



SIEMENS

**Teens and Technology
Roundtable 2002**

**Private Entrepreneurship
and**

**Corporate Social
Responsibility**

in the Global ICT Marketplace

Challenges and Chances

Private Entrepreneurship and Corporate Social Responsibility in the Global ICT Marketplace – Challenges and Chances

Peter Hellmonds, Siemens Business Services
Digital Opportunities Task Force (DOT Force)
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Ladies and Gentlemen,

Private entrepreneurship thrives in a climate of opportunity. Corporate Social Responsibility, as part of an overall Corporate Citizenship, comes into play to ensure that not each and every opportunity is being used, but that private entrepreneurship is applied for the common good of society. This reminds me of one of the intellectual fathers of economics, the great Adam Smith.

As most of you will know, Adam Smith was a professor of moral philosophy at Glasgow University in Scotland where in 1759 he published "The Theory of Moral Sentiments". It was seventeen years later, in 1776, that he published "An Inquiry into the Nature and Causes of the Wealth of Nations", which has become very much the "bible" of the laissez-faire economists, espousing the virtues of "the invisible hand" in economic affairs. But, as some of his philosophy students have attested to, some of the thoughts of "The Wealth of Nations" were already part of his lectures on Moral Philosophy. So, let us regard these thoughts not as separate, but as related and intertwined.

These thoughts also represent two of the themes that I would like to discuss with you here today. Free **entrepreneurship** working through the "invisible hand", and the **moral philosophy** underlying such entrepreneurial activity. In fact, the moral philosophy espoused by Adam Smith was a change from the mercantilism of the time and claimed that society benefited not from the benevolent hand of a magnanimous ruler, but from the "invisible hand"

working through the self-regulation of the market participants who are acting in their own self-interest.

I will stop here discussing Adam Smith, after all, we are not discussing 18th century philosophers, but 21st century Teens and Technology, but I want to use this as a starting point of my deliberations on the subject at hand. Because the justification for allowing private entrepreneurship its free reign lies in the fact that it is supposed to contribute to the common good of society through the workings of self-interest in a competitive **marketplace**. Which brings me to the third theme of my discussion of the subject.

If we look at today's **global ICT marketplace**, we notice that in some ways it is the same as before, as we continue to witness the constant flow of innovation bringing us new technologies which will turn around the way we and our children will lead our lives in the future. On the other hand, the market has taken a very heavy blow, and with it, the global economy. This very much affects the way in which corporations act in the market, not only the market for technology, but also in the market for talents. And this in turn will affect the opportunities we will have to give underprivileged teens a chance to become productive members of society. At Siemens, we have recognized that we should seek long-term sustainable business strategies that include not only profitability, but also environmental protection and socially responsible corporate citizenship. In doing so, we create win-win situations for all stakeholders, which include also our shareholders.

What has happened? You know all about the technology boom, the dot.com extravaganza of the late 20th century. And all about the bubble in the equity market this boom had created, the notions that we have a New Economy, where the old rules no longer apply. That's not what I want to talk about, because it has been said often enough and you are probably tired already of hearing the same old stories again and again.

No, I want to talk about the market for talents in technology. During the boom years, where every high-school or university drop-out could get a job in the IT industry if he only knew how to write html code and how to set up a Webpage for someone else, when the dot.com boom created fortunes for students who have turned to becoming entrepreneurs in their garage, the market for talents was very difficult for organizations such as Siemens. Because Siemens, with 150 years of history, with hundreds of thousands of employees in 190 countries around the world, was just not as informal, as small and fast as a young start-up. For teens wanting to enter technology, Siemens was not "hip" enough, it didn't create enthusiasm in young people.

So, Siemens had to do something to attract young talents. And Siemens did. Set up a lot of programs for young people, schools and university programs such as *Youth and Knowledge* (starting in 1997, and extended in 2002 for another 5 years), a Multimedia Competition (Join Multimedia, attracting 34,000 students in Europe, mostly in Eastern Europe), Multimedia Training for Teachers, and Technology Adventure Camps for girls, to name just a few. Through these programs, young people get scholarships and equal opportunities, participate in student exchanges, earn prizes, and generally become acquainted and attracted to a company like Siemens. I am here of course not to praise the virtues of my employer, but the above mentioned serves as an example of how the marketplace works. During those boom years, companies such as Siemens had to do significantly more to attract talents to their factories, research labs and offices than today.

