

The Ethics of Business: Why Global Companies are Public Property

## Changing Identities

**Die Veränderungen im Rahmen der Globalisierung führen dazu, dass die klassischen Konturen von Staaten und Unternehmen verwischen. Mit dem Machtzuwachs der transnationalen Konzerne geraten Unternehmen zunehmend in den Fokus der Öffentlichkeit. Sie werden zunehmend zu „public property“. Woher kommen diese Veränderungen, welche Anforderungen ergeben sich dadurch für die Unternehmen? Die Antworten, die dieser Auszug eines Essays von einem der führenden Unternehmensberater weltweit gibt, verdeutlichen warum sozial-ökologische Unternehmensbewertung sowohl an Bedeutung als auch an Einfluss gewinnt.**

**G**lobal companies] have to deal with very different expectations from society [...]. Even though the familiar cliché of ‘shareholder value’ is still ritually trotted out for the sake of financial analysts, most managements now know that blindly focussing on profitability to the exclusion of everything else won’t get them very far. The days when management could claim that their only social responsibility was to make profits, thereby producing wealth, are now coming rapidly to a not so peaceful end.

In the last two decades, global companies rather to their surprise and frequently to their embarrassment have become front-page news – not just when they open new plants or lay off workers, but because their activities are now scrutinised like those of government. What companies get up to and how they behave is now a matter of major concern. And what grabs headlines is bad news.

Global corporations are still for the most part slow, clumsy and defensive when they deal with the media. But it is not just ‘spin’ that businessmen need to learn from politicians. The main reason that companies are so bad at dealing with issues involving the public interest is that they have only just begun to think through the public consequences of their behaviour and actions. And while big business seems to sense that the rules have changed, it doesn’t know yet what the new rules are.

Executives running companies today, started their careers in much simpler times. Governments set the rules and businesses obeyed them – usually. Companies did not think about their ethical responsibilities or the public conse-

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quences of what they did. They were simply expected to make the best possible profit for their shareholders. But all of this has changed – and how!

A better educated, less deferential public and an aggressive media, combined with shifts in technology, mean that the law is now lagging behind public opinion. The public is demanding that companies do more than just follow the rules. Just look at the row over genetically modified foods and the way in which public opinion is taking the lead and government and business are hesitantly following. And globalisation means that these issues are multiplied manifold – because the legal systems in many developing countries don’t guarantee what western publics expect as basic standards on employment conditions, child labour and the environment. What’s more the globalisation of the media means that companies have nowhere to hide.

### ► Change of public attitude

This shift in public attitude comes from the realisation that companies exercise real political power. The privatisation of telecoms, health, transport and so on has made companies central to our everyday lives. And globally, companies increasingly have the ability to shop around between countries for the best deal in terms of business conditions, taxes and regulations when deciding where to produce or invest. This means that they are often perceived to be in the driving seat in their relationships with national governments, because we have no global regulatory standards – yet. BMW’s divestment of Rover and British Government’s impotence underlined this.

So people, consumer groups, environmental groups and the media demand that power is combined with responsibility, and scrutinise companies as never before. Companies react by attempting to legitimise themselves to become a respected part of the fabric of society. They are just beginning to comprehend the immense scale of their social responsibility. Legitimising yourself is not just about obeying the law – it is about anticipating it, policing yourself and your suppliers, and being ready to justify your activities in terms of their overall social impact. The extent to which these lessons have been learned is uneven and varies from one company, one industry, and even one country to another, but it is certainly happening.

Take outsourcing. Because of competitive pressure, companies have looked for the cheapest place they can to produce goods at the quality they want. But Nike and its competitors never dreamed that it was up to them to see that their suppliers in the developing world didn’t use child labour. It was something they never even thought about. Well now they know better. Even third party suppliers have to be carefully supervised and regarded as part of the corporate family; if they aren’t, they may behave in a way which will shame and humiliate their global partners. Low wages, child labour, backbreaking working conditions, the global company gets the blame from investigative journalists feeding on drama and exposure. This is a story that keeps on running. London based *The Sunday Times* of 26 September 1999, offers a fairly typical global companies shock story – “*Top Shops use Europe’s Gulag Labour*” – “Marks and Spencer, C&A, Debenhams and Laura Ashley are among companies using factories where workers are fainting at their machines ...” And that’s just for starters.

