he talked with the Forum’s founder who succinctly wrapped up what every leader must learn from this crisis: “At the end of the day, the only thing you’ve got is your reputation. You cannot hide; everything you do is going to be known and it’s going to be public. And your reputation is a non-salvageable asset.”

Cascio was joined by IIB/CIBER faculty director Manuel Serapio in the question-answer period.

Please comment on use of the triple bottom line accounting procedure (ecological, social, financial) and how it can be taught in the business school?

Cascio: This morning we did a case study of Coca-Cola’s problems dealing with paramilitary groups in Colombia. One of the things I learned from attending the World Economic Forum is that it’s important to take a multi-stakeholder approach to problems that arise in a global environment. So we looked at Coca-Cola’s response from the perspective of not only shareholders but also from the perspective of society, workers and suppliers. One of the things we can do in management education is to get the point across that companies often do well by doing good. The notion of the triple bottom line is a good tool as is the multi-stakeholder approach which looks at the interests of all stakeholders not just one. In international business education, this multi-stakeholder approach is something we need to look at a lot more closely; it’s something that the World Economic Forum is actively promoting.

Focusing on these Fortune 500 companies is great but how does that help businesses in Colorado?

Serapio: Board member Rob Joyce developed a case based on his company, Wheelabrator, a 100-year old company that needs to be entrepreneurial in terms of its approach to global markets. We have used this case to teach international entrepreneurship to our students. Last semester, Rob came to a class on international business and talked to students about challenges Wheelabrator faces as it expands globally. He gave students insight into a major decision he made concerning an acquisition designed to help Wheelabrator better service the markets in China and India. He discussed why that decision was important to the continued growth of the company. The focus is on entrepreneurial and mid-market firms and action learning which is real time, active cases.

Cascio: I agree we have used examples of large companies but by no means are these typical of the things we cover. The multi-stakeholder approach applies no matter what level of company we use as an example; it’s a generic model. And we are always looking to make the course more relevant and timely with input from the Global Advisory Board. A topic area that we usually discuss in these Board meetings is: What should management education as a component of international business education look like?

Serapio: When we focus on China and India the question we ask is how can Colorado firms — those that are entrepreneurial — play in these markets and be successful? Clearly, the lessons from Wal-Mart may not apply specifically to the small firms we’re working with in China but they are important in that they help create a global vision for all firms.

Global financial crisis testing viability of EU

When the financial crisis first hit, Europeans blamed Wall Street and absolved themselves of any responsibility. Their attitude: Let the Americans sort it out by themselves and leave us alone, said Peter Widmer in his address to the Global Advisory Board.

“Then we realized that this was the first financial crisis in a globalized world. In the securitization process that followed, various big European and even Swiss banks were very active repackaging some of the risky loans and placing them around the world with unsuspecting investors at a good profit.” This strategy might have worked had the toxic assets not “crept up in the most unexpected parts of Europe such as local banks in Germany, Britain and in less sophisticated locations.”

“Globalization means there is no place to hide,” said Widmer.

The financial crisis has tested the viability of the 51-year-old European Union. “Ten years after the creation of the euro, the EU faced its most severe economic and financial test so far and did not fall apart. “In the absence of a constitution and with national priorities still dominating, decisions were taken and implemented in coordination with the US, China and other leading economies.”

Even better, Widmer reported, “There were no fights outside the usual horse-trading among EU members. In the June election of the European Parliament (legislature), the economic crisis failed to carry the left-wing socialists to victory. “To everybody’s surprise the centre-right democrats and their allies came out on top,” said Widmer. “The five year routine election was carried out by an electorate of 380 million voters in 27 countries, second in size only to India. But voter turnout was the weakest ever at 43 percent although the powers of the Parliament have expanded considerably over the last four years.” Widmer sees this as “yet another proof of the lack of democratic acceptance of the EU by its citizens who still give preference to national issues and priorities and feel that they have little say or impact in Brussels.

“Under these circumstances the reelection of José Manuel Barroso for a second term as CEO and president of the European Commission (executive body) seems assured as he has the backing of the major member states.”

Eastern Europe woes

Eastern Europe economies have turned around but not in a good way. Until the financial crisis cast its giant shadow, the 10 new member states which joined in 2004 had shown the highest rates of economic growth within the Union. Widmer attributed this performance to “catch-up
demand, free access to western markets and huge foreign direct investment (FDI) which combined to create great opportunities for development.” Widmer credits much of this growth to consumers and homeowners lured into low interest foreign currency loans by Western European banks.

All that has changed, said Widmer. “The flow of FDI has virtually stopped and the new EU members are faced with huge current account deficits and weak currencies. Normally, devaluation would be the way out but they are all candidates to join the euro eventually — some use a euro currency peg already — so that option is out.”

