

## **RDI Convocation 8<sup>th</sup> January 2010**

May I begin by adding my congratulations to all the graduates for the well-deserved awards you have received today. May I congratulate, too, all those who have taught you, and all the staff at RDI.

My name is Arthur Francis and I'm dean of the School of Management at Bradford University. Dean is an academic title which means much the same as head teacher in a school or chief executive of a company. So I can speak on behalf of the whole School of Management when I say how very proud we are of our partner institution RDI in Hong Kong and of our students and graduates at RDI. Each year I am hugely impressed by the efforts that have gone into your studies here and by your performance in the exam rooms. And this is a particularly poignant moment for me to be presiding over the ceremony this year. I was in at the beginning of the partnership between RDI and Bradford some 7-8 years ago, and as I retire in this coming July this will be my last ceremony here and it's a very great pleasure to see the partnership in such good health.

Most of you, however, are in the earlier stages of your career. You have now graduated and you can now embrace your futures in the world of work. You all have degrees in management. What have you learned in the past few years as students and what will you do with what you have learned?

One of the things that I hope you have learned is the importance of economic growth. Economic growth is key to the health and happiness of individuals and of societies. And economic growth is made possible by ideas and theories from economics and modern management theory. Those of us in the West have had our lives transformed over the past couple of decades by the growth of the Chinese economy. We have enjoyed almost a tsunami of consumer goods imported from China, at wonderfully low cost and largely of impressively high quality. How has that happened? It has happened through the application of modern economic theory to the working of the China's economy and its relationships with its trading partners and the application of modern management practices in factories and offices. Since the economic reforms began in China in 1978 the economy has grown at an annual rate of over 10%. That means that over one generation people have become over 4 times better off – children are four times better off than their parents were at the same age. And hundreds of millions have been lifted out of poverty. And at the heart of all this, as a beacon to mainland China, has been the example set by Hong Kong as an open trading economy with an entrepreneurial, forward-looking, innovative, knowledge-intensive manufacturing and services base – the kind of organizations so many of you here this morning work for.

However it is, as we know, not all good news. The economic growth over the last 30 years has not turned out to be quite as sustainable as we might have hoped. It has been having major effects on the world's climate and the world economy itself went into deep trouble two years ago as the so-called credit crunch hit. Much thought and effort is being expended to try to steer us out of these troubled waters. In my address

this morning I want to talk about this sustainability crisis and what are some of the implications for you as today's and tomorrow's managers.

On your marketing courses you will have learned about the 4 Ps, or is it now rather more than 4 Ps. Today I want to talk about the 3 Ms. These aren't in any of the management textbooks. I've revived them from some very insightful work on organizational analysis by the sociologist Amitai Etzioni, and the political economist Adam Smith. My challenge to you new graduates this morning is to develop your skills in three areas, the 3 Ms of might, mind, and morals. What do I mean by these labels? Might. By might I mean the exercise of power; Mind: by mind I mean the application of our mental faculties and powers of rational thought and behaviour; and by morals I mean the business of knowing what is right and wrong, what should and should not be done. As moral beings we are part of a community which upholds codes of conduct about what are acceptable and unacceptable ways to behave. As managers you need to be skilled in all these arenas. If as teachers we have done our jobs properly then as managers you will be able to engage in the sustainable development of your companies and of our society and the world, so that all may benefit from the fruits of economic growth.

If we look particularly at the financial crisis, clearly this is a major example of unsustainability and corporate irresponsibility. What have these 3 Ms got to do with the global financial crisis? How much was it due to the abuse of power and might – the weakness of the regulators and the might of the corporations? How much was it due to immoral behaviour – the greedy bankers? How much was it due to a lack of understanding of what we were doing – a failure of mind?

Much has been made of might and power argument. People talk about the self-styled Masters of the Universe, and rejoice in how the mighty have fallen (except many have not, and are even now carving out even bigger bonuses for themselves for the coming year). Part of the analysis of the global economic crisis is that the financial sector became too powerful and the regulators were too weak. Clearly there is some truth in this. Many of the individuals and institutions in the financial sector were very powerful indeed and undoubtedly used their power to their own ends and at the expense of the rest of us. It has been said that 'all power tends to corrupt and absolute power corrupts absolutely'. Might is potentially dangerous, and needs great skill to use for the common good.

What about the second M – mind? There is perhaps some ambiguity in people's arguments about the role of 'mind' in the economic crisis. Perhaps the most frequent criticism has been that there was too much of it. People were too clever by half. All these complicated financial instruments that it turned out no-one understood. But should people have thought even harder about them and made them work properly or should people have not been allowed to do these innovative and creative things because they were bound to be beyond our capacity to operate. Or was it that might and a lack of morals - greed - were the real motivators and they distorted some highly rational attempts to do efficient things with markets?

