. Thus every form of violence or force in pursuit of economic goals is to be rejected. Slave labor, compulsory labor, child labor, corporal punishment, and other violations of recognized international norms of labor law must be suppressed and abolished. With utmost priority, all economic agents must guarantee the protection of human rights in their own organizations. At the same time, they must make every effort to see to it that, within their sphere of influence, they do nothing that might contribute to violations of human rights on the part of their business partners or other parties involved. In no way may they themselves draw profit from such violations.

The impairment of people's health through adverse working conditions must be stopped. Occupational safety and product safety according to state-of-the-art technology are basic rights in a culture of non-violence and respect for life.

Article 6

Sustainable treatment of the natural environment on the part of all participants in economic life is an uppermost value-norm for economic activity. The waste of natural resources and the pollution of the environment must be minimized by resource-conserving procedures and by environmentally friendly technologies. Sustainable clean energy (with renewable energy sources as far as possible), clean water, and clean air are elementary conditions for life. Every human being on this planet must have access to them.

Basic values: justice and solidarity

The ethical frame of reference: *To be an authentic human being means – in the spirit of the great religious and ethical traditions – not misusing economic and political power in a ruthless struggle for domination. Such power is instead to be used in the service of all human beings. Self-interest and competition serve the development of the productive capacity and the welfare of everyone involved in economic activity. Therefore, mutual respect, reasonable coordination of interests, and the will to conciliate and to show consideration must prevail.*

Article 7

Justice and the rule of law constitute reciprocal presuppositions. Responsibility, rectitude, transparency, and fairness are fundamental values of economic life, which must always be characterized by law-abiding integrity. All those engaged in economic activity are obliged to comply with the prevailing rules of national and international law. Where deficits exist in the quality or the enforcement of legal norms in a particular country, these should be overruled by self-commitment and self-control; under no circumstances may one take advantage of them for the sake of profit.

Article 8

The pursuit of profit is the presupposition for competitiveness. It is the presupposition for the survival of business enterprises and for their social and cultural engagements. Corruption inhibits the public welfare, damaging the economy and the people, because it systematically leads to false allocation and waste of resources. The suppression and abolition of corrupt and dishonest practices, such as bribery, collusion agreements, patent piracy, and industrial espionage, demands preventive engagement, which is a duty incumbent on all those active in the economy.

Article 9

A major goal of every social and economic system that aims at equal opportunity, distributive justice, and solidarity is to overcome hunger and ignorance, poverty and inequality, throughout the world. Self-help and outside help, subsidiarity and solidarity, private and public engagement – all these are two sides of the same coin: they become concrete in private and public economic investments, but also in private and public initiatives to create institutions that serve to educate all segments of the population and to erect a comprehensive system of social security. The basic goal of all such efforts is a true human development directed at the promotion of all those capabilities and resources that enable men and women to lead a life of self-determination in full human dignity.

Basic values: honesty and tolerance

The ethical frame of reference: *To be authentically human in the spirit of our great religious and ethical traditions means that we must not confuse freedom with arbitrariness or pluralism with indifference to truth. We must cultivate integrity and truthfulness in all our relationships instead of dishonesty, dissembling, and opportunism*

Article 10

Truthfulness, honesty, and reliability are essential values for sustainable economic relationships that promote general human well-being. They are prerequisites for creating trust between human beings and for promoting fair economic competition. On the other hand, it is also imperative to protect the basic human rights of privacy and of personal and professional confidentiality.

Article 11

The diversity of cultural and political convictions, as well as the diverse abilities of individuals and the diverse competencies of organizations, represents a potential source of global prosperity. Cooperation for mutual advantage presupposes the acceptance of common values and norms and the readiness to learn from each other and to respectfully tolerate one another's otherness. Discrimination of human beings because of their sex, their race, their nationality, or their beliefs cannot be reconciled with the principles of a global economic ethic. Actions that do not respect or that violate the rights of other human beings are not to be tolerated.

Basic values: mutual esteem and partnership

The ethical frame of reference: *To be authentically human in the spirit of our great religious and ethical traditions means the following: We need mutual respect, partnership, and understanding, instead of patriarchal domination and degradation, which are expressions of violence and engender counter-violence. Every individual has intrinsic dignity and inalienable rights, and each also has an inescapable responsibility for what she or he does and does not do.*

Article 12

Mutual esteem and partnership between all those involved – in particular, between men and women – is at once the prerequisite and the result of economic cooperation. Such esteem and partnership rest on respect, fairness, and sincerity toward one's partners, be they the executives of a firm or their employees, their customers, or other stakeholders. Esteem and partnership form the indispensable basis for recognizing situations in which unintentional negative consequences of economic actions pose a dilemma for all concerned – a dilemma that can and must be resolved by mutual effort.

