Globalism without Tears: A New Social Compact for CEOs

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The world's economies can grow more secure and more humane if chief executives and boards accept and execute a five-point corporate citizenship agenda.

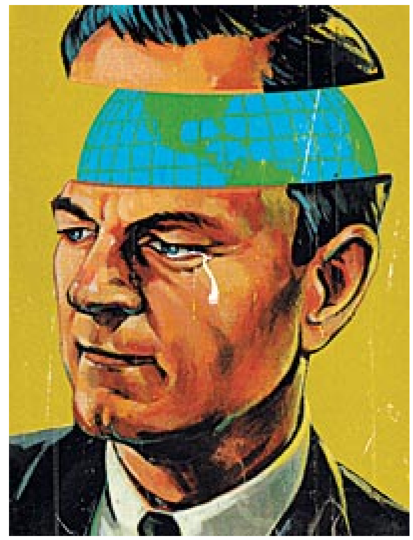

Illustration by Tavis Coburn

The golden age of capitalism that the United States had enjoyed since the 1980s came to a jarring end during the last 14 months. First, the terrorist attacks on the United States on September 11, 2001, exposed a national security problem that is spilling over into every aspect of our lives and will have a pervasive impact on the functioning of the economy as well. Two months later, the scandal involving the Enron Corporation and Arthur Andersen, and all the corporate transgressions that were exposed in its wake, severely undermined the integrity of American business.

To use a term popularized by Andrew Grove, the chairman of the Intel Corporation, the United States is at a "strategic inflection point" — a moment when the basis for strategy changes, requiring a fundamental course correction. The Great Depression, the Japanese bombing of Pearl Harbor, the first explosion of the atomic bomb, the opening of China, and the collapse of the Berlin Wall are earlier examples. September 11 and the Enron–Andersen fallout constitute powerful strategic inflection points. More than merely amounting to critical discontinuities in our lives, they could have a combined effect on the balance between government and business that constitutes an earthquake in American society.

Think of America at the beginning of 2000: Before the terrorist attacks and Enron's collapse, markets — and not the government — were ascendant. The domestic and international economies were fast becoming "frictionless." Businesses were honing their operations with ever-slimmer inventories, just-in-time deliveries, and global supply chains that exploited the most efficient manufacturers in every part of the world. At home, Americans were increasingly entrusting their fate to the stock market, and this so-called equity culture was spreading from Buenos Aires to Beijing. Jack Welch, then chairman and CEO of the General Electric Company, and John Chambers, CEO of Cisco Systems Inc., were heroes and icons, as were their corporate counterparts overseas. Enron was among the world's most admired companies. Deregulation was a driving force in America and most other nations. The push to increase the connections between countries by lowering barriers to trade and investment — the push for more globalization — was at the center of American foreign policy and international politics. National borders were fading. Moreover, most top government officials and CEOs assumed that an era of peace and prosperity was at hand, and that American-style capitalism was the most acceptable model.

This snapshot of 2000 is enough to show how much has changed. Today, business is hunkering down, focusing less on dramatic innovation than on the accuracy of its financial statements. "Across the business landscape, the imperial chief executive, hailed not long ago as the savior of entire companies and the driving force behind the turnaround of the American economy, is suddenly under siege," wrote David Leonhardt in the *New York Times* in the summer of 2002.

Americans need no less than a new paradigm for leadership in their society. The roles of business, government, and nongovernmental organizations (NGOs) must move in the direction of closer partnership. They must coalesce around a vision of a society in which many new security measures, carefully weighed against the freedoms that the United States defends, will be taken. Leaders across sectors must construe security in not just military terms but economic ones. They must understand that global problems are increasingly hard to separate from what happens at home. For business leaders in particular, the new paradigm of leadership must go beyond pleasing Wall Street and delivering ever-higher profits on a quarterly basis. Besides considering all the stakeholders of a company — employees, customers, suppliers, communities — business leaders must consider the concerns of society, such as a cleaner environment and a higher level of integrity in business dealings.

Indeed, business and other leaders must rethink how they can collaborate to further the public interest on a range of critical issues. I know that a definition of “the public interest” is elusive, but let me explain what I have in mind. First of all, the public interest is not simply the sum of the private interests, which are often self-serving and short-term. Nor is a market economy the same as a market society; prices and competition should not govern everything.

