

What Motivates Companies - Interview with Peter Sandman

Peter Sandman has been a regular contributor to SAFETY AT WORK but I hadn't the opportunity to meet him until November this year. He was working in Australia and I caught up with him for a couple of hours.

In the first part of the interview, Peter discusses the motivations of management and companies. Part 2, in our next issue, covers risk perception, pandemics and worst-case scenario planning. [Editor]

SAW: Why has it been so long since you came to Australia?

PS: Getting me here is expensive, I charge by the hour and I charge my travel time so anyone who wants to fly me from the States to Australia is looking at a sizeable bill even before I do any useful work. There have consistently been clients who have said "if you're ever in Australia, I'd like to buy a day". Each time I have come it's because some company was desperate enough that they paid my costs for getting me here.

The specific reason for this trip came from Newmont Mining. I had done work for Newmont in the US and Indonesia. Newmont brought me to Australia in May 2005, my first trip in several years, and then brought me back for this trip.

SAW: You mentioned that clients call you when they are "desperate" but does that imply that they are in dire straits?

PS: No, I don't think so. I think it implies that they are on the leading edge of the change, sensing something important. Over the years it's usually, not always, been a mining company that brought me here. The changes in the mining industry in Australia and elsewhere over the last decade have been a growing appreciation of its social licence to operate that is genuinely at stake. It needed to accept environmental

sustainability and associated cultural sustainability. That is, you don't go into a community and muck it up, move them from a subsistence economy to a wage economy, and then leave them unable to cope when the mine plays out.

So I think that the entire mining industry has, over the last ten to twenty years, begun to have a sense that if they keep operating in the traditional way, they will be out of business. More and more populations and more and more governments, more and more regions were saying we'd rather keep the ore in the ground, and this was intolerable.

I don't want to sound "Pollyanna" about it but I think that in the environmental and cultural area, the mining industry has leapfrogged from being the worst of the dinosaurs to being one of the most progressive industries in its vision of what you have to do to be entitled to run your business. They're not living up to that vision but no one ever lives up to their vision.

SAW: Australian mining companies have operated in isolation for so long and only recently, by establishing partnerships with companies in South America and Asia, have been exposed to the issues of economic and corporate sustainability.

PS: I spoke last week at a sustainability conference for the Mining Council of Australia and the main thing I said at the conference was "you guys, under pressure, at the last minute, in the nick of time, have leapfrogged from dinosaur to pretty decent" - and nobody believes it.

And the reason nobody believes it is because they have never described the pressure. Either they say that

it has always been like this, which is plainly not true, or they say they had a conversion experience on the road to Damascus, which is also not true. Since the reasons they give for their improvement are not credible, people are very reluctant to notice the improvement. I told them: Explain to us why you are improving, tell us the truth about the pressure that is making you improve, and then we'll be much better able to see that you really are improving.

SAW: Underpinning a lot of your writing is that people and corporations should be honest and open. Why then are there still corporations and people that are very dishonest and operate in great secrecy?

PS: There are at least two categories of answer to that. The first is that there are organisations that believe, rightly or wrongly, that they can make more money from being dishonest than from being honest. Business ethics has usually been defined differently from individual ethics. I don't think that companies are unethical but if they could define their business ethics differently from their individual ethics, and the ethics they teach their children, they would.

There are companies and people who sit there and say "if I tell the truth I'll be in this kind of trouble and that kind of trouble, but if I lie I am pretty likely going to get away with it and I'll be better off". I am not an ethicist. I have nothing to say to people who gauge that lying is more profitable than telling the truth, other than needing to go and work with the NGOs so that it isn't true anymore.

But what is interesting is when there are companies for which lying is no longer more profitable than telling the truth. It once was, but now they keep getting caught, and when they're

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caught they keep getting punished. Lying is not as sustainable as it once was and it is actually better business to tell the truth - and they don't realize that things have changed.

That's much more interesting. What I do is I say to them "the world changed and you didn't notice". Behaviour that was actually more profitable than honourable behaviour twenty years ago has now become less profitable than honourable behaviour. This is intrinsically good news. "Hey you can be more honest than you thought you could be".

But it is often not experienced as good news, especially by the older generation of mining executives, because it means looking themselves in the face more than they like to. It means noticing that they actually have been lying. It means addressing the self-esteem issues. A lot of times when companies are lying in situations where it is not profitable to lie, what's going is maintenance of self-esteem. They want to look good.

I can make a case to them that they make more money looking like they have knuckled under to regulators, NGOs and pressure groups and communities, than looking like they have refused to, especially since they actually have. "Since you already lost that fight and paid the cost of losing that fight, why don't you reap the benefit of being known to have lost that fight, which is we'll notice that you have changed." The barrier to that is self-esteem. They would rather be self-respecting bad guys than powerless wimps.

