

A New Concept of Business

The demonstrations at the December World Trade Organization (WTO) meeting in Seattle focused press and public attention on the many “new” international business issues. They include a range of ethical considerations, including environmental effects, human rights, corruption, and the differences between labor standards and wages of industrialized and developing countries. These are matters that are affected by business behavior, but have often been overlooked or deliberately obscured as businesses have concentrated their attention exclusively on profit margins and as governments have protected their own national advantages. As public consciousness has consolidated and activists have emerged as major policy-shaping voices, the profile of these issues has been raised.

The effort to block the WTO meeting from even taking place reflected the absence of constructive dialogue on these issues and the frustrations engendered by a perceived inability to affect the policies, laws, and regulations which relate to them. Never mind that the views on these issues are sharply different among industrialized and developing countries. Never mind that the WTO is actually supposed to be the negotiating forum where governments come together to find some common ground among very different national positions. The very complexity of trying to find this common ground seems to have contributed to the frustration felt by the demonstrators. The fact is that these issues have neither easy solutions nor a world forum dedicated to resolving them. That is why organizations such as the Business-Humanitarian Forum have recently been created: dialogue between businesses and activists is needed.

Responsible businesses, however, have been well aware of these “new”

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factors for some time. In fact, many companies have been working hard to incorporate them in their business plans and to integrate them into their daily thinking on an equal basis with traditional business factors. The process requires adjustments for managers, directors, and shareholders and evolves neither easily nor consistently. This does not mean that solutions to these complex issues are around the corner, but they are being addressed at the real-world, company level.

Why a New Concept of Business Now?

What this gradual process of recognition of new responsibilities demonstrates, moreover, is that there is a whole new concept of business emerging in today's world. It is a concept of business as a responsible component of society as a whole. This new concept is destined to transform the way business is viewed, the way it views itself, and its place in the community in the twenty-first century.

This new concept of business is emerging in our time because of the confluence of a number of factors at the end of the twentieth century:

- The end of the Cold War made possible what is now virtually a worldwide consensus that free-market economies are the only practical basis for economic development and prosperity. This has brought universal acceptance that business is one of the basic and necessary components of any modern society.
- The globalization of the world economy is making the world increasingly into a single economic space, with business as an important part. As a result, business is now contributing to the development of less-prosperous regions as well as industrialized ones and taking on increased responsibility for the world's economic health. As United Nations (UN) Secretary General Kofi Annan put it in his message to the Business-Humanitarian Forum's conference last November, "With global power comes global responsibility."
- The rapid development of instant communications has spread information on both standards, and the success or failure of companies in complying with them, and has exposed company practices to public scrutiny in ways never seen before.
- Public expectations about the quality of life have evolved significantly, so that people throughout the world expect that the environment will be protected, that they have certain rights as human beings and workers, and that elementary human fairness requires the more fortunate to assist those who are in difficulty or distress.

Actively Reconsidering Business's Role

As a result of these and other factors, business has for some time been looking closely at its role in society. This is happening in many forums and many ways. Business organizations, such as the World Economic Forum (WEF), the World Business Council for Sustainable Development, and the International Chamber of Commerce (ICC) are having lively discussions about what all this means and how business should respond. Within companies themselves there is active consideration of corporate responsibility and what it means for company policies and practices. Companies are reviewing their values, standards, and the way they relate to the community around them.

The process has already produced some interesting new sets of standards, many of which are broadly accepted by industry as, in the least, objectives. These include:

- The “Global Sullivan Principles,” named for the Reverend Leon H. Sullivan and drafted in conjunction with a number of major multinational corporations. These principles comprise, as Reverend Sullivan has put it, “an aspirational framework against which the internal policies and practices of socially responsible companies, small and large, can be aligned.” An impressive list of companies has publicly subscribed to these principles.
- UN Secretary General Annan’s proposal for a “Global Compact” between the UN and the private sector. This would cover human rights behavior, labor conditions, and environmental protection. The idea was endorsed by a cross section of leading world business figures at a meeting with the secretary general sponsored by the ICC in 1999.
- The Organization for Economic Cooperation and Development (OECD) “Guidelines for Multinational Enterprises” on employment standards, industrial relations, environment, competition, and taxes. These are voluntary guidelines for corporate behavior and are currently under revision.
- The International Organization of Employers’ “Position Paper on Codes of Conduct,” which suggests that companies should voluntarily adopt codes of conduct that suit their specific needs, but that a uniform set of standards for all companies is neither possible nor desirable.

Of these new codes, perhaps the most interesting is the Global Sullivan Principles, because it comes in large measure from the business community. Sullivan is a well-known U.S. civil rights leader who became interested in the fight against apartheid in South Africa. His “Principles for South Africa,” issued in 1977, set standards for investment in that country during the apartheid period and helped many companies decide to withdraw their investments, adding to the pressures for change. Companies that withdrew

then are now welcomed as investors in South Africa.

