

A Passion for Ideas

How Innovators Create the New and Shape Our World

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INNOVATION AND GLOBAL RESPONSIBILITY

In the past few years, businesses have experienced and benefited in different ways from new liberties. The collapse of the Soviet empire and the then-evident failure of economies under government and central control have led to an opening and revival of markets in many parts of the world. Vast areas of potential that were inaccessible in the past have opened for internationally active businesses in Eastern Europe and developing countries. Electronic communication has enabled these possibilities to be exploited via a completely new type and intensity of global business management. The improvement and reduced costs of mobility both of people and of goods provide new opportunities for global division of labor, and a convergence of demand observed in many products and services creates the opportunity to provide a range of standardized products all over the world.

These new dimensions of freedom for companies, together with technological progress, have resulted in a significant acceleration in economic development, which has gone so far that today's successful company manager increasingly places more value on how quickly the new processes can be brought up to speed and implemented than on the size of the company. Speed, not size, determines beauty.

When developments and innovations in the technical and economic realm proceed at an increasingly rapid pace, alert citizens begin to question with growing concern whether these processes are still socially controlled or even controllable. Is it practical and feasible for our society and the government institutions acting on its behalf to monitor processes of business innovation for their compatibility with basic ethical standards? Or do the modern dynamics of innovation create uncontrolled loopholes by simply overwhelming the practical possibilities of government control with their breakneck pace?

In addition to the speed of innovation processes, globalization is another cause for concern in that businesses could escape government controls, and consequently social oversight, since politics and legislation and application of the law are still the primary responsibilities of national governments, even in this age of globalization. There is little that nation-states can do to control international activities compared

with dynamic and powerful companies. Politics is rather helpless in the face of a development that can result in a critical social polarization: those who have the desire and means know how to profit from globalization, while those who lack the requisite education, mobility, capital, and technology find that their standard of living is increasingly threatened by global competition. If the political forces that led to a balance between the haves and have-nots in the past can no longer prevail, then lowered living standards constitute a threat to social peace.

The question is therefore posed from different perspectives: Where and how can the new dimensions of freedom and dynamics of innovation that have been found and claimed by companies involved in the global economy be given direction, and how can and should limits be set? Those who are disturbed by the fashionable overemphasis on "shareholder value" skeptically claim that companies focus only on maximizing profits rather than on human values and demand that society and the government must therefore be prepared to control innovations and, if necessary, to stop them if ethical standards are violated. Economic leaders argue that the progress of human civilization is expressed in every innovation, and that the general interest is thereby served. Liberal representatives of the market economy maintain that every freedom correlates to a responsibility that must be exercised by those who take advantage of the freedom. And representatives of all views are agreed that not everything should be made that can be made. An object lesson is provided in the current topic of genetic alteration of plants, animals, and, ultimately, the human genotype.

With the demand for the distinction between what is feasible and what is allowable, not only the individual economic subjects are addressed, but also the economic system and rules defining it. Must the players involved in the market economy be required to subordinate their profit orientation not only to legal regulations but to basic ethical precepts as well, and can they do this? Is it conceivable or possible to impose critical self-control on them in regard to their activities and especially their innovations, and can this type of obligation be enforced for those who don't choose to follow it? Who sets the standards? Which authority determines what is generally binding? How does society express itself when these new duties overtax the established political mechanisms and the responsible government authorities?

There are obviously more questions than there are answers, and what answers there are differ according to viewpoint: and personal interest. People for whom any relevant measure can and ultimately must be expressed as a monetary value, and who are convinced that the invisible hand of the market will therefore take all relevant values properly into account, will have trouble with the idea that there are non-monetary values in addition to monetary ones.

However, if development must not be allowed to proceed uncontrolled, and effective government controls are not guaranteed, then the question inevitably becomes one of new control mechanisms. The demand for personal responsibility for entities that, uncontrolled, are allowed to pursue their own interests

because they are uncontrollable seems either idealistic or fatalistic. However, it is increasingly clear that in a modern, highly complex industrial society, this regulation is becoming an indispensable instrument of control.

To take responsibility means to evaluate and decide among different competing interests. Value judgments based on ethical standards are critical to this process. People, who are creatures of habit and set in their ways, often have amazingly great difficulties with the apparent complexities of decisions that must be evaluated using "only" ethically based standards. But it is precisely on this level, which departs from purely rational points of view-which are by no means any less real-that the actual task of understanding personal responsibility begins.

The demand for personal responsibility increases in dimensions of the highest complexity, not only when a decision must: be a e between two divergent current interests, but also when it involves considering and evaluating the interests of future generations, as is the case with the ethical command to maintain a vital and productive environment. Economic activity and businesses consume sources and pollute the environment with their emissions and waste. They must adhere to legal restrictions and conditions that have become progressively more demanding in the past few years. Have these businesses fulfilled their responsibility to the environment if they have maintained the legal standards? Does their economically competitive market position give them the right to optimize their own interests by doing the bare minimum required by law? Or are they obligated by ethical standards to act on their own responsibility and take the initiative in shaping their own economic activities so that the environment and resources are protected as much as possible, so that their contribution will be part of a lasting development that will allow future generations to satisfy their needs?