The moral argument is the one that seems to have had the greatest currency with those who are not economists. 'Greedy bankers' have taken a lot of blame for the crash. But this is as if greed were a new phenomenon on the economic scene rather than an

enduring element of the human psyche from time immemorial. There are also those who believe that much of the emphasis within programmes such as PRME – the Principles for Responsible Management Education - and other initiatives to increase the emphasis on corporate social responsibility and sustainable development in the business school curriculum is more concerned with improving the moral sensibilities of business school graduates than with increasing their cognitive capabilities to think more sensibly and rationally about CSR and sustainability.

Which approach is right? Might, mind, or morality? Of course the answer has to be all of them. Markets fail and corporations can become too powerful. Regulators can have too much, or too little power. Clearly some nations are more powerful than others. Might is not always right. But power, and the exercise of power, often referred to as politics, are part of the stuff of management life. Political nous, political skill, is a vital part of the skill-set of any manager. But of course it's a question of how you use it and what you use it for, and this brings us on to morality.

Economists aren't always very good on morality. They tend to underplay the extent to which humans are social animals. Economists assume we all maximise our personal utilities. They would be comfortable, just about, with the results of an experiment carried out in restrooms in the US. The question was – how many people wash their hands after using the restroom. In surveys over 90% of people say they do. In practice, when observed by experimenters hanging around restrooms, the figure, for men, drops to 70-80%. However, when the experimenters weren't there, and more covert means of observation were employed, this figure dropped by 50%. I presume an economist would hypothesise that we get some utility from the approval of other people, and a disutility from their disapproval, but that hasn't got much to do with morality. Morality involves values, and doing things because it's the right thing to do, and not doing things that it would be wrong to do. People are social animals and socialisation plays an important role in morality. But socialisation often seems to get washed out of students when they study economics and, dare I say, business and management. Did we teach you, explicitly or implicitly, to maximise your individual preferences? Or did we endorse the view that values, and a sense of right and wrong, are important? Etzioni, whom I mentioned earlier, goes further and argues that issues of right and wrong are not socially constructed but are hardwired. There are some things that just are 'right' and others that just are 'wrong'. Should bankers get such big bonuses? Should people be allowed to gamble with derivatives? Should companies have sold sub-prime mortgages in the way they did? Was it right? These ideas are worthy of debate and discussion both in the halls of academe and with our colleagues in the workplace for those of you now in employment.

I've made the case for might and morality. I've argued that we all need to deal with power and politics. And we all need to deal with morality - with values and the question of what is right and wrong. What about the case for mind, for improving our cognitive capabilities about how finance and firms work, about CSR and sustainable development. Does this case need to be made? Isn't it obvious? It is up to a point, but my own fear here is that so much of the debate about the financial crisis and particularly about CSR and sustainability is so concerned with how the powerful are grinding the faces of the poor, and how we have a moral responsibility to behave in particular ways that there is little space for open and enquiring debate about these big issues. Rational enquiry can perhaps too easily be shouted down as being special

pleading on the part of powerful interests or displaying a lack of commitment to important values. On a plane journey recently I read an article in the FT weekend supplement about the melting glaciers in Greenland. Nick Stern was quoted as saying that something major had to be done now because the longer we waited the more expensive would solutions be. He may be right, and it was a very frightening article, and it made me personally uncomfortable as I sat in an Airbus above the clouds making a significant contribution to carbon emissions. But I have a colleague in the Finance Group at Bradford who has just submitted a £500k grant application to ESRC to test the effect of using different discount rates to Stern's analysis of the costs of climate change. Will he get that grant? I hope so but I fear that his rational approach will be seen as a criticism of those morally committed to a particular course of action and as being on the side of the powerful.

So what do I conclude? Those of you graduating today have wonderful opportunities open to you. To be entering business and management careers at this stage of the world and of Hong Kong and China's development is a tremendous privilege and a golden opportunity. We have done what we can to equip you and it's now up to you. My final words of advice, as you go forth, and as I step into retirement, are to remember the 3 Ms. You are entering the world of the mighty and powerful and your political skills will be forever invaluable to you. We rely on you – we who are handing on the reins to you, we who have children and grandchildren, and your own future children and their descendants, rely on you to exercise those political skills with the highest levels of morality. And at least as important as the politics and the morality, do continue to use your minds at the highest possible level, to make sure you take the right technical decisions to avoid further financial and other crises, to ensure a sustainable future for us all, and to maintain a level of economic growth that continues to add to the world's health, wealth and wisdom.

I wish you well.