

## 8<sup>th</sup> Annual Colloquium of the European Academy of Business in Society (EABIS)

### The Role and Purpose of Business in Society:

### Challenges and Issues for Global and Corporate Governance

#### CALL FOR CONTRIBUTIONS:

21 & 22 September, 2009

Hosted by IESE Business School

[www.iese.edu/eabis2009](http://www.iese.edu/eabis2009)

*followed by EABIS' Annual PhD Conference  
23 September, hosted by ESADE Business School*

We are pleased to present the **Call for Contributions** for the 8<sup>th</sup> Annual Colloquium of the European Academy of Business in Society (EABIS), hosted by IESE Business School and actively supported by ESADE Business School. Every year the EABIS Colloquium seeks to broaden and deepen understanding of the role of business in society in dealing strategically and responsibly with environmental, social and governance challenges.

Three days after the last EABIS Colloquium (Cranfield, Sept 2008), Lehman Brothers collapsed, unleashing a financial, an economic and – increasingly – a socio-political and governance crisis. **This year's Colloquium will focus on the governance of the firm, in the context of new global governance challenges.** We will therefore come to revisit some themes from previous Colloquia within this new context.

**We are calling for contributions at three levels of analysis:**

**1. The Global Level:** regulatory frameworks and processes, varieties of corporate governance systems, multi-stakeholder co-governance, global governance institutions, government-business relationships, global industry sectors and governance, systems approaches to governance, the future of global capitalism, the evolution of political economy, global responsibility, geo-politics of governance, perspectives from institutional economics.

**2. The Company Level:** Corporate Governance and the theories of the firm, the function of the firm, shareholder interest versus corporate and general interest, the role and structure of the board, the role of management, performance management, executive remuneration, shareholder rights and duties, responsibilities to stakeholders, global responsibility exercised at the level of the firm, corporate responsibility: from the moral and business case to the governance case, complex open systems and organisational change, new trust and legitimacy of business and business leaders, responsible crisis management, responsible business continuity.

**3. The Personal Level:** dysfunctional directorial and managerial behaviour; individual and organisational ethics, reflective / reflexive practice, individual responsibility in complex systems, how to create the right governance attitude (substance over form), leadership development, director and management education, standards for the management profession, perspectives from behavioural economics, practical wisdom, managing business principles.

This Call for Contributions was discussed at length by a group consisting of:

Antonio Argandoña (IESE), Gilbert Lenssen (EABIS), Joan Fontrodona (IESE), Colin Crouch (Warwick), Lutgart Van den Berghe (Vlerick/Guberna), Andrew Kakabadse (Cranfield), Nigel Roome (EABIS, Solvay/TiasNimbas), John Swannick (Lloyds TSB), Mike Patrick (TNT), Simon Pickard (EABIS), David Bevan (EABIS).

These consultations have generated **TEN PROPOSITIONS** that serve as a framework for inputs to the 2009 Colloquium – please see below.

## **THEMATIC CONTEXT**

Since we addressed Corporate Responsibility & Global Governance at ESADE in 2007 and Leadership & Organisational Change at Cranfield in 2008, **the context of Business in Society has dramatically altered**. Today we are experiencing significant, even turbulent discontinuities in governance at global, sectoral and firm levels, seen in the following ways:

**PROPOSITION 1.** The recent and spectacular failures of many of the world's largest banking institutions has raised urgent questions not only about the **adequacy of approaches to international governance and regulation**, but also about the future forms of **corporate governance, executive accountability and organisational culture**.

These failures have **jeopardised public trust** that business was gaining a legitimate role in addressing complex issues through different forms of collaboration between companies, governments and civil society. This has in turn brought into **question the growing maturity of corporate responsibility** and its basis for building longer-term sustainability and stability into the global free market system.

