Making the case for business

Each of The 11 Conversations is about finding responses to the world's big challenges. The stories we've heard in the preceding pages show that business has a positive contribution to make – since only business has the skills and resources to really make an impact

A number of leading voices are making the case that business is part of the solution, not part of the problem

BOB ZOELLICK
Outgoing President of the World Bank Group

Interview by Lucy Parker, Brunswick

Bob Zoellick on the growth imperative

Robert Zoellick has a long history of public service, most recently as the President of the World Bank Group, the post-Second World War institution charged with fostering development in poorer countries. Having worked under both Republican and Democratic administrations in the US, Zoellick rose to prominence in the early 2000s as the US Trade Representative, during which time he signed a record number of free trade agreements. Here he talks about the need to foster growth in both the developed and developing worlds, and what companies can do to ensure their role is understood and accepted.

As you come to the end of your stewardship of the World Bank, how do you think the world is doing?

I think the world is stumbling. But it is stumbling forward and the extraordinary steps taken by the Federal Reserve and the European Central Bank have removed the tail risk of extreme market moves, and bought some time for other actions. My concern is that the time bought needs to be used to fix the structural aspects of growth. This is particularly obvious from where I sit at the World Bank because many emerging market countries, having gone through the traumas of the 1980s and 1990s, seem to appreciate better than developed countries the need to focus on the fundamentals of growth and productivity. The developed countries have understandably focused on the stabilization of the macroeconomic situation – the fiscal and monetary tools. But while that is a necessary component of getting us back on track, it is not sufficient. If the focus does not turn to growth, then I think policymakers will be tempted to use the tools they have and that is likely to lead to a continuation of what are extraordinarily unusual monetary policies. I am concerned that those will plant the seeds of future problems.

The goal of the World Bank is to reduce poverty and support development. What is the role of the private sector in that?

It is absolutely fundamental. It is fundamental among developed and developing countries. One of the major transformations of our era, which has happened quickly, is the rise of emerging markets. In the past five years, they have provided two-thirds of global growth. In emerging markets there is not a debate about the role of the private sector; there is a desire to harness it, to recognize that it is a source of increased productivity, a source of innovation and a source of jobs. When you have a crisis, there can be government policy responses and those are often appropriate in terms of establishing fairer rules of the game and a fair market place, but they are not a substitute for private-sector dynamism.

But some people argue that companies are actually the problem in the developing world. Do you think they have a point?

No. If anything I would argue that what I encounter in developing countries is a relentless pragmatism to see what works. So some of the ideological hang-ups that I encounter in the developed world are being overcome more quickly in the developing world. One example is that if you look at the successful model of development of east Asian countries over some 30 to 40 years, part of their challenge has been how to get connected to the supply chains and the logistics operations of global companies. That is not only a question of access to markets, it is a question of knowledge transfer and of the technology that is key to building productivity – and it is not just a question of machinery, it is a question of how workers improve their productivity through being part of these effective systems. So rather than seeing companies as part of the problem, I see them as a key component of the solution.

So how can companies respond to negative public sentiment?

I see it from an executive perspective because I have been dealing with this at the World Bank, too. While we are not a private shareholder company, we make revenue that we plough back into the business and we are a very large institution. We have had to deal with the anti-globalization movement. I think the key is that companies and organizations need to be rigorous in figuring out how they add value.

They then need to be open in discussing that with people. For companies, it is important to see your workforce and your communities as part of your broader role in society. And sometimes companies have to recognize that they need to change – and how they handle that change will affect their brand value and how they are perceived globally. I think sometimes companies feel it is just a question of public relations and I don't accept that view. They have to have adding value inculcated into their sense of what their role is for society, as well as for their shareholders. I personally believe that companies of all sorts add value for their shareholders, their employees, their communities, their consumers – but perhaps differently from 50 years ago. I think that now they have to be more active in making the case for change and explaining it to others.

How can companies make the case for the value they add?

Sometimes you can do it in a collaborative fashion. To use an example from the World Bank: I have tried to promote what we call a democratized development. We have tried to open up our information, to form networks and partnerships, and to be a catalyst in how we work with others. When I came here five years ago, a lot of the environmental groups saw the bank as an obstacle. Now, I think they see the bank as a valued partner. When we work on something together they are glad about what we can bring to the table. But that requires building trust.

You're saying that building relationships over time is the key to establishing trust?