Today, the market is very different from the market in those times. Those sneaker entrepreneurs who joined promising start-up companies in the dot.com area are out on the street as the promises of the dot.com startup have not been kept. Also, and very unfortunately so, many former Siemens employees, although Siemens has been able to

keep many through innovative programs such as sabbaticals and has tried to ensure socially responsible ways of parting with employees, such as early retirement and so on.

If we take the current situation as our starting point, we must recognize that this situation poses new challenges for a corporation and its management. No longer is the focus on attracting and retaining talented employees by offering them generous signing bonuses or things like that. On the contrary, the focus lies on regaining a competitive cost situation in a downturn market, which means down-sizing on the labor force, and reducing extra expenses which impact negatively on the short-term cash-flow and profitability calculations.

You can imagine what this means to any additional demands made from the outside to provide funds for "worthy causes".

During the year 2000, I organized the participation of Siemens in an international infrastructure conference, and was able to convince the chief executives of six Siemens groups to spend a total of 100,000 Euro as a sponsoring fee for the congress, which took place in early 2001, making us one of the main sponsors. One year later, when the downturn of the economy had already sunk in, we did not even bother to show up for the event. In this case, the sponsorship was not sustainable. Our sponsoring principles therefore now clearly spell out that any such sponsorships must be taken with a long-term view.

Also in the year 2000, the members of the G8 group of industrialized nations (G7 and Russia), met in Okkinawa, Japan, to announce the creation of the Digital Opportunities Task Force (DOT Force), with the aim of promoting the inclusion of the underserved population of this planet in the benefits of the digital technologies revolution. With what looked like a promise of additional 15 billion US Dollars over five years by the Japanese Government in pursuit of this worthy objective, the task seemed to be formidable, but possible to manage.

One year later, with the DOT Force having begun a series of meetings and formulation of objectives, vision and mission statements, there was still a lot of hope that, given the right identification of worthy projects, funding would be available to make them happen. So we set out an action plan to collect information about projects under way, and to conduct studies to find out what is needed, with the goal of identifying those worthy projects, to propose them to donors, and to make things happen. Because we believe that the task is large and needs a sustained effort requiring considerable resources, here, with financing seemingly secured, we had the hope for a sustainable effort to help us bring ICT into the development mainstream agenda. So, we started out with a very methodological research, i.e. with the inventory of projects already undertaken, and with country studies to find out the needs.

Another year later, what has become of these worthy causes?

Well, first the good news. Siemens is still around, which is a sign that being a bit old-fashioned, a bit slower to adopt the latest fashion, and a bit more prudent when it comes to spending money, has served the company well to survive in a market that has turned sour for so many. Which means, there is a renewed recognition that providing for the longer term despite demands by the shareholders to improve next quarter results is actually in the long-term interest of the shareholders. Because those companies that have catapulted their share values into unknown heights during the boom years, and not all of these have been small companies or start-ups, those companies have also seen the sharpest downturn of their fortunes. What has also remained is our valued *Youth and Knowledge* program, which has been extended for another five years, despite the sharp deterioration of the markets for our products. And, we are also still pursuing the goals set out in the DOT Force agenda.

But, disenchantment is setting in. The hopes for large financial resources to be put to the task have all but evaporated in the climate of the economic downturn. No one has money to spend

on a really sustainable effort in the amounts required. Which is a pity, since we cannot make development an issue of our current quarter's economic well-being. Development is a long-term agenda.

But, one thing is clear: every new initiative, and many of the old ones, come under intense scrutiny and must show their value, their benefit. And there is a clear preference for non-monetary participation in "worthy causes", as our company is increasingly regarded by analysts acting on behalf of major institutional investors, as to our performance in the typical business areas of profit, cash flow, and share price. So, clearly, we have one corporate responsibility towards our shareholders to maintain and increase the value and net worth of our company. Which, for those educated in business schools around the world means generally: increase your sales, reduce your costs, improve your sales margins, reduce your overhead costs, increase your profits.

But there are also those who see a company not as a mere profit-making entity, but as an entity with social responsibility as well. And many of these are also our shareholders, as are also many of our employees (including myself). Siemens is proud to have been included, not merely as "also-ran", but as one of the leading technology companies on the Dow Jones Sustainability Index (DJSI), which measures a company's social responsibility and long-term sustainability of its business. The results of the DJSI show that a company that is behaving as a good corporate citizen and acts upon its long-term sustainable business strategy will in the long run also have a higher profitability.

