



COUNCIL on BUSINESS & SOCIETY

GLOBAL VOICE MAGAZINE



TODAY A READER, TOMORROW A LEADER

Do
Sustainability
Reporting
Standards
Measure Up?

Beyond
Bytes and
Algorithms:
Purpose-led
tech

AI in
Hiring
Decisions

Armed conflict:
Corporate
Strategy for
Peace

The Ripple
Effects of
Political
Polarization
in Society

CSR and
fairness in
CEO pay

THE COUNCIL ON BUSINESS & SOCIETY

Recognising the enormous role business can and must play in helping solve large-scale, global issues facing the world, eleven business schools from around the world have formed a partnership: The Council on Business & Society. Through our individual and collective efforts, we strive to create and disseminate knowledge about those issues and train future business leaders capable of and committed to solving them.

**THE SCHOOLS THAT MAKE UP
THE COUNCIL ON BUSINESS & SOCIETY**



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- School of Management, Fudan University, China
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The partner schools share a commitment to and belief in the power of academic excellence, collaboration, innovation, and transformative leadership. Each is a recognised leader in management education and offers a wide range of business-related degrees and executive programmes.

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"At ESSEC, we believe that training students and participants for responsible leadership is key for answering the challenges of a complex world. Together with the members of the Council on Business & Society, we strive to promote responsibility so as to impact today's economy and society, and shape tomorrow's world."

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"Being recognized worldwide as a think-tank, FGV-EAESP not only produces academic research in management and public policy, but also applies research via its close relation with the corporate world. Its participation in the Council on Business & Society enriches its global vision through the multiple perspectives generated by the Council's initiatives."



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"IE Business School's mission and purpose are based on the pillars of academic excellence, innovation and entrepreneurship, technology, social responsibility and internationalisation. At IE we firmly believe in the power of the entrepreneurial mindset to change the world for the better. We will keep encouraging students through the COBS initiatives to explore social innovation and entrepreneurial challenges with special emphasis on unconventional approaches to enduring social problems."



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At Olin, we train students to be values based and data driven. Individually, values based and data driven are important traits of a great leader. Together, they are transformative. Olin advances the application of rigorous decision-making criteria balanced with a steadfast commitment to personal and societal values.



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STELLENBOSCH BUSINESS SCHOOL, SOUTH AFRICA**

"At Stellenbosch Business School we pride ourselves on our commitment to responsible leadership through teaching, research and social impact. We are committed to making a difference throughout our local, national and international ecosystems and proud to be members of the Council on Business & Society."



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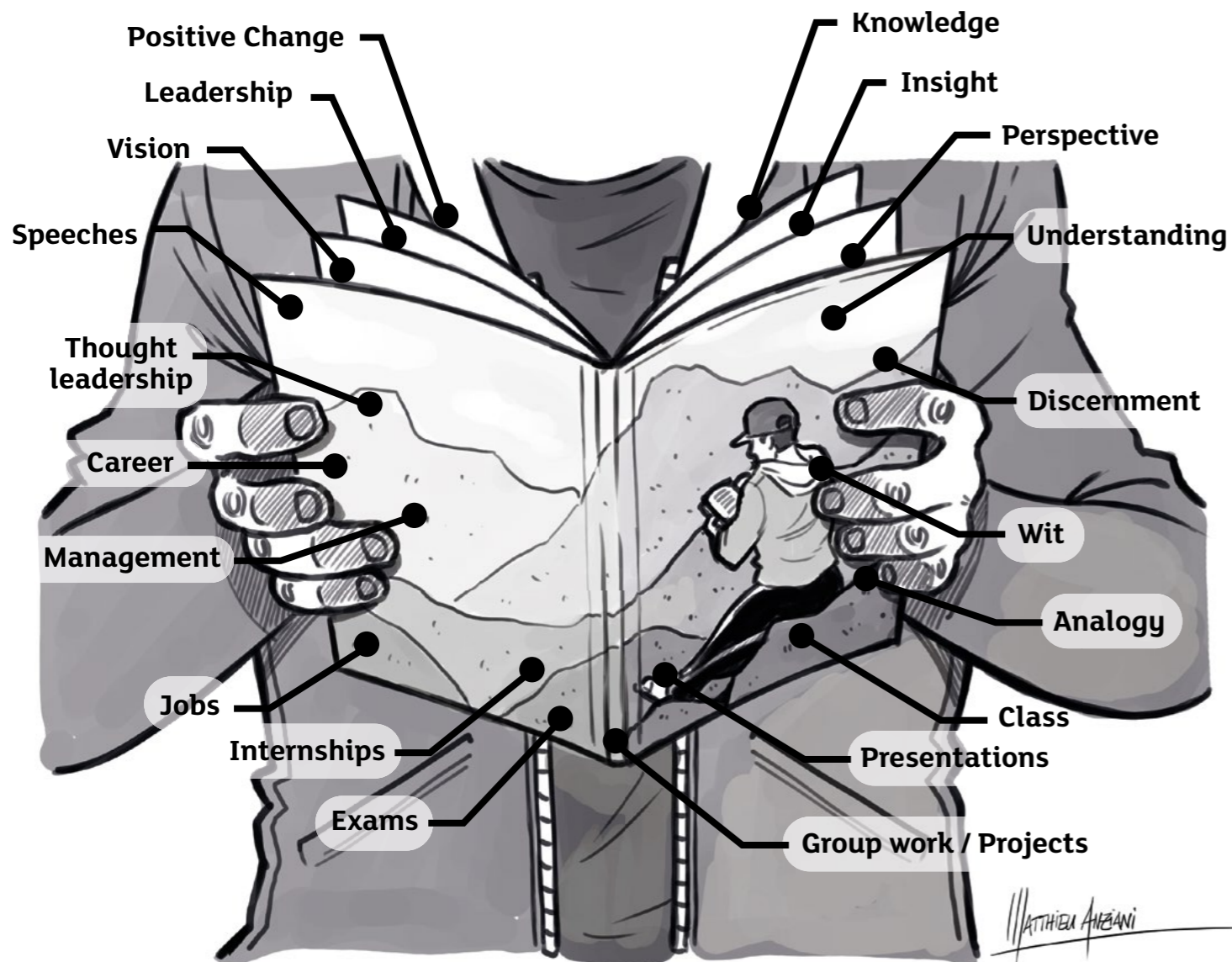
"Located at the heart of a world-renowned university in the centre of Dublin, a European capital city and hub for global business, Trinity Business School is committed to "Transforming Business for Good" and ethical leadership. We enable our Faculty, students, and graduates to focus on their moral compass throughout their career and create a better planet, economy and society for future generations."

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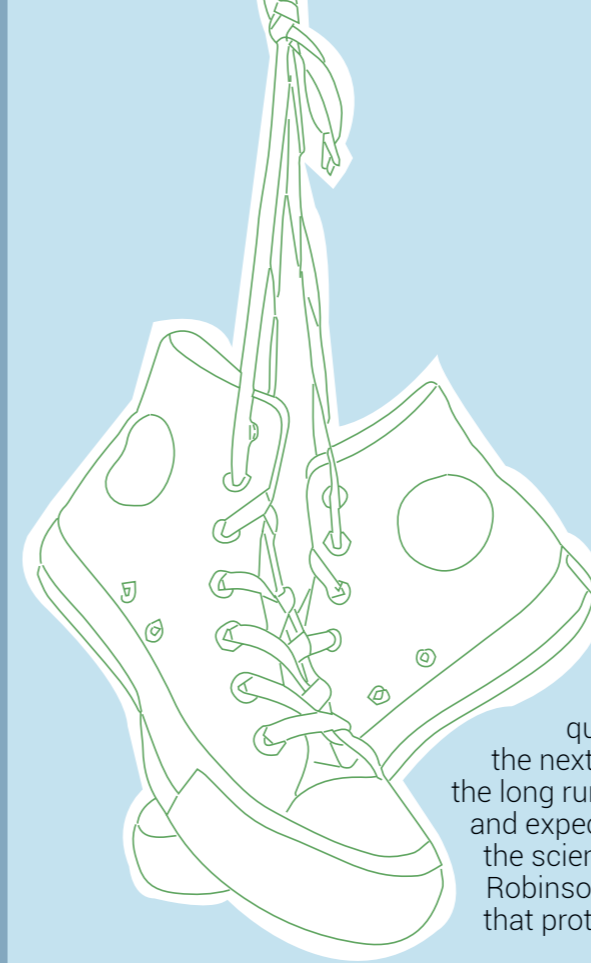
"As a leading European business school at a world-class University, Warwick Business School is committed to developing ideas and people that shape how we do business. We believe in the power of education to create the leaders the world needs to tackle societies' great challenges, such as global warming, ageing populations and increasing inequality."



20 Ways to Go from Readership to Leadership



/EDITORIAL



Short-termism has always had bad press. The common saying goes that corporate leaders should not be obsessed with the results of the next quarterly report, while political leaders should think beyond the next elections. We are told to project, plan, conceive projects for the long run, thus making a conscious effort to consider the interest and expectations of future generations. An example of this trend is the science fiction novel *The Ministry for the Future* (Kim Stanley Robinson, 2020), featuring an imaginary global body of scientists that protects future generations from climate change.

Coming back to reality, some initiatives are now seeing the light. For instance, Wales created the office of the *Future Generations Commissioner*, whose role is to help policy makers in Wales to take into consideration the perspective of future generations. The ABN AMRO bank created its *Future Generations Board*, a consultative group of seven young employees from different areas of the bank.

These kinds of initiatives, praiseworthy as they are, remain fraught with difficulties. To any of us, it can be complicated to imagine what one will need in a few years. How much more difficult would it be to imagine the needs of people who are not yet born! In any case, these exercises have the merit of taking us out from the short-term perspective, inviting us to figure out, however imperfectly, the needs of the future.

In our case, the CoBS has attempted to contribute to this effort, with its now consolidated tradition of the annual student CSR article writing competition. For now seven years, we have been inviting the students of our member schools to write about different issues related to CSR, sustainability, and business and society, giving them the opportunity to speak their mind, share their thoughts, and inspire our community. In this edition of *Global Voice* magazine, you will find this year's winner, runner up and finalist articles, featuring the best ideas and perspectives from our promising students. We wish each one of them the commitment and the energy to make our world a better one.



Professor Adrian Zicari,
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WHEN TWO DRAGONS MEET: THE DYNAMICS OF JAPANESE MANAGEMENT AND CHINESE WORKFORCE RELATIONS



Both Chinese and Japanese firms operate within distinctly different ethical climates influenced by their cultural and regulatory environments.



How do Japanese firms implanted in China adapt their management to local needs, employee culture, and context? Prof. **Keikoh Ryu, Keio Business School**, shares research that explores the issue with many an insight for other international firms wanting to set up business in the Middle Kingdom. From an interview with Prof. **Adrian Zicari, ESSEC Business School**.

Related research: Theoretical research on organizational ethical climate: applications and practices of Japanese enterprises in China, (*Journal of Economic Behavior*, 2017).

JAPAN AND CHINA: DIFFERENT APPROACHES, LOCAL NEEDS, AND GLOBAL STANDARDS

The organizational ethical climates of Chinese and Japanese firms demonstrate differences shaped largely by cultural, economic, and regulatory environments in which these firms operate. The following are the differences which I recognize regarding the organizational ethical climate styles.

Chinese companies are generally characterized by a "regulation-oriented" ethical climate. This climate is heavily influenced by strict regulations and guidelines which define clear boundaries and expectations for ethical behavior within the organizations. This emphasis on rules and codes aligns closely with China's cultural focus on order, hierarchy, and control, which is deeply rooted in Confucian values promoting harmony and stability.

However, while these firms often prioritize adherence to laws and organizational rules, the paper suggests there is less



emphasis on "caring-oriented" climates that prioritize the welfare of the community and interpersonal relationships within the workplace.

Japanese firms, particularly those operating within China, exhibit a contrasting ethical climate that blends traditional Japanese cultural norms with the need to adapt to the Chinese market. Japanese business culture is heavily influenced by concepts such as *Wa* (harmony) and emphasizes collective responsibility, respect, and consensus.

This often translates into a "caring-oriented" ethical climate within Japanese firms, where the emphasis is on maintaining harmony and collective well-being, even at the expense of individual autonomy. However, the hierarchical nature of Japanese firms can sometimes suppress dissenting opinions and individual initiative, which might be necessary for addressing ethical issues effectively.

While both Chinese and Japanese firms operate within distinctly different ethical climates influenced by their cultural and regulatory environments, the key to effective ethical management in both contexts lies in balancing these inherent orientations with adaptive strategies that meet the local needs and global standards.

FOUR WAYS JAPANESE FIRMS CAN ADAPT TO THE CHINESE CONTEXT

Japanese firms operating in China face a unique set of challenges due to cultural, economic, and ethical differences between the two countries. To thrive in the Chinese market, these companies must adapt their strategies not only to align

with local practices but also to leverage these differences to create a harmonious and productive organizational environment. In my opinion, there are a number of strategies where the Japanese firms could possibly adopt when developing in Chinese market.

• Understanding and Integrating Local Cultural Norms:

Japanese firms should deepen their understanding of Chinese cultural and business norms. While both cultures value collectivism, they express it differently. In China, there is a stronger emphasis on hierarchical relationships and adherence to formal rules. Japanese firms can benefit from integrating these aspects into their business operations while maintaining their core values of harmony and collective responsibility.

• Adapting Leadership Styles:

Leadership styles that are overly hierarchical, common in Japanese firms, may not be as effective in China where dynamic market conditions require faster decision-making and greater autonomy at local levels. Japanese firms should consider empowering local managers and staff by delegating more authority to them, thus improving responsiveness and fostering a sense of ownership among Chinese employees.

• Developing a Caring Ethical Climate:

The paper highlights the importance of a caring ethical climate in enhancing job satisfaction and ethical behavior. Japanese firms should strive to build a more caring work environment that goes beyond compliance to genuinely

address the well-being of employees. This involves more than just providing good working conditions; it also encompasses fostering a supportive community that values the contributions of each member.

• Promoting Inclusivity and Equality:

Japanese companies have been criticized for a lack of promotion opportunities for Chinese staff and an over-reliance on expatriate Japanese employees in senior management roles. To overcome this, Japanese firms need to promote inclusivity and equality by providing clear career paths and development opportunities for all employees, regardless of their nationality. This will help in reducing turnover and enhancing commitment to the company.

In summary, Japanese firms in China should focus on adapting their management styles, fostering an ethical and inclusive corporate culture, and understanding the local business environment. These adaptations are essential for effectively managing cross-cultural challenges and achieving sustainable success in the Chinese market.

WHEN JAPANESE MANAGEMENT AND CHINESE WORKFORCE MEET

Japanese firms operating in China encounter significant challenges in managing their workforce, particularly regarding the promotion of local hires, training, and aligning with the expectations of Chinese employees. These challenges are primarily due to cultural differences, expectations in career progression, and the integration of diverse management styles. The promotion of local hires could play an essential role for Japanese firms in China.

One of the primary issues faced by Japanese firms in China is the limited upward mobility available to local Chinese employees. Traditionally, Japanese companies have been known to place Japanese expatriates in key senior management positions, leading to a glass ceiling for local talent. This practice not only dampens the motivation of Chinese employees but also leads to higher turnover rates. The perception of a biased promotion ladder where expatriates are favored over locals can create a divide within the workforce, undermining the overall organizational cohesion and productivity.

Training presents another significant challenge. Japanese firms often implement training programs that are successful in Japan but may not be as effective in China due to different educational backgrounds, learning styles, and professional expectations. Additionally, there is often a gap in the cross-cultural training provided, which is crucial for fostering mutual understanding and effective collaboration between Japanese expatriates and Chinese staff. The lack of tailored developmental programs that address the specific skills and career aspirations of Chinese employees can lead to a disconnect between the workforce's potential and the organization's strategic objectives.

Employee expectations in China differ significantly from those in Japan. Chinese employees generally expect quicker career



progression and may prioritize job roles that offer immediate benefits and clear career advancement paths over traditional loyalty and long-term commitment valued in Japanese corporate culture. This mismatch of expectations can lead to dissatisfaction and high turnover rates, as Chinese employees may feel that their needs and career goals are not adequately met.

By addressing these workforce challenges through strategic HR practices tailored to the local context, I believe Japanese firms can enhance their operational effectiveness and build a more committed and productive workforce in China.

INSIGHTS FOR INTERNATIONAL FIRMS SETTING UP IN CHINA

From my perspective, for any international firm operating in a different country, the first and foremost advice regarding organizational ethical climate is to prioritize cultural integration and adaptability. This approach is critical for cultivating an ethical climate that respects and harmonizes the diverse values and practices of the host country while maintaining the core ethical standards of the parent company.

A significant step in establishing a robust organizational ethical climate involves understanding the local cultural and business norms. This understanding should go beyond mere surface-level acknowledgment and aim at integrating these norms into the organization's ethical frameworks. It's essential for international firms to not impose their home country's ethical standards rigidly but to adapt them in ways that resonate with the local workforce. This integration helps in minimizing conflicts and enhancing the ethical commitment of the employees.

For instance, creating an ethical code that balances universal values with local practices is vital. This code should emphasize universally acknowledged ethical principles like honesty, integrity, and respect but also be flexible enough to incorporate local ethical considerations and practices. The development of this code should involve input from both local and international stakeholders to ensure that it is inclusive and representative.

In essence, for international firms, establishing an effective organizational ethical climate in a foreign setting involves a deep understanding of local customs and norms, developing a flexible ethical code, fostering open communication, continuous training, and embodying ethical leadership. These steps are essential for ensuring that the firm not only thrives in its new environment but also maintains integrity and respects the societal values of the host country. ///



KEY TAKEAWAYS

- ❑ Chinese companies are generally characterized by a "regulation-oriented" ethical climate, influenced by strict regulations and guidelines that define clear boundaries and expectations for ethical behavior within the organizations.
- ❑ This emphasis on rules and codes aligns closely with China's cultural focus on order, hierarchy, and control, which is deeply rooted in Confucian values promoting harmony and stability.
- ❑ Japanese firms, particularly those operating within China, exhibit a contrasting ethical climate that blends traditional Japanese cultural norms with the need to adapt to the Chinese market. Japanese business culture is heavily influenced by concepts such as *Wa* (harmony) and emphasizes collective responsibility, respect, and consensus.
- ❑ The key to effective ethical management in both contexts lies in balancing these inherent orientations with adaptive strategies that meet the local needs and global standards.
- ❑ Four ways Japanese firms can adapt to the Chinese context: Understand and Integrate Local Cultural Norms, Adapt leadership styles, Develop a caring ethical culture, Promote inclusivity and equality.
- ❑ The promotion of local hires could play an essential role for Japanese firms in China. Traditionally, Japanese companies have been known to place Japanese expatriates in key senior management positions, leading to a glass ceiling for local talent.
- ❑ A significant step in establishing a robust organizational ethical climate involves understanding the local cultural and business norms.
- ❑ Creating a code of ethics that balances universal values with local practices is vital. It should emphasize universally acknowledged ethical principles like honesty, integrity, and respect but also be flexible enough to incorporate local ethical considerations and practices.
- ❑ The development of this code should involve input from both local and international stakeholders to ensure that it is inclusive and representative.



Keio Business School
Graduate School of Business Administration, Keio University

Learn to Lead



THE KBS MBA

APPLICATION
Entrance examinations for the MBA course are held every October (Fall) and January (Winter). An application form in Japanese is on the website. Date of admission April Admission Quota 100 student/year.

LANGUAGE REQUIREMENTS
Most MBA Program classes are conducted in Japanese. Full-Time students therefore, will use Japanese in class discussions, and for reading and writing assignments.

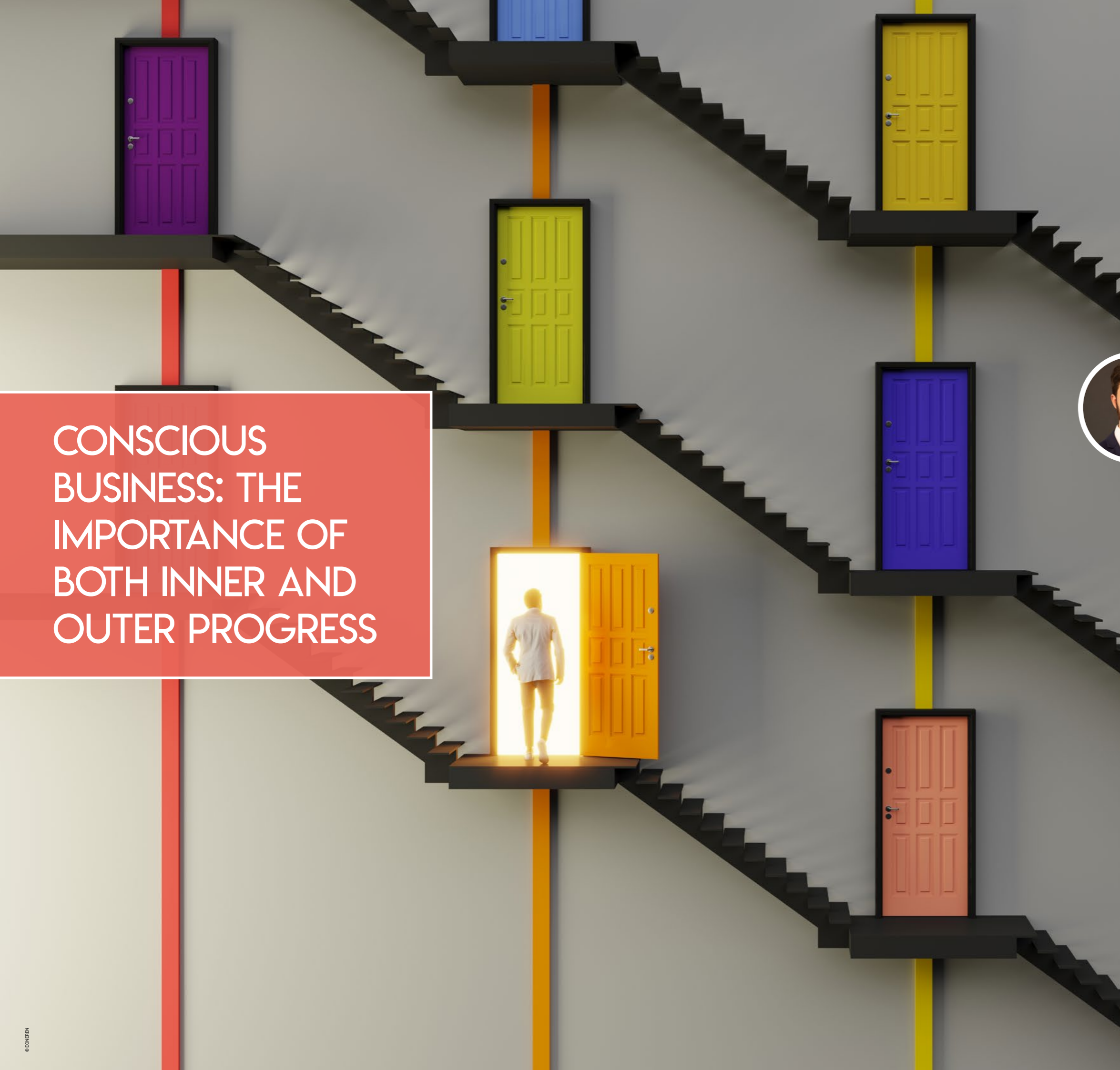
KBS MBA =
(QUALITY OF EDUCATION)²
X (VOLUME OF EDUCATION)²

Keio Business School MBA Program

Our MBA program is two-year, full-time program, aimed to develop business leaders with both professional managerial skills and a sense of responsibility to society and to corporate citizenship. An emphasis is placed both on particular skill sets required in a specific business function, and on developing well-balanced skills to be an effective general manager who is capable of integrating multi-faceted business operations.



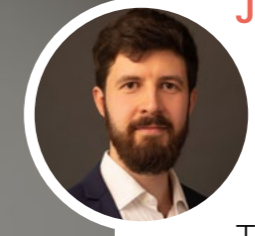
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CONSCIOUS BUSINESS: THE IMPORTANCE OF BOTH INNER AND OUTER PROGRESS



By rebalancing Inner and the Outer progress, High Tech and Low Tech, we can develop the right technologies and use them to create a better world for all to thrive.



Jean-Sébastien Simon, Lecturer in Sustainability at **ESSEC Business School** and Consultant in Conscious Business completes a series of eight features on how the Triple Bottom Line can serve as a basis for new business approaches that go beyond CSR towards more Conscious Business.

PROGRESS AS A FOUNDATIONAL DRIVER OF THE MODERN WORLD

Progress, as explained by philosophers from the Western Enlightenment period such as Emmanuel Kant, G.W. F. Hegel, or Karl Marx, is a key component of the whole paradigm underlying business.

Looking East, it is epitomized by the Japanese concept of Kaizen, where businesses strive to achieve ever-better performance through the continuous improvement of their products, services, financial performance, and processes.

In the contemporary world, progress is usually seen as material progress through the use of innovations, research, and development. The whole Western world and civilization have been based on the premise that by developing better tools, humanity would thrive and create a better situation for itself. While this has been partly true (the use of electric stoves is much more effective in urban areas than that of firewood), our addiction to material progress has also led us to the tremendous damage to society and the environment we know today as well as bringing us to the edge of our own survival as a species on earth.



PROGRESS IS MULTIFACETED

In the context of Conscious Business, four directions of progress that seem necessary for humanity to thrive in balance can be grouped in two distinct continuums:

- Tapping both into High Tech and Low Tech Progress
- Developing Inner Progress at least at the same pace as Outer Progress.

LIMITATIONS OF MATERIAL PROGRESS

“Technological progress has merely provided us with more efficient means for going backward.” Aldous Huxley

Let’s take the example of a ubiquitous invention: modern cars. While cars have brought tremendous speed and possibilities to humanity that were impossible before their use worldwide, they have also caused the death of an estimated 60-80 million people since their invention.

The more low-tech option of bicycles on the other hand brings about a healthier physical condition for users, zero pollution during use, and is one of the inventions that has never been used for damaging human lives or the environment.

The controversial use of Artificial Intelligence is also at the core of human material development today, with the risks of creating more division in humanity, and the risks of these forms of intelligence “taking over” or “turning against” humanity as we have witnessed in so many science fiction movies. Some alternatives could be the development of “Artificial General Wisdom” instead of a mere Artificial General Intelligence, where the developers would build in compassion,

loving-kindness, discernment, and other wisdom-related qualities. This requires the engineers creating these forms of intelligence to not only understand but also embody these forms of wisdom. As an example, the pioneering project of Loving A.I. has been initiated by A.I. specialist and roboticist Ben Goertzel, Dr Eddie Monroe, Dr Julia Mossbridge, and their team to move in that direction.

HIGH TECH AND LOW TECH

The High Tech / Low Tech dichotomy is epitomized in the urban legend of NASA investing millions of dollars to develop an “anti-gravity pen” to be used by astronauts in space, as they noticed that standard fountain pens couldn’t write without gravity (the ink wouldn’t flow down).

The Soviets, not having the same R&D budget as NASA, used pencils for their cosmonauts... Although the story needs to be straightened out (it was actually a private company that developed the pen and sold it first to NASA and later to the Soviet Union), it does illustrate the limitations of bureaucracy and the concept of frugal innovation: the capacity to use low-cost, simple and existing resources and solutions to tackle issues and innovate. Frugal innovation (*Jugaad* in Hindi) can be very helpful when resources are scarce, whether in organizations, economies, or natural environments. Examples of Frugal Innovation, include Mansukh Prajapati’s clay-made fridge which keeps food fresh for several days without the use of any electricity, or the use of bicycles to charge cell phones in some African countries.

On the opposite side of the spectrum lies High Tech and Deep including technologies such as advanced materials, Artificial Intelligence (AI) and Machine Learning (M.L.), biotechnology, advanced energy production, quantum computing, blockchain, robotics, aerospace technologies, photonics...

In the field of planet regeneration, for instance, a High Tech solution that is being developed is Carbon Capture and Storage (CCS). This technology allows to capture CO² from the atmosphere using a building that resembles a power plant or manufacturing building. While this technology is still in its early stages of development, the costs remain high: between \$15-\$342 per ton of CO² captured. On the other side of the spectrum, tree planting is a very low-tech solution, in addition to being a natural one, with a very low cost: around \$5 per ton of CO² captured. Indeed, Tropical Forest restoration has been identified as one of the top 5 solutions to reverse climate change by Paul Hawken and his team of researchers in their remarkable work on Project Drawdown.

INNER PROGRESS AND OUTER PROGRESS

“Humanity is acquiring all the right technology for all the wrong reasons.” R. Buckminster Fuller

When it comes to inner progress versus outer progress, we can say that today humanity is relatively advanced in terms of outer progress. I say relatively if we compare to where we were two hundred thousand years ago when humans came up with the idea of creating a bed for the first time. However, if we compare it to where highly technologically advanced civilizations could be, humanity is still struggling in the Stone Age. Indeed, building on the work of Russian astrophysicist Nikolai Kardashev, astrophysicists came up with a scale to describe the technological advance of a civilization that goes from Type I to Type V.

A Type I civilization can harness all the energy that is available from a neighboring star, gathering and storing it to meet the energy demands of its growing population. To reach this stage, humanity would need to increase its energy production by a factor of one hundred thousand times. Research has estimated humanity to be currently a Type 0.7276 civilization on the Kardashev scale, and could reach Type 0.7449 by 2060. We have not even reached the Type I civilization. I am mentioning this stage as a reminder of humility when it comes to our “technological advancement”, and as a word of caution when we see what we have done to our planet, our fellow human beings, and other species, with the limited technologies we already have...

What kind of destruction would our species engage in if we were more technologically advanced, without having developed the inner qualities to use technology consciously? Examples of destructive behaviors can be found in science fiction movies, from Dune to Star Wars where highly evolved technologies are used for destructive purposes, and where these highly destructive technologies are used by individuals and groups with a medieval or imperial consciousness. In a way, we are still apes with guns...

It seems that where humanity needs to make the most progress is inwardly, in its psychological and spiritual maturation. Gus Speth, a former Administrator of the UNDP put it in these terms:

“I used to think the top environmental problems were biodiversity loss, ecosystem collapse, and climate change. I thought that with thirty years of good science, we could address those problems. But I was wrong.

The top environmental problems are selfishness, greed, and apathy. And to deal with those, we need a spiritual and cultural transformation.”

What humanity and thus, business and political leaders need to develop as qualities are those of wisdom, compassion, discernment, loving-kindness and thus various forms of emotional, moral, aesthetic and spiritual intelligences in addition to enhancing cognitive intelligence and technical skills. Once these qualities are developed, they can be built into the technologies we create, thus removing the biases and imperfections of the human mind. Could we build technologies with heart?

Could we become wise enough to sense which technologies would be really helpful for humanity, other species, and our planet as a whole rather than creating more gadgets, a lot of which barely serve superficial wants and desires?

Nowadays, most current industrialized civilizations rely on *outer technologies* to satisfy individual and collective needs. Let’s take three examples:

First, the need for feeling physical warmth: When we feel cold, we put on a wool jacket or turn on the heat (thereby using up energy requiring resources and causing pollution for most of them).

“Inner Technologies” have been developed to create internal heating capacities as demonstrated in the Wim Hof Method. This Method combines cold exposure, breathing techniques, and meditation). Through the wilful regulation of the sympathetic nervous system, these techniques allow one not only to increase body temperature but also to increase one’s sense of well-being and boost the immune system. This example shows that human beings can solve some of their needs through *internal means*.

Another example is the need for social connection and belonging. Nowadays when we feel lonely, we turn to social media for instant connection. We are well aware of how social media overstimulates the nervous system, by flooding the system with dopamine, the neurotransmitter responsible for instant pleasure and gratification. When this happens too often, the marginal effects of dopamine decrease and one needs a higher dose to feel the same levels of well-being, which can lead to addiction.

Inner progress can allow us to be with our feelings, no matter how unpleasant they first seem, let them pass (they are impermanent), and return to our natural state of well-being by letting go of our thoughts. It can also allow us to make a connection with the place we are, by getting curious about our surroundings, or start a conversation with the person right next to us which can produce well-being without the addictive qualities of social media.

A third example is the need for new and varied experiences. Humans travel evermore by car, bus, train, boat or plane, thereby causing tremendous pollution and endangering our very survival on this planet.

The current external progress has led us to research and try to develop hydrogen-based aircraft. A recent test flight powered by a hydrogen engine operated by ZeroAvia was successful and Airbus engineering teams are hoping to see larger commercial hydrogen-fuelled/zero CO₂ emission flights take off as "early" as 2035 - that is fifteen years before the aviation industry intends to become fully carbon neutral. In the US, a small 5-seat aircraft called Alaka'i is on its way too. That will be another step of progress in the outer tech. Even then, hydrogen is a technology that requires a lot of electricity input to be produced. It might save CO₂ emissions downstream (0 CO₂ emissions compared to CO₂ emitting engines), but if the energy to produce the hydrogen is not produced through renewable energies (called "Green Hydrogen"), it doesn't solve the problem completely. Indeed, 95% of current hydrogen is produced by carbon-emitting processes, thus being called "grey hydrogen". Even with Green Hydrogen, the efficiency is quite low: 30% efficiency for hydrogen to be carried by cars, which means that 70% of the electricity used to create the hydrogen is lost for only 30% of the output. This shows the limitations of *outer progress*.

Yet, when we look at the other side of things, instead of looking outward for solutions, and turn our attention inwards, we can foster the development of inner progress. Indeed, people who engage in more introspective practices such as mindfulness, Yoga, Qi-Gong, active imagination (as described by Carl Jung), creative activities, even sports and other forms of well-being could inquire into their need to travel and discern whether it is relevant or not, understand their needs at a deeper level, and sometimes renounce some trips altogether, or not experience the need to travel as much, or even practice slow travel.

I am not suggesting that we return to caves and relinquish technology altogether, but rather that by rebalancing the *Inner and the Outer*, the *High Tech* and the *Low Tech*, we can develop the right technologies and use them in the right way, thus creating a better world for all to thrive.

As shapers of the world we live in, Business Leaders engaging in Conscious Business with *inner progress* could make decisions that would seem completely counter-intuitive to conventional business leaders. For instance, during a recent private conversation, a Senior Partner from an ESG consulting firm told me that he had not taken a plane in the last several years, despite having clients all over the world. He quipped, humbly:

"I am sure that if I spent two weeks in Silicon Valley to meet my clients, I could double our revenue. But I don't want to. It would be bad for our carbon footprint and for my well-being, I've spent enough time on planes in my career."

This humility and wisdom is an exemplar of the need for business leaders to cultivate *inner progress* at least (if not more) than *outer progress*.

To finish, I would like to quote H.H. the Dalai Lama who summarised this point elegantly:

*"We have bigger houses
But smaller families;
More conveniences,
But less time;
We have more degrees,
But less sense;
More knowledge,
But less judgement;
More experts, but more problems;
More medicines, but less healthiness;
We've been all the way to the moon and back,
But have trouble crossing the street to meet the new neighbour.
We built more computers to hold more information to produce more copies than ever,
But have less communication;
We have become long on quantity,
But short on quality.
These are times of fast foods but slow digestion;
Tall man but short character,
Steep profits but shallow relationships.
It's a time when there is much in the window,
But nothing in the room."*

H.H. The 14th Dalai Lama, The Paradox of our Age.

My hope is that humanity regains balance and harmony by growing in psychological maturity to match at least the level of technologies it has developed so far. *///*

KEY TAKEAWAYS

- ❑ In the contemporary world, progress is usually seen as material progress through the use of innovations, research, and development.
- ❑ Four directions of progress that seem necessary for humanity to thrive in balance can be grouped in two distinct continuums: Tapping into both High Tech and Low Tech Progress, and Developing Inner Progress at least at the same pace as Outer Progress.
- ❑ Humanity, business and political leaders need to develop the qualities of wisdom, compassion, discernment, loving-kindness and various forms of emotional, moral, aesthetic and spiritual intelligences in addition to enhancing cognitive intelligence and technical skills.
- ❑ Once these qualities are developed, they can be built into the technologies we create, thus removing the biases and imperfections of the human mind.

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PEOPLE, PROFIT, AND PLANET: DO SUSTAINABILITY REPORTING STANDARDS MEASURE UP?



It is crucial to keep questioning, reporting, and pushing the boundaries of what it means to do business more than what makes a company sustainable.



The introduction of global reporting standards is a reflection of society's growing demand for corporate accountability. **Rafael Echechipia**, Winner of the **2024 CoBS Student CSR Article Competition** at **FGV-EAESP** puts them under the lens to what impact they have.

On December 22nd 2023, the European Union published the first set of European Sustainability Reporting Standards (ESRS), making European and European-operating companies scramble to understand what they would be required to report in 2025, as well as how they would go about collecting and managing all the information needed.

The standards are the final reflection of the European Corporate Sustainability Reporting Directive (CSRD), effective in January of the same year. At its core, the ESRS is the European Union's attempt at modernizing and regulating non-financial corporate information reporting.

At a broader level, the CSRD is part of a global trend, along with the likes of the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB), of addressing the impacts of corporate activities via systematized reporting.

Such a trend, born out of the growing pressure of society for increased corporate accountability, could be boiled down as a demand for companies to "do good while doing business". That much is clear to anyone who is moderately aware of the global business landscape. However, even if it seems natural today, how did these demands start? And can they hope to achieve what they propose?



HOW DID WE GET TO “DOING GOOD WHILE DOING BUSINESS”?

One of the most famous early cases of environmental consciousness dates back to 1962, when author Rachel Carson published “Silent Spring”, a book denouncing the consequences of the use of chemicals in agriculture. The book achieved such notoriety that legislation was created to restrict the usage of certain pesticides, solidifying it as one of the first instances of limiting companies’ activities due to environmental concerns. This marked the beginning of the focus on the relationship between economic development and environmental factors (Gokten et al, 2020).

