

“Discussion Board”

Newsletter

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**Difficult times for
“doing well by doing good”**



**Observatoire
de la Finance**

16, chemin des Clochettes
1206 Genève, Suisse
Tél.: +41 22 346 30 35

www.obsfin.ch
E-mail: office@obsfin.ch

www.obsfin.ch/discussionboard-n27/

QUESTION UNDER DISCUSSION

The invasion of Ukraine by Russia has prompted western businesses and/or high-profile brands either to exit the country, to stay or to suspend operations. In reaction, Russia is threatening to nationalise tangible and intangible assets of exiting western companies. Should corporations be encouraged (why and by whom) to take decisions on non-economic grounds (for instance moral)? Is today the moment to re-open the debate of the 1990s on “do corporations have consciousness”?

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EDITORIAL

Difficult times for “doing well by doing good”

The invasion of Ukraine by Russia has prompted many of the world's biggest companies - among which BP, McDonald's, IKEA, Apple and Coca-Cola – to stop doing business with Russia without being compelled to do so by sanctions. Others like Nestlé continue “business as usual”, arguing that they have a social responsibility towards their own employees and the to the Russian people.

Corporations don't have a conscience of their own, recalls Domingo Sugranyes, but decision makers have, as do consumers, employees, suppliers, subcontractors and so on. So why should they stop doing business with Russia? After all, the famous economist Milton Friedman proclaimed 50 years ago that the social responsibility of companies is to maximise their profits. For Etienne Perrot, companies should base their decision on cost-benefit calculation, taking into account the (often divergent) interests of all stakeholders. Provided a company in Russia does not violate the international sanctions in force, why should it not continue to meet the demand of local customers, asks Edward Dommen with reference to Nestlé.

On the contrary, Kara Tan Bhala states that “it's not radical to postulate corporations should have as a foundational principle, that they are to make business decisions on moral grounds.” In her view, the war in Ukraine “will continue to add to public disapproval of the profit maximization credo and increase its rate of decay.” One may ask, however, whether companies withdrawing from the Russian market act on moral grounds

or if it is only an attempt to minimise potential damage to their reputation and brand.

Rather than an alignment on moral principles or a result of pure cost-benefit thinking, the behaviour of companies may rather reflect the strength of Western public opinions and values (Valerio Bruno) in the condemnation of Russia's invasion of Ukraine, which exerted strong pressures on firms to reassess their position beyond simply complying with regulations and sanctions.

Today, companies are regarded as political actors and they are called upon to embrace a bigger role in society, for instance in the area of ESG. They are required to go beyond the trade-offs between stakeholders' interests and develop their own “consciousness” of how their activity serves the common good. This means that companies (top management, management and boards) may have to learn that sometimes enhancing free society principles may come at a cost but should pay off in the long term by preserving free society. Difficult times for “doing well by doing good”..

[Virgile Perret](#) & [Paul H. Dembinski](#)

“... meet the demand of local customers ...”

Towards the end of World War II, Nestlé was summoned to Washington, D.C. The U.S. armed forces had boarded a German submarine in the Rio de la Plata off Argentina. They found Nescafé in the galley, and demanded an explanation. Nestlé told them that it had factories in many countries, including Germany. What could be more normal than for them to sell their products to consumers in that country? **Provided that Nestlé in Russia does not violate the international sanctions in force, why should it not continue to meet the demand of local customers?**



Edouard Dommen

Specialist in economic ethics, former university professor and researcher in UNCTAD and president of Geneva's Ecumenical Workshop in Theology

“... the discernment of this decision cannot be based on a general moral principle ...”

Like any strategic decision, the decision to stay in Russia, suspend business relations or leave the country does not belong to a collective (state, company, trade union, association) but to the people in positions of responsibility. **The discernment of this decision cannot be based on a general moral principle of right or wrong; instead, it must consider the cost, in Russia and also in the other countries, for every stakeholder (employees, suppliers, employment pool, public authorities, shareholders, creditors) whose interests are very variable and often divergent according to the risks incurred, depending on the time horizon and the economic space considered. This is why the temptation is to get rid of responsibility over others.** This is what the president of the French business union (MEDEF) did, when he said that French companies will do what the French government decides. The responsibility is shifted; but its contradictions remain.