Article 13

Partnership likewise finds its expression in the ability to participate in economic life, in economic decisions, and in economic gains. How such participation may be realized depends on the diverse cultural factors and regulatory structures prevailing in different economic areas. However, the right to join forces in order to responsibly pursue personal and group interests through collective action represents a minimal standard that must everywhere be recognized.

Conclusion

All economic agents should respect the internationally accepted rules of conduct in economic life; they should defend them and, within the framework of their sphere of influence, work together for their realization. Fundamental are the human rights and responsibilities as proclaimed by the United Nations in 1948. Other global guidelines issued by recognized transnational institutions – the Global Compact of the United Nations, the Declaration on Fundamental Principles and Rights at Work of the International Labour Organization, the Rio Declaration on Environment and Development, and the UN Convention against Corruption, to name just a few – all agree with the demands set forth in this Manifesto for a Global Economic Ethic.

First signatories:

Michel Camdessus, Gouverneur honoraire de la Banque de France
Walter Fust, CEO, Global Humanitarian Forum
Margot Kässmann, Lutheran Bishop of Hanover and Chairperson of the Council of the Evangelical Church in Germany
Georg Kell, Executive Director, UN Global Compact Office
Samuel Kobia, General Secretary of World Council of Churches
Hans Küng, President, Global Ethic Foundation
Karl Lehmann, Cardinal, Bishop of Mainz
Klaus M. Leisinger, President and CEO, Novartis Foundation for Sustainable Development
Peter Maurer, Ambassador and Permanent Representative of Switzerland to the United Nations
Mary Robinson, President, Realizing Rights: The Ethical Globalization Initiative
Jeffrey Sachs, Director, The Earth Institute, Columbia University
Juan Somavia, Director General, International Labour Organization
Desmond Tutu, Archbishop emeritus and Nobel Peace Prize Laureate
Daniel Vasella, Chairman and CEO, Novartis
Tu Weiming, Professor of Philosophy, Harvard University and Beijing University
Patricia Werhane, Professor of Business Ethics, University of Virginia, Darden School of Business and DePaul University
Carolyn Woo, Dean, Mendoza College of Business University of Notre Dame

The declaration was composed by a working committee of the Global Ethic Foundation:

Prof. Dr. Heinz-Dieter Assmann (Tübingen University)
Dr. Wolfram Freudenberg (Freudenberg Group)
Prof. Dr. Klaus M. Leisinger (Novartis Foundation for Sustainable Development)
Prof. Dr. Hermut Kormann (Voith AG)
Prof. Dr. Josef Wieland (Drafter, Konstanz University of Applied Sciences)
Prof. h.c. Karl Schlecht (Putzmeister AG)

Officers of the Global Ethic Foundation:

Prof. Dr. Hans Küng (President)
Prof. Dr. Karl-Josef Kuschel (Vicepresident)
Dr. Stephan Schlenzog (Secretary-General)
Dr. Günther Gebhardt (Senior Advisor)



United Nations Global Compact



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Novartis Foundation
for Sustainable Development





3

Declaring a new Global Business Ethos

Event at the United Nations in New York, 6 October 2009

Declaring a new Global Business Ethos

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“The manifesto must be related to reality, reach to the deeper ethical levels, be comprehensible beyond narrow circles of experts, and be capable of securing a consensus.” Hans Küng

The launch of the manifesto for a Global Business Ethos was held on 6 October 2009 at the United Nations headquarters in New York. The event was hosted by the UN Global Compact, the Swiss Mission to the United Nations, the Global Ethic Foundation, and the Novartis Foundation for Sustainable Development.

Towards universally applicable rules

After the welcome addresses by **Peter Maurer**, Ambassador and Permanent Representative of Switzerland to the UN, and **Georg Kell**, Executive Director of the UN Global Compact, **Hans Küng** (Global Ethic Foundation) opened the floor by making the case for the Global Business Ethos. He argued that the emergence of global capitalism has brought along a new set of risks, which can only be faced by an ethical framework touching upon all dimensions of the economic system: markets, governments, civil society and supra-national organizations.



Georg Kell



Hans Küng

In order to function in a globalized world, these principles must be “cross-cultural”, common to all of humanity, and not presuppose a specific ethical system. For that reason, Küng said the manifesto must “be related to reality, reach to the deeper ethical levels, be comprehensible beyond narrow circles of experts, and be capable of securing a consensus.”



Peter Maurer



Josef Wieland, professor of economics at Konstanz University, focused in his speech on the organizational prerequisites to implement the manifesto. He clarified that not just companies are targeted by the Global Business Ethos, but all economic stakeholders: owners, investors, management, unions, consumers, NGOs, etc.

“The principles must be reflected in the management system, which should provide incentives and support for the realization of moral demands in everyday society.”