Nonetheless, it would only be many years later, with the United Nations’ Resolution 42/187, that the idea would evolve into a rudimentary version of the modern concept of “sustainable development”. This meant that with the advent of international attention, firms were acknowledged for their role in either advancing or hindering progress towards a sustainable future.

The next milestone would come in the form of one of the worst environmental disasters to date in the Alaska

Exxon Valdez oil spill of 1989. After causing irreversible damage to the ecosystem, public outcry and huge financial losses resulting from lawsuits pressured stakeholders into demanding information about environmental practices.

Finally, five years later, sustainability reporting evolved to include social aspects with the introduction of the Triple Bottom Line (TBL) by John Elkington in 1994. The TBL approach recognized that firms impacted social and environmental spheres just as much as they were impacted by them. With its introduction, sustainability reporting started quickly picking up pace with the creation of the GRI in 1997 as a joint effort between non-profits, and subsequent release of the first GRI Guidelines (G1) in 2000.

RECENT CHAPTERS

As sustainability awareness gained strength, so did the pressure to report. In 2010, the United Nations Global Compact recognized the GRI guidelines as the recommended framework for reporting progress and impacts. One year later, the SASB was created as a non-profit to provide industry specific standards focused on identifying risks and opportunities to cash flow generation due to sustainability reasons.

Currently, the three major frameworks (GRI, SASB and ESRS) have an estimated (or expected, in the case of the ESRS) reported adherence of 10,000, 3,300 and 50,000 companies respectively. The popularity achieved by them alerts companies to the need to incorporate sustainability compliance into their strategies. In fact, the creation of the GRI professional certification exam in 2015 is a sign of sustainability reporting becoming a consolidated field with licensed-based professionals and dedicated departments. But what is at the core of those standards?

MATERIALITY

Sustainability reporting allows companies to identify and manage sustainability risks and opportunities in the form of a concept known as double materiality. Standard materiality normally refers to any information that may affect a company’s bottom line. When applied to the context of this kind of reporting, the information will relate to some type of environmental, social, and governance (ESG) issue that is critical to the firm. Take for example an electronics manufacturer. It could report as materiality the risk of fees incurred by surpassing a certain carbon emissions threshold.

Double materiality, on the other hand, is an expansion of that concept. It will refer not only to ESG factors that can impact a company’s margins but also to any of the company’s operating practices that can be harmful to the environment and external stakeholders. Using the same example, the manufacturer would now have to report on its contribution to climate change given that its industrial processes involve emitting carbon into the atmosphere.

These guiding principles are at the core of the reporting frameworks, where the European standards and the GRI both push for variations of double materiality reporting, and SASB places a bigger focus on financial materiality aspects. In that sense, they offer an interoperability that allows investors and stakeholders to make more informed decisions about their involvement in participating companies. But what else is in it for those willing to report?

A GATEWAY TO CORPORATE SUSTAINABILITY

Undeniably, having better informed investors will lead to easier long-term access to capital, the fruit of better risk management policies, and the attraction of sustainability-linked lending and increased investor confidence (Amel-Zadeh and Serafeim, 2017; Kahn and Upadhyaya, 2019). Moreover, research has shown that the benefits can trickle down to seemingly unrelated areas such as talent acquisition and employee productivity (Barrimore and Sampson, 2021).

Furthermore, some suggest that the reporting should be viewed at a more profound level. Rather than an annual burdensome exercise of assessing materiality, it should be viewed as a way to leverage sustainable thinking throughout the organization all the way to its core business strategy. Nonetheless, the wider public is increasingly more aware of how naive that sounds in scenarios of voluntary reporting.

A key factor on the effectiveness of the system comes from the incentives in places for its compliance. In the case of the European framework, as the new directive trickles down to the national legal systems of member countries, companies will be bound by law to produce such an analysis. The GRI and SABS, however, do not enjoy the same legal backing, and must instead rely on leveraging on the benefits they bring to reporting companies. Similarly, there is no mechanism to ensure that ESG thinking will be adopted at a deeper level.

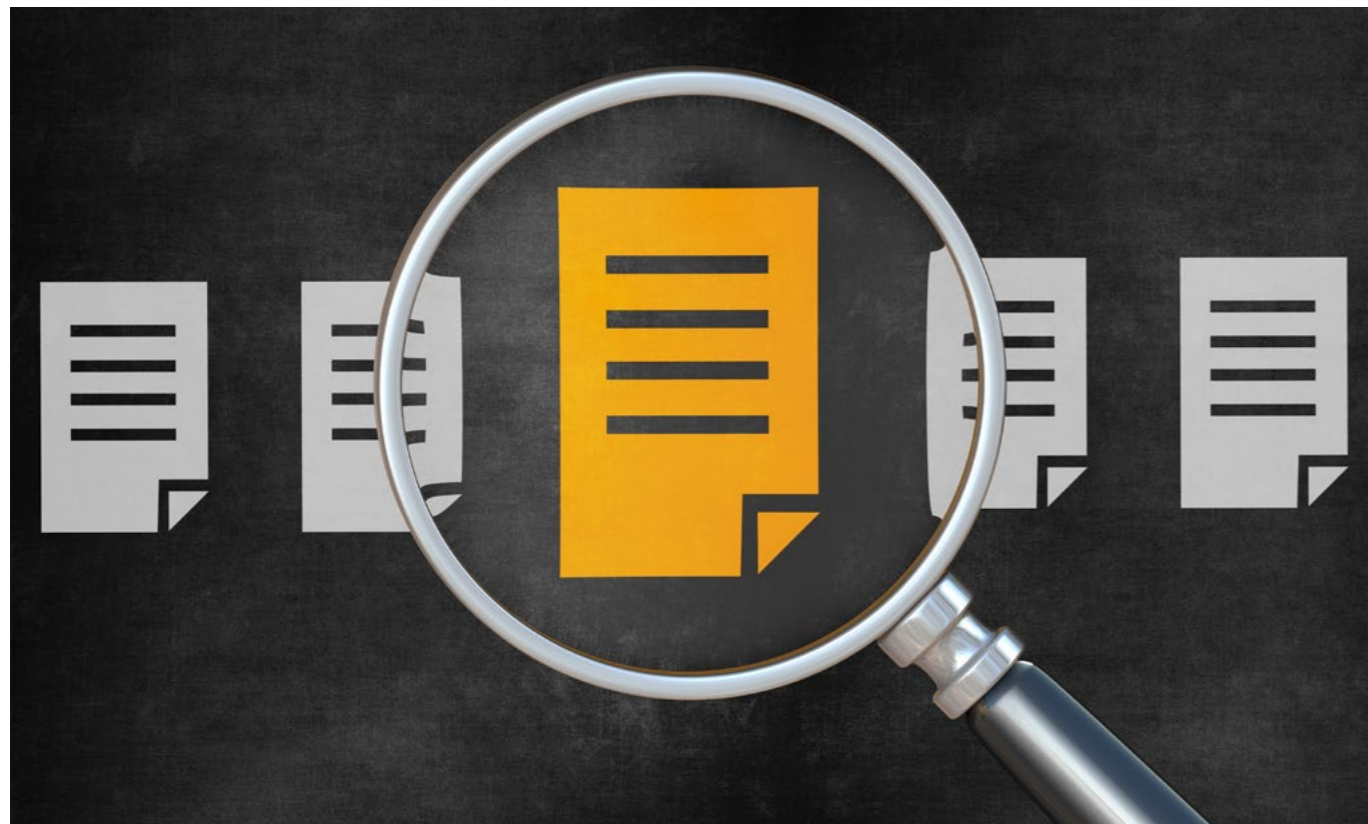
IS SUSTAINABILITY REPORTING SUSTAINABLE?

On the topic of a deeper level of sustainability thinking, the reporting framework suffers from the same oversight frequently brought up by critics of ESG or impact investing – the issue of missing the point entirely.

To explore this, we must draw from the book “Wealth supremacy” by author Marjorie Kelly. She argues that even the most committed ethical investors expect at minimum a market rate return over their efforts. There is little room for a trade-off between the externalities of a company’s operations and the financial results it can produce. It is as if investors simply needed to have put their money into ESG friendly companies from the start and all would be well. The baseline is, ESG investing operates under a logic where profits should not suffer in exchange for addressing sustainability concerns.

According to Kelly’s book, this explains the obsession with determining if responsible investing yields lower or higher returns when compared to their counterparts. Her questioning echoes the sentiment that this view still prioritizes income potential over societal issues.

As a consequence, reporting will follow the same logic as investments, where companies are expected to report in a voluntary or compulsory manner, not out of the importance of understanding externalities as a means of mitigating negative impact, but rather providing stakeholders with more decision-making tools to better allocate capital to guarantee good returns. In essence, sustainability reporting, by not addressing the wider culture companies are inserted in, has been made submissive to profit maximization logic.



SO, HOW CAN REPORTING FRAMEWORKS RESHAPE THE CULTURE AROUND SUSTAINABILITY?

Unfortunately, that remains a big question. There isn't enough body of research to predict the effects of mandatory reporting on corporate behavior, and the same applies to a consensus on how the standards can induce a deeper level of cultural change.

The evolution of sustainability reporting, driven by societal pressures and regulatory changes, has significantly transformed the corporate landscape. However, the journey towards "doing good while doing business" is far from over. The concept of double materiality has broadened the scope of corporate accountability, but the effectiveness of sustainability reporting as it is proposed still hinges on the incentives for compliance, the depth of ESG integration into business strategies, and more importantly the ability of investors to see financial performance on sustainable companies.

SUSTAINABILITY REPORTING: A COMPASS, NOT A DESTINATION

Therefore, the question remains: how can these frameworks reshape the culture around sustainability? While there isn't a definitive answer yet, the increasing adoption of these frameworks and the growing awareness of sustainability issues suggest that we are moving in the right direction.

As we continue this journey, it is crucial to keep questioning, reporting, and pushing the boundaries of what it means to do business more than what makes a company sustainable. ///

KEY TAKEAWAYS

- ❑ The evolution of sustainability reporting frameworks from early environmental consciousness to the introduction of standards like the GRI and ESRS reflects society's growing demand for corporate accountability.
- ❑ The use of double materiality principles within reporting frameworks increases transparency by requiring disclosure of impacts on both financial performance and environmental/social factors.
- ❑ The reporting frameworks operate under a logic of better informing investors in their decisions, which does little to influence corporate behavior at a deeper level since it binds sustainability to profit returns.
- ❑ Despite the absence of a definitive answer as to their long-term effectiveness, the rising adoption of sustainability frameworks indicates a positive trajectory towards increasing sustainability awareness in the corporate sphere.



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ARE GLOBAL REPORTING INITIATIVE STANDARDS RELEVANT FOR THE GLOBAL SOUTH



While many GRI standards are relevant for the global south, the perspective of developing countries needs to be considered more strongly.



Dr. **Edward Tello**, Monash Business School, Associate Professor **James Hazelton**, Macquarie University, and Dr. **Shane Leong**, Macquarie University, investigate the degree to which the Global Reporting Initiative (GRI) standards reflect material concerns of stakeholders in developing nations as a framework for sustainability reporting, with particular reference to Latin America.

Related research: Missing voices in GRI standards? Distinct material concerns of Latin American stakeholders revealed by COVID-19, James Hazelton, Shane Leong, Edward Tello; Accounting, Auditing & Accountability Journal, Vol. 36 No. 3, 2023, Emerald Insight

A STANDARDISED FRAMEWORK FOR GLOBAL REPORTING?

According to the United Nations, there are 193 nations across the globe, not including certain states that might also classify as nations like Taiwan or the Vatican. And amongst these are multiple ways of governance, from democracy to autocracy. Given all this diversity, it makes sense to say that the world would benefit from utilising common tool for measuring business and policy-related issues.

The Global Reporting Initiative (GRI) is an example of such a standardised tool. Established in 1997, the GRI is a direct result of the Exxon Valdez Oil Spill, and underlines the notion that global guidelines and consistent reporting ought to be in place for social and environmental protection. It has since become the most commonly used framework for sustainability reporting across the globe.

Unfortunately, in the decades that followed the inception of the GRI standards, various limitations have been discovered. But by investigating the strengths and weaknesses of the current GRI standards, countries and companies are more able to work towards not only a more sustainable world, but also a more equitable one.

As such, research by Dr Edward Tello at Monash, together with Associate Professor James Hazelton and Dr Shane Leong of Macquarie University, examines the quality of the GRI standards. With a specific focus on Latin America (in particular, Chile, Mexico, and Peru), they explore whether the GRI standards might need to be adjusted to fully capture the reporting needs of developing world stakeholders.

SOUTH AND NORTH: DISTINCT ISSUES, CHARACTERISTICS, NEEDS

By analysing news coverage as their primary data source, the authors attempt to answer two distinct questions: to what extent does the concern of stakeholders differ between developed and developing countries, and to what extent are these concerns covered by the existing GRI standards?

In focusing on the distinction between developing and developed countries with regards to GRI standards, their findings follow in line with the suggestion that the economic, political, and social traits of developing countries mean that corporations operating in these environments have additional stakeholder obligations.

The bottom line is that existing GRI standards need to be adapted to meet the needs of the Global South. Indeed, the stakeholder concerns of Latin Americans are materially distinct: from labour, to social service provisions by corporations, and the detrimental effect of corruption.

On the ground this translated into issues like Peru having to deal with COVID-19, where a pressing issue was the lack of technical medical equipment. As opposed to developed nations, where the news coverage of COVID-19 focused more on issues such as government grants for businesses having convoluted application procedures.

Indeed, during the pandemic, employee concerns were significantly covered by the news channels both in the northern and southern hemispheres. But while the north tended to focus on unfair dismissal, lack of transparency over worker infection rates, and the unethical practices of businesses shying away from sick pay, the south – in this specific case South American countries – emphasised, for example, the harsher treatment employees received. This included being forced to sign resignation letters, salary reduction agreements and undertake clandestine work.

A further issue of injustice frequently cited was the differences in wages, benefits and working conditions between employees based in parent companies in developed countries, and those working in the subsidiaries of the latter in developing countries. Above all, it was worker safety that received most prime time airing.

REPORTING FOR DUTY: GOING FORWARDS

Dr Tello, Prof. Hazelton, and Dr Leong state that while many GRI standards are relevant for the global south, the perspective of developing countries needs to be considered more strongly given that their needs differ from the developed countries – especially in terms of labour conditions and companies' poor provision of core social services.

These different needs mean that current GRI standards are insufficient for developing country stakeholders, with particular deficiencies in reporting for labour practices, and the quality of reporting for public and private sector interactions. GRI 401 Employment, 2016, for instance, demands few details to be given in relation to termination of employees, an area of high concern in developing countries.


Reviewing GRI submissions, evidence suggests that these deficiencies might be the consequence of a lack of developing country input into the standard-setting process – with developing countries accounting for only 31% of GRI submissions despite representing 88% of the world's population.

Tello, Hazelton and Leong also explored studies conducted in Spanish by Latin American countries, revealing that findings are consistent with that of research published in English. More crucially, the translations revealed some novel findings that the existing research in English had yet to identify, such a strong presence of the issue of corruption. As such, this suggests that both parties have something to gain from working together.

Last, Dr Tello, Prof. Hazelton, and Dr Leong offer up recommendations for corporate action, transparency and disclosures for both developing and developed worlds in times of crises, such as the pandemic. These include:

- A duty for firms to explain and justify in situations of mass lay-offs
- Disclosure of the circumstances and reasons behind any reductions in wages or benefits
- A duty for firms to explain the negotiation process and how it is communicated when it is used for decisions negatively affecting employees
- Transparency regarding fair treatment of customers who paid for services that they were unable to use due to disruptions, and the identification and disclosure of customer safety risks.
- Disclosure of any announcements of support to the community and progress towards reaching those promises
- Communication of actions which significantly harm (or benefit) corporate suppliers.

And as the world seems to continue into its year of instability – with uncertainties over future pandemics, refugee crisis, war, and climate change, these issues are becoming ever more pertinent.

Encouragingly, in June 2024 the GRI launched a 12-month project to revise the GRI standards on employment practices and working conditions. This project aims to consult widely with representatives of the global south as well as the north, so it could be that a fully inclusive set of GRI standards is on the horizon. For full details see <https://www.globalreporting.org/>. 

KEY TAKEAWAYS

- The Global Reporting Initiative (GRI) is the most commonly used framework for sustainability reporting across the globe.
- Dr Tello, Associate Professor Hazelton, and Dr Leong examine the quality of the GRI standards, with a focus on three Latin American countries (Chile, Mexico, and Peru), exploring the notion that stakeholders in the developing world might need different information to those of the developed world.
- They find that corporations operating in the developing world have additional stakeholder obligations, which the current GRI standards fail to take into account, and that input into GRI standards development is skewed toward the developed world.
- The review of the studies conducted in Spanish reveal that both the Latin American locals and the English-speaking researchers would benefit from working together for future studies.
- The findings offer up recommendations for improved disclosures in relation to labour standards as well as disclosures for both developing and developed worlds in times of crises like the COVID-19 pandemic
- The GRI has just launched a 12-month project to review all GRI labour standards.

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TO BE HUMBLE OR MODEST? WHAT COUNTS MOST IN JOB PERFORMANCE?



When given a task, an employee's personality plays a big role in their work behaviour.



Are there certain such attributes that could negatively boost work performance? When it comes to being humble and modest, both are supposedly excellent virtues to have as an employee.

But, in the long run, does one attribute accelerate job performance more than the other? Professor **He Peng, School of Management Fudan University**, takes on the challenge to scrutinize these two constructs on the different dimensions of job performance.

Related research: Similar or Different Effects? Quantifying the Effects of Humility and Modesty on Job Performance, He Peng, *Frontiers in Psychology: Organizational Psychology*, <https://doi.org/10.3389/fpsyg.2022.80984>.

Time and again, a perfect employee is determined by what they contribute to an organisation as a whole. Managers have, and still view, job performance as the most crucial variable in determining one's suitability in a workplace.

The words humble and modest are often positively used to describe those managers and leaders who bring about the most productive results. Strong evidence over the years has implied that humility has been at the core of effective leadership, while modesty is the backbone of corporate advancement.

More often than not, when asked to define humility, a significant number of people use layman's terms and utilize the word 'modesty' in their interpretation. Strangely enough, the exact thing occurs when asked for the definition of modesty and the word 'humility' shows up. These definitions are closely intertwined in the minds of the people, however,

that doesn't express whether they bring out the greater good individually. For example, in work environments, these characteristics are quintessential for great results. But, when examined distinctly, do they exhibit identical quotients on an employee's performance?

A great deal of research has been conducted separately on the concepts of humility and modesty being the key fragments of work outcomes. However, just a handful of studies examine the close link between this duo side-by-side.

DISSECTING THE CONFUSION

Professor He Peng decided to dig deeper into this niche of confusion, to comprehensively identify the effects of modesty and humility in a professional performance setting. He went about it by reaching out to 77 managers who participated in a survey and further recommended around 239 subordinates who volunteered to engage in the questionnaire.

Preceding scholars have highlighted the multi-dimensional nature of job performance and additionally determined its sub-dimensions as equally important. As a consequence, Professor He Peng investigated the collected data across 4 different magnitudes: task performance, citizenship behaviour, unethical pro-organisational behaviour, and innovative behaviour.

HUMILITY VS MODESTY

In a workplace, the virtues of humility and modesty mainly overlap from an interpersonal point of view. Humility and modesty from an inner view can frequently come out as confusing and repetitive. But when given thought from an external aspect or – in other words, behaviours manifestations, they have well-determined differences.

As a result, in his research, Professor He Peng defined them from an interpersonal aspect. Here, humility is seen in multiple ways such as – a reflection of one's willingness to underline their shortcomings, to compliment others' vigour, and to be open to criticism from their peers. Contrastingly, modesty is defined as a discrete form of self-portrayal.

In today's world, managers need to understand their subordinates in their entirety to determine their strengths and weaknesses. However, understanding the underlying motives of one's behaviour at work is key. Rather than using trial and error to decide whether a team member performs better at a task, comprehending their primary motivations supports a faster, better and more considerate solution.

TO GET THE JOB DONE

When given a task, an employee's personality plays a big role in their work behaviour. And for managers, it is imperative to understand their team's distinctive patterns. Moreover, making use of this observation, managers must seek to support their subordinates to increase productivity and

contribute towards core tasks, while keeping their distinct style of functioning in place.

Being a humble employee is always seen as a positive feature, but when looked closely, there are tinier specks of humility that can cater to even better work performance. Those who are perceived as humble, often have a continuous learning attitude and this frame of mind is what brings on their very best when dedicated to a task. Secondly, a humble employee is well-aware and can analyse their weaknesses, while being open to feedback from all avenues which makes them well-seasoned to make important decisions. As seen in many firms, recruiters too stress the importance of a prospective employee's self-consciousness and self-awareness similarly.

On the contrary, modesty among employees has its very own pros and cons. An employee's modest representation can enhance work engagement and motivate managers to guide them actively. Inversely, modesty can also undermine one's attributes, capabilities, and characteristics. Modesty bears with it a risky chip that can shadow one's real image and lead to lower involvement of their superiors and thus hinder task performance. Keeping in mind this two-faced nature of modesty raises the question of its effects on one's task performance.

SOME RULES ARE BETTER LEFT UNSAID

In mundane words, citizenship behaviour from a business standpoint is used to describe the positive behaviours that are expected but aren't explicitly stated for the employees to follow. However, these sets of behaviours do cater to the smooth functioning of an organisation.

Out of the five organisational citizen behaviours, helping and voicing are two of them where modesty and humility can be easily linked. They are both affiliating and challenging and are crucial across workforces in dynamic environments.

People who wear their humility on their sleeve, tend to see their own worthiness as well as others. They complement, encourage, and support subordinates while being self-aware of their highs and lows. Employees like these strongly support equal treatment for all and are known as egalitarians. For example, in past studies of humble world leaders, those who believed in running a country by listening to the needs of the people, and putting the people's needs first, were successful and loved – making their helping and voicing behaviour closely related to their humility.

However, citizenship behaviour is a little more complex than that when it comes to being modest. Modesty comes along in one when they are often trying to skip past the spotlight, and helping a colleague might be viewed as an uninvited guest. Whereas, when it comes to voicing their opinions in a work environment, once again, it carries along a risk of exposure and too much attention, and so might be a big 'No' for such employees.

LEGALLY YES, ETHICALLY NO

There might come a time when every manager or employee has to decide to do the right thing and suffer a loss, or engage in wrongdoing but benefit the organisation as a whole. When this comes down to violating societal norms or behaviour, it's called unethical pro-organisational behaviour or UPOB. It's often said that UPOB is for the betterment of all in the organisation, and is done with a good sentiment at heart. But, typically, UPOB might be adverse for a firm in the long run.

In an enterprise, humble managers recognise and put their beliefs in a greater entity like laws, and regulations and seek the good of all. Moral principles play a big part in a humble employee's personality, and when it comes to UPOB, they might stray far away from it, as it clashes with their conventional social perspective.

Inversely, modest managers have a strong sense of self-protection and care a lot about how they are viewed by their peers. When it comes to taking a risk, they are more sensitive towards it as it can increase or decrease their acceptance across the organisation. Protecting themselves comes first and they are more likely to play a part in UPOB.

INNOVATION: NOT AN UNDERLYING SKILL, BUT AN UPROOTED SELF-VIRTUE

In this post-crisis world, being innovative and creative is encouraged and sought after across many industries. As and when a trend flows into a company-specific business, innovative organisations have recently been successful by adapting to it and therein, staying in the corporate race. But, behind all the innovative faces, comes an open mindset of every member of the firm.

While recruiting, it's this company culture that hiring managers seek, but oftentimes it's hard to assess innovation amongst the young crowd. Furthermore, there arises a question of whether an employee's character plays a big difference in their innovative thinking.

Looking at past research, innovative behaviour and personal values in an employee can be closely linked. For example, an open-minded thinking process is observed in those individuals who welcome others' feedback, learn through their superiors and handle criticism well. These are also the same traits observed in an employee who displays humility in their day-to-day activities. That being the case, it's evident that innovation blends in well with a humble person.

On the other hand, modesty might just trigger a negative correlation with innovative behaviour. Innovation drags in attention which is the biggest non-negotiable factor in books of a modest man. Moreover, innovation is a risk where failure follows closely, which in the minds of people reduces one's attractiveness and appeal, and thus is a task modest people won't adapt to.





HAIL THE HUMBLE MANAGER

For the newest generation, being in a workplace driven by confident, charismatic, and highly persuasive leaders is the trend. While applying for jobs, every applicant upskills themselves, improves their CV, and prepares their selling pitch. But they often forget to drink their daily dose of encompassing values such as integrity, humility, and respect.

The personal section of an interview, where a hiring manager tries to magnify an employee's values and beliefs is easily ignored by the applicants because they believe they have the accountability, commitment, and dedication required for the job. Even so, it is as or even more important than the technical screenings of an employee screening process.

Professor He Peng's research benefits not just hiring and business managers, but also those young applicants failing to cross their tough and gruelling interview processes. Through this detailed comparison between humility and modesty on workplace productivity, it's evident that taking up the act of being humble will go a long way.

When analysed across the multiple dimensions of job performance, modesty is observed to be positively related to just one factor of unethical pro-organisational behaviour. As the modest employee is driven by their motive of protecting themselves first, they are likely to give into any kind of risk to maintain their image and will participate in unethical activities, even if it's socially unethical.

Whereas humble employees positively correlate to task performance, helping, voicing, and innovative behaviour as well. Humility comes out above and makes it clear that when combined with modesty, it could affect one's job performance negatively to a large extent. That's the core confusion that this research solves. Assuming humility and modesty to be synonyms might work in daily life. But when these attributes contribute towards work performance, one is better than the other – and definitely, it's humility.

So, to all managers – don't sell humility short. It plays a vital role in one's contribution and works as a helping hand while growing your business. ///

KEY TAKEAWAYS

- We tend to think that humility and modesty are one and the same. Humility is a reflection of one's willingness to underline their shortcomings, to compliment others' vigour, and to be open to criticism from their peers. Contrastingly, modesty is defined as a discrete form of self-portrayal.
- Strong evidence over the years has implied that humility has been at the core of effective leadership, while modesty is the backbone of corporate advancement.
- Those perceived as humble often have a continuous learning attitude bringing out their very best when dedicated to a task. Humble employees are well-aware and can analyse their weaknesses, while being open to feedback from all avenues which makes them well-seasoned to make important decisions.
- An employee's modest representation can enhance work engagement and motivate managers to guide them actively. But modesty can also undermine one's attributes, capabilities, and characteristics and can hinder performance.
- When given a task, an employee's personality plays a big role in their work behaviour. And for managers, it is imperative to understand their team's distinctive patterns.
- Moreover, making use of this observation, managers must seek to support their subordinates to increase productivity and contribute towards core tasks, while keeping their distinct style of functioning in place.

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SUSTAINABILITY REPORTING: AN ORCHESTRA OF PEOPLE, PLANET, AND PROFIT

“Companies that transcend mere compliance to promote a sustainable planet and human rights practices stand out significantly.”



Sustainability reporting has now become a mandatory practice across companies in many countries. How does it work and why is it an effective lever for positive action in terms of people, planet, and profit? **Farrah Hartanto**, Runner up at **Warwick Business School** in the **2024 CoBS CSR Article Competition**, explores.

The EU has mandated all large and public listed companies to publish non-financial reports using the European Sustainability Reporting Standards (ESRS), starting from their 2024 financial year. Meanwhile in 2022, there were 2,231 companies globally that have used the Standards developed by Sustainability Accounting Standards Board (SASB), an independent organization that is maintained under International Sustainability Standards Board (ISSB).

WHY SUSTAINABILITY REPORTING MATTERS?

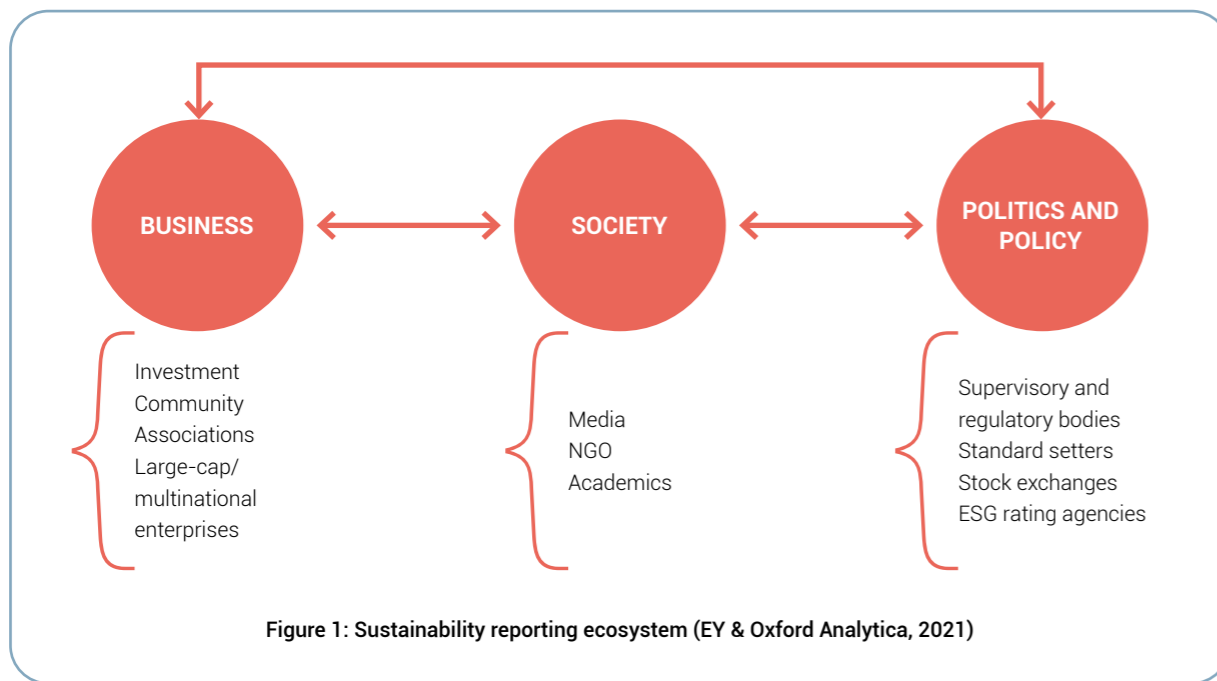
Global Risk Perception Survey conducted by World Economic Forum in 2023 concludes that the global outlook will be unsettled and turbulent, attributing it to issues of extreme weather, misinformation & disinformation, political polarization as few of the highlights. In response to this growing concern, citizens have put their focus on businesses in addition to government as agents of change, as they believe in the capability of resources that businesses possess to address important issues and prevent it from further deterioration. This is the case of a reciprocal relationship, as surveyed by Capgemini (Statista, 2024) and confirming that 70% of its respondents are willing to pay premium for sustainable products. Further, a majority of consumers in the

EU, UK, and US are becoming more frequent in checking a brand's sustainability practices (Statista, 2022). Businesses should not only focus on their effort to achieve sustainability, but also educate their consumers about their practices to allow them to capture greater market share and profit.

The benefit of promoting sustainability should not be contested. The practice, together with reporting, would force businesses to become prudent by rethinking their business models and operations. The mappings of input, process, and output will become not just detailed, but also recorded, and each has to be considered for further implications towards areas catered for by a sustainable development map – namely environmental, social & humanitarian, and governance (ESG). Businesses should not be terrified in front of the seemingly complex practice – rather, they should embrace this as an opportunity to rethink their strategy take the lead over their competitors. Morgan Stanley (2023) has reported that its investors are now focusing on companies who can generate both competitive financial returns and sustainability, indicated by 14.8% year-over-year growth of its asset under management going towards sustainable funds. This proves the importance of sustainability reporting in building businesses' credibility, not just for capital fundraising but also for continuity of the business itself.

HOW DO STANDARDS HELP STAKEHOLDERS?

Sustainability reporting was once a voluntary disclosure of non-financial reporting. The decision to make such reporting become mandatory is based on the principle that a business has responsibility to create value towards its stakeholders, environment, and society in which it operates in (Dilling, 2010). As such, the report must serve the purpose of providing transparency and accountability on the organization's sustainability mission. Limiting global temperature increase to below 1.5 degree Celsius by reducing CO2 emission is not an option, rather an absolute must. Standards in sustainability reporting would ensure that businesses are directing their efforts towards the common goal of improving ESG, leaving minimum space for misinterpretation and eventually promoting harmonization.



Sustainability reporting standards inherently serve various business stakeholders, namely politics and policy influencers, society, and business (EY, 2023). These stakeholders impact each other in terms of shaping the outcome of a sustainability mission. For instance, society influencers, through discourse such as campaigns or petitions, would express their interests of clearer sustainability regulations to policymakers, which later would impact businesses and their stakeholders. Therefore, standards are created to appeal towards the interests of these three groups. Both ESRS and SASB are known to have involved companies, public society, academics, investors, trade unions, and standard-setters in their development; thus ensuring its standard is holistic and all-embracing.

ESRS & SASB: THE DIFFERENCE

ESRS was developed in 2021 and ensures that its Standards are in alignment with the International Sustainability Standards Board (ISSB), which maintains SASB and the Global Reporting Initiative (GRI). ESRS mandates all large and public listed companies in the EU to report material that are considered as important from the impact of its operations towards people and environment, as well as how it creates financial risks and opportunities for the company. This concept is known as double materiality, which is distinct to ESRS. Moreover, companies whose reports are based on ESRS would also require limited assurance by company's auditor or independent assurance services provider.

SASB was published in 2018 and is known for its focus on the investor as its audiences, because the US securities law does not mandate multi-stakeholder disclosures. It lays emphasis on the impact of how a company's sustainability mission and activities create financial risk and opportunities for the company, and the company can decide which information is material to investors. Companies that want to address a broader range of stakeholders would need to incorporate other standards in its reporting, such as those from the GRI or ESRS. Therefore, it can be concluded that both ESRS and SASB have a complementary relationship.

IS THERE A BETTER STANDARD?

We remember the classic philosophy where businesses exist with the purpose of creating value for its stakeholders. Reports should fulfil their comprehensive purpose of providing relevant, material information on environmental, social, and economic issues, evaluating company and stakeholder concerns, documenting stakeholder contributions, and prioritizing these issues to inform sustainability strategies and reporting (Jones et. al, 2015). To put it simply, the better report is one that can provide a more robust view and assessment of a company's sustainability agenda towards its long-term business continuity, by also considering the continuity of human resources and the ecosystem in which it operates.

Using this criterion, ESRS can be considered superior for several reasons. From a pragmatic perspective, the mandatory nature of reporting forces businesses to disclose their efforts on sustainability at the cost of facing legal consequences. Companies in the EU are subject to a fine of 5% of their global net turnover for non-compliance with the legally mandated standard for conducting supply chain due diligence (Foley, 2024). Consequently, businesses will have no choice but to comply. Despite the prevailing arguments which highlight the cost of preparing such a report due to the extensive amount of data collection and required assurance, forcing these businesses to mandatory reporting is justified on the grounds of maturing their efforts of promoting sustainability, as well as to ensure the longevity of the business itself.



The released ESRS Standards have greater breadth than those of the SASB. In addition to two cross-cutting standards, ESRS provides disclosure standards for ten topics within environment, social, and governance topics – a total of twelve standards which guide companies through universal KPIs for certain topics, such as climate and biodiversity. Comparatively, ISSB has released two industry-specific standards effective as of 1st January 2024 for SASB Standards adopters, focusing mainly on environmental topics with targets that are predetermined by each company. In both cases, companies are not obliged to report information that is not material. However, ESRS's voluntary disclosure requires companies to provide an explanation of why a particular topic is deemed immaterial. Consequently, reports that are based on ESRS Standards will have greater transparency and accountability from the broader disclosure. Greater information would also allow engagements from multiple stakeholders in shaping the company's continuous effort to sustainability. Lastly, given the rise of greenwashing and anti-ESG movements that arose from public distrust of companies, ESRS plays a pivotal role in engaging greater society to restore that trust as it requires companies to seek limited assurance – sending a strong signal to stakeholders of their commitment to sustainability.

WHAT DOES SUCCESS LOOK LIKE?

Companies that adopt ESRS do not have an upper hand over those that adopt SASB, but companies that transcend mere compliance to promote a sustainable planet and human rights practices stand out significantly. It is essential for the stakeholders in sustainability reporting to view these reports not merely as mandatory disclosures but as indicators of value alignment between themselves and the companies in question. This means using the company's sustainability report as a knowledge base for their future actions – be it starting a responsible consumption movement or investing more money in companies who share the same long-term vision of sustainability. In essence, the report should become the trigger for future discourse on environmental protection and conservation, social rights endorsement, and good governance practice. ///

KEY TAKEAWAYS



- ❑ Sustainability report has a role of educating consumers about the company's sustainability efforts and companies by providing a long-term view of the business.
- ❑ Sustainability reporting standards provide guidelines by reducing misinterpretation of businesses' role in promoting ESG and is shaped by different stakeholders, namely politics and policy, society, and business.
- ❑ Given the mandatory nature of reporting and breadth of scope that has been established, ESRS will ensure businesses to comply with the reporting standards, provide accountability and transparency.
- ❑ Whichever standards companies are using, it is companies who promote sustainability beyond mere compliance that stand out from the rest.



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KNOCKING ON OUR DOORS: LEADING EMPLOYEES TODAY AND TOMORROW IN THE NEW AI ERA

“
In a few years, we will find ourselves asking, “How has AI grown my career?”



Leadership remains a key enabler of the AI transformation of companies. **Maria Caruso**, Winner of the **2024 CoBS Student CSR Article Competition** at IE Business School, contends that the transformative journey begins with people and existing human practices, even before the technology.