Which should give us all hope. Hope that socially responsible behavior will carry its rewards. That shareholders will value something beyond short-term profits, because it supports long-term profits. For example: how a company manages its environment. How it treats its employees. How it behaves in another country where it does business. Whether it helps the

disadvantaged, the poor, the underserved, the marginalized. But hope alone is not sufficient. We must also realize that social responsibility must take into account the current situation in the marketplace and ensure compatibility of means and ends. Which brings me back to the central question of my discourse:

What are the challenges and the chances for private entrepreneurship and corporate social responsibility in today's global ICT marketplace?

Clearly, the major challenge in the downturn market is to regain and retain sufficient profitability to keep on going, to satisfy the demands of shareholders. But while this obviously is mostly a short-term task for managers, leaders of a company must think ahead of the next quarter and outline the course of action for the next couple of years. And we all know that the business cycle, once it is up, will come down, and once it is down, it will also surely come up again. Just as one needs to provide during boom years for a deterioration of the market by building up reserves that may cushion the effects of a downturn, one needs to invest during bad years to reap the rewards when the market recovers.

Thus, despite the desperate affair of the information and communication technology markets, where there are still new announcements every week of another company having to shed hundreds, if not thousands, of its work force, despite of this it is the right time now to invest in the future of our work force. Time to invest in education, time to invest in bringing the benefits of the digital revolution to the poorer countries, time to invest in bridging the many digital divides that exist, not only between the industrialized and developing countries, but also between rural and urban populations, between male and female, between young and old.

And we should engage in this effort collaboratively, based on the individual contributions that everyone can bring to the table. And as we all face the big headache after the big dot.com party is over, we must pool our resources and invest wisely into our future. Here,

governments, civil society and the private sector should not compete with each other by trying to do the same thing, but instead should complement each other by contributing that which each of the stakeholders can do best. Governments the world over have less tax revenues as a result of the economic situation. At the same time they need to balance their budgets. This poses severe limitations on the amount of funds available. Nevertheless, governments should help pave the way for the right policies to be pursued in developing countries to entice entrepreneurship to take a foothold. Private entrepreneurs cannot afford to simply expend donations, as worthwhile as the cause may appear. Private sector companies must fulfill the demands of the markets, as their *raison d'être*, their justification to exist with as little regulation as possible. These are the markets for capital (shareholders and banks), who demand profitability, the markets for talent, and the markets for public opinion (social responsibility). But, within these constraints, it is the private sector that has shown to bring innovation and competitiveness, variety of offers and reasonable prices to consumers where they are allowed to operate relatively free. And NGOs, foundations, and research institutions must play their role in ensuring that both governments and corporations play a fair game, and fulfill their role in promoting the common social good.

What then, in the face of all these challenges, are our chances?

I see the chance in a renewal of our social contract, I even see a chance for an improvement of it. With a prudent investment in education for all – and with “investment” I mean more than sponsorship –, with investment in access to the internet, in access to technology, we allow for a transformation of our society into a society of participation. We have many issues to tackle, overcoming the problems in our education system laid open by the PISA study, overcoming the problems of our labor market rigidities laid open by our continuing and alarmingly high unemployment rates, and overcoming the burdens imposed by a rigid stability pact that threatens to strangle the recovery of our economy in the name of price stability, but without the flexibility for fiscal or monetary policy adjustments.

To overcome these problems, we will need a society of participation. Because we will need to make tough choices, and we need to ensure that the marginalized in our society will have a voice, will be able to participate in the public discourse. Because if they can not participate in shaping our common future, they will feel ever more marginalized, and this threatens our internal stability and peace.

We at Siemens have learned our lesson. We are no longer purely a German company with a couple of overseas representatives. We are in the process of transforming the company into a global network of information and innovation, with over 400,000 people working in 190 countries worldwide, all being offered access to technology to provide them with access to information, and with a chance for participation. Currently, next to my efforts in the digital divide initiatives of the DOT Force and the United Nations ICT Task Force, I am helping to set up a global network of centers of competence in the area of eGovernment within Siemens. This new decentralized form of organization allows us to reap the benefits of global reach through our network of experts while at the same time staying close to the demands of our customers in the market place. While we are reducing the overhead of our headquarters, we are building and expanding on the expertise of our local employees.

We have the chance to reshape our society in a similar fashion. Let us join hands in giving access to technology to every citizen. Access to government and market information. Chances for everyone to participate in our information society. It is our common goal and our challenge to apply what we learned for the benefit of others. We are ready to apply our best business instincts in this great endeavor. And I ask you to work together to make this happen.

Ladies and Gentlemen,

Thank You.