SAW: When I became commercially aware, the baggage of the epithet "good businessman" was that they were dishonest, money-grubbing and self-centred. "Good businessman" is not heard as a descriptor anymore because it has that baggage. We are now looking for good corporate citizens.

PS: My fervent conviction is that it's a very dangerous path for society to

want companies to be responsible. Corporations are intrinsically profit-centred. It says so right there in their articles of incorporation. It is malfeasant for them to be more responsible than is profitable. It is also malfeasant for them to be less responsible than is profitable. It is their job to see what the society is willing to reward, to see what the society is willing to tolerate and to find the path that maximises sustainable profitability. It is our jobs as citizens, NGOs and regulators, to rig the payoff matrix so that good corporate behaviour pays and

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behaviour we don't want doesn't pay.

SAW: But it would have to pay in a dollar value. How have things changed so that people say "I am providing people a better quality of life that is not necessarily financially based"? Are they accepting that as a positive indicator?

PS: Individuals may come to accept that there are things that are more important in their lives than money. Corporations cannot come to accept that there are more important things in the corporation's life than money, that's malfeasant. The corporation is set up around money. The CEO can have charities, and values and ideologies and all kinds of other

stuff, and so can the employees, and so can everybody in the society as individuals. But a corporation that has values more important to it than a return-on-investment is malfeasant.

That's not a problem. The problem is that we don't understand how it works. It is not a problem that corporations are interested only in profitability. The reason it is not a problem is because as long as we know how it works, we can make sure they won't make money unless they behave the way we want them to. And that is what has happened. The world has said "if you are going to leave behind a community that's scarred and unsustainable, you're going to leave behind a social system that you have turned upside down and that is no longer able to cope, if you've created a wage economy and then abandoned it, then we are not going to let you stay in business. We are not going to tolerate that. That is bad for us so we are going to make sure that it's bad for you."

That works fine. A company that stops polluting the streams because it loves fish more than profit is malfeasant. What works is a company that stops polluting the streams because if it doesn't stop the regulators and NGOs are going to get on its case, employees are not going to want to work for it anymore, morale will decline and all kinds of bad things will happen. Therefore the company stops polluting the streams, not because it loves fish more than profit, but because it can't earn a profit anymore unless it protects the fish. That's much more stable.

Once we understand that it is our job to make it more profitable to protect the fish than not to protect the fish, and they understand we are doing that and they damned well better protect the fish, the system works. Then, in my judgement, they screw it up, not by not doing it right, but by not saying it right. They screw it up by lying about it.

They say they're protecting the fish because they love fish more than profit. God forbid that society starts

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to believe them. Then we stop putting out signals telling them how much fish protection we want. As soon as the signals stop, they stop protecting the fish. The fish die, we get angry, we punish the corporation – it's a lose-lose. It's bad for capitalism, it's bad for companies, it's bad for profit and it's bad for fish.

The way the system works, and it has worked really well, is we rig the payoff matrix and they follow our orders.

A great piece of my message to companies is that they don't have to be any less profit-oriented than they are now. Maybe they have to be more profit-oriented than they are now, in that they have to notice that some of their behaviours they have been doing because they feel macho are very unprofitable - and stop them. The main thing they have to do is teach their public again, again and again that they are not doing the right thing because they believe in it; they are doing it because they're being made to do it. As long as companies keep saying that the public is making them do it, a) the public will believe they're doing it and b) the public will keep making them do it -which is essential, because as soon as the pressure stops, the company stops.

SAW: A colleague of mine has established an OHS charity that supplies resources to China's mining industry. I said to him that if the Chinese government is so supportive of safety, then it should have an exit strategy for the communities that have come to depend on the legal or illegal industries. He said they have such a program which indicates a substantial shift in the Chinese government's attitudes. Can the approach you have been talking about be applied to non-Western situations?

PS: I know that when there is a mine cave-in in China, the spouses of the dead miners would feel very much like the spouses in Australia or North America. But the capability of converting that outrage into political pressure may vary.

"In countries where public disapproval isn't easy or safe to express, my approach doesn't work. In countries where the actor the public is trying to rein in isn't a profit-making corporation, it's going to take some adjustment for my approach to work. I don't know enough about China. It seems to me that China has adopted the corporate model but has been slow to adopt what is an essential adjunct to the corporate model, public pressure on corporations. You can have a Confucian society without corporations but you don't want to have a corporate society without advocacy groups.

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It may be that China is coming up with a hybrid where there is a different way of disciplining corporations than the profit motive or it may be that they will, just as Russia has, go through a period of cowboy capitalism, where the corporations are more and more powerful. After cowboy capitalism, ideally, comes regulated capitalism – regulated not just by government but also by publics, stakeholders, NGOs, etc.

I believe that it is universal, if societal structure will let it happen, that people are perfectly capable of disciplining corporations and corporations are perfectly capable of noticing which side their bread is buttered on. What's needed is a

society in which people are allowed to express their disapproval and in which corporations don't prosper unless they respond.