Emma is at her desk and she is working on a draft study. She uses a generative artificial intelligence (GenAI) chatbot to get summaries and additional links to websites that will feed into her research. To cut on time-consuming sorting of emails, she also uses AI-driven tools to upgrade her organization and manage the quality and quantity of email responses.

Nowadays this scenario is getting more common for many of us. Undoubtedly, 2023 has widely introduced AI, and in particular generative AI and large language models (LLMs) to the world. What started out with playing on ChatGPT, getting travel itineraries or creating images, is now rising questions on the potential to redefine how businesses operate and how to weave this digital companion into the workplace. PwC predicts that AI could contribute up to \$15.7 trillion to the global economy in 2030 (PwC, 2017). Research by the World Economic Forum (WEF) also found that LLMs could augment many roles, offering the potential for job growth (WEF, 2024). The penetration of the technology has been too fast to ignore and GenAI is already on the agenda of companies' boardrooms (McKinsey, 2023).



What this all means is that employees and professionals are adapting and will adapt to new ways of working, and leaders need to ensure they match the speed of progress and provide guidance through the process. As the workforce adapts to the integration of AI, leaders must also adapt their approach to effectively guide their teams through this transition.

In the ever-evolving landscape of work, leaders find themselves at the crossroads of tradition and transformation. How is the advent of AI and GenAI challenging the redefinition of leadership in the digital age? What are some effects on the workplace?

GETTING THE HOUSE IN ORDER

In the late 1990s, the advent of the Internet revolutionized the way we live, work, and connect. It became an indispensable tool for communication, information exchange, and global collaboration. Fast forward to the present day, we can expect that AI tools will also be key to thriving as they get more precise and applicable (Cook et al., 2024). GenAI promises to reshape industries, enhance decision-making, and unlock new possibilities.

The challenge does not necessarily stem from the technology itself, rather from incorporating it into work processes, guiding its evolution, and handling its effects (Khan, 2024). Data reveals a positive outlook, yet still met with some degree of uncertainty. According to Randstad's Workmonitor Pulse Survey (2024), 52% of respondents believe AI will lead to their own career growth and promotion rather than losing their job. However, uncertainty persists.

A YouGov survey (2024) highlights ambivalence: 32% of consumers perceive AI as a booster, while 34% remain unsure about AI's impact on productivity. Armed with an increasing understanding of the benefits of AI, leaders need to consider how to harness their employees' distinct abilities and skills, especially as AI tools increasingly enhance individual productivity. After all, humans possess unique qualities, like creativity, empathy, intuition, that AI lacks (Chamorro-Premuzic, 2023). These distinct abilities will remain our competitive edge. Effective leadership involves leveraging AI to augment human potential.

The OECD (2023) sheds light on an encouraging trend: job reorganization outpaces job displacement. Rather than replacing humans outright, AI often reshapes roles, automates repetitive tasks, and frees up cognitive bandwidth. Leaders should view this as an opportunity. They can focus on reskilling, upskilling, and creating hybrid roles that combine human intuition with AI-driven insights. This interconnected ecosystem of humans and AI, requires a strong foundation, where leaders should champion digital literacy and foster adaptability.

In this new era, getting the house in order means more than just tidying up. In this new era, leaders must champion digital literacy and foster adaptability to ensure that their organizations can effectively leverage the potential of AI. By taking a proactive approach, leaders can capitalize on the business opportunities it presents, while also addressing the potential challenges and risks.

WHAT ABOUT SKILLS?

Do we understand the technology or does the technology understand us? Closing the digital divide in the new AI era cannot be neglected, including when applied to the workplace. To work effectively with AI-based technologies, employees need a combination of technical skills and interdisciplinary skills such as critical thinking, creativity, a willingness to learn continuously and the ability to reflect ethically.

At the last WEF meeting in January 2024 in Davos, world leaders have been discussing how to find the talent needed for some of these changing roles (WEF, 2024). Technology literacy is a much growing core skill, and it should arguably be prioritized in organizations' internal upskilling strategies, motivating employees to embrace change, with the integration of GenAI and LLMs into the workplace.

This means that employees and professionals are adapting and will adapt to new ways of working. Shepherding this effort can only come from leaders who are willing to invest time, energy and patience to support upskilling their workforces, for example through comprehensive trainings. From the workers' perspective, a recent Randstad's recent survey (2024) also showcases that 55% of respondents believe they need learning opportunities to future proof their careers and AI will enhance career growth rather than lead to job loss.

Excitement about AI in the workplace should be on top of mind for leaders and addressing those new skills should be part of organizational strategies. Upskilling isn't a one-time event, "it is a mindset" (Dennison, 2023). Organizations should foster a culture of continuous learning and cultivate a workforce that embraces the AI's promise. Whether through workshops, online courses, or mentorship, employees should engage in lifelong learning to stay AI-relevant. So what about skills? Upskilling should not be considered just about acquiring technical skills, yet about cultivating a workforce that embraces AI's promise. Organizations that invest in skilling their workforce empower their employees to lead confidently in the AI era.

AI IN HR

Human resources (HR) remain essential to oversee and coordinate an organization's workforce. What can AI bring here? The integration of AI in HR can arguably transform the landscape of workforce management. AI's ability to analyze vast amounts of data can allow HR professionals to gain deeper insights into employee performance, satisfaction, and retention rates. Could this enable more informed decision-making and personalized employee experiences in the future?


Wassan et al. (2021) argue that in HR AI can result in a more streamlined, scalable and user-driven employee interface. For example, AI-powered chatbots serve as 24/7 virtual assistants, addressing employee queries instantly and accurately (Gartner, 2023). Or for onboarding processes of new hires, AI can provide new employees with easy access to necessary information and resources, ensuring a smooth transition into their roles.

Thinking about the workplaces of the future (and present too) AI can empower HR professionals to exceed their traditional roles and become strategic partners in business success, all while enhancing the employees' experience. While AI can empower HR professionals to exceed their traditional roles and become strategic partners in business success, there are also potential drawbacks to consider. These could include the perpetuation of biases, displacement of employees or the production of inaccurate results (HEC, 2022). It is essential for companies to consider the legal and ethical implications of using AI in HR and to implement measures to mitigate potential risks. By understanding and addressing these potential drawbacks, companies can minimize the risks associated with AI while leveraging time-saving benefits.

HOW HAS AI GROWN MY CAREER?

Knock, knock. "Who's there?" we ask curiously. It's a paradigm shift. It's the chatbot that answers queries, the predictive model that forecasts trends, and the digital muse that whispers ideas. Unlike previous technological revolutions, AI has the ability to learn, adapt, and make predictions based on data. In this dynamic landscape where AI intertwines with our work lives, effective leadership becomes paramount. By better understanding what the technology can do, leaders can assess use cases and benefits, and effectively guide their organizations through this transition. Successful leaders will continue to foster a culture of continuous learning, where employees adapt to AI-driven changes and upskilling become an anthem.

The new AI era demands leaders who navigate uncertainty with agility, inspire innovation, and empower their teams to thrive, building upon what humans already do. In a few years, we will find ourselves asking "How has AI grown my career?" Reflecting on the question, we can envisage employees of the future talking of augmenting productivity and working on data-driven insights provided by AI, embracing the digital transformation to the next level. ///



KEY TAKEAWAYS

- Leadership remains a key enabler of the AI transformation of companies and organizations. Leaders who have a better understanding of AI technology and its capabilities are better equipped to assess its potential use cases and benefits, and to make informed decisions about how to integrate AI into their business strategies and capitalize on the opportunities it presents.
- This transformative journey begins with people, even before the technology. According to several surveys, employees are optimistic about AI. To maximize its benefits, prioritizing upskilling through comprehensive trainings would ensure employees can harness AI efficiently.
- HR will not stop to oversee and coordinate an organization's workforce, yet the integration of AI in HR can transform the landscape of workforce management. It can help to streamline, scale, and personalize employee experiences.
- An illustration of short-term adaptation of AI in the workplace to improve productivity is through the use of AI-powered chatbots. These chatbots can act as digital assistants, improving workplace efficiency.
- Leaders navigating this new era should consistently rely on the foundation of leveraging existing human practices and actively involving employees in the digital transformation process.



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FOR THE LOVE OF MONEY: THE IMPACT OF STOCK OPTIONS ON CEO RISK-TAKING BEHAVIOUR



Corporate conduct is no longer seen simply as a compliance issue



Are stock options an effective tool for managing CEO risk-taking? What about an individual's innermost attitudes towards risk? Professors **Tuck Siong Chung** from **ESSEC Business School Asia-Pacific**, **Yenn-Ru Chen** from **National Chengchi University**, and **Chia-Hsien Lin** and **Angie Low** from **National Chung Cheng University** and **Nanyang Technological University** respectively, examine how the intrinsic motivations of CEOs interact with executive stock options compensation and influence their actions.

Related research: When do stock options affect CEO risk-taking? The moderating role of CEO regulatory focus, Yenn-Ru Chen, Tuck Siong Chung, Chia-Hsien Lin and Angie Low, *Journal of Business Finance and Accounting*, (2023).

The O'Jays is an R&B/ soul band and one of the most important representatives of Philly Soul. During the course of their career, they recorded 29 studio albums and over 90 singles. One of their most notable singles, "For the Love of Money", deals with different risky (and, in the song itself, immoral) actions people would be willing to undertake to satisfy their avarice. The song includes harsh generalisations and hyperboles about people's motivations and laconically comments on money's influence on their behaviour.

Although it's a great song from 1973, why is it relevant in an academic context? The O'Jays imply that financial incentives can influence certain people to take more risks. However, they also acknowledge that this does not apply to everyone.



Therefore, at least according to them, this would mean that certain people have a predisposition for behavioural change to take riskier actions.

Professor Chung et al. deal with this idea in a business context: They focus on how CEOs' different intrinsic attitudes towards risk-taking may affect their responsiveness (or lack thereof) towards risk-taking incentives and, in particular, executive stock options.

DOES MONEY MAKE THE WORLD GO ROUND?

Professor Tuck S. Chung and his fellow researchers look at how a CEO's innermost motivations to achieve gains and avoid losses may affect the response to risk-taking incentives in the form of stock options. More specifically, they investigate the interaction of intrinsic CEO motivations to take risks with this external initiative and ultimately ask: Do risk-taking incentives in the form of executive stock options work? And if so, what are the conditions for them to work?

Indeed, stock options for CEOs are currently used to reduce the problem of CEOs potentially underinvesting and averting risks in fear of failure. At the same time, studies and research on the actual impact of stock options on CEO risk-taking behaviour have been so far theoretically and empirically inconclusive.

CEO RISK AVERSION VS STOCK OPTIONS

Compensation for CEOs and executives helps align their interests with shareholders, as the compensation links personal wealth to the firm's performance. Using stock options for CEOs should incentivize them to take more risks, since it makes them part owners and allows them to benefit from any increase in their firms' stock value. However, even stock options as a motivation tool for CEOs are a double-edged sword: they could also magnify the exposure of risk-averse CEOs to the firms' risk and decrease risk-taking initiatives.

For example, by greatly increasing the stakes placed on how well firms perform, risk-averse CEOs may pass up investments

providing positive returns that more than compensate for the risks involved. While researchers have empirically examined CEO stock options in the past and have found a positive relationship to CEO risk-taking, research on this topic remains difficult. This is due to the various possible confounding factors, omitted variables in the prediction models used, or the unclear cause-and-effect relationships. Risky business – why some people take risks and others don't.

RISKY BUSINESS – WHY SOME PEOPLE TAKE RISKS AND OTHERS DON'T

Drawing on Higgin's Regulatory Focus Theory (RFT), two motivational systems – promotion and prevention – regulate behaviour. Individuals who are promotion-focused are motivated by achieving gains and hardly think about losses. They engage in riskier acquisitions and investment strategies as well as tending to invest more in R&D.

Conversely, prevention-focused individuals aim to avoid making mistakes and mitigate losses. As a result, they tend to engage in conservative decision-making even when it implies giving up potential gains. Promotion and prevention focus can be seen as a continuous spectrum with two opposite ends, where individuals are either in extreme positions or in the middle. Individuals can simultaneously showcase high levels of both foci, of just one, or neither.

Prof. Chung and his fellow researchers thus examined – in the context of the RFT – the relative strength of an individual's promotion focus compared to their prevention focus, i.e. promotion focus predominance as well as the CEO's prevention and promotion foci independently of each other.

PUTTING RISK INTO NUMBERS

Together with a final sample of 5,903 firm-year observations corresponding to 697 firms, the four researchers downloaded the corresponding annual reports. Other data, most notably CEO compensation and age, accounting data, stock return and volatility, were taken from Execucomp, Compustat, and CRSP, respectively.

Chung and his colleagues also analysed the content of CEO letters to shareholders to determine their regulatory foci. As CEOs usually personally write these letters or review the content, the researchers used an analytics platform to categorise each sentence as either prevention- or promotion-focused. They then scaled the sentences to obtain results on the CEO's position on the prevention-promotion focus scale.

"MONEY CAN CHANGE PEOPLE SOMETIMES": WERE THE O'JAYS RIGHT?

Professor Chung et al. found that the motivations for risk-taking (the RFT) interact with risk-taking incentives, i.e. the stock option compensation structure. While extremely



risk-averse (prevention-focused) and extremely risk-loving (promotion-focused) CEOs were not impacted by stock options, CEOs with more intermediate and malleable motives were clearly influenced, as shown by the positive relationship between firm risk and CEO stock options.

IS CONFIDENCE THE KEY TO SUCCESS...?

While regulatory focus is a decisive factor in influencing CEO risk-taking behaviour, CEO characteristics such as confidence also contribute to this phenomenon. While regulatory foci describe an individual's goal-oriented motivation, personalities showcase their beliefs and evaluations of themselves.

Chung et al. discovered that CEO traits such as overconfidence, hubris, and narcissism affect a firm's risk. However, the influence of these traits is moderated by motivational processes as measured by the RFT.

In line with the previous findings, CEO confidence can be a factor in influencing moderately risk-averse or risk-loving CEOs. Non-overconfident CEOs with a moderate prevention focus can be influenced by stock options, as can highly confident CEOs with a moderate promotion focus. However, the positive effect of stock options is stronger in non-overconfident CEOs with a moderate promotion focus. This suggests that CEO overconfidence may counteract the risk-taking benefits of stock options.

... AND IS AGE REALLY JUST A NUMBER?

According to the research findings, younger CEOs are more responsive to stock options compared to their older counterparts. The study also found that moderate regulatory focuses are motivated by stock options, while these incentives do not sway CEOs with extreme motivational processes.

In summary, stock options are most effective in encouraging CEOs who do not already have deeply ingrained risk-taking attitudes.

WHAT BOARDS CAN DO

Prof. Chung et al. found that firms already award a relatively higher percentage of compensation in the form of stock options to CEOs with moderate promotion foci compared to those with extreme foci. While boards cannot directly measure the risk-taking attitudes of their CEOs, they use their interaction with their CEOs to identify their promotion/prevention foci.

All in all, the study demonstrates the critical role played by intrinsic motivations and risk attitudes in shaping CEO behaviour in conjunction with extrinsic incentives, such as CEO stock options.

As such, understanding when stock options can be an effective tool to incentivise CEOs to take risks can help boards design better compensation packages. ///

KEY TAKEAWAYS

- ❑ Stock options do not motivate all CEOs equally – individuals with moderate risk-taking attitudes are more responsive to them.
- ❑ Regulatory Focus Theory offers an explanation for risk-taking attitudes. It categorises individuals into "prevention-focused" and "promotion-focused" groups. Prevention-focused individuals prioritise avoiding losses while promotion-focused individuals focus on gains. People can have both extreme attitudes or moderate ones, with prevention or promotion taking predominance.
- ❑ CEOs with extreme risk-taking attitudes are unaffected by stock option incentives as their intrinsic preferences are too strong.
- ❑ Similarly, overconfident CEOs are not as effectively influenced by stock options as less confident ones (with moderate risk attitudes).
- ❑ Age is a relevant variable, with younger CEOs responding more positively to stock options than older ones.
- ❑ Boards have the opportunity to use these insights to design compensation packages that are aligned with CEOs' intrinsic motivations.



INTERNATIONAL COMPANIES AT THE CROSSROADS OF US ESG: DOLLARS OR GREEN FUTURE?



The question prompts a deeper reflection on the role of business in society, leading us toward a future that combines profitability with ethical stewardship.



ESG has largely been adopted by firms in Europe – with proven value. But its deployment in the USA has been stalled by those who contend that ESG diverts attention and resources from core business objectives. **Siyi Li, Trinity Business School** Finalist in the **2024 CoBS Student CSR Article Competition** tackles the question and forwards 3 areas of focus to make ESG regain traction Stateside.

Is it possible for a profit-driven company to truly meet its ESG obligations? In recent years, the international business landscape has been influenced by environmental, social, and governance (ESG) standards, which have compelled companies to align themselves with the principles of sustainability and ethical business practices. The ESG paradox is gradually surfacing as ESG commitments are converted into action. The ultimate goal of the Corporate Investor is profit, which is sometimes aligned with ESG objectives and sometimes in conflict. In fact, this is only one of the reasons why anti-ESG sentiment has arisen; the reasons for the anti-ESG movement are numerous and complex. What is undeniable is that the anti-ESG movement has been changing the behaviour of companies, with more managers avoiding talking about climate risk and expressing reservations on ESG issues. In the face of this anti-ESG movement, how should international companies respond to it?



ANTI-ESG MOVEMENT IN U.S.

Harvard Business Review (2023) defines the anti-ESG movement as a loosely defined set of beliefs and actions aimed at countering the shift towards "awakening" or progressive thinking in society and business. This movement is a mix of ideological positions, economic concerns, and political tactics that pose a significant challenge to the once seemingly unstoppable rise of ESG regulations.

The heart of the movement is a coalition of conservative policymakers, financial institutions and parts of the corporate sector. They argue that ESG standards, with their emphasis on sustainability and ethical operations, unduly encroach on the core principles of American free market ideology, i.e., the primacy of shareholders' interests and the sanctity of unfettered market forces. Profit maximisation reigns supreme among business principles, but the emergence of ESG standards marks a paradigm shift. Companies are expected to make positive contributions to society and the environment. This shift has challenged the traditional belief in profit maximisation and international companies have been thrust into a conflict of interest situation. Anti-ESG groups in the US have taken action in several areas in the US. In legislation, several states such as Texas and West Virginia have proposed or enacted measures that effectively prohibit state pension funds from taking ESG factors into account in their investment decisions. In finance, CEOs such as JPMorgan Chase (Jamie Dimon) have questioned the practical implications of ESG ratings, while Asset Manager Institution BlackRock has faced shareholder pressure over its ESG-driven investment strategy. The Securities and Exchange Commission (SEC) itself has become an arena for debate. Proposals to enhance ESG disclosure have come under intense scrutiny, and there is debate around the importance of such data to the investor decision-making process.

Opponents perceive ESG as an onerous obligation and an impediment to the unbridled pursuit of shareholder value. However, this argument ignores the integral role that sustainable practices play in long-term profitability. Recent research has shown that companies with robust ESG practices have improved long-term financial performance (Eccles & Klimenko, 2019). Compliance with ESG is not just

an ethical behaviour, but also a strategic requirement that can shield companies from regulatory penalties, consumer boycotts and environmental hazards.

SHOULD COMPANIES ACQUIESCE TO THIS ANTI-ESG RISING TIDE?

In recent years, ESG principles have become the foundation of global corporate strategies. These principles guide companies towards sustainability and social responsibility, while also attracting like-minded stakeholders and ensuring profitability. However, anti-ESG sentiment in the US presents complex challenges for global companies. International companies must balance recognising local sentiments with upholding global sustainability and responsibility commitments. This balance is critical to maintaining their standing with international investors and consumers.

ESG principles are proving to be more than just ethical guidelines. They are strategic imperatives for driving innovation, enhancing brand reputation, and opening up new markets. Unilever and Tesla have demonstrated that integrating ESG into business operations can lead to sustainable growth and profitability. Unilever's Sustainable Living Programme has increased its market share and consumer loyalty in every region. Tesla's commitment to reducing carbon emissions through electric vehicles has revolutionised the automotive industry and attracted investment, highlighting the financial viability of ESG-focused business models.

In contrast, the US has seen a significant increase in the anti-ESG movement, driven by concerns about potential economic impact and political ideology. This perspective has sparked a debate about the role of businesses in addressing environmental and social issues. Some argue that ESG principles divert attention and resources from core business objectives. Companies face the challenge of aligning their global operations with ESG requirements while not alienating domestic stakeholders in the United States. This can be difficult, but it is essential for long-term success.

HOW SHOULD COMPANIES RESPOND TO IT?

a) Adaptive Communication: Constructing ESG in the American Vernacular

To overcome the challenge of anti-ESG movement, companies must rearticulate ESG principles in a way that aligns with the spirit of innovation, entrepreneurship, and individual freedom that is inherent in the United States. This means expressing ESG principles in a language that resonates with American values, rather than relying solely on ethical or moral arguments. Demonstrate that a commitment to these principles is not incompatible with pursuing profits. Emphasise the role of these principles in promoting job creation and economic vitality, especially in emerging sectors like renewable energy. For instance, explaining the economic impacts of multinational corporations investing in local community solar projects in the U.S. can serve as a compelling narrative that demonstrates ESG's contribution to job creation and energy affordability. Furthermore, integrating ESG principles with quintessentially American values can enhance stakeholder empathy. Companies can portray ESG efforts as a driver of technological advancement and market expansion, appealing to the American spirit of innovation. Sharing success stories of local communities or small businesses that have thrived through ESG initiatives can make the principles more tangible, fostering a greater sense of buy-in and support among skeptical stakeholders.

b) Operational Flexibility: Localizing Global Principles

International companies must demonstrate operational agility to customise global ESG strategies for the U.S. market. It is important to address local nuances and concerns. This requires a keen understanding of regional issues and priorities, such as environmental challenges and socio-economic dynamics. Engaging with local stakeholders, such as non-governmental organisations, community leaders, and businesses, is crucial for co-developing ESG initiatives that meet local needs and aspirations. This collaboration not only ensures the relevance of ESG efforts but also increases community support and buy-in. Companies can pre-emptively adjust their ESG strategies to ensure compliance and leadership in sustainable practices by adapting to the changing regulatory environment at the local and state levels.

c) Constructive Engagement

International companies should take an active role in the wider ESG debate in the United States. This involves adopting a proactive approach to policy advocacy, using corporate influence to support balanced ESG regulations that reconcile environmental and social goals with economic prosperity. By engaging in policy discussions and sharing insights from global ESG success stories, companies can help shape a more informed and constructive regulatory environment. Forming alliances with similar businesses, industry groups, and non-profit organizations can amplify the voice of reason in the ESG debate. They can articulate the multifaceted benefits of ESG, dispel misconceptions, and promote a more nuanced public understanding of ESG principles. This can significantly impact public opinion and policymaking, steering it towards a more balanced and sustainable path.



ESG AT A CROSSROADS

Returning to the heart of the discussion, it is evident that the increasing anti-ESG movement in the US presents a significant challenge for international companies that adhere to ESG principles. To address this challenge, companies must recalibrate their ESG communications, ensure operational adaptability, and engage proactively. This strategic approach outlines a path to resolving the dilemma. At this crossroads, we must ask how these companies can adapt to the current anti-ESG movement and use their influence to shape the future of ESG. This question prompts a deeper reflection on the role of business in society, leading us toward a future that combines profitability with ethical stewardship. **///**

KEY TAKEAWAYS

- Multinational corporations face complex challenges in aligning profit-driven objectives with ESG (environmental, social and governance) obligations. Considering ESG principles can lead to long-term financial success and sustainability, while profit remains the primary goal.
- In the U.S., there is a growing anti-ESG movement that challenges the integration of sustainability and ethical business practices. Companies must find ways to address these sentiments by redefining ESG values. This should be done in a way that is consistent with local values and traditional concerns about profit maximisation.
- Multinational companies should adapt their ESG initiatives to the US environment. They should customise their approach to local needs and actively participate in policy discussions and public debates on ESG. By doing so, they can develop a more informed and balanced view of the importance of ESG to business and society.



CORPORATE STRATEGY FOR PEACE: NAVIGATING CSR IN THE ISRAELI-PALESTINIAN CONFLICT



Meeting corporate obligations and advancing a peaceful world, both morally and strategically necessary, can simultaneously be achieved by corporations amidst the Israeli-Palestinian conflict.



David Grealish, Runner-up in the **2024 CoBS Student CSR Article Competition** at **Trinity Business School**, tackles the issue of the Israeli-Palestinian conflict to offer a blueprint on how companies and institutions can address the issue.

The conflict between Israel and Palestine is one of the most complex and enduring disputes in the world. Multinational corporations (MNCs) have unique roles and responsibilities in and near the volatile region of Gaza. Due to the conflict, corporations operating in this region or conducting business with entities near the region face various complex ethical, legal, and operational challenges. The central issue of these problems is the corporate responsibility puzzle: how to operate a profitable and sustainable business while simultaneously upholding human rights and making a constructive contribution to efforts to resolve conflicts. The actions and decisions of MNCs can significantly impact the conflict, the peace process, and the lives of people in both Israel and Palestine. Hence, it is essential to discuss the responsibility of MNCs operating in this region.

SYSTEMIC CHALLENGES OF CSR IN A DIVIDED WORLD

The emergence of Corporate Social Responsibility (CSR) gained prominence after the systems theory of organisations, developed by thinkers like Karl Wick and Ludwig Von Bertalanffy, was added to management theory (Nissi et al., 2018). Bertalanffy's General system theory 1968 posited that organisations, like biological organisms, are complex, adaptive systems characterised by interrelated and interdependent elements (Bertalanffy, 1968). Single-celled organisms like amoeba exchange substances between their internal and external environment via diffusion. Similarly, like

an amoeba, a business exchanges materials to and from its environment through distribution channels. The basic idea of corporate social responsibility was born from this process, which predicates that business and society are interwoven rather than distinct entities (Wood, 1991). However, some, like Friedman (1970), believe that corporations should prioritise shareholders' needs as few firms have the expertise necessary to attack problems such as poverty and war being endured by Gaza. Thus, many firms are insensitive to social realities and can end up making a "mess of their journey into the task of helping remedy social ills" (Peel, 1988).

If a stakeholder is "any group or individual who can affect or is affected by the achievement of the organisation's objectives (Freeman, 1984)," how can their needs be forgotten? Attempting some form of sound reasoning to justify ignoring the needs of stakeholders who are affected by corporations is not a substantial critique. Such an orientation on stakeholders is a view often held by fundamentally self-interested people, as ignoring stakeholder's needs is more convenient than addressing them; hence, stakeholder theory was born. Consequently, the idea of integrating CSR initiatives and beliefs into an organisation's corporate culture can be seen as problematic due to the conflicting nature of CSR initiatives' effects on an organisation's operations. So, the question remains: what can organisations do to help address the Israel-Palestinian conflict amidst the CSR dilemma?

CORPORATE POWER AND SOCIAL RESPONSIBILITY: A CALL FOR EQUILIBRIUM

Those who advocate for shareholder primacy believe that the chosen company's economic stance determines whether it should engage in CSR and what forms that responsibility should take. This central idea was outlined in value maximisation theory, which says that managers should make all decisions to increase the price of the company's common stock, increasing the owner(s) wealth to create economic value (Friedman, 1970). This theory was later advanced by Margaret M. Blair in 1995, who stated that a corporation can only partially satisfy its investors, who want maximum profits, and simultaneously satisfy stakeholders. Social responsibility can unintentionally give corporations too much power, potentially leading to adverse effects due to the corporation's resources being used for reasons other than the long-term maximisation of the return on capital under their control (Blair, 1995). This view highlights that it is logically impossible to maximise in more than one dimension unless those dimensions are monotone transformations of one another (Jensen, 2001). Once synonymous with profit maximisation, value maximisation posits that MNCs have a choice but are not obligated to actively invest in CSR initiatives promoting social justice and conflict resolution. Making a profit is either essentially incompatible with "social responsibility" or is, at the very least, unimportant to it, according to most of the current discourse on the "social responsibility of business" (Drucker, 1984).

However, the problem with this view is that with growing economic power comes social power. If power and

responsibility are to be relatively equal, "then the avoidance of social responsibility leads to the gradual erosion of social power" (Davis, 1967). Corporate Social Responsibility is inextricable in the fabric of fundamental management duties. Instead, it is essential to the modern corporation's successful strategic management that CSR is integrated rather than dismissed. Meeting the needs of all stakeholders, not just shareholders, in light of current ethical precepts would be part of a more modern-day analysis of corporate social responsibility.

STAKEHOLDER THEORY IN ACTION: CSR AND THE PATH TO PEACE IN GAZA

Stakeholder theory, pioneered by Freeman (1984), provides a more inclusive perspective on CSR, outlining corporations' responsibilities towards those directly affected by the corporations' operations living within or near Gaza. In contrast to value maximisation, stakeholder theory is a theory of organisational management and business ethics that suggests that managers should make decisions in the best interests of stakeholders to increase social value (Jensen, 2001). It suggests that businesses operating within or near Gaza have obligations towards various stakeholders, including the broader community context. By addressing the needs and expectations of the diverse groups within these communities, companies can create value that transcends beyond economic gains, fostering an enriched societal ecosystem predicated on peaceful co-existence (Donaldson & Preston, 1995). According to stakeholder theory, even if there is a possibility of profit, MNCs should avoid activities that directly or indirectly support or enable human rights abuses, discrimination, or violations of international law. This includes refraining from establishing business operations in illegal settlements in the occupied Palestinian territories, exploiting natural resources, or providing products and services that contribute to the perpetuation of the conflict. Instead, MNCs should communicate with stakeholders, including local communities, civil society organisations, and human rights groups, to ensure that their operations are conducted ethically and responsibly and how they can help promote mutual understanding, tolerance, and peaceful coexistence among their members.

ALIGNING WITH GLOBAL STANDARDS: STRATEGIC CSR FOR SUSTAINABLE DEVELOPMENT

The perception among small and medium-sized enterprises (SMEs) is that CSR initiatives are the luxury of large, affluent corporations, given their extensive resources. However, the notion that corporate social responsibility is a luxury only wealthy businesses can afford is beginning to slip. CSR is now perceived as a business requirement rather than a luxury, forcing small and medium-sized enterprises (SMEs) by this trend due to the rise of the conscious consumer, who favours goods and services from businesses that practice social responsibility (Sundström et al., 2020). Businesses prioritising CSR, ensuring that their operations, irrespective

of location, align with principles of non-discrimination and respect for human dignity, outperform their competitors over time because not only can they uphold a better rapport with stakeholders, but societal considerations are also seen as being intrinsic to creating long-term shareholder value (Scherer & Palazzo, 2008). The documented advantages of CSR include improved customer loyalty, improved corporate reputation, and reduced risk (Porter & Kramer, 2006). It's essential to recognise that while large corporations may have more resources to allocate towards CSR, social responsibility should be seen as a scalable strategy adaptable to any business's size and capabilities.

A strategy is the determination of an enterprise's primary long-term goals and objectives, the adoption of courses of action and the allocation of resources necessary for carrying out these goals (Chandler, 1962). CSR can be perceived as a business strategy incorporating self-control into an organisation's operations to guarantee that its actions have a positive social and environmental impact (Carroll, 1999). According to Carroll's Pyramid of CSR, companies are accountable on four levels: philanthropic, legal, ethical, and economic. Beyond what is required by law, corporations operating within or near Gaza must have moral and philanthropic responsibilities, which involve contributing to the community's welfare (Carroll, 1991). International standards and best practices are now expected of businesses in corporate governance, as MNCs must adhere to international regulations, including human rights and humanitarian principles when conducting business (Valentzas & Broni, 2017). As global actors, these corporations must respect the principles outlined in international agreements, such as the Universal Declaration of Human Rights, The Geneva Conventions and The United Nations Global Compact. The United Nations Global Compact outlines ten human rights principles. It offers a standard framework companies can use to match their operations and strategies with society's objectives, further contributing to Israelis and Palestinians' overall stability, development, and peaceful coexistence.

ECONOMIC DEVELOPMENT AS PEACE-BUILDING: THE ROLE OF MNCs IN ISRAEL AND PALESTINE

Creating shared value (CSV) is a business concept that Porter and Kramer (2011) advocate, highlighting the synergy between economic and social progress. They argue for integrating social welfare into business operational frameworks, showcasing that companies can advance economic and social conditions simultaneously. Companies remain stuck in a social responsibility mindset where societal issues are at the periphery, not the core. Their solution is creating shared value (Porter & Kramer, 2011). The CSV concept would advocate that MNCs must actively contribute to sustainable and inclusive economic development that benefits Israel and Palestine by promoting job creation and economic growth. Economic growth can help alleviate poverty, reduce inequality, and enhance social cohesion, creating an environment conducive to peace (Pritchett & Klein, 2020). By prioritising sustainable development initiatives, MNCs can foster a sense of hope and optimism among the population, reducing tensions and contributing to the conflict resolution efforts in Gaza.

In the context of stakeholder theory, businesses' acknowledgement of their broader obligations has led to strategic approaches to social responsibility. Companies engaging with local stakeholders, such as affected communities and civil society organisations, gain insights into understanding how their operations, distribution channels and business relationships might affect human rights, informing corporate strategists, leading to products, services, and initiatives that are responsive and of social relevance (Morrison & Olofsson, 2022). The modern interpretation of value maximisation theory aligns with this social responsibility stance, recognising that businesses that operate ethically and responsibly are more likely to endure and prosper (Eccles, 2014). A classic example of creating shared value is Unilever's Sustainable Living Plan, which aims to decouple its growth from environmental impact while increasing its positive social impact (Unilever, 2020).





THE POWER OF CSR IN BRIDGING DIVIDES

The Israeli-Palestinian conflict supports the belief that multinational corporations play a significant role in using corporate social responsibility to address moral, legal, and practical issues. Corporations can use corporate social responsibility and the creation of shared value principles to promote social welfare and economic growth at the same time. Thus, long-term corporate success can be improved while balancing profit with the obligation to protect human rights and aid in conflict resolution through synergising the business's operations with social progress and encouraging CSR. Companies of all sizes can promote sustainable development and peace in conflict areas by establishing positive change whilst playing an equitable social role in settling international conflicts by incorporating CSR into their strategic frameworks. This shows that meeting corporate obligations and advancing a peaceful world, both morally and strategically necessary, can simultaneously be achieved by corporations amidst the Israeli-Palestinian conflict. ///

KEY TAKEAWAYS

- ❑ CSR can be perceived as a business strategy incorporating self-control into an organisation's operations to guarantee that its actions have a positive social and environmental impact.
- ❑ MNCs should communicate with stakeholders, including local communities, civil society organisations, and human rights groups, to ensure their operations are conducted ethically and responsibly to promote mutual understanding, tolerance, and peaceful coexistence among their communities' members.
- ❑ Economic growth can help alleviate poverty, reduce inequality, and enhance social cohesion, creating an environment conducive to peace. By prioritising sustainable development initiatives, MNCs can foster a sense of hope and optimism among the population, reducing tensions and contributing to the conflict resolution efforts in Gaza.
- ❑ Long-term corporate success can be improved while balancing profit with the obligation to protect human rights and aid in conflict resolution through synergising the business's operations with social progress and encouraging CSR.

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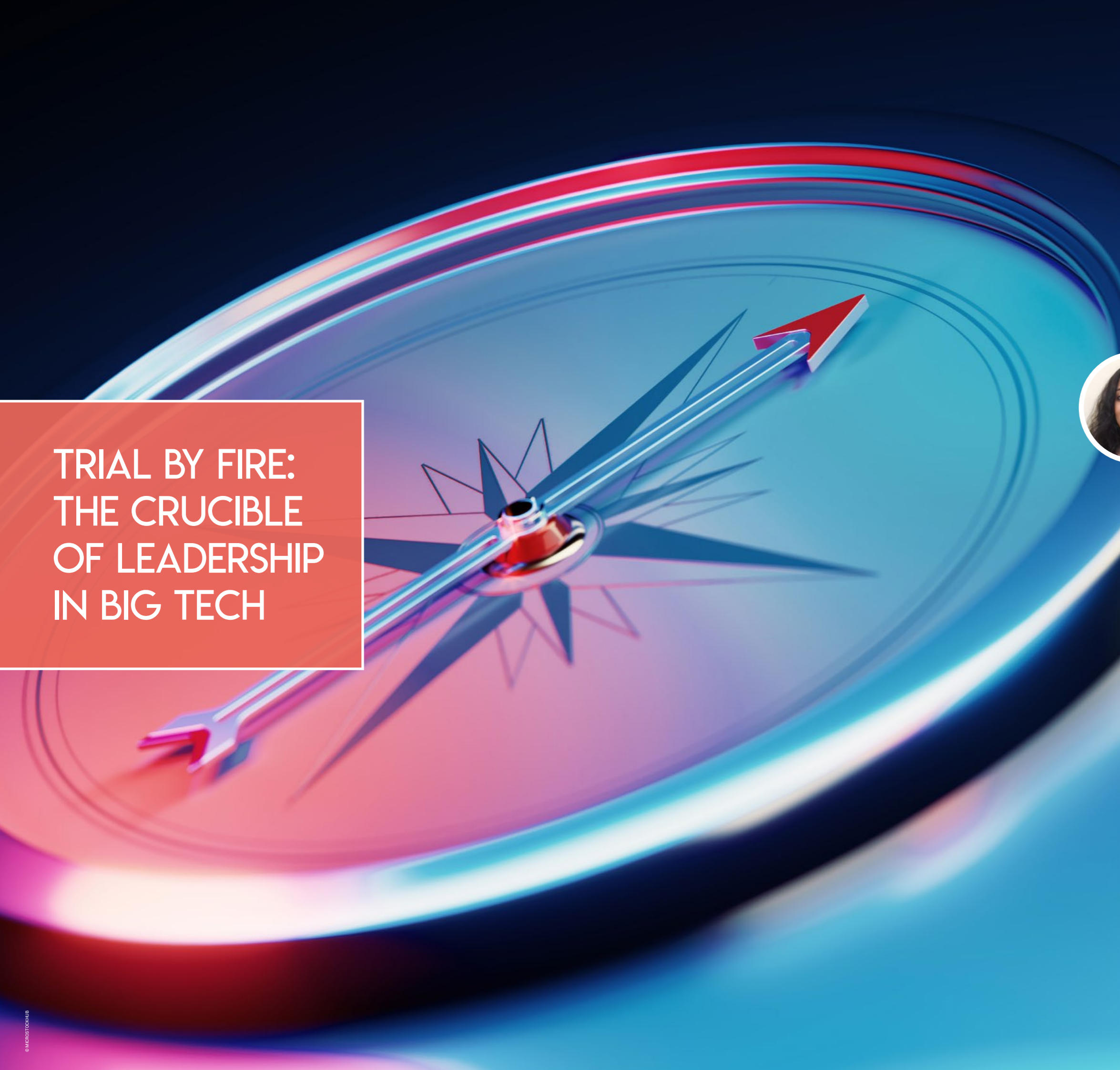
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TRIAL BY FIRE: THE CRUCIBLE OF LEADERSHIP IN BIG TECH



Leadership mastery begins with self-awareness, illuminating the path forward amidst the complexities of the modern world.