Josef Wieland

Wieland said, “The principles must be reflected in the management system, which should provide incentives and support for the realization of moral demands in everyday society.” To feed the principles into day-to-day business life, the leadership culture, individual leadership style, business culture, and the way and means of communication, must all be structured adequately.

“As it is not possible to recruit only ‘saint geniuses,’ it is therefore key to develop an integrity and compliance management that incorporates moral values and rules into daily life of business transactions as well as a management development scheme that gives the right signals.” *Klaus M. Leisinger*



In his speech, **Klaus M. Leisinger**, President and CEO of the Novartis Foundation, presented tangible provisions for ethical management. “Morality – or lack of morality – is introduced to a social system by the people, their values and level of integrity,” he said. As it is not possible to recruit only “saint geniuses,” it is therefore key to develop an integrity and compliance management that incorporates moral values and rules into daily life of business transactions as well as a management development scheme that gives the right signals.

To do this, Leisinger proposed three institutional measures. Firstly, the incentive systems must not only reward the objectives, but also the path towards achieving it. Performance appraisals must not only contain a credible value component, but – in areas where there are temptations to give precedence to what is beneficial in the short term over what is sustainable and socially acceptable – also break down targets into short, medium and long-term components. Secondly, ethics training should be a compulsory part of internal training and education. It should, however, not be only theoretical, but include real case studies so that identification of potential moral problems and their solution can be applied in real business life. Thirdly, Leisinger proposed to introduce minimal intervals between promotions to avoid giving someone higher responsibility who used illegitimate means to look ‘good’ in the short term.

Leisinger concluded: “The promotion of a normative corporate culture and normative structuring of management instruments pays off not only in a reduction of transaction costs through confidence building, not only in the avoidance of damaged reputations or even fines as a result of activities either perceived as illegitimate or even illegal, and not only in greater security of expectation for customers and stakeholders, but also in a greater appeal for present and potential employees with an affinity for ethical situations. This leads to a positive selection of applicants and ultimately a workforce that supports and enhances an ethically motivated corporate culture. All this suggests that to integrate moral elements into the decision-making process and apply corresponding criteria when selecting managers is also a rational choice from an economic perspective.”

“The principles must be critically debated, maybe even amended.” Jeffrey Sachs

Challenges in implementing the manifesto

The other speakers welcomed the existence of such a Global Business Ethos and agreed that given the current worldwide financial and economic crises the need for common moral ground among all actors is stronger than ever. Nevertheless some points were raised regarding the difficulties of dissemination and practical implementation of the manifesto.

“‘Knowing’ is not the same as ‘doing.’”

Carolyn Woo



Jeffrey Sachs from the Earth Institute at Columbia University in New York spoke about the importance of bringing ethical principles in other spheres of public policy such as the current climate change debate or the G20. In order to disseminate and implement the manifesto, Sachs called for an open and broad discussion. “The principles must be critically debated, maybe even amended,” he said. Sachs suggested that various focus groups, including for example a global internet class room bringing together students from all continents, should discuss and comment on the manifesto.



In her speech, **Carolyn Woo**, Mendoza College of Business at the University of Notre Dame, reminded everyone that “knowing” is not the same as “doing.” Although there is not doubt that the manifesto can be disseminated globally, the difficulty will be to implement it – to “make the hearts follow,” as she put it. What is needed in addition to the principles which are on a very personal level, is a system level solution that also targets organizational structures such as governments or shareholder groups which have also failed in the economic crisis.



Patricia Werhane, Darden School of Business at University of Virginia and DePaul University, pointed to the fact that individual rights and values are often viewed differently in other cultures. Diversity for instance, desirable in the West, may not have the same value elsewhere. Also other limitations of the manifesto must be discussed according to Werhane. We all agree that corporate responsibility goes beyond the companies' in-house operations and should include i.e. also third party management. "But how far should the ethical principles reach?" she asked. "Should a rice grower in Kenya be protected from cheaper imported goods of a multinational company?"

"How far should the ethical principles reach? Should a rice grower in Kenya be protected from cheaper imported goods of a multinational company?" Patricia Werhane

One person from the audience stated that one should not forget about the free-rider problem that emerges with such voluntary principles and that laws might be better than ethics to avoid future crises. Someone else pointed to the importance of education to create a future generation with higher ethical standards.

"The manifesto is a 'valuable compass' for the future and must be seen as a first step and not a final product." Peter Maurer

Dissemination and next steps

In his conclusion, **Peter Maurer** said that the manifesto was a "valuable compass" for the future and that it must be seen as a first step and not a final product. What is therefore important now is to focus on the dissemination and practical implementation of the manifesto.

This launch event was the first step in presenting the manifesto to the relevant stakeholders in economy and businesses worldwide in order to stimulate the global discourse on ethic and economy. The next step was the Novartis Foundation Symposium on 27 November 2009 in Basel where the manifesto was presented to the broader public and debated by experts from different cultures and continents (see Chapter 5 of this annual report).

