A Reaction Paper to: **"An Ethical Compass for the Digital Age"**
by **Prof. Nien-he Hsieh** (Associate Professor, Harvard Business School)
"A View from the Developing World"
Francis G. Estrada (Chairman, Institute of Directors, Philippines)

Let me address my reactions first, to Prof. Hsieh's overall conclusions and then to his response to the questions he posits, i.e. ***Who is responsible***? ***With Whose mandate***? And Finally, ***What is it about the digital age that calls for a reconstruction of an ethical compass***?

<u>Overall Conclusions</u>

Prof. Hsieh's overall conclusions may be summarized as:

1. "***While all actors have responsibilities for applying a reconstructed ethical compass, there is reason to hold that responsibilities for promulgation and identification apply to a smaller set of actors."***

2. "…***Any version of a reconstructed compass (must) include two principles: a principle to do no harm and a principle to respect human rights***."

My reactions (which do not derive currency exclusively from the "developing world") are as follows:

1. Accountability

In the developing world where education has traditionally been the privilege of a small economic elite (who tend to comprise the business and private sector leadership), I would argue that said elite is ***primarily*** responsible for identifying, articulating and promulgating the subject "ethical compass".

2. Change in Enterprise Paradigm

Commercial enterprises have (globally) become so important to such a large number of people that there is growing acceptance of the need to change the enterprise paradigm (raison d'etre) from **maximization of shareholder value to maximization of stakeholder value.**

The latter is defined to include the employees and the entire value chain of the enterprise, i.e. suppliers, distributors, customers and the communities they serve.

This thinking has been influenced, by a recognition that:

a. The world in general, economies and financial markets in particular, have rapidly become incredibly interconnected – and interdependent.

b. A recognition that greed, unbridled self-interest and the markets "animal spirits" must be tempered - based on the causes of recent global financial crises.

c. The response of the global regulatory community was to identify regulatory measures – ranging from the draconian to the "cosmetic". Among the perceived imperatives was the need to promote and enforce good corporate governance in the enterprise ecosystem, in particular among: banks, financial institutions, fiduciaries and public-listed corporations.

d. A recognition (in some sectors, "grudging") that the free market's "invisible hand" is not necessarily the best allocator of resources in domestic/global economies.

e. This focus on the stakeholders has, in fact, led to the increasing importance of “Stewardship Codes” for institutional investors, globally.

3. Human Rights and “Do no harm”

a) The author distinguishes between two ways of understanding human rights: as “universal moral rights” and “…in terms of existing human rights practice”. He argues in favor of the latter “…alongside a principle to do no harm.”

I. Religious, political and ethnic differences have led to conflict in many parts of the world. These conflicts have resulted in massive destruction of homes, economic infrastructure and the dislocation of large numbers of people.

II. The large and rapid dislocation of populations has resulted in an unprecedented volume of migration – legal and illegal. This has caused significant problems in countries that have absorbed the largest number of migrants (e.g. Germany, France, UK, Italy, Spain, Austria, Netherlands, Belgium, etc.).

III. This has led to the alarming rise of nationalist/populist sentiments in many of the recipients of the migrants.

b) From an era of rapid globalization and expansion of global trade and investment, we are entering into an era where the aggressive.

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1. In the last 40 years: Latin American Sovereign Debt Crisis (1982); the US Savings and Loan Crisis (1980s); Stock Market Crash ("Black Monday") of 1987; Junk Bond Collapse of 1989; Tequila Crisis of 1994; the Asian Financial Crisis of 1997; the Dotcom Collapse of 2000; and the Global Financial Crisis of 2008.

2. IMF, BIS, Central Banks, OECD and legislative authorities all over the world.

3. Including risk-weighting guidelines for capital adequacy, "too large to fail" measures and the separation of commercial and investment banking businesses;

4. UK, Japan, EU, Taiwan, South Korea, Philippines, Thailand, Singapore, Brazil, US, Canada, Australia, etc.

5. Not dissimilar to sentiments those that led to WW1 and WW2.

pursuit of national self-interest – and therefore the survival of the fittest – becomes the norm.

In this context, I submit that if it is to avoid yet another major conflict, modern society must:

i. Re-affirm the primacy of universal human (moral) rights.
ii. Do good rather than “do no harm”.

c) How might this all come about?

Poverty, inequity and related socio-economic distortions arise out of excessively large disparities, accumulation of capital, conspicuous consumption that societies have permitted, under the mantra of “economic progress”.

There is a compelling case to be made for advocating a consensus on the following principles – the premises underlying the “Millenium Development Goals”:

I. It is intolerable for modern society to tolerate poverty at the scale that currently exists in many parts of the world;

II. While the notion of a ‘classless society” is a naïve fantasy, the huge inequities seen in the US and a number of other countries reflect a flawed and unsustainable society.

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6. Compare for example the compensation levels of the highest paid executives of Wall Street/Fortune 100 with the entry-level compensation in their respective organizations with those of the constituent companies in the Nikkei 225 and prevailing compensation in the Nordic countries