**PROPOSITION 2.** This critical shift illustrates yet another phase in **disruptive change in social contract(s)** between government, business and society at national, regional and global level. Deregulation, privatisation, globalisation and the emergence of key new actors like the BRIC countries have had deep effects. The instability of the global financial system and the near catastrophic effects on the productive economy provide the latest discontinuities for, and possibly a breakdown in, the emerging new social contract(s).

**A watershed** seems to have been reached **in the business-society-government relationship**. Returning to “business as usual” seems nearly impossible, nor desirable. The **sustainability of global capitalism** is in question. A new **ethos of co-regulation and co-operation between stakeholders** is needed to provide accountability, stability and sustainability across global industry sectors.

**PROPOSITION 3.** Immediate attention is now being given to “rescue plans” for restoring the health of the credit system and for stimulating demand to stop the downward spiral in the economy. A debate is emerging around **regulatory issues** related to accounting rules and capital requirements, separation of investment and commercial banking, derivatives and similar “products”, and indeed the entire “shadow financial system” of investment banks and hedge funds alike.

But **new and more rules are probably not enough**. Those regulatory instruments that were in place were not used to guard for excesses in the system. The **“efficient market” hypothesis** was dominant amongst the elites and there was a determination amongst political and economic power holders to minimize government oversight and co-regulation.

This **near abdication of government** was rooted in market fundamentalism and undue influence of vested interests that have controlled the economy (and government) for quite some time. The **corporate and public policy interface** was opaque, causing a lack of transparency in governance and a policy stalemate.

**PROPOSITION 4.** **A cultural shift is required** away from ideological blindness towards pragmatic government-industry co-regulation and global corporate responsibility. This cannot be led only by the West, now discredited by its own assertions of knowing best and imposing its governance (or lack thereof) on the rest of the world. **A global dialogue on governance and corporate responsibility** is required to reform existing institutional frameworks leading to **new governance processes**.

A return to economic nationalism and protectionism is a real danger, as is a return of the swing of the pendulum to over-regulation and stifling of innovation and free enterprise, A **new balance is required in the political economy** between freedom and regulation, rights and responsibilities, national and international welfare, and ultimately between **efficiency and ethics**. Yet careful attention must be paid to avoiding diseconomies of scale in new governance. The huge costs of compliance with the Sarbanes-Oxley legislation clearly highlight the potential downside of international frameworks.

**PROPOSITION 5.** At the level of the firm, attention is currently focused on reforming the structures of **short term incentives of managers** who took excessive company risk for excessive personal gain. Again regulatory measures are being proposed to curb dysfunctional executive remuneration systems..At a deeper level, the systems that enabled and fuelled the excesses point to a deep **crisis in corporate governance**. Critical questions range from the tier structures of boards, to leadership and competence of board members, role of external directors and board committees, and more.

Due diligence processes of mergers and acquisitions and strategic bets with significant risks associated are crucial amongst other instruments and competencies of risk management. **The societal dimension of corporate governance** needs strengthening. A stakeholder approach to governance is now more relevant than ever. But what about the **financial pre-occupations of boards?**

**PROPOSITION 6.** The dominant theory behind contemporary corporate governance is **Agency Theory** which affirms the maximization of shareholder value as the sole purpose of the firm. Arguably this ideology has influenced business practice and cultures from the mid 18<sup>th</sup> century until now. In its blind instrumental application, it has created governance and management practices which have lead to the **destruction of shareholder value on a massive scale because of moral hazard**. This paradox became increasingly obvious earlier this decade.

At the 2004 EABIS Colloquium (Vlerick School of Management), the eminent economist John Kay highlighted this clearly. He showed how firms like Daimler Benz and Marks & Spencer – which in the mid 1990s bought into the shareholder value ideology and abandoned a stakeholder value proposition – began to see their share price decline after the first years of restructuring and expansion. Kay concluded that the **“shareholder value myopia is typically not successful, not even on its own terms, and undermines the legitimacy of free market economies”**.