By end of 2009, the manifesto should be endorsed by numerous people signatories from business, economics, and politics. The Novartis Foundation for Sustainable Development will actively support the dissemination and implementation of the Global Business Ethos, not only by holding the symposium in Basel, but also by giving guidance on how to implement the principles into the business life.



4

Project overview



Strengthening healthcare systems and patients alike – the Access Initiative in rural Mali

Poor rural populations in Mali and elsewhere are faced with multiple obstacles when seeking healthcare: e.g. they first have to mobilize resources within the family and neighborhood, and then they often have to overcome a certain distance to the next health center. To test an innovative approach, the Novartis Foundation has helped establish a health insurance scheme in the country's largest rural community. From the outset, the range of services on offer, the quality of curative and preventive health services as well as geographical accessibility were improved to increase the attractiveness of enrollment. The pilot project is today regarded as a reference

for the whole country of Mali, especially since the Cinzana health insurance scheme is the largest rural insurer in the Ségou region. Since 2007, the foundation, in cooperation with the regional authorities for health and social development, has been expanding its activities to 12 health zones in the region of Ségou, covering 170,000 people in 210 villages. The main components of the Initiative consist of improving the technical quality of care, strengthening the organization and management of health centers, fostering the health insurance scheme and enhancing accessibility of services from the villages. Furthermore, work is currently ongoing to improve the affordability of health services through access to micro-credits for women and support for income-generating activities such as jatropha, poultry and milk production.



ICATT – computer-based learning program for the diagnosis of childhood diseases

Every year almost 10 million children die before they reach their fifth birthday. Many of these deaths could be avoided if those children received timely and appropriate care. It is the goal of the World Health Organization (WHO) to reduce the infant and child mortality rate by two-thirds by 2015 (compared with 1990). One of the most promising instruments for achieving this goal is Integrated Management of Childhood Illness (IMCI), an integrated approach to managing the most common diseases, such as pneumonia, diarrhea, malaria, measles, and malnutrition, just to name a few. To train more healthcare personnel in IMCI, new, innovative and flexible ways of learning and developing skills have to be established in order to respond to different realities in countries and to a fast-changing environment. To that end, the Novartis Foundation for Sustainable Development in collaboration

with WHO has developed a computer-based learning program: the IMCI Computerized Adaptation and Learning Tool (ICATT). What makes ICATT such an invaluable tool is that the program can be quickly adapted to new developments or country-specific circumstances. Ultimately, the aim is for ICATT to be applicable worldwide. WHO provides a generic program, which can be supplied with relevant data by individual countries and kept constantly up to date. This considerably shortens the time needed for the regular adaptation of clinical guidelines. ICATT is thus a cost-effective tool through which human and financial resources can be freed up and deployed for other tasks. In 2008, the ICATT software was sent to all IMCI-implementing countries. With the support of the Novartis Foundation, Peru, Tanzania and Indonesia have already started the adaptation process. The first ICATT training courses were conducted in these countries. Close monitoring will be crucial to document the early findings and share these with other stakeholders who are potentially interested in using the tool in the future.



Tanzanian Training Centre for International Health (TTCIH)

Skilled human resources are the backbone of any performing healthcare system. Many developing countries, however, have a big shortage of qualified healthcare personnel. The Tanzanian Training Centre for International Health (TTCIH) aims to strengthen the Tanzanian healthcare system through sustainable human resources development. Together with Tanzania's Ministry of Health and Social Welfare and the Swiss Tropical Institute, the Novartis Foundation for Sustainable Development developed a comprehensive concept to redesign the former Clinical Officer Training Center (COTC) in Ifakara. Apart from renovation and improvements in equipment, management was strengthened and a solid maintenance system was established. The TTCIH is steered by a semi-autonomous

Board of Governors with members from both the public and private sector. It offers not only higher medical training (Assistant Medical Officer program), but also has an extended course program, specifically in mother and child health. To increase its financial self-reliance, the center offers its training facilities to external course providers. In 2008, the training center generated approximately USD 180,000 in gross income from course fees, rent (accommodation, seminar rooms, houses) and other services – excluding external grants. In 2009, gross income even totalled USD 1,089,000 (USD 260,000 in net income). After costs, this means that by the end of 2009, the TTCIH had USD 477,000 cash at its disposal. Apart from financial self-reliance, the ultimate goal is also to develop the TTCIH into one of the leading training centers in Tanzania and East Africa.