Moreover, in a highly sophisticated, market-oriented nation such as the United States, the public interest cannot be defined by democratic voting alone or by the judgment of officials responding to opinion polls. American society is more complicated than that. It needs interest groups; it needs political parties. And, given the powerful role that business plays in U.S. society, the nation needs a level of leadership from corporate America that goes beyond that of an interest group and considers public policy from a more strategic perspective. It needs chief executives who can explain to the government and the public the effects of various policies on the economy over the long term, spell out the risks and rewards of different policy choices, and identify who and what these policies will affect. It needs leaders who can look at the overall economic system, examine ways to strengthen it, and recommend national and international policies that will expand open markets and promote democracy — two conditions that reinforce each other. It needs, too, business executives who can expose and condemn the business practices that undermine effective capitalism.

Power and Obligation

Here is one example of what is needed: A revitalized notion of what global citizenship is all about — or should be about. It is easier to talk of good corporate citizenship, however, than to live up to the obligations. Since legal systems differ around the world, and since many developing countries have not established laws and enforcement mechanisms as elaborate as those in the United States or Europe, the definition of corporate citizenship on a global scale is anything but straightforward. The difficulty for many CEOs is encapsulated in this kind of thinking: “I operate in a hypercompetitive global marketplace. My primary responsibility is to be profitable in order to serve my shareholders. I have to obey the local laws, of course. I must also follow the laws imposed by the country in which I am headquartered, if they apply overseas. But if I go beyond that — if I pay wages or uphold environmental standards that are higher than those legally required in a foreign country, and if that causes my company to be less competitive than my rivals and hence to be less profitable, am I doing the right thing?”

This kind of question reflects some intractable real-world dilemmas. Suppose an American oil company is operating in Colombia, a country wracked by violence. The company hires security guards to protect its facilities. The service is effective in protecting the company, but it violates the norms of human rights in the United States — although not the de facto standards in the tough neighborhood in which it operates. What should an American CEO do?

Consider another example: You are the CEO of a major American financial institution, and you are asked to bid on the financing of the Three Gorges dam in China. The U.S. Export–Import Bank and the U.S. Overseas Private Investment Corporation — arms of the U.S. government — have decided not to participate, having determined that the new dam will displace hundreds of thousands of people and damage the surrounding environment. But gaining closer relations with the government of China is a major strategic objective of your company, and participating in the underwriting of what may be the world’s largest public financing project would be highly profitable and hence of benefit to your shareholders. You have also received reports prepared by consultants who say that building the dam would, over time, benefit millions of people in the region. How do you decide what is the right thing to do?

Differing perceptions of the power and obligations of multinational companies complicate the issues. From the standpoint of nearly all global CEOs, companies have far less power than that with which governments and public pressure groups credit them. These business leaders believe that only governments have the legitimate authority to make laws, enforce them, and cater to the social needs of their citizens — and the primary responsibility to do so. When host governments or pressure groups ask them to get involved in education, health, or the promotion of human rights — over and above the treatment of their own employees — the executives worry that they are undertaking something for which they have no mandate, no competence, and little time. They also fear being held responsible for results that are beyond their ability to deliver or control. On the other hand, governments, international institutions, civic groups, and NGOs often see global companies as having more resources and influence — and a broader mandate — than corporate chief executives think they do. Governments and NGOs are frequently looking for these companies to be agents of social change and development in arenas in which the governments have failed.

Very few CEOs or members of their boards of directors have experience in managing, or the knowledge of how to manage, these conflicting viewpoints. But neither can they avoid dealing with them. CEOs are under public pressure to get involved, and whatever they do or fail to do will be evaluated in a highly public way by a wide variety of groups. Equally important, as corporations struggle to recruit the most educated and talented men and women around the world, these companies' ability to be seen as being on the right side of progressive causes will become increasingly essential to their success. "If you want the best and the brightest," William C. Ford, Jr., chairman and CEO of Ford Motor Company, told me, "then you have to build a company they can feel good about."

A Corporate Citizenship Agenda

There are no clear answers to the many dilemmas surrounding the question of what it means to be a good corporate citizen, and how this goal can be integrated with obligations to shareholders. But CEOs don't have the luxury of waiting while they and others figure out the answers. They operate in the here and now, and they must act today with the best knowledge and instincts they can muster. The imperative now is to give corporate citizenship more attention and higher priority, albeit in a careful way. A five-point agenda can help CEOs and boards fulfill their obligations in a way that will help the global economy become more humane and more secure.

