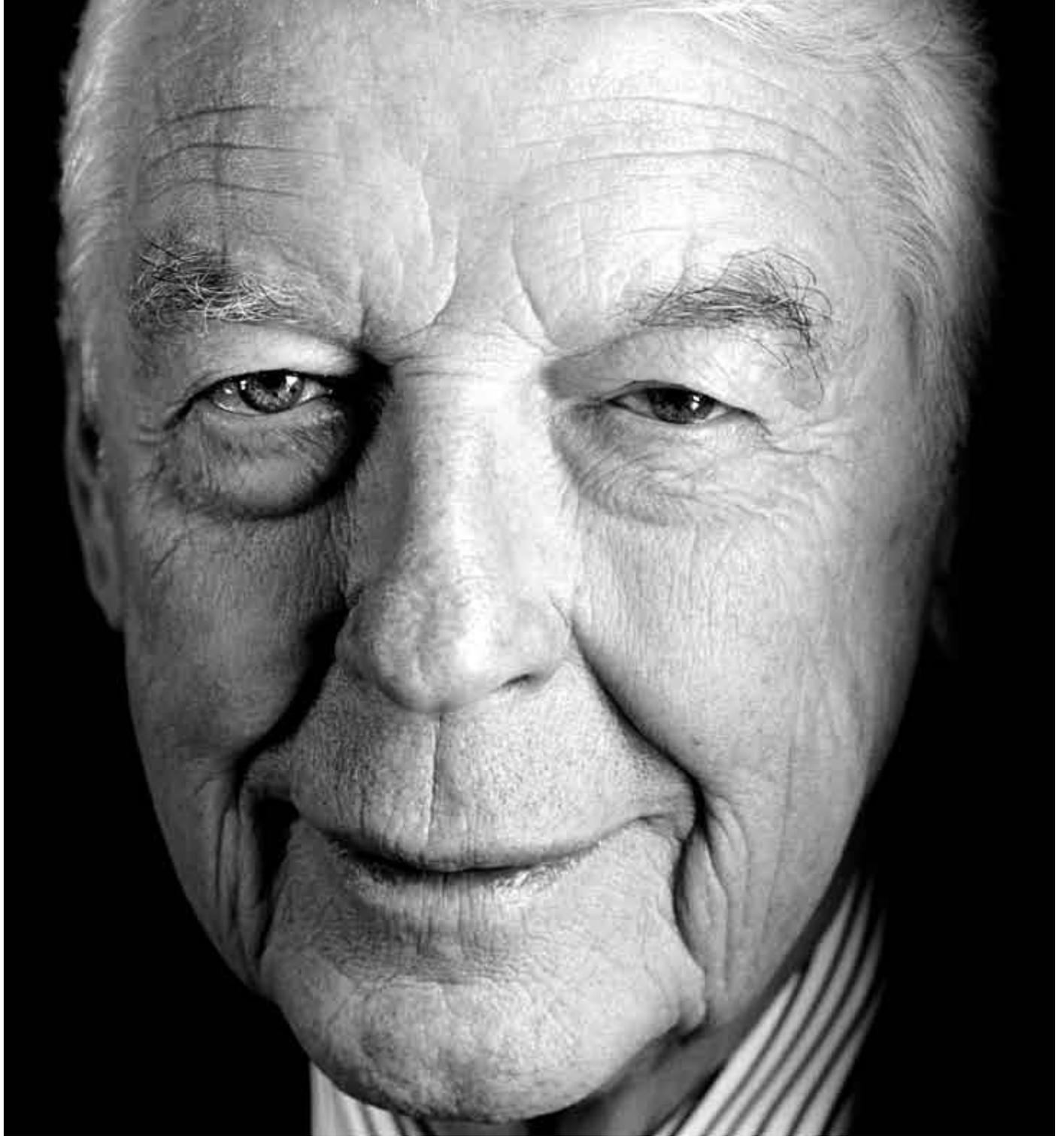


‘People can be very stubborn
in their beliefs’

Wim Kok

After having been Prime Minister in two coalition governments, Wim Kok stepped out of the political limelight to become a member of the supervisory board in various companies. He is quick to point out, however, that ‘I’m not the sort of person who sees such appointments as a free ride.’ Regarding the current state of financial affairs in the world, Kok emphasises that the Netherlands must not forget to think about the period *after* the crisis, when the storm has subsided. ‘Everything we thought was certain over the past decades has become uncertain. That uncertainty is stronger than ever. You feel that all sorts of changes are going to happen, but you don’t know exactly what they’re going to be.’ He worries whether Europe, despite all the necessary attention it has paid to the short term, has at the same time managed to prepare for all the new challenges of the 21st century. It remains essential, Kok feels, to invest in matters which were always important – innovation, technology, research and training – in order to be ready for the future. It’s equally essential that we continue to invest in integrity, too.