In the midst of technological disruption and global transformation, what truly defines effective leadership in the tech realm? **Vaishnavi Deepak**, MSc Marketing Student at **Trinity Business School, Trinity College Dublin**, ventures into the heart of this inquiry, probing the depths of innovation, authenticity, and adaptability that drive leadership excellence.

IS A LEADER BORN, OR MADE?

Amidst the seismic shifts of the post-COVID, post-GenAI world, the timeless debate resurfaces. The "Fourth Industrial Revolution" (Gu, 2023) is reshaping our assumptions of leadership. In this era of rapid technological evolution, unprecedented growth, and geopolitical complexity, tech leaders have faced a trial by fire across industries. Right from X's (formerly Twitter) usage falling by a fifth since Elon Musk's acquisition (Guardian, 2023), to serial layoffs at FAANG, (Facebook, Amazon, Apple, Netflix, and Alphabet/Google) and greenwashing misfires, the tech industry is being asked some challenging questions.

Yet, with the rise of big data and advanced analytics, these companies continue to build their 'digital empire,' now characterized by shared values and a unified purpose. This is exemplified in Apple's devoted community united by the aim of creating and using 'the best products on earth' while also striving to 'leave the world better than they found it.' With such precedents, the concept of purpose takes on heightened significance, as a guiding principle for successful leadership that not only cultivates influence but also ensures an earned seat at shaping international resource allocation, social mobilization, and rule-making.

ETHICS

Leaders are leaning into doing business for good. Yet, the ethical complexities of the digital landscape are not lost on them. Ajay Banga, the former CEO of Mastercard, contextually said, "Leadership is a privilege. You are not born with that privilege; you earn it." Which is in tune with his style of leadership, one that took his company from being a financial service provider to a tech ecosystem (Leaf, 2020). Mastercard's transformation was not merely a result of happenstance but rather a testament to purposeful and strategic leadership, which prompts a look back.

PURPOSE, BACKED BY STRATEGY.

The most striking thing about Mastercard's transformation was Banga's vision, "A World Beyond Cash," a commitment to digital advancement and financial inclusion at a time when 85% of their transactions were in cash. He had inherited a successful but complacent Mastercard that ranked innovation 26th out of its 27 priorities (Roberts and Mondalek, 2014). Turning it into the digital banking ecosystem that it is today has taken a solid strategy, dubbed '**Grow-Diversify-Build**,' that stands as a precedent model for future tech leaders, having successfully achieved the overarching objective of '**Emerging Technology Adoption**.'

Underpinning their strategy is the '**Grow**' pillar, which squarely addresses the core business of the company. Here, the foremost priority is to innovate in a manner that enhances the user experience for existing customers. Mastercard's focus on simplifying payments mirrors the imminent need of improving Consumer Experience (CX) in today's tech landscape.

While MasterCard pursued its purpose of realizing a "World Beyond Cash," contemporary tech founders face the task of defining their own purpose in a rapidly evolving digital landscape. These companies must deeply understand their consumers and navigate their innovations ethically. They carry the responsibility of **proactively identifying and mitigating potential harms** inherent in their core technology.

However, the challenge always is in striking a delicate balance between technological advancement and maintaining customer empathy.

The '**Diversify**' pillar of Mastercard's strategy complements the 'grow' aspect by focusing on creating and acquiring innovative products and platforms that cater to the evolving needs of its customer base (P.Kotter, 2012). The philosophy of being one step ahead of your user's needs entails developing solutions that not only enhance the user experience but also address emerging challenges and opportunities. In a successful version of the future, a world beyond cash, Mastercard would succeed only by catering to the needs of the unbanked and underbanked, by increasing financial inclusion, so they did it pre-emptively. Their aggressive collaboration with a diverse array of stakeholders, including financial institutions, merchants, technology companies, and governments, exemplified their commitment to the '**Build**' pillar of their strategy. By actively acquiring and collaborating with other services that addressed the challenge of emerging technology adoption, Mastercard prioritized security and convenience for its users.

This reaffirms the urban adage, 'The key to smarter innovation is diversity, equity, and inclusion (DEI)'. 'Contrast this to today's dynamic business environment, wherein new regulatory requirements and growing stakeholder expectations compel tech companies to better address the risks associated with adopting new technologies. Collaborative efforts in building together then become paramount, as they enable companies to navigate these challenges more effectively while driving innovation and growth. This concept of building together is powered by the **network effect**, which signifies that the more technologies and companies collaborate within a platform or service, the more valuable they become. For instance, in digital payments, giants like Google and Apple partner with financial institutions to create seamless solutions such as Google Pay and Apple Pay. This approach enhances user experience, showcasing the efficacy of collective effort in the tech sector.

THE ETHICAL NICHE!

As companies reflect, it becomes increasingly evident that their response to emerging technology should transcend mere adoption to thriving in the long-term. By engaging in productive conversations about the lasting implications, leaders can identify pivotal decisions and align them with a purpose-driven approach. For instance, non-profit CEOs (Gordon, 2013) note their ability to compete for talent with big tech companies by offering a 'compelling mission to serve humans over capitalists.' These notions are not to be mistaken as trends. And, when contemplating the future, it's essential to recognize that trends are not synonymous with the future itself. Trends represent the present and can keep companies anchored in the immediate surroundings, but they may fail to stretch their vision towards emerging possibilities.



(EVERFI, 2022)

Big Tech leaders have the power to set the future in motion through their actions, decisions, and engagement with new technologies and ideas. Embracing frameworks like strategic foresight can help challenge biases, scan the environment from various perspectives, analyse signals, and develop future scenarios. Leading with purpose involves not only adapting to these challenges but also envisioning and actively building a future where organizations and communities thrive in the long run.

The challenge of driving innovation is accompanied by the reality of change fatigue, employee stress, and disengagement. However, it is also laden with ethical dilemmas. It's essential to acknowledge the interconnectedness of leadership's decisions and their far-reaching effects. Similar to the bio-hacking movement, where the pursuit of longevity of life has wider implications, the hunger for extensive data collection may result in broader consequences beyond ethical boundaries. Engaging in a '**what if**' exercise, encouraging a thorough examination of the potential repercussions of data collection practices is vital. The General Data Protection Regulation (**GDPR**) allows for the development of such applications that successfully balance data protection and other socio-economic interests, but it provides limited guidance on how to achieve this goal. This disparity underscores the need for leaders to prioritize ethical decision-making and foster a culture of integrity within their organizations beyond regulatory standards.

Moreover, considering the significant resources at the disposal of tech conglomerates, they take on a **quasi-sovereign role** infusing their leadership with power to shape societal welfare and ethical integrity. Thus, only an unwavering dedication to purpose can ensure ethical



leadership that empowers tech leaders to wield this influence responsibly, thereby making a positive contribution to global progress and societal well-being. It is also crucial to contemplate the kind of world we are shaping—whether it aligns with a transformative narrative that fosters positive societal shifts and collaborative innovation, or if it reflects a market-obsessed paradigm characterized by growing disparities and societal unrest (Kemper and Ballantine, 2019). Alternatively, the future may deteriorate into a fortress-like state filled with apprehension and technological reluctance. By intentionally addressing these ethical dilemmas and dedicating oneself to nurturing an abundant and sustainable future, the ethical navigation of Big Tech becomes achievable.

As tech leaders chart a course through the complexities of the digital landscape, humility, adaptability, and a commitment to integrity emerge as guiding principles. By fostering a culture of ethical decision-making and prioritizing the well-being of their teams, they can not only survive but thrive in the era of digital disruption. And, in the words of Lao Tzu, "Knowing others is intelligence; knowing yourself is true wisdom." Leadership mastery begins with self-awareness, illuminating the path forward amidst the complexities of the modern world. ///

KEY TAKEAWAYS

- ❑ Tech giants are finding greater acceptance among consumers when they adopt a purpose-centric approach and prioritize authenticity over greenwashing tactics.
- ❑ Strategic leadership models like "grow-diversify-build" formed on pillars of DEI, collaboration, and maximizing impact, tends to outperform.
- ❑ Ethical leadership isn't a passing trend; it's about shaping the future through meaningful actions and responsible engagement with new ideas.
- ❑ Purpose-driven leaders empower ethical behaviour, societal contribution, and sustainable emerging technology adoption for all stakeholders.



A LEADER'S BLUEPRINT FOR NAVIGATING AI AND THE FUTURE OF WORK



No longer confined to traditional paradigms of profit maximization and operational efficiency, leadership in the AI era demands a holistic view.



Mohammed Anas Memon, finalist in the **2024 CoBS CSR Student Article Competition at ESSEC Business School**, contends that AI as a transformative force underscores the need for leaders to anticipate and navigate its impact on society and the economy.

THE DAWN OF A NEW INDUSTRIAL PARADIGM

Change is the only constant in life. When Heraclitus uttered these famous words 3000 years ago, he almost certainly wasn't heralding the advent of the digital age. He was, however, prescient in noting the absolute necessity to remain agile, adaptive, and active in navigating inevitable change. The same words ring true today as 'business as usual' has taken on a new meaning - the advent of truly revolutionary technology in generative Artificial Intelligence (AI) and its subsequent use cases have overseen a continually innovating economic, technological and societal landscape.

We find ourselves at the precipice of a revolution akin to the industrial upheavals of the past; every day, the burgeoning impact of artificial intelligence is imprinted upon the history pages of modern-day society. Akin to previous technological advancements, AI presents a unique dichotomy of vast potential coupled with unprecedented challenges. The rapid proliferation of AI has far-reaching repercussions in the labour market. With mass adoption, the perceived impact on employment and income distributions as a byproduct of increased productivity has sparked strong debates across the titans of industry. Equally as important is the prospect of 'creative destruction', the act of leveraging expansive possibilities by disruptive technology to amplify societal upliftment. As leaders and managers navigate this shift, they confront a dual challenge: leveraging AI to propel organizations forward while mitigating its disruptive effects on labour markets and societal equality.



THE NEW FRONTIER OF HUMAN-MACHINE COLLABORATION

Just as the steam engine and the internet catalyzed periods of profound economic and societal transformation, AI stands as the harbinger of change. The pertinent question for today's leaders isn't whether AI will impact society, but the manner in which they can steer the impending impact towards a future wherein technology inherently complements human competencies instead of displacing and deposing it. This widespread integration of AI in business operations is therefore a double-edged sword. On one side, automation and predictive intelligence in data analytics strive to unlock unforeseen levels of productivity and innovation. On the other hand, the gray overcast of job displacement and wage stagnation looms heavy as machine learning gradually develops proficiencies across the board in performing tasks traditionally undertaken by humans.

Real-world examples substantiate the conventional forecast of AI's hand in job displacement across traditional industries - in manufacturing, robotics have replaced assembly line workers; in banking and law, AI algorithms now perform tasks ranging from credit approvals to extensive legal research. Leaders thus find themselves in a race against time to anticipate these changes. Priorities span from investing in workforce upskilling to ensuring a transitory period allowing human workers to explore new roles that leverage a personal touch and specialization alongside AI. However, the reality of AI's threat to the labour market is a far cry from the traditional outlook.

THE DICHOTOMY OF PROGRESS: ELEVATING PRODUCTIVITY AT THE EXPENSE OF THE LABOR MARKET

The integration of AI into the global economy is not just a matter of technological adoption but a profound transformation of the labour market and wage structures. AI that replaces labour-intensive tasks threatens developing economies and strips them of their competitive advantage on the global stage. Additionally, the disruptive technology's dual capability to both complement and substitute human labor renders high-skill occupations, traditionally averse to innovations in automation, at significant exposure to risk of replacement.

Early estimates indicate that the advent of AI could shift annual labour productivity up by 200 - 300 bps. (Gita Gopinath, 2023) While a boost in productivity does increase wages, it's imperative to consider the prolonged net impact of the technological shift. This widespread adoption not only threatens job security but also risks exacerbating income inequality in the long run, as the economic benefits of AI accrue disproportionately to capital over labor. For instance, an oncologist may benefit from AI-assisted diagnoses and scientists would be glad for AI's predictive tracking to get rid of space debris. However, a large majority of middle and upper-level management in developed markets could see their roles made redundant due to the generative and continually advancing competencies of AI in leadership roles.

STARTING FROM SCRATCH: THE DISTINCT DEARTH OF SUITABLE PRECEDENTS

In an era where the digital and physical realms are ever more entwined, navigating leadership has transformed into an endeavor of unparalleled complexity. The modern world's VUCA, an acronym based on theories postulated by Warren Bennis and Burt Nanus, and characterized by volatility, uncertainty, complexity, and ambiguity, has irreversibly altered the foundational principles of leadership. (Brodie, Victoria Kimball, 2020) Leaders have consistently and continually relied upon historical data and past decision making to direct present-day actions and develop forward-looking strategies. However, such a framework is no longer relevant - competent leadership in an increasingly iterative environment is now contingent on the acquisition and continuous development of new skills. While this shift poses formidable challenges, it consequently opens up a vista of opportunities for individuals poised to harness the forthcoming waves of technological upheaval.

Social entrepreneurs at the helm of venture funds and activist organizations confront many of society's gravest dilemmas. Their ability to wield contextual intelligence, marking the interplay between global challenges and the potential of emerging technologies, empowers them to pioneer groundbreaking social innovations through creative destruction. From utilization algorithmic localization to dispose waste in Germany to developing a mobile app that employs Natural Language Processing (NLP) to assess gastrointestinal issues and offer personalized assistance, start-ups backed by AI-immersed social venture funds across Europe are mapping out the myriad ways AI can be employed for the good of society. (Siebold, Nicole, Gümüşay, Ali, Richthofen, Georg, 2022) A common challenge faced is holistic venturing, the act of working with stakeholders across for-profit and not-for-profit environments to sustain revenue generation. The ideal balance in such a scenario allows for maximal innovation through profit generation servicing marginalized stakeholders. Similarly, creating large-scale impacts remains an obstacle due to the requirement of truly holistic solutions for imminent issues whilst maintaining the ability to customize at scale.

Thus, government-backed regulatory frameworks are crucial to entrepreneurs and indeed, investments seeking societal amelioration. An AI future similarly begets the development of a unique regulatory framework guiding global corporate and public policy through concerted, multifaceted cooperation.

In recent times, examples of such frameworks are abundant. The Paris Agreement is a brilliant such example. A committee of experts establishing a shared framework, no matter how limited in scope, for tackling climate change on a shared global stage. Similarly, the development and gradual implementation of the European Sustainability Reporting Standards (ESRS) is emblematic of the strides governments and industry leaders can take to address an impending issue. This framework, enforced by the Corporate Sustainability Reporting Directive (CSRD) in Europe, is now the be-all and end-all for over 50,000 businesses including SMEs in regards to corporate sustainability reporting measures. (Coolset, 2024)

Stepping into this uncharted era, leaders are provided with a blank slate - a chance to design a new blueprint for leadership without precedents. It is a call to action for visionary leaders to profess their commitment to ethical leadership, develop a deep understanding of the transformative potential of technology, and demonstrate an unwavering dedication to the betterment of humanity.

CHARTING THE COURSE: A STRATEGIC FRAMEWORK FOR ETHICAL AI INTEGRATION

The following considerations delineate the roadmap imperative to governmental and corporate leaders navigating these turbulent waters:

Re-invigorating the labour market: Considering the potential for a rise in unemployment across at-risk sectors, measures such as social safety nets for displaced workers will prove crucial in subsequent years. A reformed tax system that does not penalize human labor relative to capital investment in AI can encourage more human-centric economic growth as well.

Investment in Human Capital: Leaders must champion policies and corporate practices that invest in the workforce's upskilling and reskilling. Until now, automation has been seen as a risk to the mid-to-lower level of the skilled workforce. However, with the upper strata of management now increasingly exposed to replacement, the onus turns on collaborative leadership. AI-led management algorithms and models can augment and support traditional human-centric leadership. This vision has not yet been realized in large-scale organizations, but has demonstrated strong cause for success in a number of start-ups. (Raisch & Krakowski, 2020; Tsai et al., 2022) Such an approach includes fostering a culture of lifelong learning and adaptability among employees, ensuring they can thrive alongside AI.

Labor Voice in AI Development: In the public sector, measures preventing the obsolescence of specific functions, such as through the introduction of AI for quicker diagnostics in the healthcare industry, cannot be limited to an overarching regulatory framework. The establishment of an inclusive system to provide workers with a voice in how AI is developed and deployed within organizations can ensure that technology enhances rather than replaces human capabilities. In countries such as Austria and the Czech Republic, societal discussions and employee engagement in digital transformation represent the cornerstones of embracing this technological revolution. (Foffano, F., Scantamburlo, T. & Cortés, A, 2023). This participatory approach can also surface insights into making AI tools more effective and equitable.

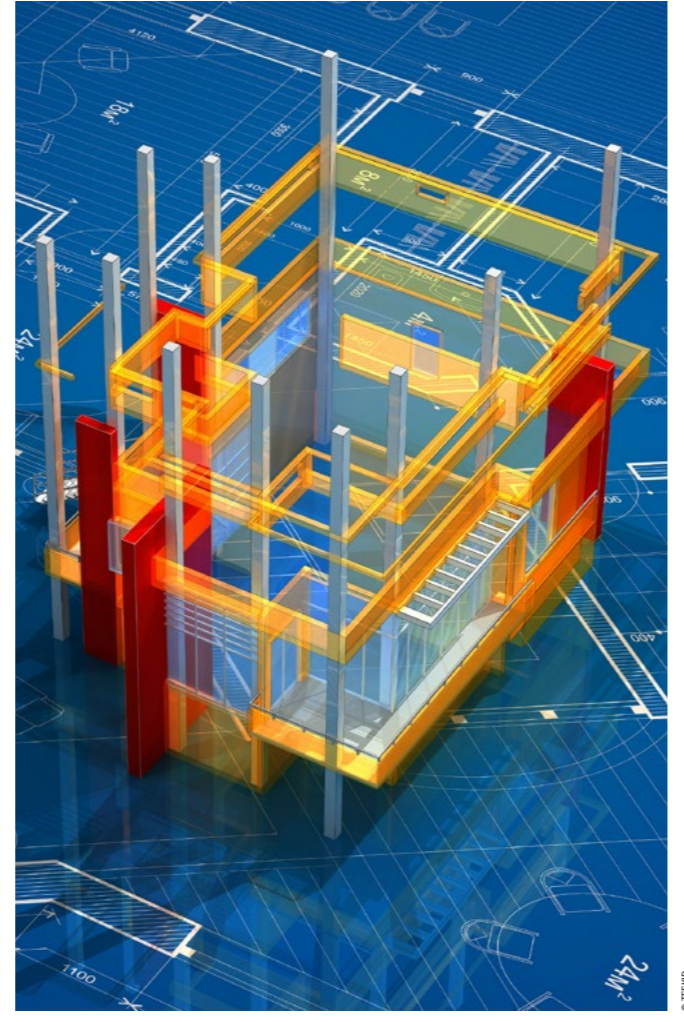
Promoting AI for Social Good: Leader must not prioritize minor organizational efficiency over crucial societal challenges. From healthcare diagnostics to climate change models, AI presents an opportunity to make substantive contributions to global issues. A number of countries have made substantial strides in this arena. Denmark currently houses 127 AI startups, with governmental objectives ratified

in accordance with AI for social good. (Forbes, 2023) A similar focus has been adopted through Slovenia's tech-centric social innovation. The country has set up Europe's premier AI research centre. Backed by UNESCO, the International Research Center on Artificial Intelligence showcases a national commitment to harnessing AI for societal gain. Similar initiatives must be encouraged, developed, and importantly, funded, across the globe if a human-centric approach to AI adoption is considered the quintessential route forward.

REDEFINING LEADERSHIP

As AI reshapes the fabric of our global economy, the role of leaders and managers evolves significantly. It has become increasingly clear that the challenges and opportunities this entails are as vast as they are critical to understand. No longer confined to traditional paradigms of profit maximization and operational efficiency, leadership in the AI era demands a holistic view.

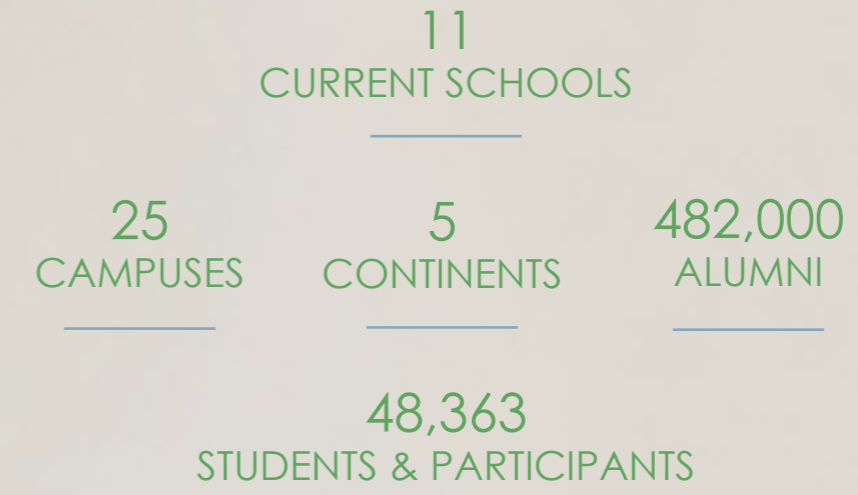
This blueprint does not merely serve as a guide for navigating the turbulent waters of technological advancement but as a call to action for leaders to redefine the essence of ethical leadership in the age of AI. The integration of AI into the global economy and its impact on the labor market and wage structures commands a comprehensive approach, one that balances technological adoption with profound transformations in regulatory frameworks and labor dynamics, ultimately guiding societal welfare and addressing global challenges. ///



KEY TAKEAWAYS

- ❑ Navigating Inevitable Change: Leadership in the era of AI requires agility, adaptability, and proactive engagement with the changes brought by technological advancements. The historical context of AI as a transformative force underscores the need for leaders to anticipate and navigate its impact on society and the economy.
- ❑ The Dual Nature of AI Integration: AI presents a dichotomy of vast potential and significant challenges. While it offers unprecedented opportunities for productivity and innovation, it also poses risks to job security and wage structures, particularly highlighting the necessity of creative destruction to leverage technology for societal benefit.
- ❑ Human-Machine Collaboration as the New Frontier: The integration of AI in business operations demands a nuanced understanding of its potential to both complement and substitute human labor. Leaders must prioritize workforce upskilling and the development of roles that synergize human strengths with AI capabilities.
- ❑ Addressing the Labor Market Transformation: The profound impact of AI on the labor market and wage structures necessitates strategic interventions to mitigate adverse effects. This includes fostering an environment conducive to human-centric economic growth and investing in human capital to ensure the workforce remains relevant and competitive.
- ❑ Empowering Leadership with No Precedents: The absence of historical precedents in the AI-driven world challenges leaders to chart new courses. Emphasizing the development of new leadership skills and the importance of social entrepreneurs in driving systemic change underscores the shift towards innovative, ethical leadership.
- ❑ A Strategic Framework for Ethical AI Integration: The article outlines a comprehensive strategy for leaders to ethically integrate AI into the global economy. This includes revitalizing the labor market, promoting AI for social good, and developing inclusive regulatory frameworks to ensure technology enhances rather than replaces human capabilities, guiding toward a future where AI acts as a catalyst for societal welfare and global challenges solutions.

A KNOWLEDGE-DEDICATED EMAGAZINE WITH A TRULY INTERNATIONAL PERSPECTIVE

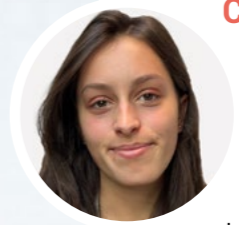




BEYOND BYTES AND ALGORITHMS: THE BLUEPRINT FOR PURPOSE-LED TECH LEADERSHIP



For purpose to truly echo within and outside an organization, all stakeholders need to identify with it.



Céline Viévard, Runner up in the **2024 CoBS CSR Student Article Competition at ESSEC Business School**, explores the question of purpose in the tech sector and how it can shape ethical and sustainable benefit for companies and society alike.

Is greed *really* good? Milton Friedman's statement (1970) that profit maximization is the sole responsibility of companies has recently been up for debate. With the repeating tech titans' data privacy scandals, a stark reality lays bare: people can come second to profit. In parallel to these giants' rise in influence, consumers are increasingly concerned regarding the societal impact of companies (Lewis, 2021) - they are now more than ever put under the microscope. Amidst the constant pursuit of "what's next?", a crucial question now arises: what is the purpose of driving this innovation?

Considering the fast nature of such an industry, are short-termism initiatives for profit maximization the most appropriate for survival? Is incorporating purpose going beyond their core mandate? Are profit maximization and purpose mutually exclusive? How could purpose be adopted in such a turbulent environment?

THE WHY OF TECH

But what even is purpose? Corporate purpose, once synonymous with Friedman's shareholder primacy, now encompasses all stakeholders and involves broader societal considerations (Business Roundtable, 2019). This new definition aligns with the concept of the Triple Bottom Line (TBL), which emphasizes that a company's purpose should consider not just its financial performance (Profit), but also its social impact (People) and environmental impact (Planet). Delivered in the form of environmental, social and governance (ESG) initiatives, purpose is a company's commitment to:

- Provide value to customers;
- Invest in employees;
- Deal fairly and ethically with suppliers;
- Support communities;
- Generate long-term shareholder value.

Considering the range of stakeholders tech companies hold, with 91% of organizations undergoing digital transformation (Gartner, 2020) and over 5.35 million people globally using the Internet (DataReportal, 2024), purpose is a crucial force. On one hand, while 65% of employees feel their leaders overlook the societal impact of digital initiatives (Bannister et al., 2020), defining the ethical use and purpose of technology reduces risks like data privacy breaches, algorithmic biases, cybersecurity threats and others. On the other hand, as 68% of consumers believe companies need to drive positive social and environmental impact (Lewis, 2021), tech companies can leverage their resources to create value exceeding that of a product or service by contributing to causes for the communities they serve.

While most tech companies have adopted a purpose, many fail in their design or application (Kennedy et al., 2022b). This incongruence, known as the purpose gap, reflects a lack of alignment between the stated purpose and the company's strengths, stakeholders and activities. Bridging this gap, aligning business with broader societal concerns while preserving company identity, is a complex dance. Yet, an achievable one when the following moves were respected.

FIRST, DEFINE PURPOSE WITH ALL STAKEHOLDERS

At the heart of the purpose gap lies a lack of communication. For purpose to truly echo within and outside an organization, all stakeholders need to identify with it. What better way to find a purpose that all stakeholders are aligned with than directly discussing it with them?

Regarding top teams, many admit purpose is a subject they want to address but fear is not considered a top priority (Gast et al, 2020). The consequence? The Abilene Paradox, where silence is misinterpreted as agreement. The solution? Starting the dialogue. A way to ease into such a discussion is through an 'ESG teardown' - a strategic assessment of a company's existing ESG initiatives. This surfaces which key issues are being addressed and why - were they related to the key strength of the company? Or was it mimicking a competitor? You may also notice if there is an imbalance in the rigor of certain letters of ESG. Think of questioning whether ESG is reflected within operations - and if not, why? Completing this by evaluating your performance to your competitors will lay out a first draft of initiatives to introduce, keep, improve and remove.

Next are stakeholders - those who experience or perceive the company's purpose. Their voices are crucial during its design and implementation. Employees, for example, face the dilemma between purpose and profit on a daily. For alignment, surveys like the Inclusion Index by Microsoft (McIntyre, 2023) alongside questioning what they value and where they find value in work is recommended. Assigning "purpose ambassadors" to



champion employees' desired purpose is also favorable. They could gather employee stories where your company truly lived its purpose, a powerful tool for later the integration phase. Such surveys can also be sent to consumers or investors to define what they seek in the company's purpose and what they believe are its strengths and weaknesses.

With this range of potential purpose initiatives at hand comes the time to prioritize. The most suitable must match the company's strengths: what unique value do you provide? How does it relate to purpose? How can it create value? They also need to generate stakeholder impact: what is the tangible impact? Metrics such as how much wage increases boost purchasing power or how much solar panels reduce greenhouse gases are examples. The long-term shareholder value must also be considered: what were the financial gains? Ideally, this should be in monetary terms like increased revenue or cost reduction. Some of these will not have monetized value, in that case, asking stakeholders to rank the initiatives or looking at what other organizations do may help guide your choice. Once selected, commit with a timeline and objectives for credibility but also to measure your success in the future.

THEN, INTEGRATE PURPOSE

For purpose to be more than a marketing campaign, it needs to initiate change within the organization. There will be opportunities to go against your purpose, sometimes unknowingly. It's important to keep in mind that non-managers are actually more likely than leaders to face this tension (Gast et al., 2020). Projecting possible scenarios of friction will help set a framework to guide them when the time comes. This can be done by making them test the purpose on their activities and communicate how it influences decisions and if there are any tensions. Through this feedback, you can refine your purpose statement and set a toolkit on how employees can demonstrate purpose daily.

It is important to set an ethical policy and culture reflecting your purpose. To do so, introducing and involving new key players like a chief ethical and humane officer as done by Salesforce (n.d.) or an AI and Ethics Research Committee like Microsoft (2018) has proven to be efficient. Such positions can assist in building a framework, ensuring its flexibility and monitoring or addressing any issues. Including non-financial stakeholders on the board can also help represent purpose during decision-making and embed such a culture.

With all of this set, it's important to share with all stakeholders how purpose is now a part of your organization. For impact, this needs to be more than just communicating plans, you need story-telling to inspire (London Business Forum, 2016). Sharing the stories collected by the purpose ambassadors on value creation through work or the feedback on how purpose has guided decision-making are examples. Sharing will not only assist in its adoption but also push employees and decision-makers to take accountability and acknowledge the impact they have.

FINALLY, MEASURE YOUR IMPACT

Although it will take years to truly impact society, it is essential to communicate goals, progress and setbacks. Not only does this push for accountability but will also highlight the quality of your impact and its returns, motivating all stakeholders.

There exists a wide range of reporting standards with varying levels of rigor for reference such as:

- The Stakeholder Capitalism Metrics by The World Economic Forum (2021)
- The EU Non-financial Reporting Directive (European Commission, 2014) and Corporate Sustainability Reporting Directive (European Commission, 2023)
- The United Nations' Sustainable Development Goals (n.d.)

THE GLOBAL REPORTING INITIATIVE FRAMEWORK (N.D.)

It is essential for the reporting to be adapted to your purpose and your initiatives. It may even be relevant to introduce new metrics to best measure your impact. Ask yourself: What data is crucial in understanding the performance of your impact? Have your current metrics given insight on how to improve your purpose? Is anything not being measured on your societal impact? Including metrics of the five dimensions of stakeholder impact may guide and ensure the completeness of your measures.

- **Financial impact**, improving your stakeholders' long-term financial well-being.
- **Environmental impact**, how your activities affect environmental health.
- **Health**, improving the organizations' and stakeholders' health.
- **Capability-building**, improving stakeholders' abilities and skills.
- **Satisfaction impact**, improving your stakeholders' experience with your company or its products and services.



By tracking these comprehensive impact metrics, companies gain valuable insights. These metrics not only guide decisions about which initiatives to maintain, improve, or discontinue but they can also be used to incentivize employees by linking their compensation to long-term value creation. This aligns with current trends, as research shows that linking compensation with purpose enhances stakeholder outcomes (Sutherland & Falk, 2021). Such a data-driven approach to purpose can ensure company efforts translate into real-world improvements for all stakeholders.

AND REPEAT

The tech landscape is constantly evolving and the frameworks chosen today may be obsolete tomorrow. This is why the processes chosen need to be highly flexible to adapt to any potential changes. Through your measures you may also see there are still some inconsistencies and points of improvements on your purpose statement. Purpose is not just a subject you address once and never go back, it's a daily matter.

THE PURPOSE IMPERATIVE: BEYOND PROFITABILITY

Purpose is becoming not only a fruitful asset across all industries but its adoption requires resources, analysis and patience. Without respecting the careful steps for its implementation, there are high risks of falling in the purpose gap. Through a careful design process integrating all stakeholders, embedded within all operations and regular measurement and refining, purpose can shine within and without the organization's walls and set an example for other players across industries. As stakeholders progressively become focused on impact, with the rise of ethical consumerism and growing investor expectations regarding ESG principles, purpose could become the ultimate competitive edge, even trumping innovation. ///

KEY TAKEAWAYS

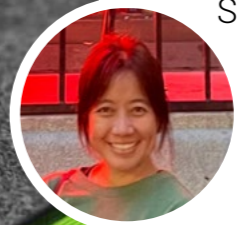
- Purpose is gaining an increasing amount of importance to all business stakeholders across all industries.
- For purpose to be fruitful, it needs to be aligned with the company's strengths, activities and stakeholders. This lack of alignment, the purpose gap, is the reason behind the failure of most purpose statements today.
- The definition process of purpose within a company needs to include and be based on all stakeholders.
- Purpose should translate into real-world changes through policies, additional expertise and communication.
- For accountability and improvement, purpose needs goals and monitoring through a set of chosen metrics.



SHOULD SUSTAINABILITY REPORTING BE MANDATORY?



Mandatory sustainability reporting will put an end to the practice of cherry-picking reporting and allow companies to focus on making real managerial shifts and measurable positive impacts.



Sustainability reporting has come a long way, but so far, most have been voluntary. Despite the growing number of companies providing sustainability report, we continue to experience environmental degradation. Can mandating sustainability reporting change this? **Dianthus Saputra Estey**, Finalist in the **2024 CoBS Student CSR Article Competition** at **Monash Business School**, explores

THE HISTORY OF SUSTAINABILITY REPORTING

“One spring, a strange blight crept over the area, and everything began to change. Some evil spell had settled on the community; mysterious maladies swept the flocks of chicken, and the cattle and sheep sickened and die”

Rachel Carson's article, *Silent Spring*, was published in the *New Yorker* in 1962. Her vivid description of the stark changes at a once idyllic American town, was the first awakening call to mind the impacts of our actions on our environment and livelihoods.

In a series of three articles, Carson described the negative effects of chemical agriculture on living things. In describing the historical development of sustainability reporting, Gokten et al. (2020) described Carson's work as the beginning of a systemic approach to sustainability. "Rachel Carson's work created awareness, and for the first time, it led to a social-environmental movement that limits companies' economic activities due to their negative environmental impacts".

However, it was not until the late 1980s that companies in the chemical sector started providing environmental reporting. It took another decade before the United Nations Framework



Convention on Climate Change (UNFCCC), which aims to prevent dangerous human interference on the climate system, was adopted in 1992 and another two years for it to come into force. Out of 198 countries, only 165 signed the UNFCCC in 1994.

The long adoption of the sustainability concept was mainly due to the need to change the whole business paradigm. As one can imagine, the prospect of having to change the way business is done is met with a less than enthusiastic attitude. In fact, according to Gray and Milne (2002), pre-1990s, "companies were passionately opposed to pretty much any discussion of environmental and social issues in a business or reporting context".

In 1995, John Elkington, introduced "The Triple Bottom Line" as an alternative framework to balance a company's social, environmental and economic impact. The availability of this tool and the growing demand from its stakeholders, helped push more companies to start changing their business paradigm and reported this shift in their environmental reports.

In 1997, the Global Reporting Initiative was founded as the first global framework to measure, manage and communicate their economic, environmental and social impacts. Even when sustainability reporting is not compulsory, the number of companies providing their corporate responsibility reports continue to grow. Since 2011, around 95% of the world's largest 250 companies are reporting their annual corporate responsibility reports and in 2017, 75% of the next largest 4,900 companies are also publishing their reports (UNEP, 2019).

MORE SUSTAINABILITY REPORTING = MORE ENVIRONMENTAL SUSTAINABILITY?

If the trajectory of sustainability reporting is going north, which means more companies are doing their share for the sustainability of the environment, shouldn't our environmental indicators also look better?

Unfortunately, data from the two sets of the State of the Global Climate Report from 2022 and 2023 shows an opposite trend. While the increase in CO2 emission from 2020-2021 was the same as between 2019-2020, it was still higher than the annual growth rate over the last decade. In 2023, the combined 3 main greenhouse gases - carbon dioxide, methane and nitrous oxide - continued to rise in 2023 (World Meteorological Organization 2022; 2023).

