Building an Alliance … *

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Commentary on the article by Frederick Bird

The requested critical commentary may begin almost enthusiastically. Fredrik Bird offers a common and coherent perspective for sectors normally considered separately, for the development of large areas of our world as well as for business strategy and ethics. He also implicitly explains why the tremendous efforts of the last two decades brought forth so little fruit. In fact, in these times of neoliberal ideology predominance, human and natural resources were in demand and exploited like never before. In this time, from a short-term business management efficiency perspective, resources have been allocated more optimally than even before. Yet little was invested in a sustainable, humane future; this future was even more burdened than before with exploding debts and a worn out environment.

Bird explains this by the businesses' embrace of the principle of cost minimization. He only prudently hints that cost minimization stood in the service of maximization of short-term returns on capital. Today it is called increase of shareholder-values, however, against the background of Bird's proposed alternative, developing capacities and productivity as an economic and business principle does not sound much better when it is elevated to the rank of the utmost goal of state and business dealings.

While the "value" of certain shareholders rose, the public sector lost and continues losing its productivity – and by no means only in the overwhelming majority of developing countries. Today, especially with regards to the work of Transparency International (TI), the blame is often cast on corruption. Bird also names corruption, however, as an instrument of the cost minimization strategy. In fact, TI tires of bringing to light the destructive effects of corruption. Not only do public resources disappear in the wrong accounts, but investments themselves often turn out to be wrong. The state loses its citizens' trust; the floor is cleared for political dare-devils. TI also emphasizes the damage to the economy itself and here Bird completes this with arguments that reach beyond the consequences of corruption.

According to Bird, the value of enterprises lies way beyond their quantifiable assets. He calls this "human capital", which includes the staff's competence and commitment, while cost minimization always results in personnel cutbacks. Bird calls the

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confidence and good will that binds enterprises with their suppliers, customers and interacting public and private offices and organizations "social capital". In Germany, enterprises bribe each other twice as much – during purchases and subcontracting – as they do public offices. It is an alarming sign, that in a world of cost minimization in favor of the shareholder, trust and good will are being superceded by commercial criminality which in turn drives costs up.

However, not only enterprise components suffer from the currently widespread business principle criticized by Bird. In the early phase of neoliberal policy, dramatic losses were entailed because the value of state-owned institutions were either not understood or disregarded. In the South, decades of investments in state productivity were given up to the ideology of market fundamentalism. The tragedies of a market economy without institutional funding in Russia and neighboring countries are well known. It seems that in the last decade, this waste of institutional substance is repeating itself at the level of enterprises. Instead of asset development and investment in enterprise sustainability, enterprises themselves are put up for consideration as objects of speculation, reduced to what the stock markets still perceive to be their value. This disregard for the value of institutions in the public and private sectors could be one of the reasons why the potentials of globalization have not materialized and why an increasing number of groups and people see themselves and the public welfare as victims rather than as winners of globalization.

I am exaggerating aspects of Bird's critic of the cost minimization system, which, however, are not outspokenly formulated. A central experience of civil society is that phenomena must be clearly called by their name. TI has done this with corruption since its foundation 10 years ago. TI, in another field, took a decisive step beyond what Bird offers in his contribution. Not only did TI, like Bird, describe an alternative, the integrity system, but it analyzed the causes which allowed enterprises to become partners in corruption although, in principle, this was neither necessary nor profitable for competitive enterprises. From this analysis, TI, together with others, derived a strategy on how basic conditions for entrepreneurial trade should be modified, so that enterprises could abstain from corruption.

As far as the approach chosen by Bird is concerned, trying such a strategy almost imposes itself. With his model of sustainability development in the public and private sectors in mind and because one cannot elude the attractiveness of investment in assets and values, we naturally ask ourselves why enterprises only embrace this model in exceptional cases. Many managers learned their trade at a time when good management was still defined as "sustained safeguarding of enterprise existence". They or their bosses were also judged by their supervisory boards or shareholder representatives according to whether the capital invested in the enterprise was secured in the long term and whether it brought on average a reasonable return on capital over a longer period. Why are managers currently submitting themselves to the pressure of short-winded profit optimization although this exposes their enterprise not only to bigger pressure but also to greater risks?

In the past, managers saw the relevance of what we today call sustainability as restricted to the enterprise. Today, many managers understand that their enterprise faces dramatically greater problems without functioning public structures and a long-term workable environment. Why does depriving the state of taxes by all legal and illegal tricks, which on its part it needs to achieve good work, seem nevertheless to be part of good management? Why do enterprises tolerate that less and less investments are made in the productivity of public institutions in developing countries and that for lack of financing much of the competence set up for this is lost?

While Bird thus offers the international economy an attractive alternative, he avoids the question of whether it can accept this alternative. Because of that, it is easy to dismiss his concept as unrealistic. How can an enterprise, on the one hand, under pressure from short-term profit maximization and, on the other hand, pressed hard by consumers increasingly oriented toward bargain deals, invest in capacities which mainly result in quality and long-term returns on capital?

The question need not be answered here; for TI too, understanding who profits and who suffers from corruption was at first more important than immediately offering a solution. Respective solutions could be worked out with those who at first were part of the problem but came to understand that a reduction of corruption would be in their well-understood interest. It was productive enterprises with their far-sighted management who pushed hesitating governments in 34 countries of the OECD and beyond to make corruption abroad a criminal offence. If Bird's analysis is right and the consequences I draw not completely lopsided, it should then be possible to win over leading entrepreneurs and influential companies to strive to replace the current system of cost minimization and short-term profit maximization by a model that allows more investments in company sustainability and beyond.

The system change to short-winded profit maximization was proposed by science but was only made possible by decisions made in the public sector on the national and multilateral stages. Bird's ideas in the context of business ethics, even if they found broad acceptance, also have no chance if basic conditions are not created on the basis of political decisions. Even when the matter at hand was the struggle against corruption, the public sector could just as little as the economy musters alone the strength to initiate the changes. TI first had to put the topic on the international agenda of public interests and politics. Only the coalition against corruption, the TI's slogan, had a chance of building an alliance between the private and public sectors and civil society.

Under another heading, criticism of globalization in its current form has built a vast network in civil society with which Bird's concept of investment in sustainable values and institutional structures in the private and public sectors could form a coalition. Bird does not see this coalition or does not want to see it, because he presumably thinks that the acceptance of his ideas in the business world would be endangered by such a coalition. However, the struggle against corruption succeeded in letting future-oriented business leaders reevaluate their interests in the interest of reorientation. They also should be convinced that an economy based on sustainability secures their enterprise's future better than a form of economy which contributes to the exhaustion of assets in all fields. If this succeeded, the base for a powerful coalition would have been built.