www.healthtrainingifakara.org



REPSSI – up-scaling of psychosocial support for AIDS orphans

UNAIDS (2008) estimated that by the end of 2007 there were approximately 6.5 million children orphaned by AIDS in Southern Africa. Millions more children in the region feel the triple effects and impact of HIV/AIDS, poverty and conflict. While there is no doubt that all these children have to be provided with basic services like food, shelter, education and healthcare, they also need care and support to cope with the emotional side of these difficult life situations. The Regional Psychosocial Support Initiative for Children affected by AIDS, Poverty and Conflict (REPSSI) was founded with the support of the Novartis Foundation for Sustainable Development and the official development aid agencies of Switzerland and Sweden, SDC and the Swedish International Development Cooperation Agency (SIDA), with the aim of laying down benchmarks in psychosocial support (PSS) in Eastern and Southern Africa. REPSSI works with over 140 local NGOs to train course leaders and develop courses and manuals, and cooperates with

the governments of the 13 countries in which it operates with the objective of securing recognition of PSS as a basic right and a fundamental element of social policy. REPSSI, along with its partners, has developed a range of tools and approaches in order to maximize both the quality of psychosocial care and support, as well as the numbers of children who are able to access various levels of PSS. The organization has reached over 3 million children orphaned by AIDS by the end of 2009. Its goal is to reach 5 million by 2011.

Support project:

The project "Rebuilding Confidence: Development of a basic program for the psychosocial support of AIDS orphans and other vulnerable children in Southern Africa," which is financed by the Novartis Foundation for Sustainable Development, has been run by the Swiss Academy for Development (SAD) since November 2006, in close collaboration with REPSSI. This project is expected to make a significant contribution towards providing an evidence-based footing for the work of REPSSI in the field of psychosocial support for AIDS orphans and other vulnerable children.



Comprehensive leprosy care in India

India is one of the few remaining countries with high numbers of new leprosy cases, accounting for nearly 60% of all new cases registered worldwide. Disabilities remain the main factor for the social stigma which is attached to the disease. Early detection and treatment with multidrug therapy is the most effective method of avoiding leprosy-related disabilities. Nevertheless, up to 1 million leprosy patients suffer from the secondary effects of leprosy – primarily because of delays in starting treatment. In 1989, the Novartis Foundation for Sustainable Development set up the Comprehensive Leprosy Care Project (CLCP) with the aim of providing inte-

grated leprosy care, including improved access to MDT treatment, field-based disability care services, and reconstructive surgery and rehabilitation. In addition, the social and economic (re-)integration of patients into their communities was an important objective. The project was renamed the Novartis Comprehensive Leprosy Care Association (NCLCA) and is housed in offices belonging to Novartis India Limited. Over the past 20 years, NCLCA has not only provided for the training of healthcare staff, but has also developed an empowerment approach for patients, using leaflets, instructions, and practical demonstrations through camps. The center enjoys a high international reputation as an example of best practices.



Patient-centered treatment of tuberculosis in Tanzania

In the treatment of tuberculosis (TB), compliance is crucial to ensure patients are cured, to stop transmission of the disease and to avoid drug resistances. In 2009, Novartis extended its TB drug donation to Tanzania for another four years (2009 – 2012). The fixed-dose combination therapy shortens the treatment period from eight to six months. To improve access to treatment and success rates, the Novartis Foundation – in collaboration with the National TB and Leprosy Program in Tanzania – introduced the patient-centered approach, whereby patients can choose where they want to be treated (in the health center or at home)

and who they want to supervise them (a family/community member, or healthcare professional). This concept not only facilitates treatment compliance, but also reinforces patients' personal responsibility. In addition, a social marketing campaign was conducted from 2007 to 2008 in three districts to increase awareness and knowledge of the disease and treatment options. 88% of the patients chose home-based treatment. This figure reflects the high demand for a treatment approach that does not oblige the patient to come to the health facility every day. Patient-centered treatment did not harm treatment success (completion) rates – on the contrary: the rate improved from 72% in 2005 (the year before PCT was introduced) to 77.5% in 2007.



Improved access to effective malaria treatment in Tanzania

Since 2003, the ACCESS Project has been devoted to analyzing and improving access to effective malaria treatment in Tanzania. Main interventions have included social marketing campaigns to inform the population on causes, symptoms and appropriate treatment of malaria, training and supportive supervision of health personnel and the establishment of new drug stores. One of the initiative's achievements has been the development of a general analytical and planning framework on the issue of access, which can also be applied to other diseases and contexts. The second phase of the project – ACCESS II – began in 2008, building on this model as well as on the results and experiences gathered to date. The purpose of the project is to increase demand for adequate malaria services so that more people with corresponding symptoms come

forward for treatment in a health center or licensed drug store. Despite initial success, ACCESS II faces further challenges. Increasing numbers of people with fever go to health centers and drug stores, but still do not receive adequate treatment in all of them. However, the results from the first phase show that the resources available to potential patients themselves must be increased beyond information on malaria and its treatment. More participatory information campaigns on malaria and healthcare services with community involvement are therefore being pursued. Moreover, access to insurance cover through community health funds is being promoted. People who are affected by malaria ultimately need enough money to be able to finance insurance cover and treatment. ACCESS II therefore supports micro-credits and promising measures to generate income, particularly for women. By simultaneously strengthening healthcare services and patient resources, access should also be sustainably improved.