The EU’s expensive social safety net is also under pressure, “stretched to its limits with unemployment expected to surpass 10 percent (now 8.3 percent) later this year.”

Widmer offered other sobering statistics:
- The unemployment rate for the under-25 age group is 18.7 percent;
- Because of the collapse of the construction industry, overall unemployment in Spain has already reached 18 percent;
- The rigid labor laws in Europe do not allow for a quick adjustment to the economic downturn and the social costs added to salaries remain very high — 52 percent in Germany versus 30 percent in the US and Japan.

Noting that the global banking industry has been hit hard, Widmer said, “Banks, however international their business, come home to die at the doorstep of their respective countries. This is a particularly serious problem for Switzerland given the size of its banking industry with global assets eight times the size of the Swiss GDP.”

Cheap or free money and phony accounts are what created the crisis in the first place, Widmer said. He fears that governments and institutions are using the same methods that got us into this mess to get us out of it. Therefore, he is not optimistic about the stock market for the rest of this year and into 2010 “especially since markets are no longer cheap when measured against modest earnings expectations.”

Other red flags lurking on the way to 2010: the high level of credit card debt in the US and the shaky economic foundations in Eastern Europe and Russia.

According to Widmer, the International Monetary Fund (IMF) estimates that government debt of the 10 leading industrialized nations will reach 114 percent of their respective GDPs by 2014.

Unlike previous and milder recessions, consumers have been disinclined to spend money. As a result, Widmer said, “Interest rates will have to rise in order to finance the deficits and will further dampen consumer enthusiasm.”

Reducing the deficits is urgent once the global economy begins to strengthen. “If the political will is not there to do that, then inflation and the price of gold will rise.” At the other end of the spectrum, he said deflation could become a problem if the supply of money and credit stays too tight for too long.

**Borrowing binge**

Looking ahead, Widmer posed several questions.
- How can such a near meltdown of financial markets be avoided in the future and the real economy be protected?
- How can the imbalances in the world economy be corrected without a depression?
- What does the crisis mean for the US and the dollar?

For starters, Widmer said, more common sense and holding expectations to a more modest level would help alleviate the problems. Consider these numbers: “The world economy can produce a long-term rate of growth of around 5 percent with inflation in the industrialized world of around 2 percent per annum.

“Why then should we shoot for rates of return on equity of 20 percent and more? Such a profit can only be achieved occasionally and only by incurring a lot of debt. Wall Street and investors have been particularly unrealistic in this respect while the real economy (as opposed to the market economy) has been much more sensible.”

Said Widmer: “The borrowing binge had to come to an end sooner or later. As a multiple of the economy the US now owes far more than at the start of the Great Depression.”

In order to reduce the debt burden, “there has to be more saving and less spending. The result,” Widmer cautioned, “will be lower economic growth for many years to come. Along the way inflation is likely to come back, probably sooner than people expect and prompting investors to demand higher rates of return.”

**Cheap financing**

The average US worker has fared well through every recession, right? Not according to Widmer. He cited a study by Société Générale, a global investment banking institution, that showed the inflation-adjusted income of the top 20 percent of US earners has risen by 60 percent since 1970 while it has fallen by more than 10 percent for the rest of the labor force.

Given this wide income gap, Widmer wondered “why has there been no revolution?” The answer, he said, is “because there was a solution: debt. If you could not earn it you could borrow it. Cheap financing was made widely available. The asset-backed securities market and Fannie Mae and Freddie Mac made it possible while [former Federal Reserve chairman] Alan Greenspan held interest rates down to make all this debt affordable.”

Meanwhile, “the reserve role of the dollar is coming under increasing scrutiny in a world that is stuffed with dollars,” said Widmer. “The US should welcome a gradual reduction of the use of the dollar as a reserve currency. The fact that most world trade is based on dollars is a leftover of the post-World War II era and no longer warranted. There is no reason why a purchase of oil from the Middle East by a European country should be transacted in dollars and not in euros.”

The global picture is changing and “the US has to adjust to a world it can no longer dominate financially, economically and even militarily,” said Widmer. “The future role for the US will be as a very important leading nation among other very important leading nations or unions of nations. To embrace this transformation in a positive and peaceful way will be the hallmark of a great and successful Obama Presidency. I think he is well on his way.

“But we are talking here about structural issues needing structural solutions that need to be enforced over a longer period of time than any one government’s term, not only in the US but in the EU and in Britain.

“In the search for solutions, we should not be too hasty about abandoning the capitalist model. It is less bad than any other system yet invented but we have to learn to live within our means, i.e., spending less than we earn,” said Widmer. “Tough and lean years lie ahead. When and how the economy will turn around is dependent on a number of factors including investment in technology, energy solutions, education and training.”

Widmer did not mince words when he added, “People who say that a switch to more sustainable energy sources is a job killer are either stupid or simply speaking for special interest groups.”