Sullivan, working together with senior representatives of a number of major multinational companies, including Shell International, General Motors, Procter and Gamble, Rio Tinto, Colgate-Palmolive, Tata Industries, Sunoco, Imperial Chemical, and others, drafted a new set of principles intended to guide corporate behavior throughout the emerging global economy. Companies from industrialized countries as well as from developing regions partici-

parted in the drafting of these principles. Last November, the initiative was formally announced at a ceremony at the UN in New York. The UN secretary general presided over the proceedings, which included representatives of the 50 or so companies that had already indicated they would support the Sullivan Principles. Companies that sign on to the principles monitor their own performance and issue annual

reports on their progress in implementing their commitments.

The UN-sponsored "Global Compact" between companies and the UN, covers much the same ground, and was conceptually launched by Annan at the WEF meeting in Davos, Switzerland. Its intent is to engage multinational businesses in a worldwide effort to support human rights, improve labor conditions, and protect the environment. The Compact sets out nine "core values" and asks the private sector to embrace them. The nine points are drawn from the Universal Declaration of Human Rights, the Declaration of the International Labor Organization (ILO) on fundamental principles and rights, the 1995 Copenhagen Social Summit, and the Rio Declaration of the 1992 UN Conference on Environment and Development. In addition to the WEF, it has the support of the ICC; the ILO, as well as other UN organizations; and the International Organization of Employers, which has helped develop the Compact.

The Compact recognizes that companies contribute to prosperity by creating wealth and jobs and that this, in turn, promotes humanitarian values by lifting people out of poverty. It also recognizes that companies cannot be expected to take on activities that are the proper responsibility of governments. The Compact's nine core values are framed in general language and do not contain detailed commitments. The ICC is developing case studies of corporate experience to support the Global Compact, to be published on a Best Practices website. Other implementing mechanisms are also foreseen.

The OECD Guidelines for Multinational Enterprises were first developed twenty years ago by the Paris-based international organization, whose membership consists of the governments of the world's leading industrialized

Seattle shows that confrontation benefits no one.

countries. The guidelines cover, *inter alia*, employment standards, industrial relations, environmental protection, competition, and taxation. It has been recognized for some time that these guidelines should be updated in a world that has evolved dramatically since they were first drafted.

Negotiations on updated guidelines are proceeding within OECD committees, which are composed of representatives of member states. There have been limited consultations with outside parties representing business, labor, and interested nongovernmental organizations (NGOs), but neither the substantive results nor the negotiating process appears to have been satisfactory to the members thus far. The objective of the OECD is to have a revised set of guidelines ready for approval at its ministerial-level meeting in June 2000. But whether the negotiators, with their traditional, private negotiating process, can even partially meet the diverse desires of the many interested outside parties by that time remains a question mark.

Business Attitudes Have Indeed Changed

In the academic community, too, scholars who focus on business and societal issues are watching the phenomenon of increased interest in business responsibility. There have already been a number of academic studies on various aspects of this still-nascent trend. We are beginning to see evidence of changes in the thinking of individual corporations as they consider business issues that touch on human rights or environmental protection. Many leading companies have sought to take visible steps to change practices for which they have been criticized.

Certainly there have been difficulties in the way some businesses have approached their responsibilities toward the community, but most companies are prepared today to recognize this general fact—and even some specific cases. Environmental disasters, scandals involving the use of child labor in factories in some developing countries, and the appearance of complicity with human rights abuses by multinational companies working in countries with authoritarian regimes are examples of the negative effects of business. But this is changing. In fact, some of the companies that have been the worst offenders in the past have become the most active in the current search for more positive standards of behavior.

Resource companies, for example, have often been accused of harmful behavior, both in the ways their activities affect the environment and in the impact they might have had locally, especially in regions where there is conflict or civil unrest. Resource development companies, such as oil and gas and mining companies, have an especially sensitive position; they cannot simply move their operations elsewhere when local difficulties emerge. They

must develop resources where they are found, and where their investments have been made, even if that is in a war zone or a country with an undemocratic regime.

Many of these resource companies are now developing standards for their own behavior, especially in such sensitive areas as providing security for their installations as well as employees and ensuring that they are not complicit in local human rights abuses. In many cases these companies are radically changing their behavior in order to ensure that their activities are positive and do not produce negative effects in the areas where they work.

It is also fair to say that some NGOs and activists have made mistakes in how they have sought to bring pressures to bear on companies and governments. The demonstrations in Seattle were only the latest in many misguided efforts to influence events through confrontation and obstructionism. The results are usually universally negative. Just as representatives of NGOs often see business people as motivated solely by profits, many business people see NGOs as arrogant, undemocratic, unrealistic, and unrepresentative. The Seattle experience shows that confrontation leads to a dead end and benefits no one.

However, it is true that the new interest of business in corporate responsibility has not yet translated into increased corporate donations to charitable causes. In fact, despite a huge increase in corporate profits over the last decade, the percentage of these profits contributed to charity has fallen. There have, of course, been some spectacular individual donations—by Ted Turner and Bill Gates, for example—but corporations in general, guided by boards of directors and carefully watched by shareholders, have not kept their charitable donations in line with their increased financial gains.

