Corporate Social Responsibility and the Work of the Business Humanitarian Forum

Text of Interview by Ambassador John J. Maresca with the Managing Editor of Referans, the main Turkish business newspaper, Istanbul, February 26, 2005

Newspaper Note: Ambassador John J. Maresca is President of the Business Humanitarian Forum, a worldwide non-profit association based in Geneva, Switzerland, which encourages mutual support among businesses and humanitarian organizations. Current activities worldwide range from support for generic medicines and furniture factories in Afghanistan to AIDS clinics in Swaziland. The efforts are part of a new and growing movement known as "corporate responsibility" that seeks to promote specific standards of behavior on the part of companies and encourage business philanthropy. While the movement dates to at least to the 1970s when global corporations were pressured to adopt standards of doing business with South Africa, it has gained prominence in recent years. Believers say it's a new hope for development, skeptics say the trend is just a new form of public relations. Ambassador Maresca is among the believers. His earlier diplomatic career included roles as negotiator in both Cyprus and Nagorno-Karabakh and as envoy to the newly independent states following the collapse of the Soviet Union. He also served as U.S. representative to the Organization of Security and Cooperation in Europe and Assistant Defense Secretary. After leaving government service, he was a vice president for Unocal before founding the Business Humanitarian Forum in 1999. He is the author of numerous books and articles. He traveled to Turkey last week as a guest of Tusiad. He shared his views on the emerging concept of "corporate responsibility" and the links between business and social development with Referans.

Referans: For you personally, how did your work leveraging private corporate resources actually begin?

Maresca: My interest in philanthropy and corporate responsibility goes back many years, and I was writing about the topic long before it became fashionable. When I was at Unocal we were giving away a lot of money. We estimated 2-3 million dollars a year. But we had no idea where it was going, because local managers had discretion to make donations to favorite charities. And that got us to reviewing just how we went about it. We realized there had to be a better way for business philanthropy to be used for humanitarian work. I ultimately left Unocal but my interest in corporate responsibility led to what was really an informal brainstorming meeting in 1999 in Geneva. It was organized in part by John Whitehead, the former chairman of Goldman Sachs, who set up the Social Enterprise Initiative at Harvard Business School, George Russell, the founder of Russell Investment Group, and Sadako Ogata, the former High Commissioner for Refugees. Also Bob Zoellick, then head of the Center for Strategic and International Studies in Washington and later the U.S. trade representative. Everyone was well aware that there was a certain disdain for business, the notion that business can't trusted. We gathered to discuss the issue in general without plans to establish an entity. But the need for continuity was apparent and it was out of that meeting that the Business Humanitarian Forum was born.

Referans: The obvious question, and it is one asked this week by The Economist magazine in a cover story, is the following: Is not capitalism a virtue in and of itself? Business is what creates prosperity even if it does so in the process of the selfish pursuit of profits. Is it right to impose a new set of responsibilities on business that more rightly belong to governments or private charities?

Maresca: I agree with the first part of what you said, but not the last. Capitalism is what creates progress. It is what creates wealth. It's what creates, through taxes, schools or health services or water systems in areas where they don't exist. The world now recognizes this. Since the fall of communism there is an intellectual consensus that the private sector is the engine of economic progress. What we are trying to do in the Business Humanitarian Forum is to bring the energy, and the benefits, of private sector investment to places where it might otherwise not go.

Referans: So your mission is a more even spread of the benefits of global capitalism?

Maresca: You might summarize it that way, although we are more focused on specific projects, which we put together one-by-one. Have you read the books of Amartya Sen, the Indian economist at Harvard who won the Nobel prize? His approach is that economics and ethics cannot be separated. Economics means you want to make money. Ethics means you want to give it away. They might seem very separate but both activities are carried out by people. No person, no matter how fortunate, can walk by someone destitute without being touched in some way. And so while we have the motivation to make money there is also the related realm of social concerns: about the environment and not destroying the planet, or about child labor. There's a long list, but it's a list of concerns for business as much as for anyone else be cause business leaders are people who share these concerns. So businesses can be motivated to help find solutions to humanitarian problems, thru what they do best, which is investment and job creation.

Referans: That is certainly an admirable premise. But the subsidiary charge is that businesses – at least in the vast majority of multinationals – are publicly held and the managers are responsible for the shareholders money. Is it appropriate for CEO's, who after all are professional managers, to undertake what are good deeds with other people's money?

Maresca: Let's not confuse philanthropy and corporate responsibility. Philanthropy is charity. Corporate social responsibility is an integral part of business activity. But the real question is who are the shareholders and what do they want? Increasingly, the big shareholders are institutions, like pension funds, which espouse values beyond just making money. Calpers (the California state employee retirement system) is an example. It is a big shareholder in a lot of companies, and has pressed managers for certain social objectives. There are also many "social investment" funds, which will only invest in companies that are judged to be socially responsible. When they invest in such companies they become big shareholders, and they insist on "responsible" policies. Virtually any bank or investment house has social investment funds these days, and the number of such funds is growing. These are major shareholders who are pressing for social responsibility. There are also pressures on management from what are called the company's "stakeholders." It used to be that companies talked only in terms of shareholders, maximizing shareholder value, looking out for interests of shareholders. But a newer concept is that a company is part of a community of "stakeholders." A company must be responsive not just to those who hold shares, but also to the town where its factory is located, to the school its employees' children attend, etc. And a wise company looks out for the interests of its stakeholders as well as its shareholders. This is a broader sense of good business practice.