Agenda Item 1: CEOs must be proactive and transparent when it comes to issues of corporate citizenship and social responsibility.

The starting point for any business leader in navigating these swirling political and social currents is to have a clear idea where the company's responsibilities begin and end. Since there are few accepted international guidelines to rely on, CEOs and their boards need to make their own judgments. Although they will all begin with the idea that creating shareholder value is the *sine qua non* of the firm's existence, they should define what else a company must do to create satisfied customers and productive employees who feel well treated. CEOs must also develop a philosophy that sets parameters on where corporate activity in a community begins and ends. These parameters will never be sharp lines; the best way to determine them is to be in close consultation with host governments and community leaders, and to raise these questions to the level of boards of directors.

In other words, CEOs and their boards need a "true north" — a clear sense of who they are, what their company stands for, and what obligations the company has, not only to shareholders but also to stakeholders around the world. These views should be articulated clearly to all constituencies — not as rhetorical mush, but as guidelines for operations. The purpose is to set realistic expectations for all concerned.

An excellent way to do this is to issue global corporate citizenship reports setting out a company's social philosophy, goals, efforts, and achievements. Among the companies that have pioneered these public statements are Ford, Royal Dutch/Shell, BP, and 3M. These documents compel a company to come to grips with difficult policies that they otherwise may put off dealing with, or deal with haphazardly.

Most multinational companies understand that once they are accused of being less-than-stellar citizens, they could be on the defensive for many years. The imperative, therefore, is to be ahead of the curve, to be positively engaged in key issues that arise for almost all companies — environmental protection, employee safety, and the like. A savvy company will appoint senior executives to monitor political and social pressures on the company, both on the local scene and internationally. These people will make it their job to learn about pressures on other global companies within and outside their own industries. They will be highly sensitive to political and social trends that could turn into anticorporate crusades. Had Monsanto been more alert, it might have avoided its setbacks in Europe over bioengineered foods. Had Nike recognized the significance of the anti-sweatshop movement, it might have avoided the huge shock to its brand that it experienced.

It's not enough to be actively engaged; companies need to be transparent about their goals, policies, and implementation strategies. In April 2001, for example, two American business associations, the Manufacturers Alliance and the National Association of Manufacturers, conducted a survey of 44 companies to assess their policies on ethical, labor, and environmental standards in developing countries. It was filled with specific examples: All over the world, Polaroid installs the same pollution abatement equipment as it does on U.S. process lines; American Home Products requires its code of ethics to be signed by all its salaried employees, whatever the country in which they live and work. The report concluded that "American manufacturers take their high standards with them, and are likely to raise, not lower, standards in developing countries."

No doubt this is generally true, but companies will have to do much more than develop the right policies, devise codes, and write reports. The next stage in corporate citizenship — indeed, it has already arrived — is for companies to allow their community and social policies to be audited by represented third parties. This will require the development of a common framework for measuring different kinds of progress, in place of the wide variety of measurement techniques that companies use now.

The importance of such social audits is rising quickly. They will ensure that how a company defines its citizenship responsibilities is debated at its highest levels and is understood by all constituencies. Social audits will also demonstrate that CEOs are engaged in the communities in which their companies operate. And they will create widespread discussion about a company's social endeavors, giving that firm valuable feedback from a range of external constituencies. This in itself ought to help avert surprise political attacks on a company, because to the extent that explosive issues are looming, they will likely have been identified in advance.

Among the most important developments in the arena of social audits is the emergence of the Global Reporting Initiative (GRI), an international undertaking by a number of institutions and companies to develop voluntary guidelines for reporting on the economic, environmental, and social dimensions of their activities, products, and services. The effort began in 1997, and by April 2002, the GRI had established an independent international body to promote the guidelines and to continue to refine them. The GRI's reporting procedures are substantial. They relate to wages and benefits; labor productivity; job creation; environmental impacts of processes, products, and services; and social policies including workplace health and safety, labor rights, human rights, and working conditions at outsourced operations. The initiative "seeks to reduce confusion [and] harmonize rules of disclosure as much as possible." The GRI sees itself as inaugurating a reporting system that parallels traditional financial accounting and eventually will achieve a similar level of comprehensiveness and precision. This serious effort will compel the attention of companies everywhere.