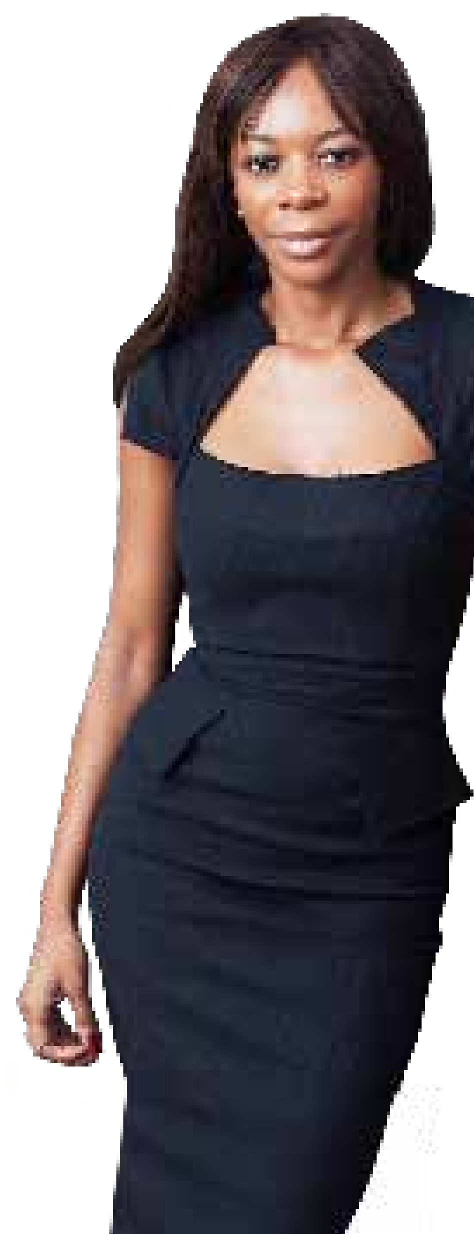
It's about relationships, but it's about more. Some people might feel it is just a question of talking to people and outreach. But it is also, ultimately, about what you do. And it is also about being open about the things that you do not do as well as you should. You need to run a place where you are open to critics, open to discussion. This is another mistake that some companies have made, thinking that either you just succumb to critics or try to buy them off with favors. Where you disagree, you need to engage in a reasoned debate and make your case.

We are in not only a global society but, increasingly, a more open society. You have to be alert to these issues because even in countries with authoritarian governments, people are concerned about how companies treat the environment and they are going to be concerned about the treatment of their workers. So an executive has to have a multi-dimensional view of the challenge.

IN EMERGING MARKETS THERE IS NOT A DEBATE ABOUT THE ROLE OF THE PRIVATE SECTOR; THERE IS A DESIRE TO HARNESS IT, TO RECOGNIZE THAT IT IS A SOURCE OF INCREASED PRODUCTIVITY, A SOURCE OF INNOVATION AND A SOURCE OF JOBS

DAMBISA MOYO
International economist and best-selling author

Interview by Jon Miller, Brunswick



Can this be squared with delivering shareholder value?

I think this is probably the role of a modern executive, to explain this. I'm not saying take your eye off the ball on basic performance, on costs, customer delivery, and profitability. But all around the world you can do a lot of damage to your brand that will take a long time to recover if you are not attending to these issues. So I am saying they are going to be increasingly important for relations with customers, suppliers, the policy environment, and regulation. Even within a traditional shareholder value model, they have an important role.

What implications do these changes have for global institutions, such as the World Bank?

I came into an institution that was facing a crisis. We had a turnaround period. We had a food, fuel, and financial crisis. So we had to step up. I feel that in my time here, I have had to modernize this institution. That goes onto the issues of, for example, how we change the staffing, how we change the location of our operations, how we manage the voting positions. In a sense, we're like a multinational that takes global experience and customizes it for local circumstances. So, ranging from China – which has a very good development story, basically wanting us just to consider with them the structural changes they will need for the next 30 years – to Liberia and Afghanistan, which are countries coming out of conflict and needing the most basic development of capacity. So we must customize.

What has been your approach to modernization?

First, I have tried to start with recognizing that developing countries are clients. So, as opposed to coming in with the wisdom of established elite universities and of great development economists, we try to understand our clients and we try to solve problems. And it's not just a matter of analyzing the situation but focusing on how to try and solve the problem.

Second, the question is how we can leverage our strengths in financial knowledge and our relationships with developing countries to be a better partner across a network of players – everyone from pension funds to United Nations agencies. Then the third part of the process is opening up the institution with a new open information policy and open data policy – thereby changing the mindset of people. I am a big believer in focusing on results and accomplishments, so the last thing – and this is where it is harder in a public sector organization than in the private sector, because the private sector is driven by the bottom line results – is trying to measure what you set out to do.

You've been at the helm at the World Bank for five years. What is going to be different about the next five years?

The one insight I would highlight is that what used to be seen, even 12 years ago, as a North-South knowledge exchange is increasingly becoming South-South. And I hope that the North will also recognize that there is some South-North learning too. There are a lot of interesting innovations and ideas out there in emerging markets that are not only valuable for other developing countries, but also could be relevant for developed countries.

