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Business looks in mirror and winces

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Contrition would be too much to expect of the corporate executives and financial wizards who tipped the global economy into a recession last fall. But there is some serious rethinking going on, judging by this year's convocation at the Rotman School at the University of Toronto.

The management faculty selected Michael Porter of Harvard University, one of the leading business theorists in the United States, as the recipient of its 2009 honorary doctorate. But before conferring the degree on him, dean Roger Martin put Porter to work, headlining Rotman's annual conference on lifelong learning.

This year's topic was "tackling wicked problems" – complex, multi-faceted challenges that defy both logic and conventional management theories. The first problem on the list: Restoring the credibility of business.

Porter agreed the corporate sector was in sorry shape. "We have a tremendous reputation problem. We've poisoned our own nest."

He placed most of the blame on chief executives who became so obsessed with shareholder value in the 1990s that they lost sight of the real economy in which goods and services are produced, profits are earned and people make a living.

They judged their worth by the appeal of their stocks. Bankers and brokers cheered them on, treating companies that beat investors' expectations (even if they did it by cutting corners) as superstars and companies that produced solid, steady returns as wallflowers.

"Efficient market theory has become a cop-out," Porter said. "The stock market is extracting value from the real economy."

His solution: Business leaders will have to bring their values into line with the interests of their employees, customers and society at large. Investors will have to reward real success, not manufactured hype.

Within the precincts of the Rotman School, this argument is not new. Martin has been warning since 2003 that paper wealth was becoming dangerously disconnected from actual prosperity. But to hear the message reinforced so strongly by one of North America's pre-eminent economic thinkers gave it added weight and gravity.

The audience of 300 – composed of corporate executives and Rotman faculty and graduates – listened attentively and asked a few questions. The applause was more respectful than enthusiastic.

The second "wicked problem" Porter was asked to address was the massive inequity between the world's rich, aging minority and its poor, disease-plagued majority. The Harvard professor, who has worked in sub-Saharan Africa, welcomed the question.

"We have a failure of immense proportions," he said. "Our development model doesn't work. We don't know what we're doing. Everybody has the best of intentions, but we're not improving standards of living, social conditions or economic opportunity."

The primary reason, he submitted, is not a lack of resources. Thanks to the "galvanizing curse" of HIV/AIDS and the efforts of private philanthropists such as Bill Gates, money is available. But progress is spotty.

"It's a cottage industry. Everybody is reinventing the wheel. This is fundamentally a management problem," Porter said.

His remedy: Development agencies will have to shed their "interventionist" mindset and figure out what actually works in countries where people don't have access to health care, clean water or adequate nutrition.

Isolated success stories won't move the yardsticks. An intelligent delivery system will. "We have to spend money well."

This time – perhaps because the stakes were less personal – the applause was warmer.

The conference lasted all day. The issues ranged from investing in children to creating healthier workplaces.

It was an intellectual and ethical workout, partly because of Porter's analytical dexterity but also because it demonstrated how much – and how painfully – business will have to change in the post-recession era.

***Carol Goar**'s column appears Monday, Wednesday and Friday.*