The Millennium Villages Project in Tanzania

The Millennium Villages Project (MVP) was founded to help impoverished communities in rural Africa achieve the Millennium Development Goals (MDG). The challenge is to halve poverty by the year 2015. The MVP is active in ten African countries, reaching around 390,000 people. The core interventions focus on raising food production, enhancing commercial farming, improving health and education and overcoming infrastructural deficiencies. Interventions are fully led by the community, with support and training provided by the MVP. In 2007, the Novartis Foundation started financing one of the Millennium Villages in Tanzania, the Ilongulu Village in the Mbola cluster, for a five-year period. Inadequate water supply, extreme hunger, failed crops and a high prevalence of malaria represented the early challenges at the beginning of the project.

After two years, positive developments can be seen. Crop diversification and the use of fertilizers and hybrid seeds have increased maize yields from 1.5 tons/hectare in 2007 to close to 5 tons/hectare in 2009. Better health services and the distribution of more than 20,000 treated bed nets improved the overall health of the population. In addition, better education for more than 7,000 children is available and new water and sanitation systems have been built. The foundation supports the health-related research work by MVP and donates the artemisinin-based combination therapy (ACT) produced by Novartis for the treatment of malaria in all Millennium Villages. In 2009, the foundation developed a new project in the area of "tele-medicine". By using new technologies, the supply and services of health facilities should be improved for the benefit of the patients. The project will be implemented together with the Ministry of Health in Ghana and the Millennium Villages Project.



5

Tackling the crisis with a new world economic ethics?

International symposium of the Novartis Foundation for Sustainable Development on 27 November 2009

Tackling the crisis with a new world economic ethics?

Individual ethics and collective responsibility

On 27 November, the new auditorium of the Novartis Campus in Basel played host to the Novartis Foundation Symposium on ethics in the global economy. A number of eminent speakers discussed the role of ethical behavior in reshaping the economy in the wake of the global financial crisis and in tackling world poverty.



The event also marked the public launch of the Global Business Ethos manifesto, an initiative to engage those involved in the economy in a set of globally-applicable ethical principles. The manifesto aims to serve as a complement to policy frameworks regulating business conduct. "Legislation is not enough," argued President and Founder of the Global Ethics Foundation, **Hans Küng**, one of the main authors of the manifesto. It needs to be underpinned by an ethos that strives to prevent greed, fraud or corruption. Without a solid foundation of ethical values, political efforts to formulate and implement market reform will struggle to succeed.

Humanity and reciprocity

The manifesto builds on the Declaration Toward a Global Ethic endorsed in 1993 by the Parliament of the World's Religions. It draws on the fundamental, universally valid principles of 'humanity' and 'reciprocity' shared across all cultures and religious denominations. At its heart is the moral principle known as the Golden Rule: "Do not do to others what you would not like to be done to you." This underlies basic ethical concepts such as freedom from violence, fairness, truthfulness and partnership. The manifesto, Küng stressed, is intended to prompt those involved in the political arena – employers, employees, politicians and consumers alike – "to act ethically from the inside out."



For business ethicist and manifesto co-author, Professor **Josef Wieland**, society is a stakeholder in the economy, and companies must increasingly view themselves as part of society. Globalization calls for globally binding values to create a sound base for a transcultural management system.

The goal of such a system is not to impose a universal business culture – or Western 'value imperialism' – but "to unite national cultures, professional traditions, company practices and individual customs in a 'network of diversity' shaped by shared principles and values."

The notion that all people intrinsically share the same core ethical values was questioned by Turkish philosopher and human rights activist **Ioanna Kuçaradi**, however. In her view, ethical conduct is conditioned by social context, arising from an extensive process of education and socialization.



Hans Küng acknowledged that the universality of a normative concept such as the Golden Rule does not preclude people from applying ethical precepts contextually. Universal norms must be applied through the filter of prevailing circumstances: “Ethical is not simply what is good or right in abstract terms, but also in concrete ones. In other words, the obligation only becomes concrete in the specific situation.”

Leadership and organizational values

The importance of ethical leadership was recalled by **Klaus M. Leisinger**, President and CEO of the Novartis Foundation. In his view, corporate leaders should act as role models in the implementation of ethical business principles. Responsibility lies with senior management to define the guiding normative principles of the organization and implement these, both within the company as well as in its relationships with the outside world.