This fact does not refute the increased business interest in responsible behavior. It simply demonstrates that there is a need for greater information and education of executives and board members. The challenge is there and needs to be taken up.

A Time for Dialogue

What should be recognized, both by businesses and activists, is that there is now an opportunity to create better understanding and a much more positive role for the business community because of businesses' own recognition of the additional considerations that they must take into account in today's world. The way to make the most of this period of opportunity is through dialogue, not confrontation, and the possibilities for reasonable dialogue are greater now than they have ever been before.

The new concept of business emerging in this context builds on the tradi-

tional notion that business is first of all an effort by entrepreneurs to create wealth for themselves and their partners. But today a business can no longer be seen as a creator of wealth solely for its owners. The role of business as a creator of wealth is broader than that. Business is the principal engine for generating wealth for society as a whole—for the entrepreneur and the owners, but also for the employees who must receive fair salaries, for the community which receives tax revenues to fund schools and other public institutions, and for suppliers and sales organizations and their employees up and down the business stream. And business is the producer of new and beneficial products, which increasingly must be safe, environmentally harmless, and give long-term benefits.

Business thus is seen as one of the essential components of modern society, with a stake in the future, and with an interest in the peace, stability, and well-being of the entire world community. In this view, businesses have responsibilities to the broader community, not just to their owners and shareholders. Business has a direct interest in the health of the society in which it operates, in the global community, and in the world environment. This is what is new, and its implications are truly breathtaking.

For example, business and investment, providing jobs and opportunities for people, can be the key to long-term stability in conflict-torn regions. Without prosperity, or at least hope, people become desperate and are more easily led by political demagogues into wasteful and hopeless confrontations. But populations that have some hope for a prosperous future are less likely to put their good fortune at risk by supporting conflicts. Business can therefore be an important element in conflict avoidance or post-conflict reconstruction; the sooner there is real investment in a region, the sooner it is likely to stabilize.

Similarly, the international business community has a major interest in the success of humanitarian work in general. It is humanitarian assistance that helps to stabilize societies in crisis and thus permits the beginnings of normal business activity and investment—in both developing countries and decaying inner cities. Humanitarian organizations, for their part, have an interest in seeing early and sustained investment in such areas, in order to ensure stability over the long term. Business also has a general interest in eliminating poverty wherever it exists. As people become more prosperous they begin to have hopes for the future, bringing growing stability to their societies.

The new approach is called 'corporate social responsibility.'

This new concept of the role of business in society is different from the traditional notion of business philanthropy. The philanthropic role of business is well established and important. But it is based on a sense of generosity rather than responsibility, and on the separation of the rich from the poor, rather than on the integral relationship of business as the chief generator of wealth with the rest of society. In the new vision, business is not just a few rich owners who can dispense their money as they wish; business must now be viewed as a whole, including owners, executives, and employees together, carrying out their broad responsibilities within the community.

The business community, as it continues to gain consciousness of the new concept of its role in society, is increasingly aware of its special responsibilities to contribute to efforts to improve the lives of the less fortunate of the world by doing what it does better than any other element of society: create wealth. The question really is how to build on what is now increasingly accepted to create ever more constructive business contributions.

Corporate Responsibility

In the corporate world, the new approach is called “corporate social responsibility” or some similar term. Under this heading, many companies are looking at their programs that relate to workplace issues such as equal opportunities for both genders, for all ethnic and religious groups, fair treatment for all employees, human rights issues, protection of the environment, and support for the community. They are wrestling with the issue of wage differentials between countries where they produce products and those where they sell them. They are trying to understand better the implications of following different labor practices in different countries because of differing local standards and what this means for their own codes of fair employment practices. Some companies are, of course, farther ahead than others in revising policies to meet new criteria, but the trend is clear, and the effort must be made to educate all companies, bringing them to understand what the modern world expects of them through dialogue and example.

As a part of this overall trend, many businesses today are prepared to undertake increased responsibility for humanitarian activities, both in the developing world and in the inner cities of industrialized countries, where jobs and opportunities are needed just as badly as they are in developing countries. This was the rationale behind the creation of the Business-Humanitarian Forum, which aims to build an active dialogue and to increase cooperation between businesses and humanitarian organizations, especially those operating in the same localities.

The activities of the Forum are just one example of an overall trend.

Sadako Ogata, UN High Commissioner for Refugees and a co-chair of the Forum, expressed the idea this way: By supporting humanitarian efforts, businesses “become stakeholders in activities on which depend the lives of many people, and adhere to a set of values with people at their center.” Businesses thus accept a share in the world’s responsibility for people in need. Taken together, the overall movement toward a new concept of business in society can make a significant difference in the world. It can be broadened and enhanced through dialogue and constructive cooperation and not through confrontation.

Business is for creating wealth; in today’s world, business people need to ensure that this is done responsibly and that the process contributes to the good of society as a whole. Those who are interested in promoting this trend should join in the effort and expand dialogue on the new issues facing business in a globalized world economy.

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