Etienne Perrot

Jesuit, Dr. Economics sciences, editorial board of the magazine Choisir (Geneva), editorial adviser of the journal Études (Paris)

“... political considerations cannot abolish duties towards stakeholders ...”

Every investment or disinvestment decision has ethical dimensions, whether explicit or not. **Companies don't have a conscience of their own, but decision makers have, as do consumers, employees, suppliers, subcontractors and so on.** No decision ever is taken only on profit-oriented calculations, although these can never be ignored. War imposes factual restrictions on companies, and political authorities can impose decisions, as in the case of sanctions and retroaction from Russia. **Western companies owning or operating assets, factories, distribution networks or suppliers in Russia and Ukraine are**

faced with difficult issues, where political considerations cannot abolish duties towards stakeholders, wherever they are. There are no simple answers in business ethics, even when faced with the horrors of war.

Domingo Sugranyes

Director of a seminar on ethics and technology at Pablo VI Foundation, past Executive Vice-Chairman of MAPFRE international insurance group



“... the effectiveness of individualized recourse by companies to codes, standards, ad sanctions is questionable ...”

Western businesses are already subject to various sets of codes and standards that include coverage of ethical issues. Outstanding examples are the OECD Principles of Corporate Governance and the Core Principles for Effective Banking Supervision (negotiated in the Basel Committee for Banking Supervision). These codes and standards typically include references to the integral importance of business ethics to their successful application. Institutional and transactional coverage is not uniform, dependent as it is on subject-matter. Nevertheless the codes and standards are the outcome of often laborious negotiations. And expansion of their range to still other issues is generally difficult – and costly without some kind of conduct guarantees within competing groups. **However, the effectiveness of individualized recourse by companies to codes, standards, ad sanctions is questionable. Reliance for companies on collective approaches to action on ethical and humanitarian issues is thus likely to continue.**

Andrew Cornford

Counsellor, Observatoire de la Finance; past staff member of UNCTAD, with special responsibility for financial regulation and international trade in financial services



“... it’s not radical to postulate corporations should have as a foundational principle ...”

It’s not radical to postulate corporations should have as a foundational principle, that they are to make business decisions on moral grounds. This proposition grounds itself on the largely consensus agreement on corporations being moral agents and therefore, have (a) moral obligations, and (2) freedom to act. The idea of shareholder primacy whereby corporations have only the duty to maximize profits forms a central part of the Friedmanite ‘markets know best’, neoliberal creed, now in decline, albeit at glacial speeds. **Perhaps the war in Ukraine and the ill-conceived behavior of some corporate actors will continue to add to public disapproval of the profit maximization credo and increase its rate of decay.**

Kara Tan Bhala

President and Founder of Seven Pillars Institute for Global Finance and Ethics



“... business as usual with Russia entails a great reputational cost ...”

Believing that multinational corporations can have their own moral conscience that allows them to take a position on sensitive issues makes little sense, at least for the moment.

It is instead fundamental that public opinion at the level of individual nations, but increasingly also at the international level, can act in such a way as to direct the actions of multinational corporations. In this sense, a fundamental role is currently played by social media, as well as by traditional media, in a lesser and less effective way. **As demonstrated by the case of the recent Russian invasion of Ukraine, multinational corporations that think they can continue to do business as usual with Russia must understand that this entails for them a great reputational cost at the global level.**



Valerio Bruno

Researcher in politics and Senior Research Fellow at the Centre for Analysis of the Radical Right (CARR)

LIST OF CONTRIBUTORS

Valerio Alfonso Bruno is a Researcher in politics and a Senior Research Fellow at the Centre for Analysis of the Radical Right (CARR), member of AREF and AIESC. He provides regularly political analysis for, among others, the Fair Observer, Social Europe and Indus News.