Ethical training should be a “mandatory component of corporate learning” in all multinational companies, as empirical evidence indicates that this helps to develop an ethical corporate culture. Ethics should also be taken into account in recruitment decisions when selecting managers and promoting employees to senior positions. Moreover, overly-rapid career progression should be discouraged, for “ethically responsible behavior is a process, not a singular occurrence,” according to Leisinger. Measures such as these will help equip companies with the morally responsible mindset required to compete with integrity in different cultural and legal contexts. Social sensitivity and ‘ethical musicality’ of top corporate leaders will also help to address the complex challenges facing a world in which some 1.5 billion people live in absolute poverty and the poorest 20 percent of the population account for only 1.4 percent of its income.



Grassroots power and a fairer economy

Empowering the poor in the global economy was the core challenge for **Deepa Narayan**, director of the Global Development Network and World Bank Project Director, 'Moving out of Poverty'. Quoting a survey conducted among 60,000 people in 15 countries, Narayan revealed that the will and desire to escape suffering play only a negligible role and that hard work is no guarantee of success: instead, limited access to markets, price fixing by wholesalers and credit racketeering contrive to trap people in a cycle of chronic poverty.



Self-help groups and large grassroots organizations with strong foundations, broad support, effective management and extensive networks offered the most sustainable route out of poverty. According to Narayan, the organizations that are most successful remain flexible and gear their activities to the needs of their target group: India-based AMUL, for example, concentrates on manufacturing and marketing milk products, while Grameen Bank specializes in micro-credit.

But poverty will not be overcome without a resolute commitment on the part of all market players, including private companies, to create an economic playing field based on the principles of fairness and justice.

Global financial crisis and the poor

Sarah Cook, Director of the UN Research Institute for Social Development (UNRISD) was skeptical that the fight against poverty would figure prominently on the agenda of wealthy countries in the foreseeable future. The global financial crisis had wreaked havoc all over the world, but nowhere more so than in the Third World, raising the number of people suffering from hunger by 100 million to its current level of one billion.



Even if the recovery suggested by recent growth trends actually takes hold, most people will not feel the benefits, according to Cook. The financial crisis has adversely impacted almost all areas which play a role in advancing the progress of poor countries. Private capital flows – especially money sent by emigrants to dependants back home – have dried up, and trade and development aid have been scaled back. As a result, poverty is likely to continue to rise and school attendance will decline as parents struggle to pay tuition fees. The situation has been compounded by the fact that in many countries, thirty years of neo-liberalism have led to the phasing-out of the very public services now so urgently required to meet social deficits.

Danger and opportunity

It was striking, Cook argued, how quickly governments were prepared to use taxpayers' money to rescue banks, yet how slowly they responded to meeting people's fundamental needs. In keeping with the Chinese word for 'crisis' – made up of the characters for 'danger' and 'opportunity' – the global financial crisis has brought to the fore the importance of strong state institutions, offering an opportunity to reconsider the role national and international institutions play in safeguarding livelihoods.

Going forward, Cook hopes institutions like the International Monetary Fund will assume a renewed role in safeguarding social systems and promoting development that reconciles social and economic policy. Trade policy and food security were as intrinsically linked as industrial and employment policy. To the new social contracts at national level should be added an international 'new deal' focusing on employment and promoting socially and ecologically sustainable forms of development that empower people to take care of themselves.

Upheaval on two fronts

For **Peter Niggli**, Managing Director of Alliance Sud, the umbrella group for Swiss relief organizations, the current crisis marks upheaval on two fronts. On the one hand, it signals the end of the neo-liberal era, launched around 1980 by Ronald Reagan, Margaret Thatcher and Deng Xiaoping. On the other hand, the climate crisis represents the demise of the current model of industrialization, one essentially based on burning fossil fuels.



The geopolitical power shift occurring as Asian superpowers become more influential and the supremacy of the United States erodes is accentuating this upheaval. Niggli believes these trends present a valuable opportunity to renegotiate "the way the WTO and its free trade ideology shape the global market into a domestic market for multinationals."

Like Cook, Niggli noted that increased socio-economic disparity resulting from the current financial crisis was affecting industrialized and developing nations alike. Wages in the United States have stagnated for 30 years, while per capita income has virtually doubled. To address these imbalances, a new framework is urgently required to regulate

the international movement of goods and capital, including the domestication of finance through revised statutory regulation. A new system of trade relations should ensure that developing nations are included in decision-making, that movement of capital is adapted to their needs and that fair export opportunities are provided.

Sustainable versus fortress economy

In response to the climate crisis, Peter Niggli argued that the current industrial model based on cheap and unlimited availability of fossil fuels must be replaced with global value chains founded on strong regional roots.