I assume that the majority of citizens in industrialized nations today are prepared to assume a degree of responsibility that exceeds the legal minimum in order to avoid current and future environmental destruction. But I also see evidence that only a minority of manufacturers and consumers of economic services are prepared to live concretely and consistently according to the demands this responsibility engenders. Modern democracy and the market economy must learn to live with this contradiction. It is usually repressed from the consciousness but can break out with explosive force, as with the Shell-Brent Spar case, where the official approval process was handled properly, but then public pressure, provoked by the media, completely repudiated the result of this process and forced the company to take personal responsibility and reach a different decision, despite its legitimate approval. It must be assumed that the leadership of global business would learn from an experience such as this that respect of the legal system is not always enough, and that personal discretion and responsibility play an increasingly important role in decision making.

That only a minority chooses to consciously assume personal responsibility in everyday economic decisions must not be used as an argument for abandoning the principle. On the contrary, it is an indication of the presence of an as-yet untapped potential for regulating economic events. With the widespread demands on government, we are standing on the threshold of a social learning process that must first bring the individual closer to the proper usage of his or her civil liberties and the responsibilities connected to them. It is important that there are many successful competitors among those who lead the way as innovators in this learning process, since experience tells us that economic success is the most convincing argument and encourages emulation.

The rules of the game are not the only things that change in regard to increased personal responsibility. The group of players that defines social values and represents collective interests also grows. Earlier, society acted primarily through government bodies. Legislation and the administration and application of justice were the tried and true mechanisms. But in the new world system, new powers are emerging that are effective supplements to government or, in some cases, its replacement. In economic jargon, we call the players who embody such powers the stakeholders of the company. They represent different interests than the shareholders in regard to the company, such as the interests of future generations. These interest groups frequently base their claims not on government regulations or legalities, but on generally applicable ethical and moral standards. They pursue their task with increasingly professional methods and are supported in this pursuit by the media, which create the link to political authorities via public opinion, and are thereby able to introduce concrete sanctions if the need arises. In this sense, stakeholder representatives supervise whether the company recognizes its own personal responsibility and puts it into practice.

This type of influence by third parties in the meantime has become known to many business managers through personal experience. Unresolved questions regarding the legal legitimacy of these players and the occasional abuse of their positions cannot eliminate these new social powers. It is therefore in a company's own interest to work together with these players in some appropriate fashion in order to become familiar with what they want and take into consideration the results of their decisions. This can lead to growing awareness of business-related personal responsibility, which benefits all participating parties. It is the innovative businesses that know that the impetus for successful innovation very often comes not from the "appropriate authority," but from people who critically analyze old and existing products, who can recognize and establish connections between divergent interests, and who are ready to pit their convictions against resistance and prevailing opinions.

In this sense, we coined the term "eco-efficiency" on the occasion of the 1992 environmental summit in Rio. *The principle of eco-efficiency has provided business with a positive access to the topic of environment. In the past this topic was viewed from a purely economic view as largely negative. Eco-

efficiency acknowledges a better future and principally favors progress according to the motto, "Better is the enemy of good." The essential point is that progress toward things which last longer means that as many people as possible have the chance to benefit from this progress, and progress in the direction of eco-efficiency also benefits business economically.

The latter is already the case to a certain extent in many industries, since, as a result of rapidly rising wage costs, optimization of work was the number-one priority, and efficiency in the use of raw materials and energy played a weak second fiddle by comparison. From this emerges a considerable potential to catch up. For this potential to be optimized, however, the economic conditions must be correspondingly further developed. It basically comes down to the so-called "internalization" of environmental costs, which were previously not understood and have therefore been borne unknowingly by the general public or will be passed on to future generations. If environmental costs are progressively internalized, and the price of raw materials, goods, and services comes to express not only the narrowly defined economic reality but also the ecological reality, then eco-efficiency will become a profitable principle for the environment as well as for human society and business.

Society is in dire need of an environmentally compatible economy and environmentally supportive growth. Eco-efficiency, defined as the ongoing quest for progress that protects resources, is steering the dynamics of business innovation in this direction. Companies that have correctly interpreted the signs of the times and recognize sustainability as one of the fundamental challenges of human civilization, will, in their own interest, seek out new competitive advantages from precisely this challenge. They have a rational self-interest in finding innovative ways to fulfill their environmental responsibility. Hopefully, representatives of the various stakeholders will exert their influence on the economy and business in such a way that the process of innovation will not be hindered but rather propelled toward eco-efficiency.

Note

* See my book *Changing Course: Executive Summary: A Global Business Perspective on Development and the Environment* (Cambridge: MIT Press, 1992).