Work led by Lloyds TSB and Telecom Italia suggests that both firms and shareholders are incapable of measuring the true value drivers in a market where 80% of enterprise value is based on intangible assets. Incentives for top managers have frequently been based on artificial performance demands from speculative and short-term traders, Combined with a breakdown in the management-investor-owner relationship, and misguided confidence in new technology and forms of finance, this has fuelled the hubris of a false new economic paradigm.

A cultural shift is required to shift the attention of management back from financial pre-occupations to **the fundamentals of creating intrinsic business value** with customers, suppliers and partners as the best basis for ensuring future cash flow and sustained shareholder value. Best practices of this are well researched and –documented, and need to be rapidly scaled up to reach critical mass in the economy. Boards need to play an important role in this cultural shift to **a balanced scorecard for managers**.

**PROPOSITION 7.** **The eroded credibility of Agency Theory** re-opens the debate on the Theory and Purpose of the Firm underpinning corporate governance and corporate management. **Stewardship Theory** counterbalances principal agency. **Stakeholder Theory and other managerial theories** have evolved, while **evolutionary and behavioural theories** have developed. Most may still devote too much attention to **managerial control** instead of **connectedness**. Doubts also remain about the underlying **assumptions of control and predictability**.

**PROPOSITION 8.** Globalisation has produced **complex, highly interdependent global systems** in which small causes can unleash reflexive processes with enormous consequences. Firms operate in business environments of distinct **economic, social and ecological complexity** to which the organisational response (“strategic fit”) should be a “complexity “fit”. Robert Grant, professor of strategic management at Bocconi, recently observed with regret that **complexity science** is not integrated in neither strategy and organisation nor macroeconomic research, and pleaded for concerted efforts to bring this about (Milan, 2009 EFMD Deans Conference).

In a recent EABIS working paper (see [www.eabis.org](http://www.eabis.org)) Nigel Roome argues that complex interdependency creates turbulence which then provokes more disruption if participating organisations respond in pursuit of self-interest. This response paradoxically undermines the ability of organisations to secure solutions that are in their own longer term self-interest.

Consent to collaborative governance seems a rational response. But this requires the ability to think and act at the systems level, seeing companies and management as part of an interconnected web instead of positioning them as the central actors. This requires a capacity for systems thinking, awareness of context, and the ability to foster inter-organisational collaboration.

**Corporate responsibility scholarship** thrives on institutional theory, legitimacy theory and stakeholder theory. **Corporate responsibility practice** is based on issues management plus reputation and stakeholder management. Both are concerned with business ethics. Do these theories and instruments sufficiently encourage systems thinking, or do they continue to place managers and firms in the middle of their economic, social and moral universe and challenge them to “master their universe”?

**PROPOSITION 9.** The practical concerns of managers in times of crisis must be duly recognised. **Managing change and downsizing** in a way that **minimises value destruction** with stakeholders; **shaping responsible restructuring plans** with care for strategic knowledge resources, relationships

and capabilities; engaging boards in managing **risks and opportunities** during the downturn, as well as entrepreneurship and sustainable **innovations** in organisation design; supply chain processes; and customer value propositions. How will globally integrated firms be affected? Overall, **competing and collaborating for new trust** will be at the top of the managerial agenda.

**PROPOSITION 10.** **The current crisis will unavoidably have consequences for management education as well.** A recent survey by Ashridge and EABIS explored how global managers and executives define the new management competencies required by business for the years to come. Respondants overwhelmingly called for a keen understanding of **context, complexity, connectedness and requisite reflective practitioner skills**. (See Working Paper on [www.eabis.org](http://www.eabis.org)).

In his paper, Roome argues that the tools and techniques we research and teach at business schools serve the self-interested sub-optimisation of firms and managers, and therefore enhance turbulence. Robert Grant seems to agree. Social, ecological as well as financial turmoil result from complex interdependencies in which and for which managers (and policy-makers) appear ill prepared.

Frank Brown (INSEAD) and other leading Deans in Europe subscribe to the necessity of deep reform in the way students and practitioners of management are learning: enhancing skills of leadership, judgement, critical thinking and reflective acting with concerns that go beyond sub-optimisation.