Let me talk about safety in this context. The mining industry is obsessed with safety in a way that, I think, is genuine. It's got to be historical; it comes out of a time when mining was like it is now in China – an incredibly dangerous occupation. I don't have the data but I guess that mining is now safer than driving.

SAW: Some of the new small mines here in Victoria have begun working expired diggings and have had the luxury of integrating modern safety practices right from the start of operation or even in planning.

PS: The mining industry is actually pretty sincere when it says it cares more about safety than it does profitability, much more sincere than it is when it says it cares more about environment than profitability. The very senior people in the mining industry have absorbed that value and when they say that safety is our number one priority, they actually mean it. They also say that environment is their number one priority and they don't mean it.

Their commitment to environment is genuine but it is derived from the pressure phenomenon that I have been talking about. Their commitment to safety has to have started there but it has been internalised and is now self-sustaining.

That's not true of other industries. Tomorrow I am talking with a chemical company. I don't know its safety record and the reason I don't know is that the company is not that interested in its safety record. My guess is that its safety record is no better than, and probably worse than, most mining companies that are obsessed with their safety records. This is a chemical company that is absolutely obsessed with its

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emissions. A mining company would say “emissions, we ought to focus on that when we get a chance”.

I am stereotyping, but there is truth to the stereotypes. The typical chemical company has been in deep trouble over environment and has begun to internalize environmental values. The mining industry has been in deep trouble over safety and has begun to internalize safety values.

SAW: The main differentiation between the two would be geography? Proximity to population?

PS: Probably. But also another difference is what they were originally horrible at. Long before mining companies used dangerous chemicals, long before we knew about tailings and their long-term environmental impact, we knew about cave-ins. So the mining industry grew up as an industry that kills miners. The chemical industry grew up as an industry that sends noxious clouds over people’s homes. It’s a different history.

Despite all of that, one of the things that I’ve been very interested in is that even though I am convinced that mining companies’ senior managements mean it when they say they care deeply about safety and it’s the number one priority, their employees think that’s crap when they hear it. I don’t think it’s crap but it sounds like crap.

When I am talking with site-level managers, I ask what happens at the safety meeting when you trot out the slogan that senior management came up with – No Harm – Zero Accidents – Every Accident is Preventable. Almost unanimously site-level safety managers say that employees shut their ears as soon as they hear that. They think that’s crap. They are willing to hear a safety message that makes sense, but and they don’t think that that is a safety message that makes sense.

That’s a much more complex situation than the one with

environment. In the environmental arena, when they say they are doing it because they care instead of doing it under pressure, they’re lying. But in safety, when they say they are doing it because they care rather than they are doing it under pressure, they’re telling the truth and it sounds like they’re lying.

In order to convince employees that they are serious about safety, they must make employees understand the business case for safety.

They have to make the values case too. They have to say “we care”, “we really don’t want to hurt you”, “we really want every miner to go home whole.” But they also have to say

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something like this: We are under enormous pressure. Our heritage is that we, more than any other industry, were the industry where employees did not go home whole. Mining accidents make the front page in a way that no other industry’s accidents make the front page. We mean it but if we didn’t mean it we’d have to do it anyway, because safety is a huge business liability for us now.”

I would wager my mortgage and throw in my children that if you want employees to think you’re serious when you talk to them about safety, you have to make the business case as well as the values case.

SAW: That is the only way to counter cynicism, be open, honest and upfront.

PS: In environment that’s all you say - “we’re doing it because you made us”. With safety I think you have to say “we’ve internalised this message and we really mean it - but if you don’t believe we really mean it, here’s the evidence that we need to do it whether we mean it or not.”

SAW: On the radio this morning, US power generators who professed that emissions were harmless were now admitting that emissions were extremely harmful and on a much, much greater community scale. Emissions are now harmful rather than a by-product of production. Nine states in America have taken the initiative to setting up their own emissions trade system that is up to Kyoto standard.

The coal and gas power generators have only had to accept, in the last 10 or 15 years, that their industries’ emissions are very harmful. Is the way that these sectors are responding to new harms similar to the way the nuclear industry responded in the past?

PS: It is coming slower for a variety of reasons. One is that the harm that is done by power generation with fossil fuels is chronic. The harm done by nuclear power generation is acute. There is more outrage tied to a periodic cataclysm or the possibility of a periodic cataclysm than there is tied to greenhouse gases and black lung and other chronic effects. It’s intrinsically harder to arouse outrage about a chronic risk than about a catastrophic risk. That’s part of what’s going on.

The US also made some mistakes about grandfathering power plants and the issue of when they have to live up to new standards. The issue was sufficiently badly handled that the incentive system was stood on its tail. For more than a decade it didn’t make business sense to improve.

The essence of my argument is that there will only be an improvement when it makes business sense to improve.