Kenneth P. Pucker was the Chief Operating Officer of Timberland, a U.S. based footwear and apparel company, for seven years. During his time at Timberland, he worked to implement the three pillars of Timberland's philosophy: respect for human rights, environmental stewardship and community service. This commitment was translated into the use of renewable energy to power its factories, printing 'Green Index' scores on its shoeboxes, package labelling that informed consumers about the products' environmental and social impact, and of course, a corporate social responsibility report from as early as 2001. "We believed that measurement and transparency would increase competition within the industry to find sustainable solutions while engendering healthy pressure from investors and consumers", Pucker said (2021).

However, Pucker's first-hand experience with the measurement and reporting movement made him realise that while it forces the company to focus more on environmental social governance, "Reporting is not a proxy for progress. Measurement is often nonstandard, incomplete, imprecise, and misleading".

According to Pucker, one of the main problems of sustainability reporting is the lack of mandates and auditing, "Most companies have complete discretion over what standard-setting body to follow and what information to include in their sustainability reports. In addition, although 90% of the world's largest companies now produce CSR (Corporate Social Responsibility) reports, only a minority of them are validated by third parties".

The discussion of whether sustainability reporting shall be made mandatory has already been discussed by the Parliament of Australia as early as in 2006. While the discussion recognised the projected positive impacts of mandatory sustainable disclosures, the prohibitive cost of preparing the reports was identified as a major impediment in its uptake (Parliament of Australia, 2006).

SO, IT'S COSTLY. WILL IT BE WORTH IT?


A 2011 study on the consequences of mandatory corporate sustainability reporting (Ioannou&Serafeim, 2011) examined the effect of mandatory sustainability reporting and integrated reporting on several measures of socially responsible management practices. The study concluded that while mandatory corporate sustainability reporting can add to the company's indirect costs and limits the company's attention to only fulfilling the mandatory requirements, it will also lead to an increase in the social responsibility of business leaders, prioritisation of sustainable development, more employee training on sustainable practices, decrease in bribery and an overall improvement of managerial credibility within society. In short, the study findings show mandatory corporate sustainability reporting will increase transparency and positively impact corporate behaviour.

In 2023, the European Union decided to bite the bullet and adopted the European Sustainability Reporting Standards (ESRS) as a mandatory standard for all EU companies. As expected, the initial impact assessment of this initiative shows the potential preparers of the report, i.e., companies, tend to gravitate towards the status quo while the users, i.e., consumers, investors, and the civil society generally supported the initiative to have stricter reporting, assurance requirements and a broader scope (European Commission, 2021).

In calculating the implementation cost, the impact assessment shows a total estimated costs of EUR 1.2 million in one-off costs and EUR 3.6 million in annual recurring costs for the development of the mandatory report. While seemingly high, the uncoordinated demands from users, the ongoing absence of consensus on what information to report and persistent difficulties in obtaining non- financial information from suppliers, clients and investee companies which arises

from voluntary reporting is estimated to be much more costly.

So, is it worth it? EU Commissioner for Financial Services, Financial Stability and Capital Markets Union, Mairead McGuinness believes so, "They [ESRS] strike the right balance between limiting the burden on reporting companies while at the same time enabling companies to show the efforts they are making to meet the green deal agenda, and accordingly have access to sustainable finance."

Mandatory sustainability reporting will put an end to the practice of cherry-picking reporting and allow companies to focus on making real managerial shifts and measurable positive impacts to the environment. As awareness level continues to rise, so will stakeholders' demand. In the long run, the cost of preparing a comprehensive, measurable, and standardised report will be cheaper than having to entertain various demands from the different stakeholders. And really, how much is too much for saving our one and only home? 

KEY TAKEAWAYS

- ❑ Rachel Carson (1962), United Nations Framework Convention on Climate Change (1994), John Elkington (1995) and the Global Reporting Initiative (1997) represent key figures and milestones in sustainability reporting.
- ❑ Despite this, however, environmental indicators have not improved and have even worsened.
- ❑ One of the main problems of sustainability reporting is the lack of mandates and auditing, and although 90% of the world's largest companies now produce CSR reports, only a minority of them are validated by third parties.
- ❑ A 2011 study, however, shows that mandatory corporate sustainability reporting will increase transparency and positively impact corporate behaviour.
- ❑ Progress is being made. In 2023, the European Union decided adopt the European Sustainability Reporting Standards (ESRS) as a mandatory standard for all EU companies.



FAIRNESS, RISK, AND RESPONSIBILITY: CEO COMPENSATION DYNAMICS



To satisfy stakeholders who are not investors, CEOs must focus on creating long-term value rather than just short-term profits.



In recent years, CEOs have been questioned all around the world whether their compensation is fair. Professor **Tanusree Jain** of **Copenhagen Business School** delves into how CEOs' compensation can have an impact on the decisions they make and the potential for increased corporate irresponsibility practices.

Related Research: Jain, T., Zaman, R., & Harjoto, M. (2023). Behavioral Agency Model and Corporate Social Irresponsibility: Uncovering the Implication of Fairness in CEO Compensation. *Journal of Management*, 0(0). <https://doi.org/10.1177/01492063231174873>

STOCK OPTIONS AND STAKEHOLDER IMPACT

Many CEOs are getting paid around \$5 to \$8 billion solely through stock options of their companies. This figure might be shocking to some when the average salary in The United States is around \$58,000 in 2024. Compensation allotted for CEOs continues to be a controversial topic because the received stock options provide CEOs with a compensation that is several hundred times that of a typical employee. The decisions that CEOs make influence their stock valuations, but how do these incentives influence corporate practices?

Many behavioural studies have theorized that executives' risk preferences are influenced by the balance between potential gains and losses to their stock options. However, a latest study led by Professor Tanusree Jain of Copenhagen Business School explores how perceived unfairness in CEO compensation can lead to CEOs towards more risk-taking behaviours consequently harming stakeholders.



Indeed, there has been a significant effort in investigating the performance outcomes of CEO stock options, but this new research investigates its implications on stakeholders. To do so, instead of utilizing the classic agency theory, it utilizes an alternative explanation of agentic behaviour under the direction of the behavioural agency model (BAM).

BAM AND CEO COMPENSATION

Previous studies suggest that CEO compensation comprises mostly of stock options. This is what allows CEOs to earn 'too much' or, as some may even say, 'not what they deserve'. This issue has sparked a considerable amount of controversy especially since CEOs' decisions will have an immense impact on their compensation. The behavioural agency theory approach suggests that CEO stock options ultimately negatively influence CEO risk-taking.

In other words, CEOs are seen to be more risk-averse if the decisions they make have an impact on their income. Professor Jain suggests that CEOs, just like any other employee, should be prone to feeling dissatisfied and demotivated if they believe their compensation is unfair – so how does this impact the predictions of BAM?

BAM theory proposes that when it comes to risk preferences, CEOs are not described as risk averse, but rather they are loss averse. In simpler terms, CEOs prefer certainty of their compensation rather than less certain and volatile forms of compensation (i.e., stock options) driving them to avoid decisions that they think will expose their compensation to market risk. The stock options that CEOs earn are more of a mixed gamble in this sense. This mixed gamble includes both the chance of experiencing losses and the possibility of achieving gains linked to strategic choices.

However, previous studies indicate that employees – including CEOs – often compare themselves socially, with their workplace attitudes, behaviours, and performance and are greatly influenced by how they perceive the fairness of what they think they should receive (and deserve) compared to what other CEOs receive and deserve. As a result, CEOs,

like other employees, strive to maximize their self-interest, but only as long as they believe fairness norms are being upheld. For example, in the case a CEO is being underpaid, the CEO will attempt to amend this perceived unfairness by either increasing their compensation (i.e., making decisions that drive the value of their stock options upwards) or by stepping back from firm responsibilities.

CEO DECISION-MAKING DYNAMICS

We already know that every decision made by the company or CEO has an effect, big or small, on other stakeholders in addition to their shareholders. Per BAM, loss aversion seen in CEOs manifests in two different types of behaviours that have an impact on a company's stakeholders.

The first is that when CEOs try to reduce their losses, they are no longer concerned about increasing the value of their option stocks. In this manner, CEOs are relieved from behaviors that result in short-termism – the latter is highly worrisome to stakeholders since this has been regarded as the reason "for the worst excesses of the global financial crisis" including "environmental damage and other negative externalities to society that aren't represented in financial statements", says Professor Jain.

Second, when CEOs existing wealth from stock options goes up, they also tend to become more cautious in their decision-making to protect this wealth. This caution can help prevent excessively risky behaviours that could harm both CEOs wealth and other stakeholders' interests.

It should be noted that to satisfy stakeholders who are not investors, such as employees or the community, CEOs must focus on creating long-term value rather than just short-term profits. And this approach is imperative when promoting sustainability initiatives aiming to better both the environment and society.

CEO COMPENSATION AND CORPORATE RESPONSIBILITY

This issue led Professor Jain to conduct a study analysing 838 publicly listed American firms over the period 2001-2018 to investigate the relationship between CEO stock options and corporate social irresponsibility. They found that CEO risk preferences, influenced by perceived injustices in compensation, play a significant role in amplifying risk-taking behaviours that lead to corporate social irresponsibility (CSI). Specifically, the researchers observed that current option wealth tends to attenuate risk-taking, reducing the likelihood of CSI, while prospective option wealth increases the likelihood of such irresponsible behaviour.

Altogether, Jain's research contributes to understanding CEO compensation's impact on risk-taking behaviours by highlighting the role of distributive and procedural justice. Additionally, it argues that perceptions of unfairness in compensation arrangements can lead CEOs to engage in aggressive risk-taking, even at the expense of long-term damage to their companies



and stakeholders. Furthermore, advancing research in behavioural agency by examining the conditions that foster such behaviour has expanded our understanding of the performance implications of CEO stock options.

Prof. Jain's study underscores the significance for board compensation committees and consultants to acknowledge the procedural fairness of policy adoption processes, including provisions like clawbacks, which may be perceived as unjust by executives. Emphasizing transparency in adopting these measures could effectively mitigate excessive risk-taking by executives, thus curbing corporate engagement in irresponsible behaviours. However, quantifying executives' perceptions of "fair" compensation is challenging with firm-level data. Future research is encouraged to delve into how various forms of justice interact to influence CEO compensation's performance outcomes.

ADDRESSING COMPENSATION STRUCTURES AND GOVERNANCE

Prof. Jain's research findings emphasize the critical role of organizational policies and management practices in shaping CEO behaviour, highlighting the significance of well-designed compensation structures and governance mechanisms.

By recognizing and addressing issues of distributive and procedural injustice, organizations can effectively manage CEO risk-taking tendencies and promote responsible corporate behaviour. We can expect that stressing the need for continual evaluation and refinement of governance mechanisms will align executive incentives with broader societal welfare objectives. ///

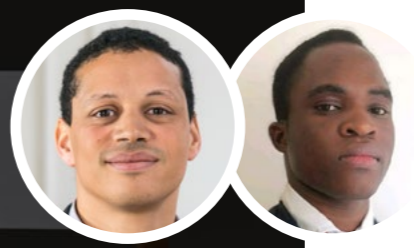
KEY TAKEAWAYS

- CEOs' compensation, particularly through stock options, has sparked controversy, especially when it results in compensation hundreds of times higher than that of typical employees. This disparity can influence CEOs' decisions and potentially affect corporate social responsibility (CSR) practices.
- Unlike traditional agency theory, BAM suggests that CEOs are not inherently risk-averse but are rather loss-averse. They prefer certain forms of compensation over uncertain ones, which may drive them to avoid decisions that could lower their income.
- CEOs, like other employees, are influenced by perceptions of fairness in their compensation. If they feel underpaid or unfairly compensated, they may take actions to rectify this perceived injustice, which can impact company decisions and stakeholders adversely.
- CEOs' loss aversion can manifest in two ways: relieving short-termism to protect their wealth or becoming more cautious to prevent risky behaviours. Balancing short-term profits with long-term value creation is crucial for satisfying stakeholders and promoting sustainability initiatives.
- Organizational policies and management practices, such as adoption of clawback provisions, play a critical role in shaping CEO risk preferences and impact corporate behaviour. Continual evaluation and refinement of governance mechanisms are essential to align executive incentives with broader societal welfare objectives.



The case is clear to increasingly consider ESG becoming a mandatory duty. Boards therefore have to work on diversity, competencies and incentives to accelerate the transitions needed.

BOARD OF DIRECTORS' DUTIES MITIGATING CLIMATE AND HUMAN RIGHT RISKS



Increasingly, boards of directors are called upon to navigate the challenges presented by climate change, racial injustice, economic inequality, and numerous other human right issues that are fundamental to the success and sustainability of companies, financial markets, and economies. As a result, boards are stepping up their engagement on climate and ESG related-risks and opportunities. **Ksapa** CEO **Farid Baddache** and sustainability consultant **François Thiombiano** explore.

Originally posted on the Ksapa blog. With kind acknowledgements.

UNDERSTANDING ESG AND BOARD OBLIGATIONS

So, what obligations do boards have? Historically, many ESG issues were seen as not within the purview of the board of directors. These matters, referred to as "corporate social responsibility" or CSR issues, were largely treated as if they were separate and apart from the business of generating revenue and earning profits.

Debates about director duties around climate and ESG often centered on whether directors were even permitted to consider issues that previously fell under the rubric of corporate social responsibility. In that Milton Friedman era, risks like climate change and many other issues we would now call ESG were characterized as topics that could bear on the public good, but were not relevant to maximizing value for shareholders.



Those days are over. Our understanding of the significance of ESG and its short-, medium- and long-term relationship to financial performance has evolved to the point that the principal debates are about when, not if, these issues are material. Thus, regardless of whether one agrees with the Business Roundtable's position on corporate purpose and service to stakeholders and the broader economy, it is clear that the board has a role with respect to ESG.

There is, for example, broad consensus regarding the physical and transition risks associated with climate. SASB (now the Value Reporting Foundation), the Global Reporting Initiative, and many others have clearly set forth financially material ESG risks for companies. There is tremendous and growing investor demand for climate and ESG disclosure. The world's largest asset managers and other institutional investors have been direct and vocal in conveying that they consider ESG material to their decision-making. No matter the view of regulatory involvement in climate and ESG disclosures, directors must reckon with this growing consensus and growing demand from the shareholders who elect them.

BOARDS: OBLIGATIONS RELATED TO CLIMATE AND ESG RISKS

Accordingly, boards increasingly have oversight obligations related to climate and ESG risks – identification, assessment, decision-making, and disclosure of such risks.

In the European Union, these obligations are, for instance, directly embedded in the compliance of SFDR where Fund managers and Funds should document their policy on integrating sustainability. The policy should be documented for each Fund, be reviewed and approved by the board of directors of the Fund manager on an annual basis.

In France for instance, and since late 2022, the AFEP-MEDEF recommendations strengthen the board's missions so that it can oversee the company's ESG strategy. It is therefore recommended that the Board determine multi-year strategic orientations in these areas, particularly with regard to climate change, for which this strategy must be accompanied by precise objectives defined for different timeframes.

It is also recommended that ESG issues be the subject of preparatory work by a specialized committee of the Board. To this end, directors may receive training on environmental and climate issues. Finally, it is recommended that executive compensation include ESG criteria, at least one criterion related to climate objectives.

In the US, these obligations flow from both the federal securities laws and fiduciary duties rooted in state law. Under the federal securities laws, the board plays a critical and mandatory role in the existing corporate disclosure process. This increasingly requires directors to think about and consider the impact of climate change and other ESG matters on the financial statements and other corporate disclosures.

Since the passage of Sarbanes-Oxley in 2002, boards at listed companies directly oversee the audit of financial statements,

including responsibility for the appointment, compensation, and oversight of the independent auditor. Exchange rules impose direct requirements with respect to board oversight of audits, including that boards discuss any difficult issues with the independent auditor. Likewise PCAOB rules require auditors to communicate with boards about significant issues arising in the audit. Because matters such as climate change may bear on the valuation of assets, inventory, supply chain, and future cash flows, board oversight of audits increasingly necessitates engagement on those issues.

Boards basically play an important role in the oversight of other types of disclosures made outside of financial statements. These disclosures may also implicate ESG considerations. A director's duty of care fundamentally requires that a board must be well informed when making corporate decisions. When those decisions, for example, relate to long-term business strategies, a board may well need to ensure it has relevant information related to the climate and ESG-related risks and opportunities its company faces.

All of this suggests that climate change and other ESG matters should be regular and robust topics for the board, whether at meetings of the full board or in key committees, such as the audit committee, the compensation committee, or the risk committee. Or, perhaps, as some companies have already done, handled in a more centralized manner through a sustainability or ESG committee of the board.

MITIGATING ESG RISKS AND MAXIMIZING ESG OPPORTUNITIES

Growing recognition of the importance of climate and ESG presents both risks and opportunities for companies and their boards. On the risk side of the equation, there is, among other things, physical risk, transition risk, and regulatory risk. There is also reputational risk, as investors and consumers increasingly make decisions based on companies' sustainability profiles. And human capital risks as well, as younger workers increasingly place a premium on whether a company's values align with their own.

There is a rising expectation that boards will play a key role in managing these risks. A core component of the framework created by the Task Force on Climate-Related Financial Disclosures is disclosure of the board's oversight of climate-related risks and opportunities. The World Economic Forum published a white paper explaining that boards need to integrate ESG into corporate governance out of a recognition that "business value creation" is increasingly dependent on understanding and managing these risks and opportunities.

Importantly, all of these risks also present great opportunities. Boards that proactively seek to integrate climate and ESG into their decision-making not only mitigate risks, but better position their companies and business models to compete for capital based on good ESG governance.

So what are some key steps for boards that seek to maximize ESG opportunities, message their commitment on these issues, and position themselves as ESG leaders?

1. ENHANCE BOARD DIVERSITY

There are many reasons for companies to seek to enhance the diversity of their boards, not least because investors increasingly expect them to do so. Board refreshment introduces opportunities to put new directors on boards, and emphasizing diversity increases the likelihood new directors will actually bring new thinking. This, in turn, could facilitate more current and proactive approaches to climate and ESG governance.

2. INCREASE BOARD EXPERTISE

To effectively address climate and ESG risks, boards need adequate expertise on these subjects. Investors are increasingly emphasizing their expectation on this point. Yet research and empirical experience show that directors may still fall short in terms of ESG credentials. Companies should consider ways to enhance the ESG competence of their boards.

These efforts could include integrating ESG considerations into their nominating processes in order to recruit directors that will bring ESG expertise to the board; training and education efforts to enhance board members' expertise on ESG matters; and considering engagement with outside experts to provide advice and guidance to boards.

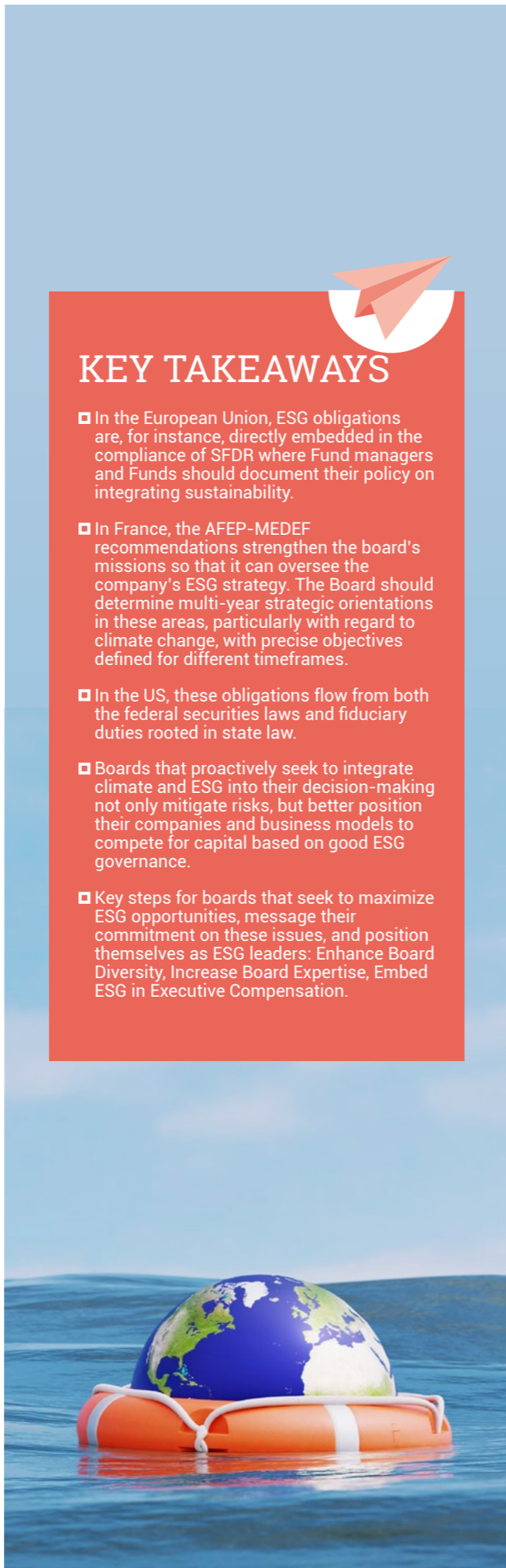
3. EMBED ESG IN EXECUTIVE COMPENSATION

Executive compensation is a powerful tool for achieving strategic company goals. This dynamic is not limited to simply linking executive compensation to certain corporate financial goals. In addition to helping achieve strategic goals related to issues such as reduced carbon emissions or increased diversity of the workforce, tying executive compensation to ESG metrics can offer an important way to deliver on a company's commitment to issues that matter to investors and consumers.

WORK AT THE INTERFACE OF CLIMATE AND SOCIAL ISSUES TO IDENTIFY WAY FORWARD

While legal frameworks vary between jurisdictions, it is generally the case that directors act as fiduciaries of the company in discharging their functions, and owe duties of loyalty and care and diligence to the company.

The case is clear to increasingly consider ESG becoming mandatory duties and boards have therefore to work on diversity, competencies and incentives to accelerate the transitions needed by the assets under their responsibilities. ///



KEY TAKEAWAYS

- In the European Union, ESG obligations are, for instance, directly embedded in the compliance of SFDR where Fund managers and Funds should document their policy on integrating sustainability.
- In France, the AFEP-MEDEF recommendations strengthen the board's missions so that it can oversee the company's ESG strategy. The Board should determine multi-year strategic orientations in these areas, particularly with regard to climate change, with precise objectives defined for different timeframes.
- In the US, these obligations flow from both the federal securities laws and fiduciary duties rooted in state law.
- Boards that proactively seek to integrate climate and ESG into their decision-making not only mitigate risks, but better position their companies and business models to compete for capital based on good ESG governance.
- Key steps for boards that seek to maximize ESG opportunities, message their commitment on these issues, and position themselves as ESG leaders: Enhance Board Diversity, Increase Board Expertise, Embed ESG in Executive Compensation.



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DIVIDED WE STAND: POLITICAL POLARISATION AND THE EROSION OF AMERICAN SOLIDARITY

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The modern world is laying witness to a resurgence of political disarray that dates back to the American Civil War.”



The United States, once seen as the epitome of democratic ideals, is now grappling with an identity crisis fuelled by political polarisation and institutional dysfunction. Why has it happened, what effect does it have on the wider world, and will the US manage to return to its status as role model? **Emily Rowe**, Winner of the **2024 CoBS Student CSR Article Competition** at **Monash Business School**, explores.

Once donned the standard-bearer of democratic constitutions, the United States is now facing an identity crisis. Damned by a political landscape fraught with acrimonious discourse, America's government institutions are spiralling into a state of dysfunction. As a result, a new wave of extremism has sparked unprecedented rates of political violence, with one in four Americans believing that violence may be justified in saving the country, according to a national opinion poll. Not only does this call to question the credibility of democracy in the so called "land of the free" but echoes warning sirens across the developing world, that strives to model their political institutions on the American dream.

But who is to blame? And what does this mean for society as a whole? By delving into the topic of political polarisation through the lens of America's political landscape, we carefully explore the potent inequities, and their nuanced societal implications, that have subsequently arisen as a result of democratic backsliding. As a microcosm for the world at large, an American case study facilitates a close examination of the root causes of this political mutation, and how it continues to attack the health of democracy across the globe.



SO WHAT IS POLITICAL POLARISATION? AND WHY IS IT RELEVANT?

Political polarisation can be best described as the divergence of political attitudes, beliefs, and positions between different groups within a society. In most two-party systems, like that of the United States, political polarisation embodies the ideological conflict between two partisan identities, and with attitudes of the electorate neatly divided along party lines, advocates may never truly speak for the 'will of the people'. This is witnessed across contemporary media discourse, with opposing camps asserting their view that present public policy decisions are an existential threat to their way of life. This pattern of ideological discord is leading to a sharp division between opposing political factions, with climbing rates of political violence and a deep distrust of government institutions threatening the legitimacy of governing bodies.

As emphasised in Thomas Carothers and Andrew O'Donohue's 'Democracies Divided', "this isn't just an American illness, it's a global one". In recent decades, polarisation has intensified globally, spreading across the likes of South America, Europe and India, penetrating national borders and causing mass disruption. Whilst in the United States polarisation manifests itself through a larger gap between the views of Republican and Democrat voters, European politicians have identified a significant divergence in voter opinion regarding fundamental issues like immigration and social welfare. Consequently, partisan actors across the world are becoming increasingly radicalised, utilising social media to cleverly steer the views and opinions of many, not only capitalising on the impressionability of their electorate, but diminishing the socio-political freedoms essential to maintaining modern democracy.

A SYMPTOM OF GLOBALISATION: AN AMERICAN CASE STUDY

So why is this happening? And why now? Although it can be said that Republicans and Democrats are more divided today than at any point in the history of American politics, political polarisation is not a new phenomenon. The modern world is laying witness to a resurgence of political disarray that dates back to the American Civil War. Although these sentiments receded rapidly with the implementation of the New Deal in the early 20th Century, and the establishment of a Democratic coalition in the White House, the Civil Rights movement saw a realignment of electoral support along party lines. With legal barriers to voting lifted with the introduction of the Voting Rights Act in 1965, minority participation in American politics increased ten-fold. In turn, Democrats became more liberal and racially diverse, with Republicans becoming increasingly conservative and more dependent on the white vote. This demographic trend of increased minority participation continues to be relevant today, with global migration patterns over the last few decades constructing an increasingly diverse electorate.

Increased migration is arguably the most visible aspect of globalisation, with growing numbers of individuals journeying across national borders in search of better employment opportunities and a better quality of life. As populations start to age, with record low fertility rates, and universal concerns regarding the cost of living, immigration has been a significant crutch to global economic development. Yet, immigration policy considerations are one of the largest points of political contention across democratic states, with its most vocal opponents claiming that immigration only distributes benefits in a way that creates winners and losers. According to outspoken critics, the losers are the 'real Americans' victimised by severe wage depression driven by more competitive labour markets.

It is important to note that the United States has more immigrants than any other country in the world, with almost 13 percent of the population being foreign born. Consequently, immigration disputes have become incredibly divisive, with Republican representatives Donald Trump, John Stanton and Larry Hopkins becoming the faces of the anti-immigration movement. Confronted with rising economic inequality and disparities in wealth and opportunity, the immigration debate has exacerbated political polarisation by fuelling resentment, grievances, and perceptions of injustice. Not only has this contributed to increased support for radical and populist ideologies but has also diminished the electoral success of liberal immigration integration policies, impacting the welfare of millions across the globe.

In the last few decades, these economic anxieties and working-class frustrations have been channelled into political activism, provoked not only by Trump and other key conservative actors, but by the rise of digital media. As social networking platforms become a popular campaign device, these sites become home to fragmented echo chambers, where individuals are exposed primarily to information and opinions that reinforce existing beliefs. This selective exposure to ideologically homogenous media sources reinforces polarisation by amplifying partisan rhetoric and reducing exposure to other diverse perspectives. In this way, it can be said that social media played a vital role in the January 6 insurrection at the US Capitol. As both members of Congress and federal law enforcement investigated the origins of this political outcry, the dissemination of false information surrounding the 2020 election on trending social media sites, Facebook and Twitter, was discovered a crucial factor. Broader interest was also generated around digital algorithms and their role in the promotion of disinformation. Whilst it can be argued that there are significant benefits of universal access to social networking sites, i.e. improved communication channels and international marketing capabilities, significant empirical evidence suggests that these sites can exacerbate levels of extreme polarisation, eroding American democratic values and increasing levels of partisan violence.

On the other hand, with increased levels of diversity throughout the country, and subsequently greater divergence in social identities as a result of globalisation, a new phenomenon has emerged: 'identity politics'. As issues such as race, religion, gender and other aspects of an individual's socioeconomic status begin to intersect more explicitly with their political beliefs, identity-based political coalitions begin to form, not only intensifying the existence of political polarisation but giving authority to harmful nationalist sentiment. Only a few decades ago it would be considered relatively common to find Republican voters in support of immigration policy, or Democratic voters against it i.e. it was reasonably standard for people to have conservative views on certain issues and liberal views on others. However, in today's world, Americans have moved to align themselves with the ideology of their preferred party and as aforementioned, there has been a noticeable divergence between the preferences of voters as a result.

Whilst it can never be argued that identity is unimportant in the world of politics, many politicians, especially those on the left, argue that identity politics has served as a distraction from more important issues, such as the growing income gap and a financial system riddled with abuse and corruption. Likewise, by focusing so heavily on issues of identity, the Democrats have surrendered to radical and vociferous adversaries who tap into an economically populist message and seal their victory by lamenting the concerns of their voters. By drawing in the vote of the white working class American, conservative leaders have attempted to rebalance the scale of winners and losers, championing their electorate and heightening antipathy towards opposing factions. With that in mind, what does this mean for society and the future of American democracy?

A STAIN ON DEMOCRACY

Not unlike other aspects of everyday life, debate is a healthy manifestation of open communication and collaboration. In a healthy democracy, these disputes are characterised by open-mindedness, mutual respect, and a commitment to finding common ground. Yet, in deeply polarised democracies, debates exacerbate social divisions, reinforce ideological echo chambers, and undermine trust in democratic institutions. As partisan actors become entrenched in their positions, unwilling to listen to opposing viewpoints and eager to score political points by undermining the credibility of their opponents, political polarisation gives rise to the existence of legislative gridlock. Threatened by legislative paralysis, policymakers are unable to address pressing issues and challenges faced by society today, and with a lack of essential reforms, critical problems are often left abandoned. Heated negotiations over Coronavirus relief packages back in 2020 were stalled for several weeks as President Trump's advisors and House Speaker Nancy Pelosi openly feuded over its contents. Persistent ineffective governance seemingly undermines public trust in the political process and impedes substantial efforts to address societal problems through democratic means, as citizens are left disillusioned and disenfranchised by their elected representatives. According to the Gallup Poll in 2020, fewer than 1 in 5 voters said they liked what Congress were doing on Capitol Hill, and these number have seen little improvement over the last few years.

By inaugurating an 'us vs them' mentality in Congress, political polarisation acts to weaponize important social issues. Exploiting these issues for political gain, politicians mobilise their base by demonising public opponents, most commonly through inadequate information and misleading soundbites in the media. In framing major social challenges in ways that evoke strong emotional reactions, partisan actors are able to rally crucial supporters around their particular stance, and as a result, these challenges become politicised tools as opposed to genuine areas of concern or debate. For example, in the US, even infectious diseases are subject to partisan conflict. Following a WHO statement that declared Omicron a variant of serious concern, Republican representative Ronny Jackson classified the newly detected strain of COVID-19 a Democratic trick to justify absentee voting.



WHAT NEXT FOR AMERICAN DEMOCRACY?

In the face of escalating political polarisation and the erosion of American solidarity, it is imperative that we acknowledge the urgency of the situation and take decisive action to mend the fractures in our society. Moving forward, we must prioritise fostering empathy, understanding, and respect for diverse perspectives. Meaningful efforts to bridge the political divide and rebuild national solidarity must include initiatives promoting civic education, supporting bipartisan cooperation, and cultivating spaces for constructive dialogue. Whether this comes from constitutional reform or state-wide regulation, legislative transformation is integral in finding a cure for this political pandemic; democracy is in need of extensive rehabilitation.

Investing in policies that address socioeconomic inequalities and promote social cohesion can help mitigate the underlying drivers of polarisation. This includes greater targeted public expenditure on employment and welfare, tax credit measures and other anti-poverty programs. By embracing these next steps and committing to a collective vision of a more united America, a future where political differences do not overshadow shared values and aspirations is achievable.

Democracies across the globe are facing similar challenges, affecting the socio-political freedoms of millions of individuals. If America can make concerted efforts to heal their divisions, the rest of the world may realise the promise of a more inclusive and resilient society, springing hopes of a brighter future. We all may be living in the so called "land of the free". ///

These views were widely shared on popular social media site, Twitter, exacerbating levels of false information in the press and leaving thousands of impressionable people vulnerable to the disease.

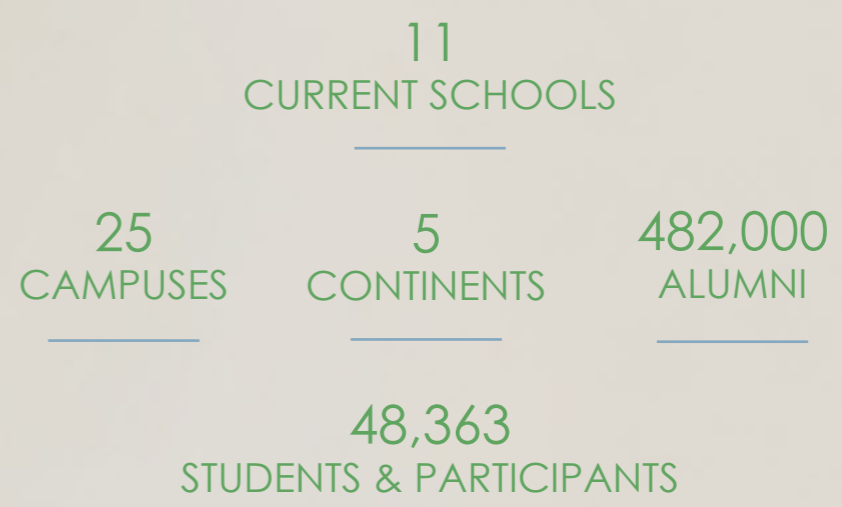
As to opposed to being approached as essential tools for fostering equality and social progress, Diversity, Equity, and Inclusion (DEI) efforts have also become battlegrounds for political ideologies. These partisan divides have entrenched discussions around topics of race, religion, gender and sexuality, leading to severe legislative gridlock in addressing systemic inequalities. The politicisation of DEI initiatives in the United States has led to significant negative implications across various societal domains, with The Florida Board of Education passing regulations limiting the use of public funds for DEI programs, activities and policies in the public college system in recent weeks. This could look like anything from anti-racism or anti-bias training to accessibility measures for people with disabilities. Championed by Florida Governor Ron DeSantis and his administration, these regulations have been classified as integral to the anti-"woke" movement, with Ron DeSantis labelling DEI efforts "indoctrination" and a liberal tool to promote wider societal division. This politicisation of DEI has eroded public trust in these initiatives, with many viewing them as partisan tools rather than genuine efforts to address potent societal injustices, distorting voter opinion and discrediting democratic channels. Marginalised communities continue to face systemic barriers to equality, perpetuating cycles of discrimination and exclusion.

The impacts of political polarisation on society are far reaching and profound, touching upon various aspects of governance, discourse, and social cohesion. As polarisation deepens, divisions widen, and efforts to address pressing societal challenges are squashed, hopes for a national consensus are weakened.

KEY TAKEAWAYS

- **Identity Crisis:** The United States, once seen as the epitome of democratic ideals, is now grappling with an identity crisis fuelled by political polarisation and institutional dysfunction.
- **Extremism and Violence:** The rise of political polarisation has led to an alarming surge in extremism and political violence, with a significant portion of Americans believing that violence may be justified in saving the country.
- **Global Impact:** The effects of political polarisation extend beyond American borders, affecting democracies worldwide and raising concerns about the viability of democratic constitutions.
- **Root Causes and Impact:** Political polarisation stems from a combination of historical legacies, demographic shifts, economic anxieties, and the rise of identity politics, leading to legislative gridlock, the weaponisation of social issues, and the erosion of public trust in democracy.

A KNOWLEDGE-DEDICATED EMAGAZINE WITH A TRULY INTERNATIONAL PERSPECTIVE





DIVIDED WE FALL: THE RIPPLE EFFECTS OF POLITICAL POLARIZATION IN SOCIETY



When people's basic needs are met, they are less likely to resort to extreme ideologies.



Political Polarization is on the rise across the world. From India to the United States of America, we notice a deeper divide between the communities existing within the countries. Does such a divide have an effect on the economy? Or does it go deeper than that and alter the perceptions of people with opposing views? This rising antagonism in democratic societies could hurt the very foundations of it. **Ipsita Chatterjee**, Winner of the **2024 CoBS CSR Student Article Competition** at **ESSEC Business School**, delves into the issue of political polarization and the broader consequences of this phenomenon on the economy and the psyche of people.

DEFINING POLITICAL POLARIZATION

Polarization, or the state of being divided into two extreme poles, happens when opinions about political parties, ideologies, and specific issues become concentrated around those poles. This is seen in many countries across the world where two major parties exist and have opposing stances. For example, the Democrats and the Republicans in the USA are an often-cited example of vastly polarized political stances. However, this definition does not cover the extent to which political polarization causes a divide in the society. Iyengar et.al coined the term "affective polarization" which refers to the level of animosity and distrust of the opposite pole.



People not only disagree with the opposing side's political stance but also their way of living which encompasses their morals, beliefs and attitudes. This type of polarization is particularly alarming since it makes politics - emotional; it entangles hatred/ dislike with policy preferences which is a slippery slope. For the rest of the article, we will use this definition of polarization to illustrate the depth of the issues caused by this phenomenon.