Andrew Cornford (Counsellor, Observatoire de la Finance; from 1977 until 2003 staff member of UNCTAD, latterly with special responsibility for financial regulation and international trade in financial services)



Paul H. Dembinski is the initiator and Director of the Foundation of the Observatoire de la Finance. In parallel, he is partner and co-founder of Eco'Diagnostic, an independent economic research institute working for both government and private clients in Switzerland and elsewhere. Paul H. Dembinski is also Professor at the University of Fribourg.



Edward Dommen is a specialist in economic ethics, particularly Calvin's. He has been a university professor, a researcher in UNCTAD and president of Geneva's Ecumenical Workshop in Theology (AOT) – an adult-education programme.



Dr. **Virgile Perret** holds a Ph.D in Political Science from the University of Lausanne and he is specialized in the study of monetary innovation from an interdisciplinary perspective. He collaborates with the Observatoire de la Finance where he is responsible for managing the global Prize "Ethics & Trust in Finance for a Sustainable Future".



P. Etienne Perrot, Jesuit, Doctor in Economics sciences, member of the editorial board of the magazine Choisir (Geneva), editorial adviser of the journal Études (Paris).



Domingo Sugranyes Bickel, KCSG. Graduated from the University of Fribourg, Switzerland. Secretary General of UNIAPAC, Brussels, from 1974 to 1981. With MAPFRE international insurance group from 1981, Executive Vice-Chairman until 2008. From 2009 to 2019, Chairman of Vatican-based Foundation Centesimus Annus Pro Pontifice. Knight Commander of the Pontifical Order of Saint Gregory the Great (April 2019).



Dr. **Kara Tan Bhala** is President and Founder of Seven Pillars Institute for Global Finance and Ethics, the world's only independent think tank for research, education, and promotion of financial ethics. Dr. Tan Bhala worked nearly twenty in finance, mostly on Wall Street, and has five degrees across three disciplines.





“DISCUSSION BOARD” – JOIN THE DISCUSSION

The Observatoire de la Finance intends to seize this period of pandemic to step back and take a fresh look at our global economic system, dare to ask new questions which the current crisis brings to the fore and propose innovative ways to rebuild a more resilient and sustainable economy and society.

Our Discussion Board focuses on commenting issues relevant to finance and economy in relations to society, ethics and the environment from a variety of perspectives, of practical experiences and of academic disciplines. It has been designed to share and discuss information and opinions expressed in a short and concise manner.

Contributors ([Discover the list of contributors](#)) are invited to react on a question/issue that is submitted in parallel to a limited group of experts. This happens on a regular basis, through a dedicated mailing list. After the deadline for submission, the reactions are edited and published with signatures in one document on the website of the Observatoire de la finance and on its LinkedIn page. If you would like to join the discussion, you may send an email to the editor, Dr. Virgile Perret <perret@obsfin.ch>.

OF Discussion Board – Questions addressed so far

- Question 26 : [Sanctions against Russia: a real-size test for the West?](#)
- Question 25 : [Artificial intelligence: silver bullet in a Pandora's box](#)
- Question 24 : [Inflation on the horizon: cloud or dragon?](#)
- Question 23 : [Standing up to new challenges](#)
- Question 22 : [Who wants to foot the bill?](#)
- Question 21 : [Rowing together to trim down the Gini coefficient](#)
- Question 20 : [Turning up the heat: can private insurance alone mitigate climate change damages?](#)
- Question 19 : [From the gold window to the global casino](#)
- Question 18 : [Turning point for the planet: can the G7 be trusted?](#)
- Question 17 : [Sustainable Finance: Hype or Hope?](#)
- Question 16 : [Universal basic income – an idea boosted by the pandemic?](#)
- Question 15 : [Multi-polarity: the best guarantee against falling \(again\) into the Thucydides Trap](#)
- Question 14 : [Special Drawing Rights: a drop of liquidity in an ocean of needs](#)