During a recent conference (Feb 2009) in Brussels on Global Governance, organised by the European Commission and the Centre for Economic Policy Research, **EU Research Commissioner Janez Potočnik** stated that he saw – beyond the financial and economic disaster – a social and political crisis of our institutions and **a severe knowledge crisis**. He wondered how – with all the collective and historic wisdom available, and all the research which has gone into economic policy making – the impending crisis was only identified by few heterodox scholars and commentators (who were ignored).

**The governance of our Business Schools and the Business School industry** no doubt requires some attention too. The “efficient market” hypothesis which underpinned to the financial bubble was hailed by policy-makers and governments – the latter certainly influenced by the direct and indirect tax revenues from a mushrooming and lucrative international finance industry.

But economics and finance faculty at leading Business Schools were equally enthusiastic in endorsing the false hypothesis that has resulted in such shocking effects and consequences. What are the lessons to be learned for **faculty diversity, the necessary critical nature of scholarship, methodological beliefs in models, and the responsible creation and spreading of knowledge**? Do the peer system and the career development systems of faculty need reform? **What governance, if any, is needed for the global management education industry?**

**As a result, this Call invites contributions that reflect the complexity of the issues behind these discontinuities, the need for new governance and implications for the governance of the firm in its broadest meaning. We also have a particular interest in how the role of business in society is likely to evolve and to what extent governance mechanisms can foster corporate responsibility.**

**We are seeking proposals that present new business responses, research insights, and forward-looking thought leadership pieces from academics and corporate practitioners, policy thinkers and policy makers, international organisations and non-governmental organisations.**

**EABIS and IESE value multidisciplinary and interdisciplinary contributions from Strategic Management, Accounting, Finance, Corporate Governance, Public Affairs, Organisational Behaviour, HRM, Operations Management, Value Creation and Entrepreneurship, International Relations and Global Governance, Political Economy, plus of course Corporate Responsibility, Sustainable Development and/or Business Ethics.**

## **WHAT KIND OF INPUT IS APPROPRIATE / REQUIRED?**

**FROM BUSINESS – 1000 word max. written summary** of case studies, managerial approaches, strategic projects, partnerships, industry governance, corporate governance etc. (or 500 words with supporting PowerPoint)

**FROM OTHER STAKEHOLDERS – 1000 word max. written summary** of policy initiatives, consulting models, collaborative / self-governance cases, multi-stakeholder programmes, industry or sectoral research, etc. (or 500 words with supporting PowerPoint)

**FROM ACADEMIA – 1500 word max. written summary** of existing / new research, methodologies, position papers and conceptual frameworks on corporate and global governance and the role of business in society.

## **WHEN & HOW DO I SUBMIT MY IDEAS?**

For the first time, all inputs to the EABIS Annual Colloquium are to be submitted online through the IESE website. For more information, please visit [www.iese.edu/eabis2009](http://www.iese.edu/eabis2009).

- Contributions submitted to IESE by **TUESDAY 9<sup>TH</sup> JUNE**
- IESE to confirm selection of inputs by **MONDAY 29<sup>TH</sup> JUNE**
- Presenters to confirm participation by **FRIDAY 3<sup>RD</sup> JULY**

## WHAT IS EABIS AND ITS COLLOQUIUM?

EABIS is a unique alliance of almost 100 companies, business schools and academic institutions that – with the support of the European Commission – is committed to mainstreaming business in society issues into management practice, research and education.

Its Annual Colloquium is the **world's largest business-academic-stakeholder event** on corporate responsibility and management development, and a unique platform for high level debate, knowledge exchange and interdisciplinary networking.

In September, EABIS and IESE expect to welcome over 300 participants to Barcelona. We look forward very much to receiving your Colloquium contributions and to meeting you on 21<sup>st</sup> and 22<sup>nd</sup> September.