THE MONEY FACTOR

The drivers of political polarization are numerous, complex and multi-faceted. Firstly, we have the economic determinants which may have a direct effect on how the government is viewed by the public. Measures of economic condition of an economy such as real GDP and government expenditure have been shown to have a positive relationship with political polarization.

Basically, when people's basic needs are met, they are less likely to resort to extreme ideologies. Income inequality also plays a pivotal role since countries with higher income inequalities have a higher level of polarization. Economic insecurity often fuels polarization as people seek scapegoats for their economic hardships. Optimistic economic conditions can foster a sense of shared prosperity and social cohesion within society.

THE ORIGINS OF THE 'DIVIDE'

In most countries, polarization is caused by a dramatic change in the country's political life. For example, the idea of a "Hindu Rashtra" has been on the rise since the election of Shri Narendra Modi in 2014. Is this clash new? Well, no, the divide has long existed but is exacerbated by the winning party's (BJP's) association with right-wing extremists (RSS). The clash arises from the idea of nationalism which one party claims should be based on their place of birth and the other argues is entwined with a person's religion. Gandhi and Nehru were of the opinion that the Indian nation would be a secular state where all people regardless of their caste, religion, gender would coexist in harmony. On the contrary, Hindu nationalists strive to establish

the dominance of the majority, i.e., the Hindus. These tensions continue to drive polarization in modern times due to the ruling party's associations with such Hindu Nationalists (RSS).

Similarly, in the USA, political parties don't just represent a political standpoint, they embody a certain ideology and identity. This was not always the case but since the 1970s, major political parties started becoming increasingly aligned with certain ideologies, races and religious identities. For example, Democratic voters were, on average, younger, more racially and ethnically diverse, and more likely to possess college degrees than Republican voters. Such perceptions fuel the "Us v/s Them" thinking and highlight the differences (which may not always be substantial) between both parties to further their agenda.

THE ECHO CHAMBERS

Social media companies have been playing an influential role in political discourse. The average person spends 2.5 hours on social media. Many people depend on social media for keeping up with the current events and gathering information. This can lead to the formation of filter bubbles which according to Eli Pariser means that algorithms create "a unique universe of information for each of us which fundamentally alters the way we encounter ideas and information."

Filter bubbles are not the sole preparator of the wrongful dissemination of information. Preconceived notions are also a driving force in the kind of information they find despite the filter bubble. The filter bubble is an added challenge in bursting this bubble. There is a higher chance that people are strongly convinced that their notions are correct. The filter bubble leads to increased confirmation bias. Algorithms are created to maximize user engagement.

Maximizing engagement increases polarization, especially within networks of like-minded users. When people view political content on social media, they are more likely to make them more antagonistic to the opposing view. Extreme polarization has been fueled by widespread social media usage which, in turn, has led to declining trust in democratic values and scientific facts.

INFLUENCES AND MORE...

The degree of proliferation, independence, and overall quality of the media can have a non-trivial effect on political polarization in a country through a direct influence on public opinion. Media channels have been proposed to have a temporary learning effect for rational voters, or a permanent effect for nonrational voters subject to persuasion. Humans are social beings and the society at large does affect the decisions they make.

The influence of other people's opinions on an individual's opinion is undeniable. People often surround themselves with others who share similar beliefs and values. In these homogenous social networks, individuals are less exposed to diverse perspectives and are more likely to encounter confirmation bias, reinforcing their existing beliefs. Cultural diversity in terms of ethnicity, religious beliefs or linguistic profiles can also influence attitudes towards political matters. The more diverse opinions that exist in a group, the less biased an individual's opinions on politics could be.

THE AFTERMATH OF THE DIVIDE

Extreme division undermines the very fabric of democratic governance, wreaking havoc on pivotal institutions. In a democracy, opposing sides are viewed as political adversaries. However, in deeply polarized countries, the opposing side is viewed as an enemy that needs to be neutralized. Extreme polarization makes people feel alienated from and wary of the "other" group. They feel devoted to and confident in their own side at the same time, without questioning their prejudices or the veracity of the material they are presenting. As a result, they are vulnerable to the rhetoric used by political figures to win over votes by inciting fear of the "other."

Rising polarization creates a pernicious logic of zero-sum politics that incentivizes behaviour undermining democratic institutions and norms. In such a hostile environment, it is difficult for legislative and political bodies to function normally. Legislative bodies become either entangled in deadlock or reduced to mere rubber stamps. The judiciary is no longer considered autonomous as they are either seen as 'biased' or filled with loyalists which sway the consensus. Political leaders are often seen as leaders of a faction of society as opposed to a leader for the entire state/ nation. Division also permeates society, poisoning everyday interactions.

In some countries, people would hesitate to permit their child to marry someone affiliated with a disliked political party, or would refuse to engage in business with such individuals. Essentially, extreme division fractures crucial norms of tolerance and moderation, such as gracefully conceding after electoral defeats, vital for sustaining healthy political competition. Furthermore, partisan conflict exacts a toll on civil society, often leading to the vilification of activists and human rights defenders. Even more concerning, divisions can fuel hate crimes and political violence, a trend witnessed in countries like India, Poland, and the United States in recent years.

THE WAY FORWARD

All is not lost. Systemic interventions can help reduce polarization before polarization imperils democracy. Interventions can be multi-fold ranging from institutional reform to voter education that warn people of the dangerous zero-sum logic which is fostered in a polarized environment. Reforms should aim to lower the high stakes of elections and empower voters to voice their opinions and make free choices. Lessons from abroad give us some hints: reforms such as shifting to a proportional representation system (as New Zealand did in the 1990s) and/or using ranked choice voting in multimember districts (such as in Ireland) could break up the rigid binary logic that comes along with polarization. It could provide voters with more choice and allow for coalition-building to ease the gridlock. There should also be systems in place to disable elected leaders from pursuing policies to benefit one party or a small elite group.

With regards to the policing of social media platforms, it needs to start with accountability. Facebook and its social media peers need to move beyond denial and come to grips with their role in heightening polarization. In the face of failed self-regulation, the government needs to intervene and provide the sustained oversight that until now has been lacking. For instance, there could be benchmarks set for harmful content that exists after moderation and if the benchmark is exceeded, the company can be penalized with a fine. Governments could require social media companies to incorporate the new rules into their terms-of-service agreements with users.

Reducing the threat of pernicious polarization to democracy requires deliberate and urgent action. Or, as multiple streams of multi-disciplinary research suggest, democracies across the globe may cease to be. The US presents a troubling polarization problem; it is the only Western democracy to have suffered from such high levels of polarization for such an extended period. The rising polarization in large democracies such as India, Turkey, Brazil etc. are concerning. These experiences point to the urgent need not only to learn from the past but also to innovate new mechanisms to reduce or better manage this phenomenon. ///

KEY TAKEAWAYS

- ❑ Polarization runs deeper than differing political opinions but also extends to animosity and distrust towards opposing side extend to their way of life, morals, beliefs, and attitudes. This emotional entanglement with politics exacerbates societal divisions.
- ❑ There are several drivers of polarization: economic factors such as income inequality and economic insecurity, political factors such as change in political leadership and external influences from social media and/or social networks.
- ❑ Social media amplifies polarization through filter bubbles, confirmation bias, and algorithm-driven content, leading to increased antagonism towards opposing views.
- ❑ Extreme polarization undermines democratic governance, leading to legislative deadlock, compromised judiciary independence, and societal fractures. However, systemic interventions like institutional reform, voter education, and social media accountability can mitigate polarization's harmful effects and safeguard democracy.



**POLITICAL POLARISATION,
ARTIFICIAL INTELLIGENCE,
AND THE PROLIFERATION
OF FILTER BUBBLES IN THE
DIGITAL ENVIRONMENT**



It is vital for the developers of AI algorithms to understand their responsibility and the influence their technology can have on Internet users.



Daria Perevertailo, Winner of the **2024 CoBS Student CSR Article Competition at Trinity Business School**, explores the power and influence of algorithms and their role in promoting political polarization.

“The tremendous expansion of communications in the United States has given this Nation the world’s most penetrating and effective apparatus for the transmission of ideas [...]. Words hammer continually at the eyes and ears of America. The United States has become a small room in which a single whisper is magnified thousands of times.”

Thus starts the 1947 article titled “The engineering of consent” by an American sociologist and the “father of public relations” Edward L. Bernays. Despite the 77-year gap, the relevance of Bernays’ words is more evident today than ever, considering the meteoric technological advancements in the field of online communications and AI cause concern and awe in equal measure. An immense amount of information is now available to any user, which is both an extraordinary achievement and a source of numerous problems.

For once, it may be incredibly difficult to navigate through the enormous pool of resources. However, recommendation-based AI-powered algorithms can assist in effectively finding relevant resources online by analysing users’ actions and providing personalised content. Yet they can also severely limit what information is going to be seen by said user and subsequently lead to intellectual isolation.

In a personally tailored informational environment it can be harder to assess existing beliefs and biases. The perpetual reiteration of users’ opinions fosters an ecosystem of conforming viewpoints and creates an impression of universal agreement on certain topics. The concentration of like-minded individuals may turn these opinions more radical and less prone to reconsideration. The realm of politics

is especially susceptible. A recent controlled laboratory experiment by Cho et al. (2020) suggests that algorithm-recommended content can consolidate previously held ideological beliefs and escalate political separation. Thus, the gap between the opposite sides of political spectrum, i.e. the right and the left, grows bigger.

AI-POWERED RECOMMENDATION ALGORITHM — A WELL-INTENTIONED ENEMY?

Algorithm-based recommendations are ubiquitous on the Internet, as they help users filter a boundless amount of information. They are also designed to make user experience as engaging as possible in order to make people stay online longer. Therefore, the information netizens encounter tends to cater towards their interests, as it is more likely to be interacted with. This is certainly true in the case of TikTok, one of the most popular social media platforms today. Its algorithm has become incredibly accurate at generating a stream of recommended clips on the For You Page (FYP) by utilising information about not only your interactions with other users, but also your own content, people you follow, hashtags you use and videos you like (Hern, 2022). Soon enough you are surrounded by videos of people who have the same interests and opinions as you. But is it always a positive thing?

The ample degree of control users exercise over their online experience allows them to access any kind of information and therefore subject themselves to a variety of perspectives and opinions that may not align with their own. However, it can also result in netizens exclusively pursuing information that validates and reinforces their preexisting beliefs, thus creating a filter bubble — a situation when one is completely insulated against opposing viewpoints.

By constantly searching only for desirable information, users provide the algorithm with data that will be later used to make personalised recommendations, which, in turn, can make it harder to come across resources with opposing views and interact with them in a sensible manner. If you have been surrounded by hundreds of sources that confirm your opinions, why should you trust and fact-check one that doesn't?

DEFINING POLITICAL POLARISATION

The term political polarisation is generally understood to mean the process of the right and the left distancing from the ideological centre and heading towards more extreme, radicalised views. It is usually divided into two categories: ideological polarisation and affective polarisation. The former is concerned with the rift between opinions on policies and the latter described as proliferation of the severely negative views of the opposing group.

A review of relevant research papers suggest that political polarisation has been on the rise in the United States of America. The updated findings of the Pew Research Centre

indicate that the Democratic party and the Republican party have been exponentially drifting apart: the former have become slightly more liberal, and the latter have adopted more conservative views (DeSilver, 2022). Moreover, another article states that the emotional factor has become much stronger, and the ideological divide has gotten beyond strictly political concerns (Doherty, 2014). Additionally, countries all over the globe, including South Korea, UK, France and so forth, witness the same ideological rupture (Silver, 2022).

Among the more traditional explanations for political polarisation, like the growing cohesiveness of ideologies and the increasing distinction between parties, the influence of media is being given more and more attention in academic circles. The majority of studies come to the conclusion that social media, indeed, exacerbates ideological and affective political division (Kubin, von Sikorski, 2021).

The research on the impact of search-recommend AI-algorithms specifically is scarcer and generates a lot of discussion about its magnitude. Despite that, plenty can be said in regard to the fragile autonomy of the netizens. For example, several studies have indicated that YouTube's recommendation algorithm leaves little room for users to actually control their FYP, therefore making it more likely for them to only witness content they've previously interacted with (Murthy, 2021). Another example can be found in an article (Little, Richards, 2021) about how TikTok algorithm turns its recommendations into more radical and hateful over time.

WHY IS POLITICAL POLARISATION PERILOUS?

While it has been argued that there are certain benefits to political polarisation, such as a more politically engaged population (Kubin, von Sikorski, 2021), the general consensus is that the ever-increasing ideological distance between the right and the left leads to dichotomous thinking and animosity towards the people positioned outside the group. The higher the degree of hatred and distrust towards the opposition, the higher the risk of disregarding any information provided by said opposition (Cho et al., 2020). High levels of resentment can also cause deliberate creation of disinformation with an aim of vilifying and dehumanising people with opposing views (Osmudsen et al., 2021).

Furthermore, politically polarised masses are easier to manipulate. Their ideological views become deeply engraved in their identities. Thus, any attack on their group could be perceived as a personal offence. They can adopt a black-and-white, all-or-nothing attitude and refuse to make any compromises with their opposition. Individuals inside the group will strive to justify all actions of their fellow members. They may start perceiving undemocratic measures against the opposition as reasonable, which may imperil the freedom of speech and rationalise the suppression of voters. Additionally, they might even be willing to sacrifice their own rights and principles in order to advance their cause. Historically, this has been a symptom of a wobbling democracy and impending totalitarianism (Arbatli, Rosenberg, 2021).

For businesses political polarisation means the necessity to take a stand on every issue, lest they want to alienate customers from both groups. Their silence can be interpreted as an unspoken support for one side of the conflict. If they choose to instead be vocal about their position, they risk losing revenue from people who disagree with their stance. On top of that, if the company has a significant social presence, their opinion on a controversial topic can spawn even more tension around the issue.

Having now discussed the negative effects of personalised social media algorithms and political polarisation, it would be reasonable to contemplate whether recommendation-based algorithms can also provide a solution. Is it possible to utilise machine learning technology to foster a more politically diverse environment online and amplify political literacy?

AI AS A FORCE FOR GOOD?

Artificial intelligence is a tool with endless capabilities; thus it is not implausible to think that it can help bridge the divide. One way is to make recommendation AI algorithms as transparent as possible, so as to increase users' awareness of how their actions influence their experience. Furthermore, user interaction with online content is rather nuanced, as netizens do not necessarily deliberately avoid opposing opinions (Cho et al., 2020). Nevertheless, the unrelenting bombardment with the same information may bring about the notion of false universal consensus regarding certain topics. To pierce the filter bubble, the algorithms will need to focus on providing users with search options that are not confined to their personal views. In other words, it can be helpful to concentrate on the general topics that relate to the interests of the user, but do not necessarily conform with them.

In addition, AI could be mobilised to combat false information more effectively, for instance, by analysing both the search history and the content to detect hate speech. Then it can inform the user about the inaccuracies present in the resources and encourage them to be cautious about particular sources if they had a history of producing harmful content.

OR, PERHAPS, IT ISN'T

Understandably, AI will continue to evolve and improve in the future, yet the question worth asking is whether the direction it will choose is going to benefit our society. To date, the advancements in machine learning technology in regard to social media environment has been largely aimed at making users feel engaged. If the vast ecosystem of the Internet perpetually validates our thoughts, why does it matter that people in the real world disagree? Isn't it much nicer to be surrounded by individuals who support you?

Likewise, user interaction is lucrative, and sometimes outrage caused by the content online generates more traction than simply witnessing the ideas you agree with (Oremus et al., 2021). However, it does not make this type of content more thought-provoking. On the contrary, it can make users more

susceptible to emotional responses, rather than logical ones. It can also induce hostility towards opponents. Therefore, it is vital for the developers of AI algorithms to operate on the basis of understanding their responsibility and the influence their technology can have on Internet users.

SOMETHING WORTH MORE THAN MONEY

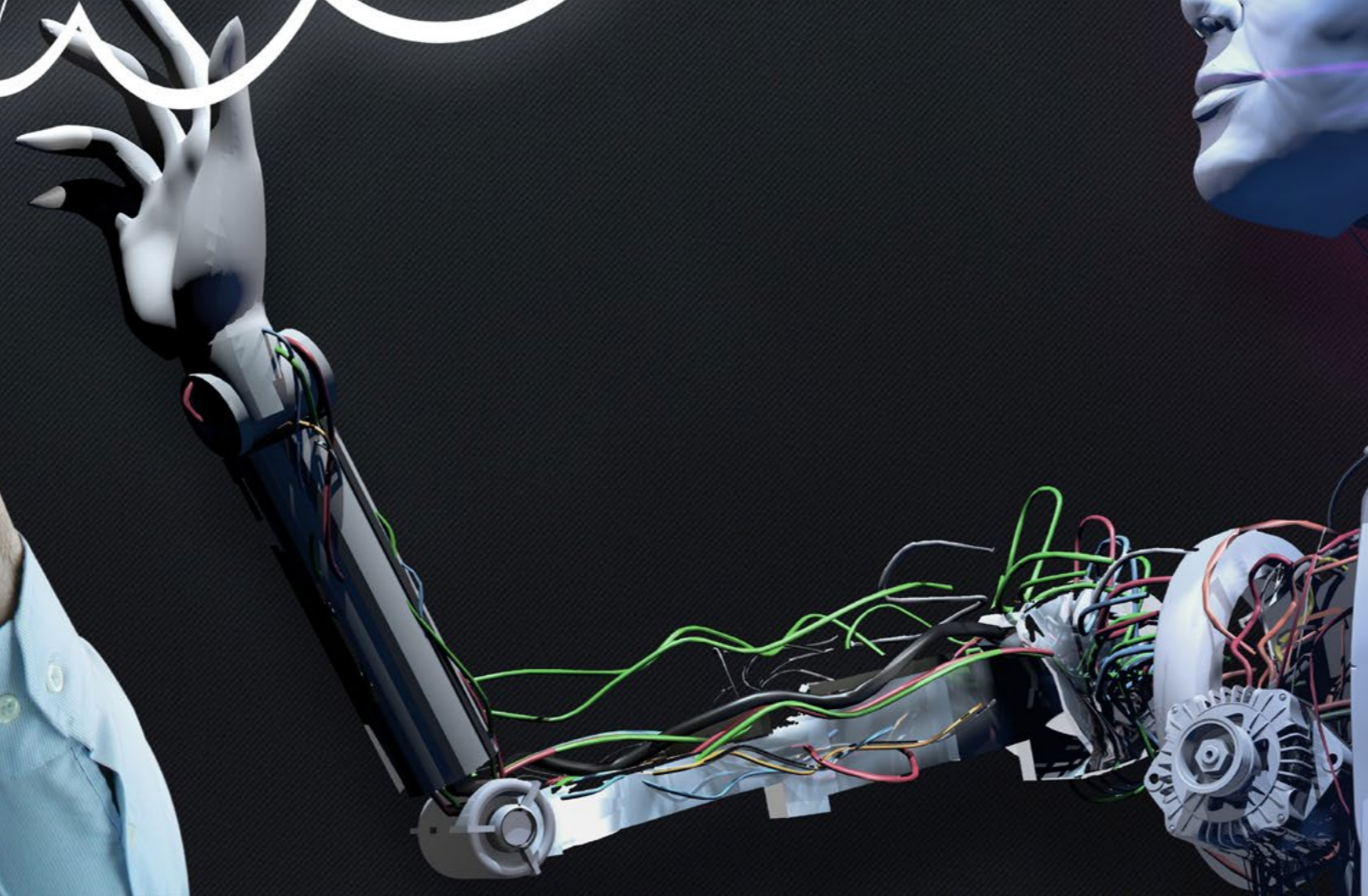
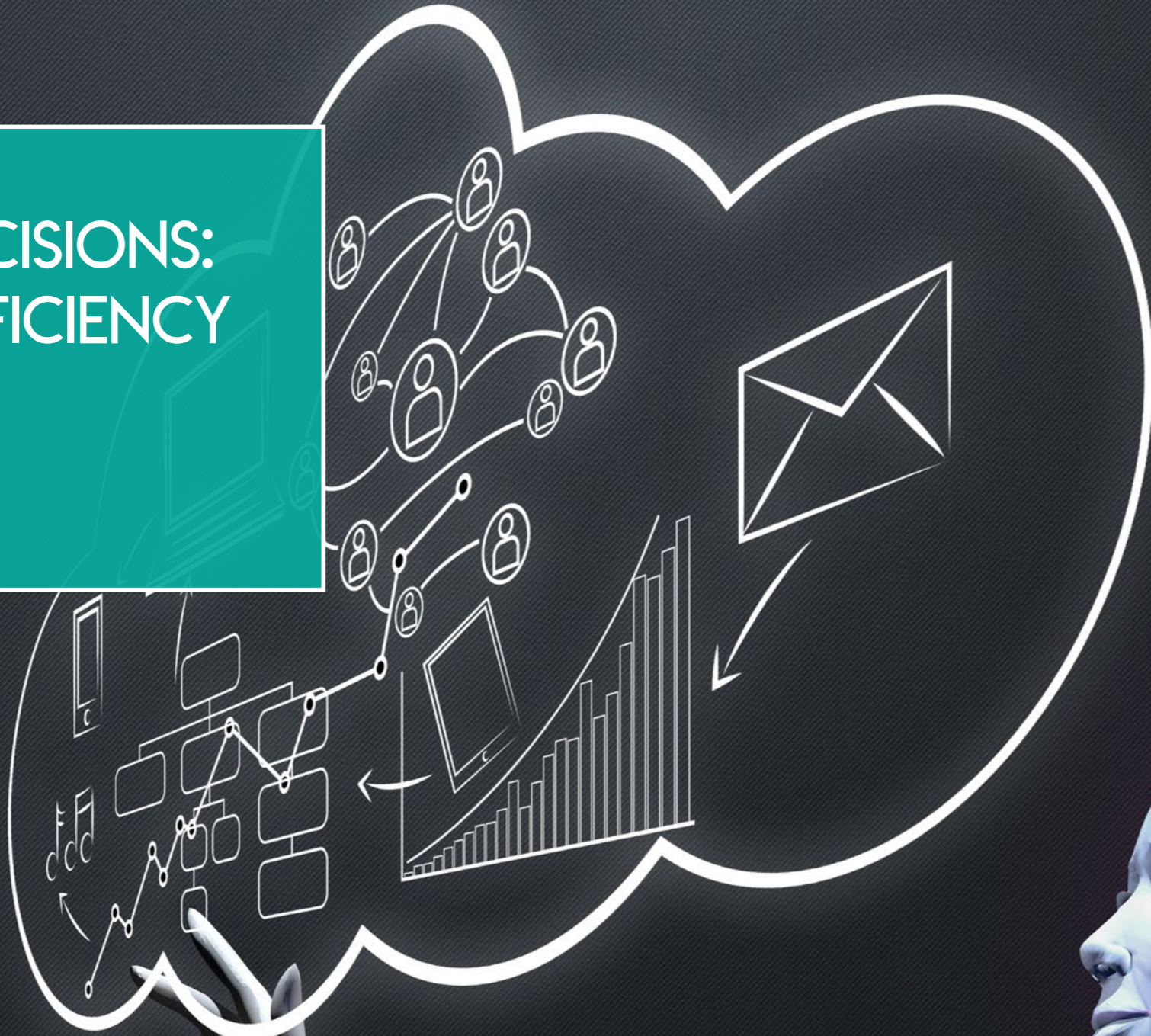
AI-powered recommendation algorithms online are omnipresent. While they help us effectively find the information we need, they can also prompt more drastic political polarisation and spread animosity among people with different opinions by creating and consolidating informational bubbles. Although the consensus as to the extent artificial intelligence facilitates this issue hasn't been reached and the topic demands more research, we still need to endeavour to make algorithms more transparent to netizens.

Currently platforms like YouTube and TikTok are trying to make the users stay online longer and actively interact with the content, since it generates substantial revenue. Accordingly, we should strive to find an incentive for corporations to start being more open about their practices as well as attempt to combat false information and hate speech that is being actively spread on their apps. ///

KEY TAKEAWAYS

- ▣ There has been a palatable increase in political polarization all over the globe. Whereas the ideological cohesiveness and more clear distinction between the parties play a major role, academics have begun to consider the influence of social media and search-recommend AI-powered algorithms.
- ▣ Political polarisation is generally considered to be an unfavourable thing because it leads to dichotomous thinking and proliferation of resentment between opposing ideologies.
- ▣ Online users tend to subconsciously construct informational bubbles with the help of algorithms that endeavour to make the online experience as engaging as possible. Soon enough the only thing netizens see is the reflection of their own opinions.
- ▣ Informational bubbles lead to consolidation of previously held beliefs. They are especially potent when it comes to politics, thus accelerating the political rupture between the right and the left.
- ▣ There is a potential for AI to mitigate the rise of political polarisation by increasing its transparency and correcting false information online. However, the companies who own social media platforms need to be incentivised to make an effort in being more sincere with their users.

AI IN HIRING DECISIONS: ELECTRONIC EFFICIENCY VS EMOTIONAL INTELLIGENCE



“
Regardless of its performance relative to humans, we need to ensure that the datasets that we feed to our AI models are without implicit bias.”



Ryan Zhou, Warwick Business School finalist in the in the **CoBS 2024 Student CSR Article Competition**, takes an in-depth look at how AI recruiting software works, its pros and cons, and how legislation is attempting to safeguard candidates' rights.

AI has many uses, from writing reports and essays with the assistance of ChatGPT to automating simple code writing with Github's CoPilot. In fact, I used ChatGPT to help come up with this title. In these cases, the potential harm is quite limited, but what about when the stakes are much higher, for example, in healthcare or hiring decisions?

The thought of some unknown algorithm calculating whether you deserve your dream job with an abstract algorithm is a scary thought, and you would be right to think so. However, the reality of virtual interviews, psychometric testing and AI CV screening is already a reality of today. Around 65% of recruiters already use AI in the recruitment process, compared to only 34% of candidates that suspect that AI was used in their recruitment process (Stefanowicz, 2024). To mitigate rising concerns, New York City passed a law in 2023 that allows job seekers to opt out from having their CVs and job applications from being reviewed by AI. A nice touch, sure, but I will subsequently address why this may fall short of its intended purpose.

This article will help to provide more clarity on the current usage of AI, flaws in the current system and what is being done to mitigate these issues.

HIRING DECISIONS

Why do you want to work at xxx? You have 90 seconds to record your response... For those applying to new roles, the video interview stage is a common occurrence. HR supply a set of questions and expected response times, then the software feeds you the questions and records your responses. Despite a handful of firms having human involvement in assessing these responses, for many firms this is impractical and time-consuming. Their solution is to employ AI to analyse your video response, assessing it on body language, key word usage, tone and of course the content of your response. Hirevue is a firm name that has become synonymous to the word video interview, especially amongst banking applicant pools. Firms offering the highest paying entry level roles in the world, such as JP Morgan and Point72, are just several of the 1,593 firms using Hirevue (6sense, 2024). As a barrier to these lucrative career paths, interviewees have natural concerns about the potential for bias, lack of explanation of results and the technology itself.

LOST IN TRANSLATION: WORD ERROR RATES

Microsoft classifies a good speech-to-text (STT) model to have a Word Error Rate (WER) of 5-10% and advertises its own WER at 5.1%, in comparison, Google's is 4.9% and a human transcriptionist's is 4% (SmartAction, 2021); this has been corroborated by third parties (Ferraro et al, 2023).

However, if you were to take any book or article you have at hand and read a section to Apple or Google's speech-to-text software, you will likely find a much larger number of errors, perhaps several rather egregious ones. This due to advertised WER being benchmarked against clean datasets, i.e no background noise. What happens if you take these out of the lab environment and introduce background noise similar to a quiet library (40dB)?

Google's WER soars to 20%, Microsoft's increases to 11.11% (Xu et al, 2021) and it would be reasonable to believe that background noise of a library would have little to no impact on a human transcriptionists' WER. Without delving deeper into STT evaluation metrics, it is apparent that video interview AIs are unlikely to get a clean picture of your speech and given the nuanced nature of English language, much less the meaning. Hence, interviewees' concerns are seemingly well founded. However, Nathan Morndragon, Hirevue's chief psychologist mentioned in a 2019 interview, that the system even picks up details as granular as 'false bravado, memorized answers and abnormal levels of eye contact'. (efinancialcareers, 2019). So perhaps, the actual content of the speech has less weighting than an applicant might think...

Nevertheless, given this material error rate, how do companies like Hirevue actually train and calibrate their AI to process applicants for the roles its clients offer? In the same interview, Nathan Morndragon mentions how they examine the competencies and behaviours of the employer's top performers and then builds an ideal job profile on which candidates are assessed against. However, is the sufficient, or does this pose substantial risks to the employer?

AI'S POTENTIAL TO DISCARD TOP TALENT

To identify whether an AI selection model works well, we first need to identify the wishes of the employer. Whilst many firms now use AI in their hiring process, rarely does AI dictate the entire application process. According to a survey on HR professionals, 43% said that the most challenging task is applicant screening (Stefanowicz, 2024). This is represented accordingly with majority of AI use cases as the CV and video interview screening stages, with human interviews at subsequent stages of the process. Employers use AI to narrow down the applicant pool as much as possible, with the main risk of AI rejecting talented individuals without a human set of eyes ever reviewing the application.

Here, we are more willing to make Type 1 errors than Type 2 errors. In layman's terms, it is better to include an incompatible interviewee into the short list than incorrectly deem a potentially star employee as incompatible. The idea is that employers may reject incompatible applicants in later

rounds, however, will never recover the talent they potentially missed. In Machine Learning, what we would look at is the Receiver Operating Characteristic Curve (ROC), which plots the true positive rate against the false positive rate (blue dotted line in figure 1). An employer can alter their desired characteristic thresholds for keyword usage, eye contact and so on, to allow for a certain rate of false positives. The grey area under the ROC curve is aptly abbreviated as AUC and can be interpreted as the probability that the AI ranks a good candidate above a poor candidate. Employers should aim to maximise the AUC and have the opportunity from its AI provider to constrain their false positive rate to a board-approved threshold. Moreover, it may be beneficial for future AI powered recruitment processes to display their false positive rates and AUC to improve transparency and promote better model classification.

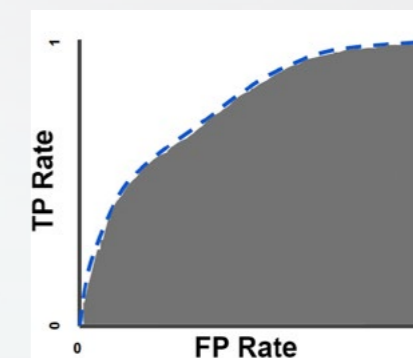


Figure 1- Receiver Operating Characteristic Curve (Google Developers, 2024)



AMAZON'S FULFILMENT FLOP

When using AI in screening applicants, the major reputational risk stems from bias or discrimination by the AI. Amazon began developing an AI tool in 2014 to review CVs and rank applicants, but by 2015 found that the AI was, put bluntly, sexist. Amazon used a model with unsupervised learning to spot patterns in CVs submitted to the firm over the previous 10 years. However, most of the applicants were male, hence the AI taught itself to penalise CVs with the words 'Women' and discriminated graduates from all women's colleges (Dastin, 2018). Amazon discovered the discriminatory bias in 2015 and endeavoured to remedy the issue, however, they disbanded the project in 2017, failing to fulfil its original target.

The main takeaways from Amazon's attempt are that the training dataset is incredibly important and there needs to be some level of testing to detect bias. However, latest tools such as Hirevue, compare applicants to characteristics of the top performing candidates, as previously mentioned. At large firms, there can be an element of politics in determining promotions and identifying top performers. Calibrating the model to these top performers makes it susceptible to the inherent bias management may have, hence, not irradicating the possibility of bias. There may also be implicit discrimination against those with greater strengths in soft skills that are unquantifiable. For the fans of the TV show, suits, I am sure you can remember when an employee was tasked with implementing cost cutting measures for the firms and devised an algorithm to rank employees. She was about to fire the bottom performing employee before it was brought to her attention that the top performers on her list all sat around him. Hence, it is also vital to use more holistic datasets when training their AI models.



In the current age of social media, reputational risk for firms' activities are increasingly large. Well-meaning activities such as Bud Light's 2023 Advertising campaign, knocked their place as the #1 selling beer in the US, with US sales down 26.1% (Torrenzano, 2023) and Bud Light's producer Anheuser-Busch InBev lost \$27 billion in market capitalisation in the subsequent months (Thaler, 2023). If the aforementioned fiasco was to be brought to light in the current environment, it would likely have a larger impact on Amazon than in 2014. Firms need to be careful about the impact of their automation efforts and regulators are closely following...

THE SPEARHEAD IN AI REGULATION

New York's Local Law 144, detailing regulation on employment related AI, was passed in 2021, and is now enforceable since 5th July 2023 (Mobley, 2023). One of the first AI laws in the US, it states that firms using AI in the hiring process need to submit themselves to annual independent audits to prove absence of bias, and each individual violation yields a potential fine of \$1,500 (Ryan-Mosley, 2023). Moreover, firms are required to disclose to applicants that AI is being used and provide an option to request an alternative selection process, if available. However, this is an empty rhetoric, as it doesn't require the employer to do so. This now becomes some sort of Prisoner's Dilemma Game, where people may opt in or out. Unfortunately, everyone opting out is not a Nash Equilibrium. Firms would much rather minimise costs and use AI for screening purposes, so opt in applications would be reviewed before those who opted out, posing a significant advantage for rolling deadline applicants.

Despite its flaws, it is a step in the right direction and requires firms to better understand its technology and possible resulting discrimination, even if they do not necessarily have to do much. Moreover, given many international firms are headquartered in New York, firms are likely to use the same AI for all their hiring processes, which benefits applicants globally.

GOLD AT THE END OF THE RAINBOW?

AI clearly has a long way to go before full autonomy, but it is irrefutable that it is currently useful to access wider talent pools and minimise hiring costs. It also benefits applicants who are currently employed, by providing them with the flexibility of completing interviews at a convenient time, rather than dodging away during the workday.

Whether AI based systems are more or less biased than fully human run processes is difficult to measure and conclude. However, the increased pickup in AI based application screening for the last 4-5 years indicates that AI is performing well. If there are no apparent drawbacks to this solution and allows firms to increase their chances of finding a good match, then it would be crass to suggest firms to stop.

Regardless of its performance relative to humans, we need to ensure that the datasets that we feed to our AI models are without implicit bias and that we provide better transparency to applicants on the application process. Finally, regulatory bodies need to ensure they maintain their stance on AI regulation to ensure that firms take suitable steps to fully understand the technology they use and avoid repercussions to themselves and job-seekers. Given these terms, maybe, just maybe, we get to the gold at the end of the rainbow... ///

KEY TAKEAWAYS

- Around 65% of recruiters already use AI in the recruitment process, compared to only 34% of candidates that suspect that AI was used in their recruitment process.
- For those applying to new roles, the video interview stage is a common occurrence. HR supply a set of questions and expected response times, then the software feeds you the questions and records your responses.
- For many firms this is impractical and time-consuming. Their solution is to employ AI to analyse your video response, assessing it on body language, key word usage, tone and of course the content of your response.
- Video interview AIs are unlikely to get a clean picture of your speech and given the nuanced nature of English language, much less the meaning.
- When using AI in screening applicants, the major reputational risk stems from bias or discrimination by the AI.
- New York's Local Law 144, detailing regulation on employment related AI, states that firms using AI in the hiring process need to submit themselves to annual independent audits to prove absence of bias, and each individual violation yields a potential fine of \$1,500.
- Regardless of its performance relative to humans, we need to ensure that the datasets that we feed to our AI models are without implicit bias and that we provide better transparency to applicants on the application process.
- Finally, regulatory bodies need to ensure they maintain their stance on AI regulation to ensure that firms take suitable steps to fully understand the technology they use and avoid repercussions to themselves and job-seekers.



AI: THE REAR WINDOW OF THE WORK ENVIRONMENT – BETWEEN INSIGHT AND ILLUSION



The integration of AI into people management isn't just about technological advancement. It is about ensuring that these advancements support and respect the dignity of every employee.