Referans: But who asks the shareholders to take on the concerns of the stakeholders?

Maresca: Shareholders, including the socially-responsible ones, have voting rights, and often they can mobilize lots of votes at shareholder meetings. And many institutional investors listen carefully to the views of stakeholders, on environmental concerns, for example. This is a growing reality. The Sullivan principles in the 1970s, which established corporate guidelines for dealing with South Africa, were the first example of stakeholder concerns becoming virtually mandatory standards for companies. U.N. Secretary General Kofi Annan's "Global Compact" between the U.N. and the private sector on standards for human rights, labor conditions and environmental protections has been endorsed by many businesses. The Organization for Economic Cooperation and Development has a set of voluntary guidelines. The International Organization of Employers has developed a uniform set of voluntary standards. These are all mechanisms to bring companies in line with the expectations of stakeholders.

Referans: Another criticism of the concept of corporate governance is that it's just another form of PR?

Maresca: There is no question that all this is to some degree a form of PR. Companies want to maintain a good public image, and are prepared to change many policies in response to pressures from NGOs that claim to represent stakeholder interests. NGOs have grown enormously in power, and have taken on the role of the critical press of an earlier era, or even of trade unions in some instances. The capitalist world has changed . Trade unions are now sometimes aligned with companies against other kinds of pressures, such as those from environmentalists. Traditionally, NGOs have been hostile toward business. But they are growing rapidly in numbers, power and sophistication. Companies now have active dialogues with NGOs. Pressures from NGOs are the sharp edge pushing corporations to engage socially, but these pressures are also coming from other stakeholders, shareholders and employees. Activist NGOs are actually a sign of a healthy society.

Referans: Your comments recall for me a book written some years ago by entrepreneur and environmentalist Paul Hawken, the Ecology of Commerce. It argued that the scope of world environmental problems is so huge, that the only institution with hope of protecting the environment is enlightened business. To what degree is business that "last man standing" in the face of so many problems?

Maresca: This is the critical point. The reality is that while humanitarian needs are clearly growing, government and official support is declining. By the official estimate of the United Nations, the amount of official aid for development and humanitarian assistance is falling in real terms by 12 percent a year. So what are we doing to do? Are we going to allow more failed states to appear? Are we going to allow diseases such as AIDS to spread unchecked? Are we going to ignore mounting environmental problems? Part of the answer must be that the private sector must become more engaged.

Referans: But how, in concrete terms, does it become engaged?

Maresca: Every year the private sector creates 1 trillion dollars in new wealth. Of the world's 100 largest economies, more than half no longer are national economies but are companies. General Motors or Wal-Mart, for example, both have annual turnovers larger than the GDP of many countries. With the world facing so many problems, we are trying to get business to invest earlier and become engaged in areas where they are most needed, and where they might normally be reluctant to enter – in Afghanistan for example. Businesses need special encouragements to invest in such places, but there are always entrepreneurs who want to invest, and those are the ones we try to help – by finding partners, contributors and supporters among other businesses and public institutions.

Referans: How well are you or others fairing?

Maresca: We are proceeding with great difficulty. There are a lot of new issues posed by our innovative approach. Governments are often reluctant to offer resources that will benefit private businesses. We had difficulty for example, persuading governments to use aid money to create a generic medicines production company that would ultimately be owned by Afghans. So we had to do it privately. We're trying to leverage whatever resources we can. But we find that most companies are willing to do something. Often it is just common sense. Machines no longer used and stored in a warehouse can be donated. We had an example in Afghanistan of a U.S. business donating 500,000 dollars worth of used equipment. Sometimes it's in-kind support, or training to fledgling entrepreneurs. Beyond capital, local businesses have a rash of problems from taxes to bureaucracy to developing the skills to use IT technology. Developed country businesses can help on all these fronts.

Referans: Can your role be compared to the venture capitalist, where you provide start-up funding and sit on boards and influence the direction or policy of the company?.

Maresca: No, I think we are quite different from venture capital. Venture capitalists expect a very high return on their investment, whereas we are non-profit and want to create locally-owned businesses. In terms of private capital operating for social objectives in the least developed countries, right now there are two basic categories.
There's the social investment fund model, and there is micro-financing as pioneered by the Grameen Bank in Bangaladesh. Micro-financing is very small loans, for example, for a woman to buy a mobile telephone and then make money by selling calls to her neighbors. The Agha Khan foundation also sponsors micro-financing. Social investment funds invest only in companies they believe are socially responsible, but these companies can be located anywhere. At the other extreme are multinational corporations that come in with multi-million dollar investments. These are not social investments, but bring a lot of benefits, as we discussed earlier. We come somewhere in the middle. Typically, we will support a local entrepreneur with limited resources, of 200,000 to perhaps 1 million dollars. Even in places like Afghanistan, Sudan or Kosovo, there are entrepreneurs who have access to these levels of capital. We equip them with a network that can, as we've discussed, provide access to financing, in-kind contributions of equipment, training or management expertise. And we aim to build local capacity, with local ownership and local jobs.