‘I also had to make sure I kept up to date. As a supervisory board member, you have to follow all developments that have anything to do with the company and make sure you’re able to ask the best possible questions and make the best possible contribution to the formation of opinions’

For Wim Kok, integrity isn’t only a question of how people should deal with individual responsibilities and duties. ‘Managing and conducting a business with integrity is of the utmost importance: people both inside and outside the company will judge it on how well you do that. This is not a soft issue. Integrity is closely tied up with compliance and corruption, for instance, and these are areas that need to be approached with zero tolerance for any form of misbehaviour.’

Asset and product integrity

In Kok’s view, integrity at organisational level goes further than personal morality, and is broader, too. ‘It also encompasses business principles and codes of conduct. And many companies, in the oil and energy sector for example, make use of the concept of asset integrity. This is the case at Shell, for instance, where for years, besides looking at personal integrity, they’ve also looked at asset and product integrity, and how these can

best be safeguarded. Companies in this sector have an enormous responsibility to society: think, for example, of the far-reaching effects that pipelines and oil rigs can have on safety and the environment. Such companies commit themselves to very strict requirements regarding transport, supply and production. And for supervisory boards and regulators active in these industries, integrity becomes a very important item on their agenda, with special committees being set up to systematically address issues of integrity, as well as health and safety.’

Switching over

Wim Kok served as Prime Minister of two governments during the period 1994-2002. After leaving office, he wholeheartedly embraced his duties as supervisory board member, quickly getting to grips with the complexity of his new role. It was, he says, certainly different from what he had been doing before, but it was a good move for him: ‘Although I’m not emotionless, I am pretty rational. When you switch over to something new like this, you know you’re closing the door on an era. Rather than retire, I decided to remain active as a member of supervisory boards, but without harbouring any ambitions to push my way to the front at all. Viewed like this, it was a rational decision – though I’m not saying it wasn’t also something of an emotional transition.’

So after leaving government, Kok entered a new field, one that required new knowledge and skills. The moment he accepted his first supervisory board membership, he set to work. ‘I had to make good a substantial backlog in knowledge, and so that’s what I did. I’m not someone who treats a job like that as a free ride.’ In fact, it was

tough going at times, he says. ‘Apart from having to catch up on background knowledge, I also had to make sure I kept up to date. As a supervisory board member, you have to follow all developments that have anything to do with the company and make sure you’re able to ask the best possible questions and make the best possible contribution to the formation of opinions.’

Transparency and care

As a former leader of government, Kok is used to fielding penetrating questions, and he knows how to withstand the pressure that comes with them. How does answering questions in parliament, though, compare with demands for transparency in business? There are certainly some similarities, he says. ‘Like a member of government, a board member cannot always say all he knows. Sometimes you’re limited by considerations beyond your control, considerations that have to do with ensuring the integrity of a process you’re in. Sometimes, even, you know something, but can’t share it with others (or only with a tiny group of people). As Prime Minister, there were times when parliament specifically asked me for certain information that I had, but which I couldn’t disclose to them at that very moment, either for reasons of privacy, for instance, or for reasons of national security. For example, I knew more about the wedding plans of Prince Willem Alexander and his future wife than I was able to tell parliament. In the months before their engagement was announced, I couldn’t share this information with parliament or even with my fellow ministers. I’ve never experienced this in business, although, of course, information is sometimes given to me in the strictest confidence.’