### ► The need for public trust

But having a new ethical approach is not always enough. Companies also need to win the public trust, and to persuade people that they are sincere. This is borne out by Europe’s current ill-informed, emotionally-charged and very noisy debate about genetically modified foods where Big Business, personified by Monsanto, is cast in the role of villain. Monsanto is permanently on the back foot because the public is – legitimately – sceptical of the standards and behaviour of many big players in the food and agricultural industry; and these companies have

often found themselves struggling to think about questions of value and public trust. There is a need to have a well informed debate about the genetic modification issue, but if it happens it won't bear much resemblance to the one which is going on at the moment. It is evident that Monsanto in particular and global companies in general, despite their superficial sophistication in public relations matters, are handing this business badly. Despite all of the lessons from PR companies about 'crisis management' business doesn't really know how to deal with public criticism. Business people could and will learn a lot from politicians, whose public life is one long effort to manage crisis.

► **Employee pressure**

If pressure from lobbies, the media and intermittently and dramatically from consumers isn't enough, there's also employee pressure which drives the corporation into legitimising itself. Global companies are competing in a knowledge-driven economy for the highest-skilled and the best employees. And these people are not just looking for the best salaries, but good employment conditions and a company whose ethos and values they can believe in.

We can see the impact which employee pressure can have in one of the highest-profile corporate change programmes of recent years – that of Shell. As an Anglo-Dutch company which operates around the world, Shell has much more experience in operating across cultures than most other global companies. Yet it has still managed to make large and costly mistakes, which badly damaged its reputation, especially over its dealings in Nigeria. The Brent Spar episode was also damaging, even if the focus was later as much on Greenpeace's claims after their initial publicity coup. While the media and non-governmental pressure was intense, and the share price fell, Shell executives have said that the factor which did most to influence the change of direction and ethos was pressure from its own employees. They had become ashamed to admit that they worked for Shell.

This explains why Shell has tried to create a new mission which its employees are comfortable with. Shell is embarking on a major process of social and environmental reporting, in formal consultation mechanisms with its staff and a new appraisal system intended to make community, social or environmental work a valued part of job

performance. Shell's internal changes (regarded with some scepticism by its more traditional managers) were accompanied by a campaign in British newspapers which explains this rather belated conversion to environmental issues. The Shell Report of 1998 "Profits and Principles does there have to be choice?" encapsulated the global company attempt to talk soft, to emphasise its sense of responsibility to society as a whole and its new willingness to listen – "Tell Shell".

This stuff from Shell and others is not the result of the milk of human kindness suddenly flowing. It's an acknowledgement of the fact that, other things being equal, people buy products and services from the companies they know best and like best. Shell knows that if it can persuade you and me that it cares more about the environment than its competitors (not necessarily such a tall order if you look at the record of most of them) then we might decide to buy our petrol from them. In other words legitimisation can bring respectability, even affection, which brings loyalty, which brings turnover, which brings greater profits, which brings, wait for it 'shareholder value'.

► **Still limited impact**

But it's important not to exaggerate the impact of all this on corporate life and the corporate management style. In my experience there are very few large corporations, even the most intelligent and far sighted who regard the issues which I have just examined as their highest priority. For

the global corporation the core issues remain how to grow, beat the competition and make sense of changes that are taking place around them. And by changes they usually mean technological changes, internet and so on; linked to these issues of technological change are [...] social change, cultural change, relationships with stakeholders. All substantial issues, but not yet quite at the heart of most management's concerns.

Many global companies, of course, appreciate that acting responsibly to all their stakeholders may involve an attempt to reconcile conflicting interests; more profits on the one hand, more social and environmental management and expenditure on the other. A few companies feel that enlightened self-interest is at the heart of it. If you behave well, people will buy your products. The attempt to recognise and then reconcile these conflicting interests will be debated in many boardrooms over the next few years. [...]

► **Do companies and countries converge?**

When on the one hand a nation like Scotland launches itself as a brand, and on the other, health care and education increasingly slide into the private sector, it seems reasonable for citizens to ask what's going on?

It's clear that in order to increase their competitive edge, especially in tourism, inward investment and export, all areas whose success can readily be quantified and measured, many nations are already using branding techniques to emphasise their individual and distinct characteristics.

While all this is going on, on the other hand, almost all nations everywhere, even the most unlikely such as Zambia, are privatising more or less everything. Public utilities everywhere are privatised, airlines are privatised, even policing and prisons are being partially privatised in some countries. Many smaller nations which nationalised everything from hotels to textile factories to breweries and boat yards years ago, when it was fashionable to nationalise everything that moved – and a lot that didn't – are now rushing to privatise them. Government all over the world is trying to do less, but trying to do it better. Genuine efforts are being made to measure performance in the civil service itself as well as in schools, hospitals, and other operations in which the state participates. So government is increasingly

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adopting the language, the methods, the measurements, the skills and even to some extent the culture of business.