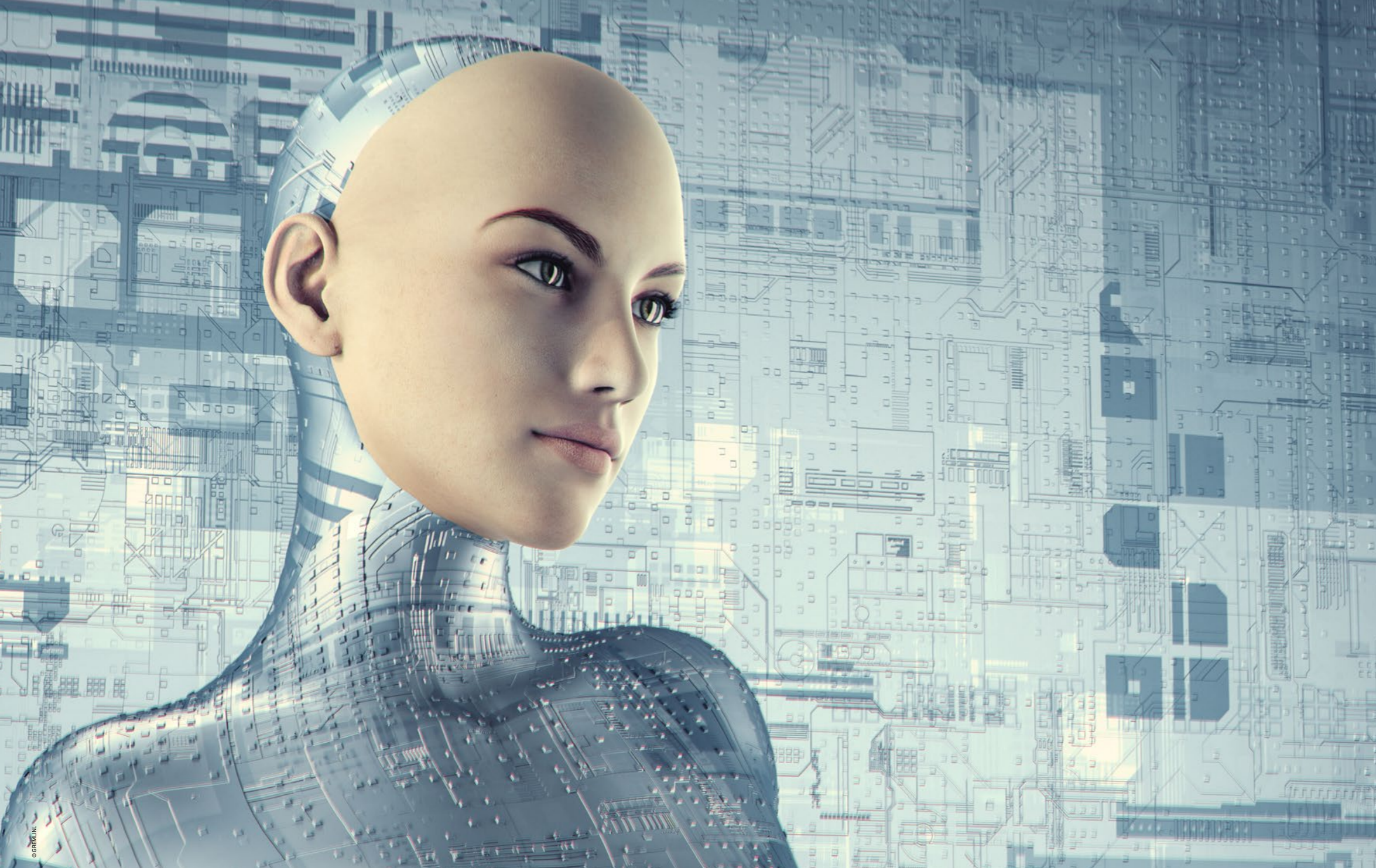


AI can be both a promising tool and a potential risk in management. It enhances workplace efficiency and job satisfaction, but also raises concerns of privacy invasion and the risk of excessive surveillance. **Antonin Delobre**, finalist in the **2024 CoBS CSR Student Article Competition** at **ESSEC Business School** explores.

In TRON Ed Dillinger's confession, "It's my fault. I programmed you to want too much" echoes a timeless caution against human hubris and insatiable greed. This poignant admission not only encapsulates the perennial tale of creator and creation. It also serves as a stark reflection of our own technological trajectory, especially within the realms of artificial intelligence in people management. As we stand on the brink of an AI-infused future, this quote resonates more profoundly than ever. Moreover, it highlights the delicate balance between leveraging AI for progress and the potential amplification of power disparities.

In the corporate sphere, AI promises unparalleled efficiency and insights, offering leaders tools of unprecedented influence and control. Yet, as we imbue these digital entities with the desire to learn, optimise, and outperform, we must ask ourselves: Are we programming our own obsolescence? The allure of AI in people management, while transformative, brings to light the inherent risks of a future. Where the concentration of power could escalate beyond our control.

This narrative is not just a cautionary tale of technology run but a reflection on our own tendencies to seek dominion over nature and each other. As we integrate AI more deeply into the fabric of our organisations, the question becomes not only about the capabilities we gain but also about the values we choose to prioritise. Will the story of our advancement be one of unchecked ambition leading to our forfeiture, or will we navigate this new frontier with a mindful appreciation of the responsibilities that come with great power?



Having explored the intricate dance between AI's promise to revolutionise recruitment and its potential to perpetuate biases. We now turn our gaze forward. The future of work, illuminated by the insights of experts and union leaders. It beckons us to consider not only the technological innovations on the horizon but also the human touch that will guide their integration.

NAVIGATING THE FUTURE OF WORK: EMBRACING AI WITH A HUMAN TOUCH

In an era where artificial intelligence (AI) is rapidly transforming the landscape of work, the narrative is often bifurcated between apprehension and optimism. Experts from CNAM highlight a perspective that is gaining traction among trade union leaders. One that embraces AI's potential to optimise production without sacrificing jobs, reduce accident risks, and elevate professions to more rewarding tasks.

This optimistic stance, however, unveils a significant structural challenge: How do we prepare and support workers for the AI revolution? The burden falls on company managers to ponder and enact training and acculturation strategies. Ensuring teams remain abreast of AI advancements. A collaborative approach with sector experts can help demystify AI. By teaching employees to leverage intelligent tools for automating redundant tasks and boosting productivity. Practical applications, such as utilising GPT-4 for drafting memos or employing AI-powered customer call filtering solutions, exemplify the time-saving benefits of these technologies.

Central to the AI, the acculturation process is meticulous training for those in management and employee well-being roles. Human Resources departments, therefore, play a crucial role in this technological pivot. Ensuring a smooth transition to intelligent and judicious use of AI involves reassuring communications from HR to employees and unions concerned about job security.

The challenges AI poses to social dialogue are significant. As it impacts future job definitions, autonomy, responsibility, and privacy. AI also questions the worker's position relative to machines, thereby touching on the dignity of employees in the face of automation. The two main fears to be debunked are the dread of "replacement" and the anxiety of "substitution".

As we stand on the brink of this new era, the mission of acculturation to AI in the workplace becomes not just about embracing new technologies. It is now about fostering an environment where human dignity, job satisfaction, and technological advancement coexist. The future of work is not about choosing between humans or machines but about integrating both to create a more efficient, safe, and fulfilling workplace. Through informed dialogue, targeted training, and a commitment to employee welfare, businesses can navigate the AI revolution. By ensuring that their workforce is not only prepared for the changes ahead but also capable of thriving in an increasingly automated world.

In contemplating the future of AI in people management, we are reminded that the most profound challenges we face may not come from the machines themselves. However, it comes from the very human traits we program into them. As we stand at this crossroads, it is imperative that we proceed with a blend of ambition and humility. To ensure that our technological endeavours enhance, rather than eclipse, the human being.

AI AND DISCRIMINATIONS: A DISTURBING LOVE STORY

The arrival of artificial intelligence (AI) in the recruitment processes of certain major corporations such as Unilever and Amazon, has injected a wave of optimism across a segment of society. This part of society who faces discrimination in hiring, encounters difficulties in securing employment that is satisfying or any employment at all.

To elaborate, a plethora of start-ups have sought to digitise and automate various layers of the recruitment process. They make it swifter, more cost-effective, and less prone to discrimination—a matter of significant concern to companies of Anglo-Saxon cultural heritage. Certain of these tools have incontrovertibly proven their worth. For instance, Unilever's use of the HireVue solution, which facilitates video interviews, stands out.

In this setup, candidates are presented with questions on their screen to which they must respond. The system employs artificial intelligence to compile and analyse each individual's responses against those of previous applicants. The analysis scrutinises responses in light of traits identified in the most successful candidates, including aspects such as breathing, vocabulary, eye movements, speech rate, emotional tone, and stress levels in the voice—to name but a few. Over 15,000 attributes can potentially be identified in top performers.

The outcomes regarding Unilever have been universally positive, yet some initiatives have not yielded equally convincing results. Amazon's experience, in particular, could be described as catastrophic and somewhat alarming. In 2015, Amazon introduced a new recruitment tool based on machine learning. Despite its innovative nature at the time, it was quickly called into question due to its apparent bias towards male candidates. As the algorithm predominantly selected male profiles.

Although this episode occurred nine years ago, it remains indicative of a clear lack of neutrality in the development of AI algorithms, extending beyond the realm of people management. This is evident in the controversies surrounding the 'woke' tendencies of Google's Gemini and certain responses from ChatGPT, which have ignited debates on platforms such as Twitter and Reddit for their perceived biases.



AI IN HUMAN RESOURCES: A DOUBLE-EDGED SWORD

Is the investment in AI, particularly within people management, truly worthwhile? The answer is complex, especially when considering AI's dual role as both a facilitator of unbiased recruitment and a potential perpetrator of conformity.

AI promises to revolutionize recruitment by eliminating biases—whether based on race, gender, or emotion—and personalizing the selection process. And matching the expectations of both candidates and companies more accurately than a human recruiter ever could. Its superiority in processing applications and drawing nuanced conclusions from vast amounts of data is undisputed. However, the reliance on extensive datasets can be a double-edged sword. As it may inadvertently promote conformity and overlook unconventional or rare profiles, leading to the systemic exclusion of individuals who don't fit the "norm."

Beyond the potential for biased outcomes, AI lacks the human capacity for emotional intelligence. It cannot gauge the personal "fit" that is crucial in determining whether a prospective employee will fit with the team, a factor that significantly influences hiring decisions. Incorporating team dynamics into the algorithm could further complicate the recruitment process. Raising the question of who ultimately makes the hiring decision and bears responsibility for it. If managers are forced to double-check the AI's selections, it reduces the system to a mere pre-screening tool.

Another foreseeable challenge is the regulatory limitations on using personal data. As AI require detailed information to refine candidate profiles, they risk running afoul of privacy laws and could become targets for legal action. Furthermore, the high costs and significant energy consumption associated with running sophisticated AI algorithms add to the overall expense of the recruitment process when considering the total cost.

As we navigate the intersection of artificial intelligence (AI) and people management, we're met with a critical balance. AI offers exciting possibilities to enhance efficiency and innovate our workspaces. Yet, it also presents challenges, particularly around privacy and the risk of overly intrusive oversight.

Our exploration, from considering human ambition in technology to evaluating AI's impact on the workplace, brings us to a clear conclusion. The integration of AI into people management isn't just about technological advancement. It is about ensuring that these advancements support and respect the dignity of every employee.

In moving forward, the aim should be to harness AI as a tool for improvement, not surveillance. This journey requires careful consideration to ensure that technology serves us, enhancing work life without compromising our values. Ultimately, AI should be a partner in our progress, reflecting our ingenuity and humanity. ///

The journey through AI's role in optimising and humanising the workplace reveals a significant structural challenge: preparing and supporting our workforce for this digital evolution. Yet, as we embrace these advancements, we must also confront an emerging concern. One that threatens to overshadow AI's benefits—a concern that harks back to timeless tales of surveillance and privacy.

THE ORWELLIAN CONUNDRUM IN THE WORKPLACE

In the absence of adequate safeguards, the deployment of artificial intelligence (AI) in the workplace can infringe upon employee privacy. Or worse and foster a "Big Brother" atmosphere, potentially breeding resentment among teams.

AI in the corporate sphere: a rear-window? The latest performance analysis tools boast frightening efficiency but also raise concerns over their overreliance on quantifiable facts. Much like James Stewart in "Rear Window," performance analysis software and other AI-driven tools scrutinise employees' actions with precision. Yet, something crucial is missing (to extend the Hitchcockian analogy): the sound, which in this context represents the unquantifiable factors that define an employee beyond mere numbers.

Excessive use of these tools can therefore hinder a company's operations and becomes a source of worry for every employee. It could lead them to question, "Am I performing well enough? Does my work satisfy Big Brother?" It's clear that the rise of these tools alone does not perpetuate an Orwellian atmosphere in businesses and society at large. AI, in general, has the unique ability to blur the lines further between professional and private life. While introducing more sophisticated surveillance tools. Some are seen as security measures (e.g CCTV with facial recognition). Others aim to boost productivity (e.g., analysis of telework webcams). However, this raises a significant trust issue regarding companies. In fact, given current computer capabilities, they could very well listen in on their own employees at home (using background microphone and camera access).

These two examples of AI utilisation are distinctly dystopian. Thus, demand cautious handling by stakeholders in businesses to avoid creating a professional environment reminiscent of "The Circle" (James Ponsoldt, 2017) or a more absolutist example like 1984 by George Orwell.

This emerging issue requires a thoughtful approach to integrate AI into the workplace. By ensuring that technology enhances productivity without compromising the privacy and dignity of employees. Striking the right balance between leveraging AI for its benefits and maintaining a trustful, respectful work environment is crucial for the future of work.

KEY TAKEAWAYS

- The potential of AI to enhance workplace efficiency and job satisfaction, against concerns of privacy invasion and the risk of excessive surveillance, framing AI as both a promising tool and a potential risk in management.
- How AI can help overcome bias in recruitment processes, but also warns of AI's tendency to perpetuate biases, highlighting the need for unbiased algorithms?
- Emphasises the importance of training and acculturating workers to comfortably use AI, suggesting a collaborative approach to demystify AI and integrate it as a productivity tool without fostering job security anxieties.
- Discusses the risk of creating an Orwellian work environment with AI-driven tools and stresses the importance of a balanced approach that respects employee privacy while leveraging AI for productivity.



DIVIDED WE STAND: HOW ROGUE AI AND SOCIAL MEDIA ARE WIDENING THE IDEOLOGICAL RIFT

“
This highlights the importance of media literacy and provides a strong argument in favour of a more comprehensive approach towards fact-checking being integrated into school programs.



Luca Livolsi, Winner of the CoBS 2024 Student CSR Competition at **Warwick Business School**, tackles the question of political polarization through the lens of AI and social media and contends that the phenomenon will persist as long as convenience prevails over critical thinking.

The phrase “Believe nothing you hear, and only one half that you see” is often attributed to a short story by Edgar Allan Poe in which the head of a mental health institution gives advice to a young patient as a note of caution about the dangers of the outside world. At a time when increasingly sophisticated artificial intelligence (AI) generated content has become nearly impossible to distinguish even for the trained eye of experts, we should feel compelled to doubt about the “half of what we see” that we have traditionally trusted. Although disinformation campaigns and the willingness of political and social actors to influence social dynamics have always existed, the impetuous emergence of AI tools has made it easier than ever to sow division.

New techniques that allow personalised disinformation and the ease to reach specific audiences through social media have made it easier than ever to feed half-baked truths and outright lies to people, leading to a palpable social and political polarisation among the public. At a time when distinguishing truth from fallacy is increasingly difficult, a new societal model of trench politics is emerging, where what we choose to believe is dependent on whether it fits our political discourse. An almost paranoid lack of trust and unwillingness to compromise by political actors and supporters has dangerous consequences on the ability to keep a democratic coexistence and compromise on the big issues where consensus is paramount.



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CLICKBAIT, SOCIAL MEDIA BOTS, AND AI MISUSE

1. SOCIAL MEDIA DISINFORMATION

The presence of misleading information aimed at sowing political division came hand in hand with the inception of social media platforms. Nonetheless, the deception approaches used today are far more refined and targeted than they used to be. The presence of “Spamming Bots”, which all social media users have come across at some point, is the main culprit in aggravating uncivil discussions and polarisation (Cantini et al., 2022), particularly in the context of electoral events. While political division has always been part of our societal reality, a widening ideological rift is emerging enabled by cheap, fast, targeted campaigns that can be orchestrated through social media anonymously without scrutiny or repercussions.

2. CHANGES IN MEDIA CONSUMPTION

A key factor in understanding the drivers of misinformation and polarisation is the emerging new media consumption patterns, which have significantly changed in the last two decades. According to Ofcom (2023) survey, 83% of 16-24-year-olds favour online news sources, and 71% also declare to prefer social media as a primary source of information. Meanwhile, the 55+ population heavily relies on newspapers and television, reflecting a fundamental change in where we put our trust to stay informed.

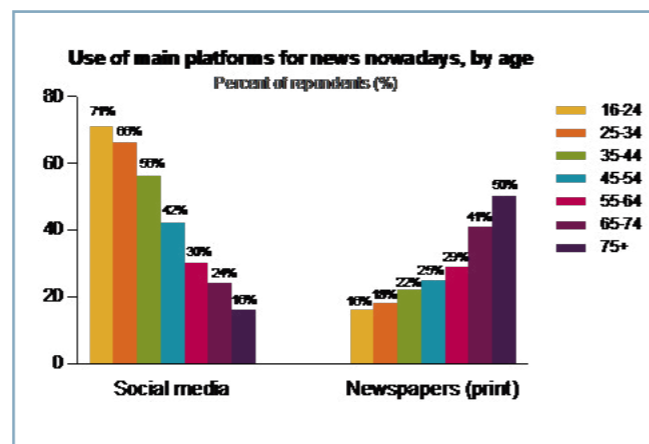


Figure 1. Source: Ofcom (2023) (adapted)

An overreliance on non-verified outlets and social media posts not only increases the amount of disinformation received but also exposes users to targeted messaging. Micro-targeting potential voters based on online behavioural and cookie-compiled data has allowed political campaigns to expose specific audiences to tailored, often inaccurate, information through social media, which researchers at the London School of Economics have strongly correlated with a polarising trajectory of moderate and extreme voters (Levy and Razin, 2020).

3. LACK OF COMPREHENSIVE LEGISLATION

What has become apparent is the inability of social media platforms to exert sufficient content moderation on their sites to root out misleading information. Big platforms like YouTube, for example, were taken advantage of to spread COVID-19 misinformation, bypassing their guidelines and content moderation directives (Tokojima Machado et al., 2022). Although media companies have a fiduciary duty to promote healthy and trustworthy discourse, flagging, contextualising, and eliminating fake news and fabrications is a gargantuan task. As such, there is a need for government intervention to establish rules and restrictions on misleading content, while safeguarding freedom of information and global access to platforms.

4. AI CONTENT DEEPPAKES

Artificially generated content poses unique challenges to moderators and citizens who wish to stay informed. AI-generated content is becoming the preferred tool for influencing elections, swaying voter preference and polarising the electorate (Ray, 2021). The ability of AI to generate swaths of content and inundate social media platforms together with the capacity to stylistically emulate traditional, trusted news outlets is a lethal combination. The spread of AI to generate political discontent and antagonise individuals is making it harder to discern reality and facts (Linden, 2024). While the European Union has approved landmark legislation on AI development and content regulation with the Artificial Intelligence Act to address these concerns, experts from the Social Europe Fund suggest the scope of the law and wording of the text can leave room for loopholes that bypass the established guardrails (Ponce Del Castillo, 2023).

IT IS (NOT) THAT SIMPLE

Putting the blame for political polarisation squarely on social media and online outlets would lead to not addressing a fundamental aspect of the problem. Individuals with fringe or extreme ideas have always existed throughout history, yet their visibility and influence have been limited since the dissemination of ideas and opinions was controlled by traditional media outlets and other gatekeepers of information. Prior to the advent of the internet, radical discourses simply lacked a platform, and the spread of false rhetoric and incendiary political statements was very limited.

While the democratisation of access to information and the creation of free and open platforms has been a net positive from a civil liberties standpoint, the spread of misinformation, particularly from political figures, creates a permission structure for others to act similarly, eroding deeply rooted societal consensus on the importance of being truthful and honest. Addressing social media-driven polarisation without actively educating the public on civic engagement would set up the conditions to trip over the same stone twice.

BEYOND US VS. THEM: EROSION OF CIVILITY AND CONSENSUS

Increased political differences and confrontation are not inherently bad as they can promote citizen’s interest and engagement in the political process. However, it can impede consensus building, erode trust, and prevent people from coming together around the most basic aspects of community life. Moreover, the deepening of ideological divisions within society has been shown to adversely affect both mental and physical health (Fraser et al., 2022).

Political polarisation exploits traditionally non-partisan matters, as seen with the spread of COVID-related misinformation. In the US, almost one-third of conservative voters reported not wanting to get vaccinated (Alemi and Lee, 2023), with half of them believing the jabs contained microchips (Bolsen and Palm, 2022). The partisan taint of issues that should be handled by the health authorities negatively impacted the effectiveness of herd immunity (Zimmerman et al., 2023). The right/left polarisation against vaccines was definitely not solely an American concept, as most of Europe experienced the same phenomenon (Backhaus et al., 2023). The instrumentalization of the COVID-19 vaccination campaign wore out the trust in institutions and exacerbated the distance along ideological lines.

Social media-driven political polarisation promotes an ‘us vs them’ identity politics, which aggravates the unwillingness to care for the community, promotes racism and gives rise to hate speech. In the United States alone, the political and ideological rift is having concrete consequences, from a steep rise in political violence (Kleinfeld, 2021) to a decline in willingness to marry someone from an opposing party or ideology (Wang, 2020).

A perniciously polarised society is more prone to suffer an erosion of peaceful coexistence and according to the Carnegie Endowment for International Peace, persistent polarisation compromises legislative action, erodes institutional behaviour and incentivises the pursuit of spurious personal gains by political actors (Mccoy and Press, 2022).

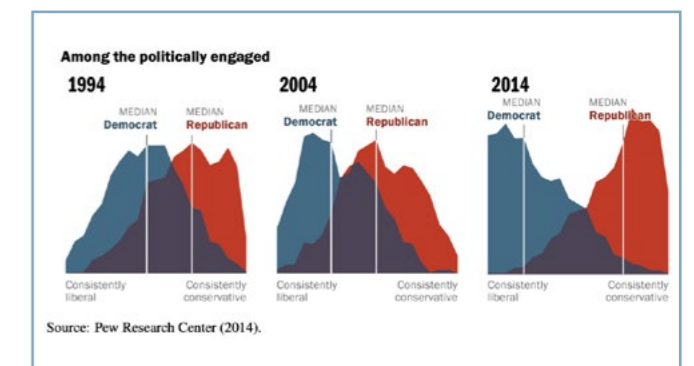


Figure 2. Source: Pew Research Center (2014)

Note: An ideological consistency index estimated for voters on the basis of 10 questions on economic, social and moral issues. The index ranges from -10 (fully liberal) to +10 (fully conservative) and the distribution for the whole of the sample is taken.

2024 will be an arena for democracy, a year filled with significant political events (Ewe, 2024), including the US and UK general elections, the EU parliamentary elections and the Indian general election, a country in which more than 969 million people will be casting a ballot. The threat of AI-generated extreme content, which is expected to be a major component of the political discourse targeted to voters this electoral year (Adami, 2024) promotes a vision of political opponents as a threat and opting for political alternatives suddenly becomes inconceivable, undermining the trustworthiness of the political process.

RE-ENGAGING THE DISILLUSIONED

There are some green roots, still, that give reason for optimism. Younger, educated social platform users are less likely to trust online misinformation (Soetekouw and Angelopoulos, 2022), signalling that digital natives have a better understanding of the media environment online and can spot false statements compared to older generations. However, that same year researchers found that almost half (41%) of teenagers aged 16-19 could not tell the difference between true and false medical information (Greškovičová et al., 2022). This highlights the importance of media literacy and provides a strong argument in favour of a more comprehensive approach towards fact-checking being integrated into school programs. Crucially, according to the European Parliament (2022), 15-24-year-olds trust public TV and printer press more than twice as much as social media outlets (40% and 17% respectively), although overall trust in media is the lowest among any age group.

A growing political division and an increasingly polarised civil discourse have led young people to be the most disengaged (Zhang, 2022) and disillusioned (Foa et al., 2020) group of voters. While the data provide no reason for optimism, we can treat this situation as an opportunity to galvanise younger generations to participate in the political process in a landscape they understand better than any other age group.

This undertaking would need to rely on two principles. Firstly, decreasing the dependency on social media platforms as a means of political education and discussion, as cross-partisan discussion can reduce political polarisation (De Jong, 2024) and promote consensus. And secondly, promoting healthy scepticism online.

The inconvenient truth is that political polarisation will persist as long as convenience prevails over critical thinking. Uncritically taking online information at face value, without careful consideration and contrasting sources, simply echoes pre-existing biases and opens the door to further division. ///

KEY TAKEAWAYS

- While social polarisation has been spurred from the fringes of the political discourse for a long time, access to a global audience and assimilation of division tactics by political actors have driven online disinformation campaigns, evading the guardrails traditional media provide against false information and dangerous rhetoric.
- Drastic generational changes in preferred media outlets and a marked shift towards social media and online news expose users to being targeted by misinformation campaigns aiming to antagonise and sow division for political gains.
- Political polarisation cannot be only attributed to social media; the spread of fringe ideas and targeted misinformation has a human origin that we must deal with, introducing civility in the political and social discourse.
- A politically divided and opposed electorate can be a net positive, yet persistent and systemic political antagonism erodes consensus and the fundamentals of democratic coexistence.
- Younger generations demonstrate greater scepticism toward online misinformation and even though they are prone to be disillusioned with politics, it offers an opportunity to re-engage them while being educated against social media-caused political polarisation.



WHAT WE DO





POLITICAL POLARIZATION: A THREAT TO DEMOCRACY



The current environment of political instability and genuine environmental threats may prompt leaders to unite.



Whatever happened to democracy? **Carolina Tonon Cardoso**, Runner Up in the **2024 CoBS Student CSR Article Competition** at **FGV-EAESP**, dives into the factors that have led to political polarization to underscore the importance of revisiting and reinforcing collaborative efforts among nations.

How did Mr. Milei win in Argentina? Will Mr. Trump be re-elected? Those are questions that every adult and politicized teenager is pondering. Even children are asking their parents about the constant protests and Twitter wars. Mr. Javier Milei, self-determined as a libertarian liberal, started another far-right government in Argentina, similar to Mr. Jair Bolsonaro's four-year government in Brazil, and likewise, Donald Trump in the United States. There are other examples in Europe, such as Giorgia Meloni in Italy and Viktor Orbán in Hungary. This scenario of extreme governments has created a divided world, where there is no longer dialogue, only the blind defense of one point of view. Moreover, this worldwide political polarization is impacting the social and environmental fields in ways that need to be discussed.

THE ROOTS OF THE CURRENT POLITICAL POLARIZATION

Maybe it is not clear how the governments of Mr. Jair Bolsonaro (Brazil) and Mr. Donald Trump (United States) have caused harm to society, and why the world is concerned about the increasing number of world leaders with similar political positions, such as Javier Milei. However, revisiting the attack on Brazil's National Congress on January 8, 2023, mirroring the events in the U.S. Capitol in January 2021, may elucidate the magnitude of the problem. Supporters of former President Trump and ex-President Bolsonaro invaded the symbols of local democracy to protest against the election results and call for military intervention. According to Steven Levitsky, we are experiencing a democratic regression.



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In world history, there have been many waves of polarization. Political polarization can be defined as the clustering of people into groups, normally two. These two opposite groups see each other as enemies, excluding the possibility of dialogue and peaceful disagreements. These aspects threaten democracies because the recognition of adversaries' legitimacy is removed (Levitisky, 2017). Moreover, there are some factors that contribute to a reverse wave: the weakness of democratic values among key elite groups and the general public; and severe economic setbacks, which intensified social conflict and enhanced the popularity of remedies that could be imposed only by authoritarian governments, etc. (Huntington, 1991).

Following the Second World War, the world found itself essentially divided between capitalist and socialist nations. The Cold War profoundly altered the nature of conflicts thus far. Wars are no longer waged over land and religion; rather, they are driven by ideology (Bauer, 2003). From this moment on, politics ceased to be one of the areas of discussion and mobilization within society and instead invaded all areas: religion, culture, economy, and the environment. Despite the majority of social dynamics being inherently political, the bipolar and polarized nature of politics make a society tense and divided. The prevailing political bipolarity justified rule-breaking, as it dehumanized adversaries by stripping them of their rights and legitimacy. Hence, to show political power, the United States used manipulation techniques and entered into unethical agreements with Latin American countries, and even financed policies to ensure that the American bloc maintained a unanimous liberal political stance.

The National Association of History (ANPUH), published a document in 2007. It gathered previously established evidence that Mr. Lyndon Johnson's government financially and militarily supported Brazilian military and conservative elites for the 1964 coup, which led to a dictatorship lasting over 20 years. The United States did not seek economic or territorial exchanges; rather, it craved to ensure Brazil's alignment with its political position. Funding a military coup wasn't exclusive to Brazil, it also happened in Chile (Winn, 2009). Therefore, the landscape was civil and military dictatorships throughout Latin America, widespread international insecurity, and misinformation.

In this context, it is clear that democracy was in crisis – exerting authoritarian pressure is not a democratic stance. However, the 1980s brought the third wave of democracy, fostering dialogue, inaugurating constitutions, and enabling broad popular participation. This can be observed through the end of the Brazilian military dictatorship in 1985, the Argentine dictatorship in 1983, and the Chilean dictatorship in 1988, as well as the fall of the Berlin Wall in 1989. According to Samuel Huntington (1991, p.3), "between 1974 and 1990, at least 30 countries transitioned to democracy."

WHAT HAS HAPPENED SINCE THE 1980S?

In the early 1990s, the scenario of leaders in North America, South America, and Europe was democratic, with Mr. Fernando Henrique Cardoso in Brazil, Mr. Bill Clinton in the United States, Mr. François Mitterrand in France, and more. Consequently, in terms of the environment, the world witnessed the inaugural United Nations Conference on Environment and Development, also known as Eco-92, in 1992. The Rio Conference solidified the idea of sustainable development and deliberated on an economic growth model that prioritizes ecological balance over consumption. It also contributed to raising awareness that environmental damage was predominantly the responsibility of developed countries (Camara Dos Deputados).

Additionally, one of the most significant protocols to combat climate change and environmental damage, the Kyoto Protocol, was established in the 1990s. Globalization and the feeling of collaboration among countries were on the rise until 2008. The global negative impact that the real estate market crisis in the United States generated resulted in the economy of many countries put the benefits of this collaboration in question. In Brazil, there was a significant slowdown in the economy, which generated popular discontentment regarding the government and its institutions (G1).

Retaking Samuel Huntington's theory, Brazil presented the favorable conditions for a reverse wave of democracy: the weakness of democratic values and severe economic setback. Along with this, a major corruption scandal (2005) in the federal government came to light, weakening Brazilian democracy. This scandal was referred to as "Mensalão," and it involved the transfer of funds from companies, which made donations to the Workers' Party (PT) to gain the support of politicians. Furthermore, starting in 2014, an economic crisis hit the country during Dilma Rousseff's (PT) presidency, which was highly anticipated by the population as she was the first woman to govern the country.

There is also an aggravating factor in this polarized scenario: the phenomenon of post-truth. Post-truth prioritizes personal beliefs, like religion and culture, over objective truth. In relation to politics, this leads people to cluster into groups with similar individual values and adopt politically biased positions based on their beliefs. A clear example is the victory of Mr. Jair Bolsonaro in the presidential elections of 2018. Mr. Bolsonaro's campaign catchphrase was: Brazil above all, God above everyone. This presents similarity to slogans used during the military dictatorship, such as "Brazil, love it or leave it." These two

sentences are appealing to nationality and to a logic of exclusion for those who disagree with the government's position. So, Brazilian citizens knew the danger of this speech, especially those who have lived through the dictatorship. However, the majority decided to cling to religion and vote for Mr. Bolsonaro.

One of the biggest consequences of the ex-President's government was achieving, in 2020, the highest peak of deforestation in Amazonia since 2008. In this context, the former president reduced the resources of environmental monitoring agencies, such as IBAMA, weakening their ability to monitor and combat illegal deforestation (Folha De São Paulo). Furthermore, Mr. Bolsonaro adopted an anti-environmental rhetoric and questioned the effectiveness of environmental protection policies, which could encourage invasions of protected lands and illegal deforestation (Folha De São Paulo).

In relation to social effects, during the election period, in 2022, it was very common to see Brazilian families cutting ties due to political positions, those being pro-Bolsonaro or pro-Lula. Additionally, on voting day, people went to the polls dressed in two different color palettes to identify who supported whom. Bolsonaro supporters wore green and yellow, the colors of the Brazilian flag, a typical radical instrument: turning a country's identity into a nationalist symbol. In this context, people felt fear of being insulted in the streets or on social media.

When Mr. Luís Inácio Lula da Silva (Lula) won the election, Mr. Bolsonaro's supporters attacked the National Congress on January 8, 2023. Chaos ensued as they clashed with security forces and vandalized property inside. Consequently, not only do institutions suffer material and moral damages, but the population suffers as well. This radicalization puts people's lives at risk, engaging in wars that need not be fought. When a democratic society is not guided by peaceful debate and respect for citizens, that democracy begins to die (Levitisky, 2018).

WAR: A REFLECTION CAPABLE OF PRODUCING A SOLUTION

In 2022, Russia initiated a war against Ukraine. Although the conflict had begun much earlier in 2014, Russia only invaded Ukraine and began a widespread armed conflict in 2022. Russia's president since 2000, Mr. Vladimir Putin, widely known for his authoritarian leadership, has gradually eroded democratic processes, such as abolishing direct elections for governors in Russian regions (2004), criminalizing the LGBTQIAPN+ movement (2023), and engaging in a series of armed conflicts, including with Georgia (2008), the Crimea region (2014), and now, Ukraine. According to the president of Ukraine, Mr. Volodymyr Zelensky, 31 thousand Ukrainian soldiers have already been killed in the conflict. Furthermore, in 2023, another war began: Israel and Palestine, which the UN confirms 24 thousand deaths. This scenario presents an opportunity for world leaders to once again adopt a collaborative stance to prevent further conflicts from erupting. Just as democratic international organizations were established after World War II to prevent the destruction of populations and the atrocities of fascism, now is the time to create new agreements and organizations.

In terms of the environment, the progress of the Kyoto Protocol did not evolve as expected. It was established that, between 2008 and 2012, there was a reduction of greenhouse gas emissions by 5.2%, compared to the numbers recorded in 1990. However, worldwide greenhouse gas emissions grew by 16.2% from 2005 to 2012 (Folha De São Paulo, 2015). In an attempt to address the issue, the Kyoto Protocol was replaced by the Paris Agreement (2015), which aims to limit the increase in global average temperature to "well below" 2 degrees Celsius above pre-industrial levels. Still, a new report from the United Nations Environment Agency states that, in the most optimistic scenario, the likelihood of limiting warming to 1.5°C above pre-industrial levels is only 14%. Therefore, it is high time we question why people complied with government directives to stay home to curb the spread of coronavirus, but disregard requests to use public transport and reduce meat consumption, as methods to contain the global warming. As Krenak (2017) highlights, this discrepancy begs examination. Once more, it is through the unity of nations and a resurgence of the collective sense of responsibility that existed in the 90s that we can hope to mitigate climate change.

WHAT TO EXPECT

Political polarization is increasing, as evidenced by the election of authoritarian leaders in democratic countries. This trend is leading to a weakening of democratic principles, characterized by the demonization of opposing viewpoints. Furthermore, there is a growing sense of isolation among nations, eroding the collective sense of responsibility and unity. This situation is particularly dangerous as it diminishes the commitment to addressing global issues such as climate change. Nevertheless, the current environment of political instability and genuine environmental threats may prompt leaders to unite in efforts to mitigate the crisis. The question remains: will democracy prevail? ///

KEY TAKEAWAYS

- ❑ The historical context of political polarization, exacerbated by external interventions and ideological conflicts, highlights the fragility of democratic institutions and the necessity of fostering dialogue and broad popular participation to safeguard democracy's resilience in the face of authoritarian pressures.
- ❑ The rise of political polarization, fueled by factors such as economic setbacks, corruption scandals, and the phenomenon of post-truth, has led to a dangerous erosion of democratic values and institutions, as evidenced by the societal division and violence witnessed during elections and political transitions in Brazil.
- ❑ The failure of international agreements like the Kyoto Protocol and the challenges posed by the Paris Agreement highlight the urgent need for collective action and global cooperation to address climate change effectively, underscoring the importance of revisiting and reinforcing collaborative efforts among nations.



POLITICAL POLARIZATION: CAN A SOCIETY THRIVE WHEN ITS CITIZENS ARE ENTRENCHED IN IDEOLOGICAL BUNKERS?



Only through genuine engagement, empathy, and a commitment to shared values can societies navigate the complexities of ideological polarization.



(Isaac) Tan Ping Jie, Runner Up in the 2024 **CoBS Student CSR Article Competition** at **Monash Business School**, leads us through the shadow of political polarization to the factors that help a society thrive.

In the contemporary of modern discourse, ideological divisions have become entrenched, reminiscent of fortified positions on a strategic battlefield. Political polarization is the divergence of political attitudes away from the centre, gravitating instead towards extreme ideological poles, thereby encapsulating the tension inherent in binary political ideologies and partisan affiliations. Can a society truly flourish when its people are locked in their respective intellectual silos?

As John Stuart Mill, (1974) once said: "He who knows only his own side of the case knows little of that." This underscores the importance of engaging with opposing viewpoints. When citizens retreat into ideological bunkers, they forego the opportunity to avail themselves of the multifaceted perspectives that enrich societal discourse. A thriving society requires the construction of bridges, not barriers. Consequently, an exploration into the trajectory of its progression and its ramifications on societal dynamics becomes imperative.

THE POWER OF THE MEDIA

In an era where information flows ceaselessly through digital channels, media outlets find themselves navigating a precarious tightrope. Once esteemed as the "fourth estate," they now grapple with a dual identity: serving as watchdogs of democracy and operating as profit-oriented enterprises. Within this attention-driven economy, citizens be they readers, viewers or listeners are not merely passive recipients of news but active participants. Their attention is the sought-after currency for media outlets as the increased



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viewership directly correlates with greater influence and revenue potential. Consequently, editorial decisions are often influenced by the quest for attention, leading to the proliferation of sensational headlines, clickbait, and controversial content designed to capture fleeting focus in a sea of digital noise. Imagine a newsroom where editors huddle, deliberating over the next day's front-page story. Here, the dilemma arises: do they prioritize rigorous investigative journalism that exposes uncomfortable truths, or do they opt for a flashy headline guaranteed to garner more clicks? The line between journalistic integrity and profit motive becomes increasingly blurred in such circumstances.

Media outlets, like any business, must sustain themselves financially through advertising revenue, subscriptions, or sponsorships. Yet, this pursuit of profitability can lead to journalistic integrity and ethical dilemmas as politicians do recognize the symbiotic relationship between media visibility and political influence (Brants et.al, 2010). Consequently, politicians may find it lucrative to sponsor media outlets that align with their ideological agendas, thereby subtly shaping public discourse. This economic imperative influences content selection, with pro-attitudinal media whether left or right-leaning which exacerbate societal polarization.