Agenda Item 2: Business leaders should expand the work of industry associations.

Consider the Fair Labor Association (FLA), a group formed by 11 leading apparel companies, including Nike, Patagonia, and Liz Claiborne; NGOs such as the Lawyers Committee for Human Rights and the National Consumers League; and several universities. The purpose of the FLA is to eliminate sweatshops around the world. The members have developed a code that prohibits forced labor and child labor and supports freedom of association, minimum wages, limits on working hours, clean bathrooms, and similar rights and amenities. The group monitors members' facilities abroad. It conducts surprise inspections. Companies in compliance with the group's code can put FLA labels on their products.

Few would say that the FLA is as thorough as it could be. But the template is a good one and ought to be extended to other industries. One sector ripe for this approach is mining, an industry in which many companies are realizing the advantages of improved images by setting minimal social and labor standards. Big mining companies are concerned that their access to financing could suffer because of banks' fears that their own reputations could be dragged down by association with companies that are the targets of social resentment. In early 2002, an industry working group known as Mining, Minerals, and Sustainable Development met to consider industry guidelines on policies toward the environment, health and safety, ethical standards, and sharing information on best practices. The group is on the right course.

Another industry that is thinking hard about its broader challenges is biotechnology. In the summer of 2002, Carl Feldbaum, president of the Biotechnology Industry Organization, told his 15,000-member audience that the industry needed to develop a "foreign policy" because it risked being dragged into a morass of social and ethical controversies in the developing world. The industry needed to learn from the mistakes of others and avoid them, he said. “Biotechnology will need much closer and more trusting relationships with foreign governments, the World Health Organization, and NGOs,” he added. Mr. Feldbaum, too, is on the right track.

Numerous other industry groups could and should work together, for by acting collectively, they can ensure that they will not reduce the competitiveness of any one company, while working to enhance the overall welfare of society. As Roger L. Martin, dean of the Joseph L. Rotman School of Management at the University of Toronto, wrote in the *Harvard Business Review*, energy-producing companies could come together to create and implement a strategy to reduce greenhouse-gas emissions, and media companies could address the question of banning child pornography around the world.

Agenda Item 3: Business leaders should expand engagement with public and nonprofit institutions.

Business leaders need to step up their engagement with other organizations, public and private. A good case study is the Global Compact, initiated by United Nations Secretary-General Kofi Annan in July 2000 and signed by Nike, DaimlerChrysler, Royal Dutch/Shell, and dozens of other companies, together with 12 labor associations and public-interest groups. The compact is a voluntary code aimed at improving human rights, eliminating child labor, and protecting the environment. Critics complain that because there are no sanctions for violations, the agreement is just rhetoric. However, the signatories have committed themselves to important first steps, such as posting on their Web sites the progress made in implementing the principles and agreeing to a series of meetings to explore ways to promote the compact’s goals.

Another example of an essential coalition is the code called Voluntary Principles on Security and Human Rights. In December 2000, then-Secretary of State Madeleine Albright and British Foreign Minister Robin Cook brought together Chevron, Texaco, Royal Dutch/Shell, and BP with various human rights organizations. The issue was how to balance the determination of companies to meet real security threats in dangerous places with respect for human rights. The parties negotiated voluntary principles that companies can use to assess the impact of their activities on human rights; the relationship between companies and state security forces, both military and police; and corporate relationships with private security forces. “The voluntary principles address narrowly defined issues, and the commitment of their participants remains untested,” Bennett Freeman, who helped negotiate the arrangement for the State Department, has written. “But if this process continues and these principles stick … the negotiations may serve as a useful precedent as the old diplomacy of governments pushes into the still-virgin terrain of the diplomacy of globalization.”

Individual companies should partner with NGOs in many of their everyday activities that involve local communities. “It is a mistake sometimes reflected in media coverage to think that companies and NGOs are locked into an immutably hostile relationship,” BP chief executive Sir John Browne told an audience at Chatham House in London in early 2002. “That isn’t true. Companies benefit from scrutiny and challenge, and in some of the most complex areas in which we work, the progress we can make is dependent on the cooperation and skills of NGOs.”