‘Anyone who says, “Close the books again, we’re going back to those short annual reports we used to have,” won’t have much success’

No way back

Has the present pressure towards making everything public gone too far? Does everyone need to know everything? ‘I don’t think that we should go back to the days when we hid everything away. Indeed, I don’t think we could go back even if we wanted to. Society has become increasingly more demanding in many respects – including this one. But transparency must be an obligation on all parties. Other sections of society, from shareholders to other stakeholders and authorities, are going to have to deal with the fact that more and more information is being made available. Having the information is only the first part of the process: once you’ve got it, you need to be able to understand it and interpret it. We have financial reporting rules, which make it easier to compare like with like, and of course there are a lot of developments in that area at the moment. But you’ll notice an enormous discrepancy with other parts of the world, where they don’t have such regulations. Take the state-owned companies in China or the Middle East, for instance. What impact will they have on us? I don’t know, but what I do know is that anyone who says, “Close the books again, we’re going back to those short annual reports we used to have,” won’t have much success.’



Risk management

There are no issues, says Kok, that are taboo at the meetings of the supervisory board – including bribery and kickbacks. ‘The supervisory board is informed every six or twelve months – in fine detail – about the progress being made in combating corruption. In countries (outside the Netherlands), situations often arise whereby certain bodies or officials (including government officials), ask for payment for a service or a “favour”. You need to know as much as possible about these sorts of things, and remain resolute in systematically trying to reduce them. Systematic risk management is part of this process. The audit committee often plays a part in this; or there’s a compliance officer, who is called to a committee meeting once every six months or once a quarter to give an idea of the scope of the problem. As supervisory board members, it’s not our job to get involved in specific cases. But we do need to know what sort of

things are going on in the organisation, and we need to be familiar with the company’s whistleblower system.’

Credibility

It is all the more important that the top people themselves in organisations act with integrity. ‘By and large,’ says Kok, I think that substantial progress has been made here in the corporate world in the Netherlands to incorporate integrity into our business principles, and to implement it in practical terms in the policy areas I mentioned earlier. Of course, the tone at the top is very important here: it’s essential that management and the supervisory board make it clear, from the top down, what is permissible and what is not. They need to establish clearly what standards people will be judged by, and must insist that these standards be strictly maintained. At the end of the day, it’s part of your licence to operate. The credibility that companies need in



order to do their work properly depends in large measure on how good they are at handling such things.'

Lessons from the crunch

The present credit crunch has raised particular doubts about the credibility of financial institutions. There is, says Kok, no easy fix for this. 'Our calm waters have been churned up, and all the certainties we had over the past ten years have now become uncertainties. At this moment, I don't pretend to have the answer. I can't open a toolbox and say: "If you just use that hammer and that chisel, then..."' At this point in time, we don't even know what the world economy will look like in four weeks' time. Anything is possible. It was never easy to get a handle on the economy before the crisis; now it's more difficult than ever. You sense that things are about to happen, but you have no idea what. What we *do* know is that Europe and America are now both in the

same boat. But whether we can all reach agreement on how we will supervise matters in the future is an open question. Currently, there is no consensus on whether we need to develop a single international or even global supervisory system. But I believe that if we don't act together – and here I'm talking about Europe at the very least – then there's no small risk that we'll eventually end up with a supervisory toolbox that doesn't contain the tools we need.'

Three-phase approach

Kok believes that we need to take a phased approach in dealing with the financial crisis. 'The first phase is one of crisis management: with the storm now at hurricane force, we need to try to batten down the hatches and limit the damage as best we can by restoring confidence in the financial system. Then, the next phase will be devoted to stimulation plans and policies: we'll need to

‘At the end of the day, it’s part of your licence to operate. The credibility that companies need in order to do their work properly depends largely on how they good they are at handling such things’

think carefully about how we can breathe new life into the economy, particularly at a time when trust has been damaged. It’s vital that Europe takes a unified approach here, with specific, tangible measures. It wouldn’t be very helpful, for instance, just to rake together money that’s already been earmarked for other purposes. I welcome all efforts to oil the economic machine, but action will only be effective if it’s undertaken jointly.

A helping hand

Kok is cautious about government support programmes. ‘I’d want to look carefully at such programmes for industries or business sectors,’ he says. ‘For example, you could give the automobile industry some support, but you should force it at the same time to take as many innovative, energy-friendly measures as possible. Then you kill two birds with one stone. If, for national or protectionist reasons, you support businesses that wouldn’t be able to survive the market turbulence on their own, you’re putting good money into sectors that are plagued with difficulties. The biggest challenge right now seems to be supporting businesses through intelligent investment programmes, while at the same time restoring consumer confidence. Of course, it’s true

that you always run the risk that you’ll occasionally back the wrong horse and some of your money will essentially be lost. It’s a very complex dilemma.’