Dambisa Moyo on jobs, skills and trade

Dambisa Moyo has carved out a reputation as one of the most forthright and provocative international economists in the public eye, particularly through books such as *Dead Aid*. Her new book *Winner Take All: China's Race for Resources and What it Means for the World* was published in June 2012. She holds advanced degrees in economics (Ph.D.) and government from Oxford and Harvard, respectively, and has worked at the World Bank and Goldman Sachs, an investment bank. Here she discusses the need for companies and governments to focus on job creation, skills and equitable access to commodities.

Thinking about the big challenges facing the global economy today, what is the role that business can play?

I think we've forgotten that the most important thing businesses can do is create jobs. To me that is the central conversation we should be having. There are 81m young people out of work around the world between the ages of 18 and 25. Look at the unemployment rates around the world right now, whether it's the United States hovering above 8 per cent, or Europe, in some countries, at around 20 per cent. What better value can companies add than to create jobs? For example, I'm on the board of a major brewer, and I see that in a country like Uganda there are about 30,000 farmers growing crops that we purchase. It is the most important discussion: how we are going to create jobs and how we are going to address income inequality and help people who are desperate to lead productive lives but are finding it difficult to find employment. How can we actually work with businesses so that they can increase employment?

Nobody would argue that creating jobs is not a priority – but exactly how should businesses be doing this in the developing world?

I am from Zambia, one of the largest copper producers in the world, heavily mineral-dependent. But to benefit from these minerals, you need skills and capital. You need money and you need people with the expertise. We have a great mineral endowment, but we do not have enough Zambian engineers to figure out how to extract the copper. Even if we did have those Zambian engineers, we need money. We need to buy the machinery to convert the raw mineral into copper wire to be able to export it. This is a very practical expertise that the mining business can bring to Zambia, but the same principle applies across the board, whether it is in financial services, consumer goods, or telecommunications. Companies should, and do, invest and provide capital and skills in order to create jobs in this country and around the world, and that really is super-essential.

What do you make of the wave of anti-corporate sentiment we have seen in the past year?

People have lost sight of the value of business specifically and of the capitalist model in general. It is a cycle of negativity. If you look at President Obama's inaugural speech in 2008, he was very clear. To paraphrase, he said that capitalism has been the best system of delivering economic growth, creating jobs, and reducing poverty. There is no better system. We have more than 300 years of evidence around it. Is capitalism perfect? No, of course it is not. Is there a role for government? Absolutely. But we have forgotten the lessons learned. Whatever successes we are seeing in the emerging world, almost invariably they are mimicking the success story of Europe and the US in years past – I say that because these Western countries have definitely lost their way. If they really go back and look at what sparked the industrial revolution, what actually created these economies over the last 300 years of success, they will see this is exactly what China is doing, what India is doing.

You say there's a role for government – what do you think it is?

I see three broad roles for government. The first role is to provide basic infrastructure and services – things such as roads, education and national security. These are public goods that we all need but are unable or unwilling to pay for ourselves. The second role is to provide a clear and efficient regulatory structure. Regulations should prevent and punish illegal activity and step in when necessary to correct market failures. The third role is to create a policy environment that incentivizes good behavior. For example, government needs to provide the incentives for people and for businesses to innovate, from discovering penicillin and electricity, to creating the next Google. In *How The West Was Lost*, I spend a lot of time talking about incentives, because this is what the West has done best.

The global economy is based on economic growth – but can we grow in a way that is sustainable?

There are going to be 9bn people on the planet in 2050. Economic growth means that in 2030 there are going to be 3bn new people in the middle class. There is simply not enough water, not enough arable land, not enough energy and minerals to support living standards the way that Westerners live today. Yet that is what everybody is aspiring to. There are more than 20 wars raging on the planet today with their roots in commodities, and many more are likely to come. It is barely even on the multilateral agenda, and to the extend that it is being added, countries are really responding unilaterally – whether it is America in Iraq or China striking commodity deals. I find it surprising that there is no single global body focusing solely on commodities. It is the one thing that affects everybody.

What about the role of financial markets in sustainable growth?

A major challenge for governments and businesses is to promote economic growth that is also socially responsible and environmentally sustainable. There are already many exciting and innovative businesses that have adopted sustainability as a cornerstone of their business model, but these businesses need capital. By helping to finance these companies, lending to small and medium businesses, and maintaining open credit channels, financial markets can play a huge role in driving growth. If liquidity and capital requirements become too stringent, this is less likely to happen. There is the ever-present question: will the financial services industry be willing to allocate capital preferentially to those businesses that can drive growth? Ultimately it's not just about discussing bankers' bonuses: there are much more fundamental issues at stake.

Photograph: Helen Jones