

Managing in Turbulent Times: The Corporate Responsibility Imperative*

by

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The theme of this meeting is “Managing in Turbulent Times” and, indeed, these are rocky times for managers of corporations. Enron, Woldcom, Arthur Anderson and now Nortel - the scandals keep coming in rapid order.

Real world events have given Hollywood lots of material to work with and with the end of the cold war business has become the movie industry’s new villain of choice. In five currently playing movies - the new version of *The Manchurian Candidate*, *I Robot*, *The Bourne Conspiracy*, *Spiderman Two* and even *Catwoman* - the corporation is the bad guy. There probably are not too many idealistic kids out there daydreaming about being corporate managers when they grow up.

The corporation was originally invented by governments as a way to get useful things done on the cheap. If the wealth of the kingdom will be increased by developing the North American fur trade, why not let private investors organize the project and take the risks by giving them the incentive of greatly increasing their own person wealth?

That strategy worked well but it had side effects that are only now being fully felt.

As many of you may know, more than 50% of the world’s largest economies are not countries. They are, instead, corporations, multinationals

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whose reach spreads around the globe (Carroll, 2004). The way that these organizations behave is critical to the well being of people far beyond the circle of those they employ and those with whom they deal directly. They have a huge impact on the global environment and on the well-being of global society generally.

At the time corporations were invented governments were not democratic. They were enterprises controlled by small cliques of powerful people who made key decisions in their own interests. What those people decided had huge impacts on untold numbers of people who had no say in their decisions. To illustrate the point, let me tell you briefly my fourth great grandfather's story.

Joel Daniel was born in New Jersey in 1759. When the Revolutionary War broke out he cast his lot with the huge enterprise of which he was a tiny part - The British Empire. Surely this mighty entity would quickly crush the rebellion and reward those loyal to it. But Britain had commitments around the world and finding the costs of funding the war higher than expected it decided (without Joel's advice or consent) to cut its losses and sue for peace. Since the Yankees didn't want him or his like back, Joel was left out on a limb. The Brits shipped him and his mates to the Canadian wilderness. He and his wife spent the winter of 1783/84 living in what is now St. John, New Brunswick in a tent. It was a severe winter and many of the refugees did not make it.

It was experiences like those of Joel Daniel that led millions of others to demand a say in making critical decisions and in demanding recognition of basic rights. It took two centuries but, with the end of the cold war, democracy is now the world's governance norm.

Modern democracy has two components. First it requires that the government be chosen by and be responsible to its citizens. Secondly, it requires that all human beings have certain inalienable rights that cannot be legitimately denied by governments or by other social organization such as corporations.

By their conduct corporations may strengthen or weaken democratic norms. They may reinforce or undermine respect for human rights. Because they command such economic might their behavior is no less critical to the well-being of the world's peoples than is that of the nation-states. Several years ago, after reviewing that situation, Yale Political Scientist Charles Lindblom asked the question: How do corporations fit into democratic theory? And gave the answer: They don't (Lindblom 1977).

Theoretically, democratically elected governments may impose standards on corporations but there are two problems here. The first is that it has become increasingly easier in the globalized economy to move capital. Thus corporations may move (over time at least) to regimes that impose the least onerous burdens. Although the world's economy has become more of a single, seamless network in recent times, institutions of global governance are weak and frag-

mented (Blanpain and Colucci 2004). There exists a body of international law which, if faithfully followed, would result in more responsible and ethical business behaviour than is now the norm. The problem is that enforcement mechanisms are rudimentary and generally ineffective.¹

Creating an effective system of global governance is a major challenge now facing the world community. It is a challenge that, since 9/11, has seen new obstacles placed in its way. In pursuit of its own security, the US government has thumbed its nose at international law and has said clearly that it will not be bound by it thereby encouraging other nations to act in a similar manner. The result is to place an already weak system under new strain; to open the door to chaotic discontinuity of norms and standards. Consider what that would mean even on a personal level.

I travel a lot and have lived in several countries. I simply take it for granted that my basic rights will be respected everywhere. I have confidence that I will not be arrested or killed at the whim of a dictator; I don't fear that, should I choose to have a drink at a café, I will be shanghaied and taken to sea against my will; I am not presently concerned that, wherever I choose to set up house, I will be persecuted if I refuse to support a religion in which I do not believe. But the existence of these universal rights is something new in the world, something that could fade away if the international system is allowed to fall into disarray.

The second problem is that, even within nation-states, existing mechanisms of governmental control over corporations are, as the recent spate of corruption scandals indicate, not up to the job - at least not up to the job everywhere. Corporations have huge political influence and corporate managers use that influence to the hilt to avoid constraint. A good case may be made that, contrary to conventional economic theory, freedom from regulation is generally more valued by top corporate decision makers than is the maximization of profit. To avoid regulation, corporations readily spend money that might otherwise be put to use enhancing productivity.

But despite these handicaps, a number of developments have occurred that push in the direction of producing an ethical corps of managers who will behave in the best interests of the world's citizens. I would like to review some of these initiatives with a view towards assessing whether or not they are likely to succeed.