BP exemplifies the principle. The U.K.-based energy company works closely with CARE and local NGOs in assisting communities in Colombia. It also works with the Red Cross to help displaced refugees in war-ravaged Angola and with the World Wildlife Fund to conserve the natural environment in Indonesia and Brazil. McDonald’s works with Conservation International to prevent the loss of biodiversity arising from the practices of the fast-food giant’s agricultural suppliers around the world. Nike, Gap, the World Bank, and the International Youth Foundation are working under the umbrella of the Global Alliance for Workers and Communities to improve the environment for workers on the entire supply chain that extends to countries such as Indonesia, Thailand, Vietnam, and China; included in their efforts is the provision of health care and education. American Express has been working with the Brazilian government and local professional institutes to help prepare young students for careers in travel and tourism.

The idea of corporate partnership with NGOs and governments will become an ever-bigger challenge for business leaders. When it comes to NGOs, for example, CEOs will need to develop a strategy every bit as sophisticated as those they apply to potential corporate partners. The number of NGOs is now vast — in the tens of thousands — and although some are only out to protest and disrupt corporate activities and globalization, most want to solve problems constructively. One task for business leaders is to identify whom they can work with, on both a global and a local level. In addition, they must realize that even the NGOs most serious about working with multinational companies play a role much different from that of a company. NGOs are advocates for specific policies; they are not required to make the kinds of trade-offs among a set of constituencies that CEOs must make. Under the best of circumstances, these partnerships will not be without serious disagreements, but they are crucial alliances, for each party brings essential skills and interests to a set of problems. Only through this kind of collaboration can immensely complicated social issues be addressed effectively.

Agenda Item 4: Business leaders should develop more rigorous strategies in dealing with antiglobalization protest groups.

Ever since the 1999 demonstrations against globalization in Seattle, corporations and governments have been in disarray when it comes to responding to the overall protest movement itself. To be sure, developing a coherent strategy is difficult, given the wide range of NGOs that are involved and the disparate concerns they have raised. These concerns range from closing down the World Bank to promoting the human rights of women. The NGOs are well organized and well financed, and they have used the Internet to coordinate a much more effective public-relations campaign than have global companies, international institutions, or national governments.

The first part of a corporate strategy should entail the approaches already discussed: practicing good corporate citizenship, partnering with constructive NGOs, and so forth. But this is not enough. NGOs have had too much of a free ride in identifying themselves with the public interest. They have acquired the high ground of public opinion without being subjected to the same public scrutiny given to corporations and governments. The danger is that they can too easily misrepresent facts and damage the reputations of other institutions without being held accountable.

It is time that companies and governments demand more public examination of NGOs in order to hold them to the high public-interest standards the NGOs themselves espouse. Who makes the decisions in these organizations, how are these people selected, to whom are they responsible, and how are they held accountable? Who is providing the funding, and what are the interests of the financial supporters? Are the accounts audited and disclosed? In the United States, which NGOs are lobbying Congress, and are those that are doing so properly registered under the law? What is the track record of particular NGOs in terms of what they profess to stand for, how they have behaved, and what they have achieved?

Businesses and governments ought to press the media to ask these questions and relentlessly pursue the answers, just as the press does with much of the private and public sectors. Since NGOs are pressing for transparency and accountability on the part of multinationals and international institutions, it is only fair that they submit to the same standards. Were they forced to do so, the important debate about how globalization should proceed would become a lot more responsible and constructive.

Some NGOs fully understand this. Irene Khan, who heads Amnesty International, is one leader who does. “Accountability is important because of the power we have and the media exposure,” she told the *Financial Times*. “We have to be as transparent as we expect governments and others to be.”

Agenda Item 5: CEOs should press governments and international organizations to develop global rules of conduct.

Under any circumstance, the role of a multinational company in the society of any country will be both limited and ambiguous. When the requisite laws and standards do not exist, business leaders are often pressured to fill some of the void. But it would be far better for governments and international institutions to set and enforce the framework for global capitalism, because only governments have the authority and political legitimacy to do so. CEOs ought to be pressing public officials to move more urgently to establish stronger guidelines for wages, working conditions, environmental standards, anticorruption measures, and the protection of human rights and other such policies. The absence of good governance at the global and national level is an enormous liability for business leaders — among others. s+b

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