In addition to all this the nation is facing the increasing pressure of regionalism from below and federalism from above. So is it the case that nations will be so squeezed by global economic giants on the one hand and political developments on the other that they will gradually dwindle into insignificance? Certainly not. What seems to be happening is that nations are mutating so that they can find new ways of managing themselves; devolving costly public service to private organisations over which they retain ultimate influence, and creating multilateral bodies on specialised issues on which they can have major impact. Nato and the European Union are two significant examples of ways in which this kind of networking enables the nation to retain a lot of power and influence. While they network power and influence on the one hand, they also reinforce power and influence by brand building. Contrary to the conventional view nations aren't really losing influence they are just reshuffling it.

### ► New responsibility of companies

In fact, it is companies which face the biggest questions today. They may be more powerful than ever before – 46 of the top 100 economies in the world are companies not countries – but even the biggest and most experienced are having difficulty in understanding and giving priority to their new roles and their new networks of responsibility. Companies are abandoning the national cultures and identities on which their identities were based and embracing globalism with enthusiasm if not as yet, much expertise. They are also seizing the opportunities in areas like health, education and security from which the state is retreating, to grow bigger and become more profitable. As they become more visible, companies are beginning to comprehend that they have to become more socially responsible and much more sophisticated in the way they handle their relationships with all their publics or stakeholders. These stakeholder relationships grow wider, more complex and more interrelated as the corporations themselves get bigger and their profiles become higher. New power and a higher profile means more pressure to behave properly. Not just because it's morally appropriate, but also because it's good for business.

But many companies may struggle to cope, because they simply don't yet have the tools to think clearly about ethics and values. This is where their new responsibilities to society combine with the demands of the new global marketplace for ever bigger global companies.

### ► Five new challenges

In order to hold themselves together, succeed at a global level, and satisfy expectations for social responsibility, companies are increasingly having to look at:

- *Internal identity programmes*: Creating a corporate identity which binds global companies together, giving them a coherent, effective internal ethos which can give cohesion and loyalty to a multi-cultural disparate staff. This ethos will have to provide a guide to behaviour on the ground, so that decentralised employees can act on the corporate vision.

- *Corporate myths*: Companies will need to develop myths and values – but just like national identities these must reflect the reality. Many corporations are using their brands to help do this.

- *Welfare*: Just as nation-states supplied material benefits through education and welfare, security through the army, and a say over the content of that identity through parliaments and democratic institutions – now companies are having to learn to do something like this as well – using training, health, but also payment in kind, Air Miles as corporate currencies – and they are even beginning to devolve to employees an influence over some levels of decision taking.

- *Democracy*: Companies increasingly track morale, opinions and consult their staff. It is not impossible to think that in time they might extend the information they provide; increasing openness from staff handbooks and creating a policy, which enables structures to emerge that might resemble (at least to some extent) national constitutions – so that staff know how and where decisions are taken, what the timetables are, and how they can have a voice in the process.

- *Multilateralism*: Another characteristic that nations and global companies have in common is an increasing need to network. Through the European Union, Nato and a complex maze of other organisations, nations attempt to carry out tasks collectively, which none of them, not even the very strongest could implement alone. This networking apparatus is quite often remarkably

robust and effective. Global companies are beginning (unconsciously I think) to emulate this concept. In airlines, telecoms and other global businesses consortia are emerging in which at least for some purposes and for some of the time, normally competing organisations work together. [...] These networks, like those of nations, are sometimes confusing, ramshackle and unwor- kable, nevertheless because no satisfactory alternative seems to be on offer [...], they too are growing and show some signs of success. This is front office stuff. But amongst global companies there is much more networking and sharing of facilities and knowledge in the back office; for purchasing, ticketing, account handling and other less glamorous activities. As global companies continue to grow they are bound to look for opportunities where sharing or networking will be useful. All kinds of activities from Air Miles which is developing into a kind of global currency to joint arrangements to fund security or private armies in unstable countries become suitable cases for this kind of treatment.

Of course, this is all crystal ball-gazing, and the future will no doubt continue to surprise us. But it seems clear that nations won't disappear and that companies won't take over the world; but the intensity with which they compete with each other and learn from each other and the various ways in which they vie for the admiration, respect and loyalty of the individual is going to make life very interesting both for them – and for us citizens, customers, employees, partners and shareholders.

### Reference

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