A systematic review of research on media and polarization underscores a consistent trend: partisan news outlets, biased reporting, and sensationalized content inadvertently contribute to the amplification of political divisions (Kinoshita, 2023). The very platforms intended to foster connection have, regrettably, become breeding grounds for ideological warfare. For instance, media will be fuelled by repeating and amplifying the political attacks to oppositions. This aligns with Marshall

McLuhan's assertion that "the medium is the message," suggesting that media platforms, ranging from cable news networks to social media platforms and podcasts are the one who shaped and dictated how we consume information, influencing our perception of reality, rather than the content alone (Logan, 2010).

THE IDENTITY DERIVED FROM THE DIGITAL AGE

Media narratives often portray the opposing side negatively as a menacing threat yet one cannot engage in a fruitful dialogue without the oppositions. There has been a notable shift from ideological alignment to political identity, fostering a sense of community. Ideology alone fails to fully capture the emotional and social dimensions of political engagement, as evidenced by Social Identity Theory (Huddy et.al, 2015). People derive a significant portion of their self-concept from political affiliations, using them to express their identity and find sense of belonging. Political tribes become chosen family, with loyalty to the party transcending mere policy positions.

Consider the example of global superstar Taylor Swift, whose political affiliations shape how individuals perceive themselves and others. The emotional attachment to one's political tribe becomes a pride, whether one identifies as a Swiftie or a sceptic. A Redfield & Wilton survey found that 18% of voters said they were "more likely" or "significantly more likely" to vote for a candidate endorsed by her (Aoraha, 2024). While it is unlikely that Taylor Swift's opinion would serve as the determining factor for a voter grappling with the decision of whether to support Biden or Trump, her

influence could significantly propel voter turnout (Sherman, 2024). Popular culture serves as a significant catalyst for partisan identification, as endorsements or statements from celebrities like Taylor Swift resonate deeply, shifting the focus from policies to identity. Suddenly, citizens are no longer passive observers but active participants in a larger political narrative.

However, this catalytic force can also exacerbate polarization. The emotional resonance of a celebrity's words often overshadows nuanced discussions, with loyalty to the tribe trumping rational analysis. Media platforms amplify the voices of opinion leaders, reinforcing their viewpoints and wielding significant influence. For instance, opinion leaders wield hashtags or trends like spells, their posts rippling through social media and shaping our beliefs, making it difficult to ignore the content they propagate online. We become disciples of algorithmic gospel, confined within echo chambers that validate our views while dismissing dissenting voices.

The language, metaphors, and narratives employed by these opinion leaders on media platforms contribute to the ideological trenches in which we find ourselves entrenched. It means that these messages often include a significant amount of rhetoric and emotional appeals, aimed at fostering identity-driven narratives among users, all thanks to the creation of algorithms that curate our reality. The affordances of social media platforms trigger strong emotions, with features like emojis on Facebook igniting comment wars and inadvertently fuelling polarization. We are back to barbaric nature, where we align with own tribes, viewing other side as enemies and starting pointless ideological arguments instead of having constructive dialogue. Perhaps the true test of a thriving society lies not in avoiding ideological differences but in our ability to engage across those divides, seeking common ground even as we stand entrenched in our beliefs.

SOCIAL FRAGMENTATION

Political polarization significantly influences the social dynamics surrounding contentious issues, such as social welfare, abortion, and gay rights. This phenomenon, known as affective polarization, is characterized by the emergence of negative sentiments toward the opposing party and its candidates (Vasist, 2023). Affective polarization manifests in two distinct ways: an in-group love, which fosters emotional closeness with like-minded individuals, and an out-group hate, driving actions against those on the opposing ideological spectrum (Dimant, 2024).

Polarizing leaders are smart to capitalize on their followers' worries and concerns in order to win elections, thereby perpetuating skewed reasoning. They will identify moderates as "traitors colluding with the enemy" if they are willing to compromise, eroding the centre and allowing extreme viewpoints to take over the political landscape. This "us" versus "them" mentality undermines trust, as biased perceptions hinder cooperation and loyalty to one's group outweighs critical examination of biases or factual basis.



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For example, emotions and unconscious desires significantly shape how we interpret information, particularly when feeling threatened. Motivated by cognitive biases, voters seek to eliminate cognitive dissonance by reinforcing existing beliefs and rejecting facts challenging their worldviews or self-concept (Josh et.al, 2022). Consequently, the gap between ideological camps widens, impeding meaningful dialogue and collaboration. By fortifying ourselves against dissent and isolating individuals from divergent ideologies, polarization fosters tribalism at the expense of a polarized collective.

Consequently, we embrace our tribe while simultaneously preparing to fight against perceived enemies, shaping our attitudes and behaviours toward both our own group and opposing factions. Eventually, relationships fracture, friendships wane, and families engage in heated arguments, all fuelled by opposing ideologies as collective identity impedes friendships across political lines. This lack of social interaction deprives us of the benefits derived from engaging with diverse perspectives, ultimately undermining social well-being and quality of life. Evidently, polarization significantly influences one's views and can be challenging to eradicate when entrenched.

SETBACK IN SOLVING PRESSING ISSUE IN SOCIETY

As society undergoes increasing polarization, politicians' diverging objectives sow seeds of mistrust, fostering growing animosity towards the opposition and diminishing opportunities for compromise. This lack of cooperation and heightened partisanship poses significant challenges for policymakers, widening policy gaps, impeding implementation, and obstructing effective governance where partisan interests often take precedence over the common good (McCarty, 2007). As ideological fault lines deepen, bridging the gap between competing visions becomes increasingly arduous for policymakers. Pragmatic solutions give way to ideological battles, with debates descending into entrenched positions, while constructive dialogue becomes scarce as both opposing sides retreat into their ideological trenches.

The quest for policy consensus falters amid divergent political objectives, exacerbating policy gridlock and hindering policymakers' capacity to address pressing societal issues. Critical challenges such as healthcare, climate change, and income inequality remain unresolved due to partisan standoffs, further entrenching gridlock in the policymaking process (Weber et.al, 2021). Agreements become elusive, and no one wants to concede or compromise but to maintain status quo. Extreme polarization increases the frequency of government shutdowns, disrupting essential services and exacerbating societal challenges, with the public interest often sidelined in favor of partisan priorities.

Severe polarization also transforms political adversaries into perceived existential threats to the country. In this charged environment, incumbents and opponents may use undemocratic measure to maintain or gain control, eroding democratic norms and weakening the system. Elite

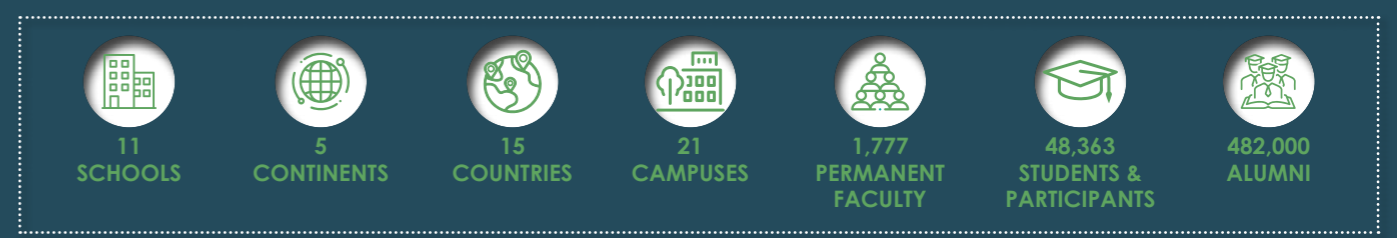
polarization perpetuates this cycle, undermining citizens' trust in governance and democracy (Baldassarri & Bearman, 2007). In the case of winner-takes-all voting system, individuals tend to align more closely with the main binary parties based on ideologies and issue positions. This tendency arises from the pressure to support the strongest contenders, often the two major parties to avoid "wasting" votes on smaller parties (Cheeseman et.al, 2017). As a result, party allegiance becomes increasingly entrenched, fostering homogeneity within parties and diminishing ideological diversity. This dynamic further exacerbates polarization, as policymakers prioritize partisan interests over broader societal concerns, perpetuating a cycle of division and distrust in the political process. With diminished willingness to seek common ground, policymakers become entrenched in their party lines, leading to legislative inertia and unresolved societal issues posed by polarization.

A LOOK AT THE FUTURE

In conclusion, the question of whether a society can thrive when its citizens are entrenched in ideological trenches is one of paramount importance in today's polarized world. The evidence presented highlights the detrimental effects of such polarization on social fragmentation as well as policy implementation. As citizens retreat into their ideological camps, bolstered by media power and identity formation, the deepening of societal divisions and policymaking gridlocks pose significant challenges to the flourishing of a society. To thrive, a society must transcend ideological divides, foster inclusive discourse and prioritize the common good over partisan interests. Only through genuine engagement, empathy, and a commitment to shared values can societies navigate the complexities of ideological polarization and build a future where unity, resilience, and progress prevail. ///

KEY TAKEAWAYS

- ❑ Media narratives and celebrity endorsements shape political identity, fostering a sense of community, but can also exacerbate polarization by overshadowing nuanced discussions and reinforcing tribal loyalty over rational analysis.
- ❑ Affective polarization, fueled by emotional attachments to political tribes, fractures trust, impedes cooperation, and erodes relationships, leaving society vulnerable and intellectually deprived.
- ❑ As ideological fault lines deepen, pragmatic solutions yield to entrenched battles, hindering effective governance, leaving critical challenges unresolved and the public interest sidelined.



The CoBS working partners include:



THE DILEMMA OF POLITICAL POLARISATION: TO BE OR NOT TO BE ETHICAL?



A fragmented world cannot tackle issues that require complete global cooperation.



Cathy McGee, Trinity Business School

Finalist in the **CoBS 2024 Student CSR Article Competition**, takes an interesting perspective on the role and responsibility of businesses in ensuring a counter-weight to increased social fragmentation.

In recent times, the phenomenon of political polarisation has been growing on a global scale, with increasing support for extremist parties both on the right- and left-wing spectrums. In many cases this political extremism has led to violence, such as the 2021 January 6th US Capitol Attack in the USA and the Dublin riots in Ireland in November 2023. Prior to this riot, Ireland had generally been viewed as welcoming towards migrants, but this event marked the beginning of a host of anti-immigrant protests and burnings of buildings by a small minority. During the Dublin riots, many iconic businesses such as Arnotts and Asics suffered a lot of damage, as well as looting. Occurrences like these demonstrate the existential risk posed to businesses of political polarisation, as in cases like this, law and order suffers a enormous strain, and conditions make business operations challenging.

But what does the term 'political polarisation' really refer to? Well, Britannica defines it as "the division of a country's entire population into two diametrically opposed political camps" or in simpler terms creating a divisive mindset of 'them' versus 'us' in a domestic environment. Political polarisation has implications for all of society's stakeholders. If you look at a general public level, families and friends can become estranged due to their widely differing views. In fact, there are many who argue that countries such as the US are even in danger of another Civil War.



THE ROLE OF SOCIAL MEDIA

Social media has played a huge role in creating this divisive world state in which we find ourselves, and there are many people who are calling for Social Media companies to take responsibility for the promotion of 'fake news' and disinformation. A key aspect of the increase in political polarisation is the lack of clarity around truth and the fact that claims are not verified in the majority of cases, so people can get away with saying whatever they like. Also, recently in documentaries such as 'The Social Dilemma', many people who have worked within big tech companies such as Meta and Alphabet have spoken out about the negative effects that social media platforms and the internet can have on society in general, such as short videos on social media acting as a strong rallying cry to protest and the creation of echo chambers, in which people only receive recommended content that reinforces their beliefs. A Brookings report conducted after the Capitol Hill insurrection of 2021, found that social media is not the primary cause behind political polarisation and there are increasing calls for more legislation around the spreading of disinformation. Social media also gives a platform to conspiracy theorists, who otherwise would not be able to spread their wild theories.

GLOBALISATION

We live in a globalised world, and even though some would argue that deglobalisation is gaining more traction, the butterfly effect (Lorenz's idea that "the flap of a butterfly's wings might ultimately cause a tornado"- the idea that small actions can have a very big effect (Dizikes, 2011)) is still

clearly visible from world changing events such as the global Covid-19 pandemic, from which every country in the world suffered. This increased global interconnectedness creates less barriers for international travel and also facilitates easier internationalisation for businesses, but on the flip side, the increasing number of migrants in many countries is worsening the polarisation situation, as some of the native population become worried about the increased competition for resources and lack of investment in infrastructure to support the increased number of people living within a community.

PRESSURE TO TAKE A STANCE

Business has become a politicised environment, in which on one-hand consumers expect businesses to take a stance, but when these businesses do take a stance, they often receive negative repercussions from stakeholders who hold opposing views. An example of this was Gillette's 2019 ad campaign entitled 'The Best Men Can Be', which caused a debate among whether Gillette had any right to involve itself in a political movement such as the #MeToo movement. One way in which companies can mitigate the effects of this criticism is by ensuring that they employ a diverse workforce who act as a sounding board for any stance that the business wishes to take on controversial issues and so can be minimised (Reeves, Lefevre and Quinlan, 2021).

In the current climate of two major conflicts (Russia-Ukraine and Israel-Palestine) in many countries there are increasing calls to pick a side, and many multinational companies have taken the decision to exit controversial markets such as Russia. In the case of Israel and Palestine, the BDS (Boycott,

Divestment and Sanctions) movement is viewed by many as being an effective way of putting pressure on Israel to respond to concerns about Palestine through economic pressure.

There are also many consumers who consciously choose brands based on their political stances, such as Patagonia and their heavy emphasis on sustainability. With this type of consumer, often they will perceive the neutrality of a business as equivalent to being opposed to their views, and therefore neutrality could result in a lot of negative Public Relations within this market segment.

GOING WITH THE FLOW OR GOING AGAINST THE TIDE

There are many occasions when there are businesses that are faced with a very difficult decision – should they follow the same policies as other businesses in their country, or should they stick to their values and identity as a company and take a stance which may lose them customers? A perfect real-life example of this conundrum is the case of the US company Ben & Jerry's decision to exit the Occupied Palestinian Territory due to ethical concerns. This decision very much went against the US policy of Israeli support. Ben & Jerry's is owned by Unilever who had differing stances on the Israel-Palestine situation and therefore stopped Ben & Jerry's exit from the market by selling the rights to the brand within both Israel and the Occupied Palestinian Territory (Unilever, 2022).

THE ROLE OF INTERNATIONAL ORGANISATIONS

Organisations that unite countries such as the EU, NATO or the G7 can help to bring countries that at times have very little in common together, while putting aside their differences, in order to work towards the common good. Although it also should be noted that even though these organisations bring countries and ideologies together, they can also be exclusionary, such as the case of Turkey and EU admission. Turkey has for years been trying to join the EU, but to no avail. Membership of entities such as the UN ensures that countries can be held accountable when they are involved in unethical behaviours.

WHERE DO GLOBAL ISSUES SUCH AS CLIMATE CHANGE FIT INTO ALL OF THIS?

Even though the experts are more or less resoundingly calling for climate action in order to limit the negative effects of climate change, disinformation, as a result of political polarisation, is querying the reality of the threat of climate change. A fragmented world cannot tackle issues that require complete global cooperation. However, climate summits such as the United Nations Climate Change Conference (also known as COP) play an important role in ensuring that many countries, even with differing views on Climate issues, participate in dialogue. ///



KEY TAKEAWAYS

- One of the main issues with the growth in political polarisation is the lack of dialogue and empathy between groups of different beliefs. Businesses therefore should aim to avoid adding fuel to the fire, without compromising on their corporate identity.
- Social media can be used as a weapon in the realm of political polarisation, so businesses should ensure that the company's content is not overly divisive.
- A great way for businesses to avoid facing internal issues with political polarisation, is to ensure that the organisation has a diverse workforce with differing perspectives in order to foster understanding of other groups beliefs.
- There is a need to look beyond the differing political views of countries, businesses and individuals, in order to properly tackle the climate crisis, and ensure that the minimal amount of damage from human influence is inflicted on the planet.



Priority seat
for people who are
disabled, pregnant,
or less able to stand

BLAME THE APPS, NOT EACH OTHER: SOCIAL MEDIA'S LEADING ROLE IN POLITICAL POLARIZATION



Remember to fault the apps and their polarizing ways before blaming one another for differences of opinion.



From doomscrolling to echo chambers and algorithms, social media has a fair amount to account for when it comes to influencing people's view of society and others. **Alexander "Zander" Kuebler**, finalist in the **2024 CoBS CSR Student Article Competition** at **ESSEC Business School**, tackles the issue of social media's role in political polarization.

“Some people say that the problem is that social networks are polarizing us, but that's not at all clear from the evidence or research.” So said Facebook (now Meta) CEO Mark Zuckerberg in his March 2021 testimony on social media's involvement in the January 6th U.S. Capitol insurrection. Mr. Zuckerberg was confident that his social media apps were not at fault for exacerbating political extremism. Now, three years removed from his testimony, amid arguably the most tumultuous geopolitical landscape in recent history (Ukraine vs. Russia, Israel vs. Palestine, etc.), media experts and politicians revisit the question of social media's impact on the alarmingly swift rise of global political polarization.

ON A GLOBAL SCALE, WE ARE MORE DIVIDED THAN EVER

When Oscar Wilde shared his infamous “Everything in moderation” philosophy, he surely had not experienced the world of modern politics. The worldwide share of voters who identify as “moderate,” historically the most common identifier, is among the lowest ever at just a third (Winograd and Hais, 2024). Consequently, the number of voters who identify as “conservative” or “liberal” are both at all-time highs (Pew Research Center, 2023).

DIVIDED WE FALL: EXPLORING THE SURGE OF POLITICAL POLARISATION



The only question that demands an answer is: Are we, as humans, evolved enough to transcend our historically ingrained segregational mindset?



Pallavi Pundir, Finalist in the **2024 CoBS Student CSR Article Competition at Monash Business School**, contends that political polarization has long-existed, but its acceleration in recent years needs a collaborative, realistic and firm response from those who believe in democracy.

THE POLITICAL POLARISATION PUZZLE: FROM GRASS ROOTS LEVEL TO GLOBAL VIEW

How many times have you lately walked down the street and seen political campaign posters 'gripping' you with catchy slogans? Have you had your Sunday family barbeque lunch derailed by relatives' opposing political views? How many friends have you had debates with over political topics before that has resulted in personal attacks? Why is that fine line so easy to cross? Where and why does such drastic political conflict originate from?

Political polarisation, as defined by political scientist Andreas Schedler (2023), is a conflict that has gone beyond the boundaries of innate 'benign' democratic conflict. It is where basic democratic consensus is abandoned and is replaced with 'anything goes' approach. Essentially, political polarisation occurs when basic democratic trust between parties and societal groups is broken.

When we ask where and why political polarisation is increasing, then we realise that governments are adopting an increased extremism pattern, leading to detrimental global implications (Ashby, 2021). Political ideologies are starting to adopt 'identities' with media being at the centre of societal bias (Spinde et al., 2022). Unfortunately, our world is increasingly moving towards a politically polarised landscape. And something must be done to resist this.



THE RADICAL EDGE: EXTREMIST TENDENCIES IN POLITICAL POLARISATION

On a global scale, take the well-known example of the US: every Presidential Election season, we see the Electoral map with every state voting spread either in red (Republicans) or blue (Democrats). Dividing the nation in such a binary way began back in the 1960s with the introduction of an intense anti-communism movement (Carothers & O'Donohue, 2019).

With this, three major issues flourished into the US political landscape that persist to this day and prompt the growth of extremism. They are the struggle for racial equality, the question whether the role of government should be a facilitator of progressive change (big government) or conservative resistance (small government) and lastly, the potential drastic influence of religion on politics that alter lawmaking and perspectives on social norms (Carothers & O'Donohue, 2019).

These three issues prompt the growth of extremism (Carothers & O'Donohue, 2019). In seeking to appeal to various societal groups in their campaigns, politicians lean towards more extreme positions such as The Make America Great Again (MAGA) movement of the Trump presidential campaign in 2016. As explained by the Britannica Encyclopaedia (2024), the MAGA movement believed that America had lost its status due to immigration and multiculturalism with Trump's 'solution' to build a border wall to Mexico. This way, racial inequality appealed successfully to the target audience.

Then, Trump proclaimed that the federal government was controlled by democratic 'elites'. His promise to prioritise national over international interests easily attracted conservative white working-class voters, promoting conservative resistance (McKinney, 2024). Thus, Trump

singlehandedly created his own social movement (Carothers & O'Donohue, 2019). Part of this movement was religious discrimination with his bold call for the "total and complete shutdown of Muslims entering the US". The trifecta was completed and the MAGA identity was born.

An obvious consequence of such nationalistic views was the disruption it caused to collaborative international relations. The Paris Agreement, for example, was established as a "legally binding international treaty on climate change" (United Nations, 2015). The US entered the Paris Agreement in 2014 only to leave during the Trump government and then re-enter once more with another change in government in 2021 (Hefker & Neugart, 2023; U.S Department of State, 2021).

The implications of these radical changes fuelled by politics do not seem so severe until we discover that the US (1 out of 195 countries) is responsible for the largest share of historical emissions than any other country in the world (approximately one fifth) (Carbon Brief, 2021). This is twice more than China- the world's second largest contributor (Our World in Data, 2019). A nation that decides its level of commitment to our dying earth's ecological preservation based on opposing political perspectives is sure to be a setback for much-needed international collaboration. And it all trickles down to the level of your everyday barbeque conversation.

DISTORTED NARRATIVES AND DIVISIVE AGENDAS

So, who or what fuels the political debate at your Sunday family lunch? Why is there always an inconsistency in the 'facts' your family throw at each other? In truth, media, identity politics and economic inequality are present all around us, constantly influencing our perspectives that are based on false information.

Take the Russian President, Vladimir Putin, as an example. His success in manipulating an entire nation has caused international political polarisation. Putin was able to falsify media coverage to indoctrinate the population of Russia and instil his beliefs in them. As stated by Andreas Schedler (2023), polarisation occurs when there is a crossing of the bounds of democracy. All basic democratic trust was broken when families began to personally experience the lies that infected their loved ones. Friends severed all ties, communities fought in Facebook comments and families broke apart. And when Navalny, a Russian anti-corruption activist and politician, criticised and exposed Putin, posting drone footage of Putin's glamorous homes, all \$1.3 billion of which was embezzled from the state procurement system, he was poisoned, imprisoned, and murdered (Time Magazine, 2021). All for exposing the truth. Navalny sought to restore true democracy using media and tangible evidence to a land that was already so polarised, that it was to no avail.

Just as in war, where motive is based on ideology, identity politics also have a long history of painting diversity in opinion in a negative light. More recently, at the 2023 Conference on post-Brexit Britain held in France, polarised groups of the Brexit issue were described as the 'Leavers' and 'Remainers': "two tribes with an irreconcilable world view". Notice how there was only one of two diametrically opposed categories. Granted, this was a simple binary question. Yet, other issues cannot have only one of two answers but are still forced upon voters to choose. The reason for this is identity politics. Politicians know a catch phrase, or an extreme ideology is more effective in gaining supporters, rather than balanced views.

In Australia, the simplest example is the Labor and Coalition parties dominating the government. Out of 150 members in the Federal House of Representatives, 78 are Labor, 54 are part of the conservative Coalition and only 12 are independent (Parliamentary Education Office, 2024). And how do the Labor and Liberal parties constantly win the Federal Elections one after the other? By using phrases like "We'll put people first" (Labor Party) or "The plan for a strong new economy" (Coalition) in the 2016 election to create an identity (Workman, 2016).

In reality, to have a strong economy, people need to be valued and supported. And here lies the paradox within identity politics: people are continuously forced by institutions to idealise a distinct identity, contributing to polarisation, even though only the combination of both will achieve true prosperity. We all live in the same country, shop at the same grocery stores, but must, for some reason, debate about whether our leaders should prioritise either our population or our economy, but definitely not both!

What do we see in all this? Distorted narratives and divisive agendas. Media is easily manipulated to fit political agenda, leaving whole nations with biased views and false information. Political identities segregate a nation further which fuels political controversy and division.

BRIDGING DIVIDES FOR A BALANCED TOMORROW

There are not many existing solutions to this problem currently, however, there may exist initiatives that can act as preventative measures to avoid polarisation growth. Specific elements of institutional reform should be trialled (Schedler, 2023; Carothers & O'Donohue, 2019). This is in conjunction with restructuring media and journalism into a more unbiased industry.

Institutional reform can be implemented in various ways. Diverse representation could become a compulsory criterion of all government representatives. A simple example- as of 2023, women hold only 26% of legislative seats globally (Statistics on Women in National Governments Around the Globe, 2023). It is impossible for policymaking to be unbiased with such outdated inequality in government. Therefore, institutional reform will produce much needed positive change and instil fairness to political environments.

Given the significant influence media has on the polarisation of opinions amongst populations, removing clouded truth would cleanse the industry. International companies such as Facebook and Google have already begun to "reduce the partisan bubble effect of social media" (Carothers & O'Donohue, 2019). These are all steps in the right direction to exterminate misrepresentation and advocate for factual and evidence-based reporting of information. The final course of action remaining is to begin this reform on a global scale in the hope that this will lessen the effects of hazardous political polarisation.

It's time to transcend the polarised attitude and work together for a better tomorrow. The only question that demands an answer is: Are we, as humans, evolved enough to transcend our historically ingrained segregational mindset? **///**

KEY TAKEAWAYS

- ▣ Political polarisation has long existed on a global scale and is rapidly increasing in this day and age; something we must be wary of and eradicate before it reaches extreme levels of societal division.
- ▣ Instead of following narrow-minded political ideologies, we must stand against toxic political views and call out immoral movements on a global scale instead of condoning, following or being wilfully ignorant.
- ▣ Political polarisation is easily fuelled by media bias and extremist views imposed onto a population. Such polarised aggression can only harm us if we don't work together for a brighter future.



There is little knowledge about whether or why one icon design style might be better than the other.



Recently, simple and flat designs in iconography have emerged and become a trend. However, are simple icons superior to complex ones? Prof. **Xiaoning Liang, Trinity Business School, Trinity College**

Dublin, and her fellow researchers use an EEG – an electroencephalogram – to examine the brain's response to simple and complex icons and gain a greater understanding of users' cognition and behaviours.

Related research: Facing a Trend of Icon Simplicity: Evidence from Event-Related Potentials, Weilin Liu, Yaqin Cao, Xiaoning Liang, Robert W. Proctor, and Vincent G. Duffy, International Journal of Human-Computer Interaction, (2024).

Chinese languages are widely considered some of the most complex languages to learn—mainly due to the use of intonations that do not exist in most others – and also due to the script. Moreover, most languages use a phonetic script to represent speech sounds visually. The Latin alphabet and the even more simplified Hangul (Korean) script are great examples of phonetic scripts.

Chinese script, however, is based on a script of pictograms (signific script), which are single characters representing things or thoughts. This starkly contrasts the actual pronunciation of these characters, as they had to transcend different dialects across China. Through the use of pictographs, literate people across China, no matter which dialect they spoke, could understand written messages.



**BACK TO THE BASICS:
WHAT ICONS DO OUR
BRAINS PREFER?**



As found on oracle bones, a form of divination used in ancient China, the original character for “mountain” was depicted as three triangles, a simple drawing of three mountains standing next to each other. In simplified modern Chinese, the word “mountain” is drawn with three strokes: “山” – for language learners, easily recognisable as a mountain. The limited complexity of the character intuitively makes it easier to remember and more recognisable. In comparison, the oracle bone character for “fish” was a simple drawing of a fish looking upwards with two fins and some scales. The simplified, modern Chinese character “鱼” needs a little more fantasy to recognise a fish and needs a little more practice.

But why would we care about the simplicity or complexity of Chinese characters unless we want to learn Chinese? The answer – pictographs have made a comeback in communication: Emojis are essential in informal text messages, and icons in apps aim to showcase the app’s functionality. In this light, Trinity’s Prof. Liang et al. focus on understanding how complex versus simple design styles influence user cognition and behaviour.

SIMPLE IS ALWAYS BETTER?

But what are the characteristics of the visual complexity of an icon? The complexity of an icon is primarily determined by the number of components it features. In other words, as an icon contains more elements, its visual complexity increases correspondingly. And despite aiming to provide necessary details for icon cognition, complex designs may hinder the functionality and usability of icons. As such, Xiaoning Liang and her colleagues focused their research on understanding how the two design styles – simple and complex – influence users’ cognition and behaviour.

Indeed, previous research has examined the effect of perceived complexity on cognition, revealing that reaction times were shorter for simple icons but showed no difference in error count. Furthermore, both young and old participants used complex icons more efficiently, whereas younger participants favoured simple icons aesthetically. Other research compared 2D and 3D icons for user attention and efficiency during recognition. Its findings show that 3D icons outperformed 2D icons in terms of attention distribution and attraction. However, from an ERP (event-related potentials) perspective – measuring neuronal response to external stimuli – there is little knowledge about whether or why one icon design style might be better than the other.

EXPLORING THE WORLD OF ICON DESIGN

The researchers see ERPs as a useful tool in uncovering an individual’s perception and attention in response to external stimuli, with previous studies having effectively applied the ERP technique to explore the effect of icon design on icon cognition. By conducting these studies, the researchers found that an increase in familiarity with icons also increases attention to the relevant stimuli and that app icons with anthropomorphic features were perceived as more attractive, showing an attention bias for these app icons.

Another key indicator researchers have considered is reaction time (RT), which shows that search time can affect the allocation of attention to distinguishing features of app icons. The RT includes the time for the sensory receptors to receive the information of the stimulus, the time for cognitive processing in the brain, and the time for completing the response to the stimulus. Liang et al. provide invaluable additions to this research in focusing on the effects of simple and complex icons on our thinking.

UNDERSTANDING HOW OUR BRAINS THINK

Human cognition and behaviours are the consequence of neural activity in the brain. “Event-Related Potentials” (ERPs) are brain responses to stimuli measured via electroencephalography (EEG).

The brain is constantly generating electrical activity, which is measured by EEG as brainwaves. These waves oscillate between positive and negative voltages around a baseline, which is the voltage level shown on the EEG before a stimulus is introduced. When a stimulus is introduced, the brain activity may change compared to the baseline. A positive-going potential indicates that the voltage difference becomes more positive relative to the baseline. Here, the term “potential” refers to any measurable voltage difference.

Against this background, ERPs represent reliable indices reflecting the different information processing stages. Each ERP is a distinct response from the brain at a specific time window following the stimulating event. P1 is the earliest at 100 - 150ms post-stimulus, followed and overlapped by P2 (180 - 200ms), P3 (which is elicited by infrequent or novel stimuli), and Late Positive Potential (LLP), typically peaking between 300 - 800ms.

During P1, thought processes involving the earliest visual processing and allocation of attention resources take place. In P2, visual processing is more complex and emotions and attention are aroused. The LLP, which in the context of Liang et al.’s research is defined as the positivity after P2, deals with higher-order cognitive functions such as the perceptual level evaluation of a stimulus.

MEASURING BRAIN ACTIVITY

Prof. Liang and her fellow researchers conducted an ERP experiment to assess human cognition and behaviours when confronted with simple and complex icon designs. They selected 18 right-handed participants with no history of neurological or psychiatric illnesses and who had not consumed any alcohol or medication within 24 hours prior to the experiment for their study.

In essence, the researchers showed the participants 17 different, easily recognisable icons in a simple and complex design version. The complex design had extra details, such as gradation and highlighting, while the simple design had a monochrome background. The EEG recorded their brain’s reactions, whereby the electrodes were placed in an expanded version of the international 10-20 electrode placement system, allowing separate ERP analysis of the frontal, central and parietal sites.

In a second, separate set of the experiment, Liang and her colleagues posed the participants’ subjective “preference and usefulness” tasks: They had to judge how much they liked a design and how the icon helped them to extract information on a 7-point scale.

PRETTY VS PRACTICAL: SUBJECTIVE EVALUATION OF ICONS

In their experiment, the researchers did not assess any significant preferences for simple or complex designs. However, the participants rated the simple icons more useful than complex ones for extracting information.

These findings support “cognitive load theory” in which a user’s working memory has limited capacity, while their long-term memory is unlimited. This implies that when presented with an icon, the individual uses their working memory to process information and retrieve patterns from their long-term memory. Due to the limited capacity of working memory, simpler icons that require less cognitive processing are therefore easier to understand, as they reduce the cognitive load.

SIMPLE ICONS – A NO BRAINER?

Overall, the researchers found in their experiments that the icons’ design complexity does not affect deep cognitive processing (LPP) but influences early attention allocation and visual processing (P1 and P2.)

In the P1 phase, the early visual processing and attention allocation phase, the icon design significantly affected P1 amplitude – complex icons showcased a larger amplitude, suggesting that they require more initial visual processing in the brain.



When Prof. Liang and her colleagues assessed the P2 ERP, which is responsible for more complex visual processing, they found that the icon design did not significantly affect P2 amplitude. Nonetheless, the parietal region of the brain, responsible for spatial processing, showed a larger amplitude when confronted with more complex icons, suggesting a higher activity in this region. Moreover, it showed a longer P2 latency for complex icons, as it was slower to process them.

The deep cognitive processing component, concerned with higher-order cognitive processing, did not show any differences in terms of processing time or activation for complex and simple icons, though the experiment showed that the central and parietal areas of the brain were more engaged in processing the icons than the frontal area, while the higher-order processing time was faster in the parietal regions of the brain. Overall, deep cognitive processing is not affected by the icons' design.

“GOOD DESIGN IS GOOD BUSINESS”

Thomas Watson Jr.'s famous quote seems to hold true: Prof. Xiaoning Liang et al.'s study shows that designers should give preference to simple icons with a limited amount of features as they require fewer attention resources and induce more positive emotions.

Furthermore, considering the elevated cost of designing complex icons vis-à-vis simple ones, the researchers suggest that simple icons should be given priority in mobile apps. ///

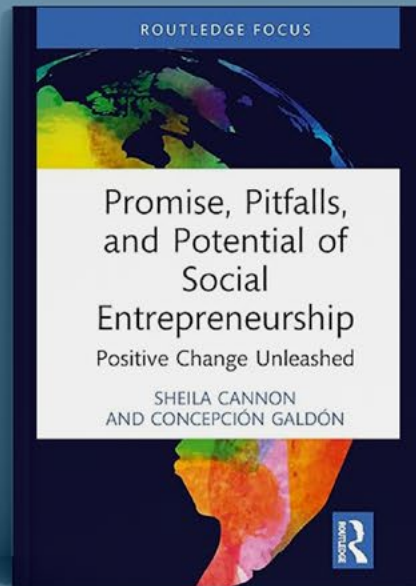
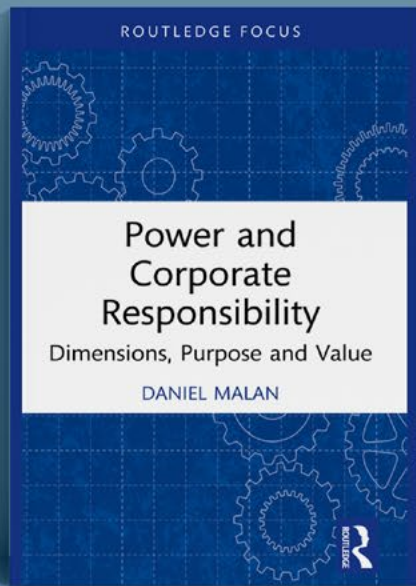
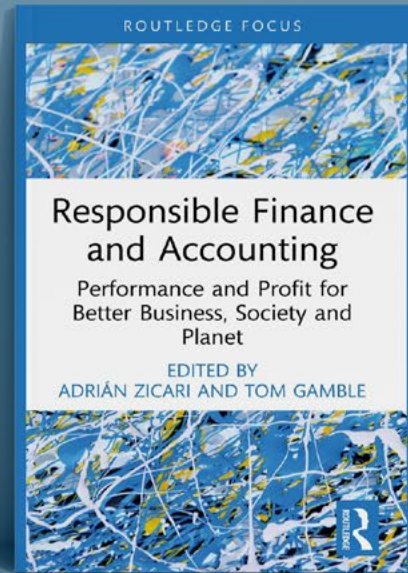
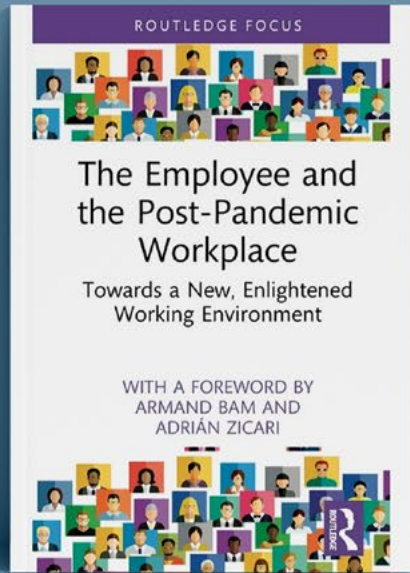
KEY TAKEAWAYS



- In comparison to complex icons, simple icons require less cognitive load for individuals to process information, making them easier to understand and use.
- Event-Related Potentials (ERP) remain a useful tool to measure brain activity stimulated by icons, revealing information about user attention and processing phases.
- As indicated by the larger P1 amplitude in the ERP, complex icons require more initial visual and attention allocation processing than simple icons.
- Deep understanding cognitive processing is not affected by the complexity of icons.
- From a subjective point of view, users find simple icons more useful for extracting information than complex ones.
- Simple designs should be recommended for mobile icons design since they require a lower cognitive load and have potentially lower design costs.



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