The most fundamental question here concerns the capacity of the corporation to be a good citizen. Does the option exist to improve the moral character of corporations to a point where one may be confident that they will behave in the best interests of society or are they fundamentally prone to abuse moral standards? Can institutions be developed that will ensure against corporate corruption and denial of democratic and human rights? Are we, as a global society destined to regress to international chaos or will we find a way to progress

towards a fairer, more peaceful, more reliable and more democratic international system?

A debate on these issues is well underway. Many of the leaders of the so-called “anti-globalization” movement insist that contemporary developments are driven by enterprises who, in pursuit of profit, have no qualms about leaving ecological and social devastation in their wake. The recent motion picture entitled *The Corporation* (and the book on which it is based) takes the position that the corporation, as it now exists, is pathological at its core with the implication that economic organization itself needs to be reconsidered (Bakan 2004).

At the other end of the spectrum are those who continue to adhere to Milton Friedman’s principle that the sole responsibility of business is to maximize profits. Saddling corporate managers with other duties will result, argue free market supremacists, in sub-optimum economic performance and, thus, in lower levels of overall welfare (Friedman 1962).

In between these two extremes is a movement that is quickly becoming the mainstream - among intellectuals at any rate. It insists that corporations must behave in an ethical and responsible manner and it implicitly has confidence that this state is achievable. Corporate managers should be seen to have a responsibility not only to their owners but rather to a range of stakeholders whose well-being is determined to a substantial extent by corporate behaviour.

The notion of corporate social responsibility has been around for a long time but globalization has pushed it to new prominence. By the late 1980s social activists began to uncover problems within the production systems of prominent multinational corporations such as the use of child labour, forced labour, poor health and safety conditions, the payment of wages in some cases that were insufficient to purchase minimal levels of food, clothing and shelter; sexual and ethnic discrimination and the dismissal and blackballing of labour organizers. They began to publicize and rally support against these “sweatshop” practices.

Pressure brought by various NGOs led a number of companies to adopt Corporate Codes of Conduct in which the firms voluntarily pledged to abide by basic international standards. At present, most large multinationals have adopted such codes although their content varies widely (Jenkins, Pearson and Seyfang, 2002).

Additional pressures on corporations have begun to be exerted from several directions. A substantial block of consumers have made it known that they prefer to buy goods that have been produced under acceptable international standards. This has led to a number of labelling exercises. Purchasers of labelled soccer balls from Pakistan have some assurance that the balls are not the product of exploited children. Purchasers of Fair Trade coffee are buying peace of mind that the small coffee farmers who produced the beans were paid fairly for their effort (Schrage 2004).

Investors have also let it be known that they prefer to invest in responsible firms. As a result financial agencies have begun to assess not only the financial performance of listed corporations but also their social and ecological performance. Ethical Funds have been growing rapidly in several countries (Sparkes 2002). Only corporations that pass through a set of social and environmental screens are listed on the FTSE 4 Good stock Index in the U.K.²

For corporations to behave appropriately, they must know what is expected of them. As pointed out in a recent study, many corporate rights violations result from ignorance rather than malevolence (Schrage 2004). In order to systematize expectations the Organization for Economic Cooperation and Development developed a set of guidelines for multinational firms and recently it updated them to make them clearer, more comprehensive and more enforceable.³ Assessing corporate behaviour against this code is a good starting point for concerned executives to put in place policies designed to ensure compliance with international standards.

The United Nations, the world's primary institution of global governance, has also gotten into the act. In 2000 it initiated the Global Compact with international business which includes a set of global environmental and labour standards and, since the summer of 2004, a new set of anti-corruption principles.⁴ Corporations adhering to the Compact agree to respect and promote those standards of responsible corporate citizenship. When it first got off the ground, the Compact was supported by fewer than 50 multinationals. The number of supporters has now grown to over 1200 (McIntosh, Waddock and Kell 2004, p18). That growth is impressive but it is still only a small fraction of the world's estimated 65,000 multinational enterprises (Blanpain and Colucci 2004, p 126).

To many concerned observers it is not enough for corporations to say that they are going to do the right thing. Instead, their behaviour needs to be assessed by reliable and objective outside organizations. Their behaviour needs to be monitored. To fill that gap a number of organizations have begun to appear.

Social Accountability International is a New York based organization that has support from business, labour and NGOs. It has modelled its approach to monitoring after the enormously successful ISO 9000 management standard program of the International Standards Organization. SAI has a program through which companies may certify their factories as being in compliance with a set of standards that are closely aligned with those contained in the Global Compact. In the past few years SAI has grown quickly. Over 400 production units globally have now been certified.⁵

The International Labour Office in Geneva has been tracing the development of social and environmental accreditation agencies. According to its most recent count the number grew from three in 1998 to 24 by the middle of 2003 (Working Party on the Social Dimension of Globalization 2003). Just this sum-

mer the International Standards Organization, the gold standard for corporate accreditation agencies, has decided to get into the picture (International Standards Organization 2004). It already has in place both a management standard and environmental standard program and it has now decided to develop a social program. Its scheme will no doubt incorporate the labour standards embedded in the Global Compact.