Looking to the day after tomorrow

Kok’s third phase is the period after the crisis. Crisis management, he points out, is by definition short-term management. ‘If you stare too intently at the present, you may lose sight of the long term. Despite the urgent demands of this moment, we have to start thinking ahead and asking ourselves what we can do now to ensure that we come out of the crisis with renewed vigour. We must be ready to get going as soon as the storm has passed.’ We should, says Kok, work to turn our present vulnerability into future strength. This means that, while fighting the crisis in the short term, we also need to keep in mind those questions that we were discussing when the crisis broke – questions about tomorrow. ‘If we’re to meet the challenges of the 21st century, we need to invest in a rapidly changing world; and that means investing in innovation, technology, research and training. And what about all the other challenges we were preparing to meet? What will be our response to ageing populations, for example? How will we deal with the increasing competition from China and other emerging nations? And what about the climate agenda: how will we seize the new opportunities it offers? It would be good if we could face these issues in close cooperation with other EU countries.’ Kok realises that trying to do all this at the same time will not be easy. ‘We mustn’t let the difficulty of our task leave us downhearted. Instead, we should be ready to act, keeping a keen eye out for the right path. Then, once we find it, we should take it, knowing this crisis gives us momentum,

and is an ideal stimulus to get us to rethink things in greater depth and change what needs to be changed. Whatever we do, we mustn't miss the boat to the future.'

Do not overestimate the government

With governments taking the lead in getting the economy back on track through initiatives such as the nationalisation of banks, it might appear as though government has also taken the lead in setting up a new economic and social order. 'The discussions that have flared up over the nationalisations are almost theological in nature: "Is it doctrinally correct or not?" But my question is rather, "Are governments really capable of doing it?" They now need people who know this field inside-out and backwards, who know how to allocate money in businesses so that the structure is made as strong as possible. As this has now become a job for government, they need the wisdom, the know-how, to do all this.' But, as Kok points out, we don't know the end of the story yet: no one knows the true size of the wounds that have been inflicted on the global financial and economic system. 'At the moment, it looks as though governments see their role in keeping financial institutions intact as a temporary one. But meanwhile, we need to make sure that companies can continue to function independently and can compete freely in an open market. Otherwise, you run the risk of installing protectionism, in which protection of one's own industry, one's own institutions, will get the upper hand again.'

Buy now, pay later

Kok believes that behaviour, as well as banking, played a part in the credit crunch. 'Integrity is a wide-ranging

'People can be very stubborn in their beliefs. People who today feel humbled and are hanging their heads will, in two or three years, be tempted to make the same mistakes again'

concept, and there's also a personal aspect to this financial crisis. I'm talking about a lifestyle which simply had to crash at some point or other. As Prime Minister in 2000, before the internet bubble burst, I said in an interview that we were skating on thin ice. When the interview was published, MPs were very angry with me. How, they said, could I possibly think of talking about doom and gloom when the economy was doing so well? Talking down confidence like that could surely only bring misery on our heads? We are paying a high price now for a type of thinking that was grounded in short-term interest, self-interest and a belief that progress is only measured in short-term successes – the sky's the limit... It was a way of thinking that was widespread in society: you were doing yourself down if you didn't borrow lots of money. A policy of "Buy now, pay later". It was all about "even more, even better, even larger". At some point, that had to end; and, for me, this is clearly the lesson we need to learn from this crisis. But whether people will remember the lesson for very long remains to be seen. People can be very stubborn in their beliefs. People who today feel humbled and are hanging their heads will, in two or three years, be tempted to make the same mistakes again.'

Different sorts of crises

We can learn from the past, Kok believes, but we will still need to face new challenges in the future. 'Every crisis is different. When, in two or three years' time, the economy begins to recover, the demand for commodities will increase again. China, with relatively few natural resources, will need to import many commodities. What's more, its inefficient systems means the country will need more proportionately (not even taking the size of its population into account). This scramble for resources, including oil, will become frighteningly desperate. How will this affect global relationships?

I wouldn't care to venture an answer, but it's quite possible that we will be facing very different types of crises and conflicts than those we're focusing on now in this period of economic difficulty.'

Wim Kok is a non-executive director of Royal Dutch Shell. He also serves on the supervisory boards of KLM and the ING Group. Wim Kok was Deputy Prime Minister and Minister of Finance from 1989 to 1994, and then served as Prime Minister from 1994 to 2002.