The current "transition period between two regimes of regulations" offered a powerful opportunity for social and ecological renewal leading to a more sustainable global economy mindful of the needs of the poor. But such a positive outcome was not guaranteed: an alternative future scenario could see the rise of 'fortress' economies where neo-conservative forces vie for scarce resources and a "resigned laissez-faire attitude to climate politics" reigns. Niggli deliberately left the question unanswered as to which future was more likely.

Reforming institutions, strengthening governments

Power was a key issue for **Donald Kaberuka**, President of the African Development Bank. Development and the fight against poverty, he believes, are hugely dependent on the will and capacity of those in positions of authority, who are often too weak to push their objectives through. They have also been hamstrung by widely-held neo-liberal beliefs that state



intervention hampers development and that money should be directed towards socio-political measures rather than investment in infrastructure such as building roads and water supplies – ultimately a far more sustainable approach to tackling poverty.

A former Finance Minister of Rwanda, Kaberuka made no secret that he expected very little from the opening up of markets driven by the WTO, observing that “there is no point in opening up our markets if we ourselves cannot sell anything.” Differences between the industrialized north and impoverished south where free trade is concerned are even more accentuated when it comes to climate change. Africa contributes only three percent of global emissions, which means the industrialized nations must assume responsibility for the reductions in greenhouse gases necessary to combat global warming, according to Kaberuka.

If managed fairly, globalization will bring with it opportunities for poor countries, but to ensure this happens they must be recognized as equal partners. At G-20 conferences, for example, Africa remains excluded. This has to change: “We don’t just want to listen in on decisions, we want to be involved in making them,” Kaberuka emphasized. Empowering and reforming international institutions was therefore vital.

Towards shared responsibility



Reviewing the one-day debate, Klaus Leisinger concluded that no-one had raised fundamental objections to the manifesto for a global financial ethos. The growing imbalance between rich and poor noted by many speakers highlighted the responsibility of wealthy nations to shoulder their fair share of the burden – financially and in terms of climate policy. And the ethical principles underpinning such shared, collective responsibility applied equally to individuals: we must all be willing to do our bit. “The future is open,” Leisinger summed up with the words of philosopher Karl Popper. “It depends on how people act both now and in the future. (...) It depends on how we view the world; and how we judge the many future scenarios available to us. We all need to shoulder this collective responsibility.”

It is hoped the Global Business Ethos manifesto will play an important part in achieving this.





6

Appendix

Organization

Budget

Selected publications

Organization

President and Executive Director



Prof. Dr. Klaus M. Leisinger

Honorary President



Dr. Rudolf Schneider
† 28.5.2009

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Budget

Total budget 2010	in CHF
Think-tank activities and networking	1,000,000
Health projects	6,382,000
Leprosy	1,207,000
Basic health and prevention	3,415,000
Access to treatment	1,760,000
Research and evaluation	515,000
Administration	1,999,000
Total	9,896,000

Selected publications

Gemeinschaftsressourcen stärken – Wie kann die „Nachfrageseite“ primärer Gesundheitsversorgung besser berücksichtigt werden?

Alexander Schulze

In: Symposiums-Reader of 30 years after Alma Ata: The future of Community Health. (Bulletin, Medicus Mundi Schweiz) 2009, pp. 38 – 44

Leprosy for medical practitioners and paramedical workers, 8th revised edition

S.J. Yawalkar

Novartis Foundation for Sustainable Development

Medizinische Versorgung in den Entwicklungsländern: Welche Verantwortung trägt die Pharmaindustrie?

Klaus M. Leisinger

In: BioFokus. 2009

Menschenrechte als unternehmerische Verantwortungsdimension

Klaus M. Leisinger

In: Deutsche Gesellschaft für die Vereinten Nationen (Blaue Reihe No.105), Berlin 2009

On Corporate Responsibility for Human Rights

Klaus M. Leisinger

In: ICEP / CODESPA: Global CSR Casebook: Business and Poverty. Innovative Strategies for Global CSR. Wien 2009, pp. 33 – 41

On Corporate Responsibility for Human Rights

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In: Spitzeck H. / Pirson M. / Amann W. / Khan S. / Kimakowitz E.v. (Eds.): Humanism in Business (Cambridge University Press) Cambridge 2009, pp. 175 – 203

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Klaus M. Leisinger

In: United Nations University, (December 2009)

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Angel Dillip, et al. (Alexander Schulze is co-author)

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Stakeholderdialoge zwischen Theorie und Praxis

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In: Breuer M. / Mastronardi Ph. / Waxenberger B. (Eds.): Markt, Mensch und Freiheit. Wirtschaftsethik in der Auseinandersetzung. (Haupt) Bern 2009, pp. 97 – 116

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Laura P. Hartman, Patricia H. Werhane

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Klaus M. Leisinger

In: Straus J. (Ed.): The Role of Law and Ethics in the Globalized Economy. (Springer) Heidelberg 2009, pp. 27 – 48

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