As you can see, a lot is going on. But the big question is this: is it having the intended effect? Are corporations beginning to behave in a more responsible manner? Research into the impact of these efforts has been difficult because of the lack of data and the complexity of global economic networks. NIKE has apparently devoted as much effort as any multinational to ensure that its products are produced under acceptable conditions. Nevertheless, it continues to be the target of anti-sweatshop activists who seem to have little difficulty rooting out sub-standard practices within its production network. A recent assessment of the Global Compact found that many if not most corporations adhering to that initiative neither fully understand what it entails nor have they made any dedicated efforts to change corporate behaviour as a result of their endorsement (Leisinger 2004). Another project assessing Private Voluntary Initiatives in several global industries concluded that progress was modest at best and predicted that such initiatives would never get the job done without serious governmental backing (Schrage 2003).

What will be critical to the success of this movement is the extent to which future managers embrace and internalize corporate responsibility as an essential element of their core duties. Some recent research suggests that such behavior is of importance to current students of commerce and business. They want to have careers that will allow them to behave ethically and responsibly. But, here to, there is reason for caution.

A recent research study found that at such scandalous enterprises as Enron, Worldcom and Arthur Anderson fraudulent acts “involved knowing cooperation among numerous employees who were upstanding community members, givers to charity, and caring parents...” (Anand, Ashforth and Joshi, 2004). Over time, a culture of justification of corruption had set in which led to rationalization of conduct that was clearly illicit. If the job of creating ethical and socially responsible corporations is to get done, corporate culture and peer pressure must work for rather than against corporate responsibility.

Although comprehensive research is lacking, anecdotal evidence suggests that corporate responsibility has not yet been placed high on the agenda of top corporate decision makers. They have adopted codes and created appropriate departments but heads of those departments generally do not have much clout. Skeptics argue that as far as too many top managers now see it, manipulating the perception of corporate image is of more importance than fundamentally changing corporate behaviour (Baker 2004).

In 2003 the UN's High Commission on Human Rights made public for discussion a set of Norms on Business and Human Rights that had been developed by a sub-committee composed of human rights experts from around the globe. The Norms summarize existing international instruments and state that transnational corporations have an obligation to respect and implement them. This document produced a vehement negative reaction from the International Chamber of Commerce which had given its support to the "voluntary" Global Compact of the UN. The objection was that the Norms make business inappropriately into an instrument for law enforcement. In short, although it is willing to say publicly that compliance with international human rights norms is the right thing to do, international business is not willing to be legally obliged to implement them. This position would seem to support the skeptics who believe that corporations are more interested in optics than in substance (see Human Rights for Workers, 2004 and Corporate Europe Observatory 2004).

Nor has ethical behaviour and corporate responsibility been placed high on the agenda of schools producing tomorrow's corporate leaders. Despite the huge impact of recent corporate scandals in the United States, the primary business school accrediting agency, the AACSB (Association for the Advancement of Collegiate Schools of Business), rejected a proposal that an ethics course be added to the basic business school curriculum (Swanson and Frederick 2004). Instead, business schools were encouraged to add ethics content to core courses, a strategy almost certain to fail because of the lack of expertise or interest by most teachers of such subjects as marketing, management and accounting.⁶

We are indeed in the midst of turbulent times. Will we come through them with a world that is a better place in which to live or will we regress towards more savage practices? Will democracy and human rights prevail over corruption and pre-democratic arbitrary savagery? It took over 200 years to bring most of the world's governments under popular control. Lets hope that it does not take an equally long time to accomplish the same goal with our corporations.

Notes

1. International law is contained within international treaties, conventions, protocols, covenants, declarations, and other widely recognized documents as well as in practices that nations consistently follow out of a sense of obligation. With respect to labour law specifically see Adams, 2002.
2. See <http://www.ftse.com/ftse4good/index.jsp>
3. http://www.oecd.org/departement/0,2688,en_2649_34889_1_1_1_1_1,00.html
4. <http://www.unglobalcompact.org/Portal/Default.asp>. In 2003 the United Nations adopted a new anti-corruption convention that was incorporated into the Global Compact in 2004.
5. <http://www.cepaa.org/>

6. In an email note sent on 12 Aug 2004, Diane Swanson, one of the organizers of the campaign to have the AACSB require a free standing ethics course had this to say:
“ In Boulder this past July, I spoke at The Teaching Business Ethics conference, sponsored in part by AACSB. The AACSB spokesperson continued to promote integration across curriculum (without offering any real justification for this stance). Later, 139 of the 200 conference attendees filled out a conference survey. Concerning teaching business ethics, over 90% of the respondents reported their assessment is that business ethics is best taught in colleges of business though the use of free-standing courses combined with integration in appropriate courses, but only 34% currently use this approach. AACSB’s response to date has been to design an Ethics Resource Center website and Ethics Education Task Force. (You can find these on the AACSB International website. Ironically, my program at KSU is featured on that website as a best ethics education practice....!) But these initiatives don’t have any enforcement teeth, as far as I can tell.”

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