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CAPITALISM AND CORPORATE CITIZENSHIP:
PROFILES OF AMERICAN BUSINESS IN GLOBAL MARKETS

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Introduction by Kent Barry

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BY KENT BARRY

The historian Arnold Toynbee once described the United States as "a large, friendly dog in a very small room. Every time it wags its tail it knocks over a chair." In some ways, that imagery aptly describes America's own conception of its oversized strength and intrinsic goodness, just as it also speaks to the frustration, jealousy, or understanding and support shown by governments or people with whom it comes in contact.

Corporate America engenders a similarly wide range of reactions to its existence, intentions, and performance. Nevertheless, in meeting the challenges and opportunities presented in an increasingly competitive global market, U.S. companies have shown themselves to be remarkably adept at operating their businesses profitably and in ways that are respectful of local cultures, traditions, and aspirations. Even in countries where the critics are numerous, vocal, or skilled at influencing local events, American companies have risen to the occasion and met the challenge time and again. Moreover, in addition to having the world's most advanced technology, vast resources, and a highly skilled and productive workforce, American businesses have learned to respond quickly to constantly changing conditions in world markets and to stay focused on long-term trends and other strategic considerations.

Among the most important changes in recent years has been an increased focus on companies' relationships with and perceived responsibilities to parties other than shareholders. As with other controversial and seminal issues companies must manage, the emergent agendas of corporate citizenship, business social responsibility, "triple bottom line" principles, and the like comprise a broad spectrum of interests, perspectives, proponents, claimants, litigants, and protagonists. Not surprisingly, these various influences, parties, and viewpoints also differ widely according to region, industry, issue, circumstance, and cultural tradition. Just as the expectations surrounding these issues continue to evolve, so have U.S. companies had to cope with the competitive climate and market challenges in each country.

In the future, on the one hand, companies considering making new investments in a country may find that the rewards for "getting it right" are significant. On the other hand, they may conclude that the consequences of "getting it right" are unacceptable, unprofitable, or not worth the risk. Where existing assets are involved, if the cost of doing business in a particular country becomes onerous, disengagement could prove to be the only prudent course. Whatever form the competitive landscape takes in the future, history shows that capital will flow to those countries that create the best climate for investment. Thus, whatever the proponents of corporate social responsibility advocate, and whatever its critics demand, the outcome of their debate on this important issue will likely be decided by the unbiased discipline of the global marketplace. No system yet devised has come close to the free market as an efficient means for allocating resources and allowing individuals to choose among competing priorities.

Fortunately, the astonishing success of capitalism and free enterprise over the collectivist or totalitarian alternatives has been so complete, so utterly responsible for extending freedom to people the world over, that today's new challengers to the system of private property, democratic values, the rule of law, and individual liberty are forced to plead their case disguised in free-market rhetoric. For countless millions thus liberated and freed from the burden of toiling for daily survival, and for a growing number of countries that are experiencing the benefits of private property and free markets for the first time, American business and the system of private property continue to be regarded as vital contributors to economic prosperity, progress, and individual freedom. As the Nobel prize-winning economist Friedrich Hayek said, "[T]he system of private property is the most important guaranty of freedom, not only for those who own property, but scarcely less for those who do not."

By virtue of being the largest and most visible representatives of private enterprise in the global marketplace, American companies inevitably attract media attention to their activities. Too often, however, the attention U.S. companies receive is cast in negative terms, particularly where state-controlled media are used to advance political, ideological, negotiating, or other special agendas. Nevertheless, with all the benefits that flow to countries and the people where U.S. companies invest their human and financial resources, it is fair to ask: Why don't we hear more about the good things American companies do throughout the world?

Various explanations have been put forward to account for the lack of good news. First, it is worth noting that private enterprise in general and American businesses in particular have always attracted a ready supply of critics, well intentioned and otherwise. This attitude should not be surprising, for while the American experience has been hugely successful in bringing greater opportunity, freedom, and economic prosperity to more people than any other country in human history, the United States has entertained a boisterous public policy debate since its founding concerning the origins of its unprecedented success and wealth and the best means for continuing, expanding, or redistributing it. To be sure, an accurate account of the century gone by will demonstrate that only the smallest fraction of American companies has ever engaged in unethical behavior, and that the overwhelming majority has adhered to ethical conduct at home and abroad. Indeed, measured against the overwhelming weight of the evidence, history's verdict sustains the view that America's business community—from the solitary entrepreneur to the largest multinational conglomerate—has been a force for good in the global marketplace.

Other plausible explanations exist as to why corporations fail to engender favorable publicity. An insightful and especially clever one was offered by Sir Winston Churchill: "Some see private enterprise as a predatory target to be shot, others as a cow to be milked, but few are those who see it as a sturdy horse pulling the wagon." Those few, as Churchill described them, have had their work cut out for them during the last hundred years and more. They have been the risk takers, the entrepreneurs, the inventors and innovators, the capitalists and visionaries large and small who conceived, designed, and worked to produce and sell the goods, services, and ideas through which great commercial enterprises were begun and prospered. They have been the extraordinary people who achieved success, and they have been those whose livelihoods and hope for a better future depended on that success. And, finally, they have been and continue to be those who champion the system of private property and who pass on that understanding and commitment to each successive generation.

Especially for companies based or headquartered in the United States, the challenge of meeting the demands and operating according to the dictates of corporate social responsibility (as propounded by a host of parties whose agendas, definitions, and degrees of engagement vary widely) has never been greater. At the same time, each company must grapple with the need to preserve for its shareholders the primacy of their interests.

Perhaps more than companies from any other country, its seems that the American variety is held to a higher account on the world stage. By virtue of being ineluctably linked to actions of the U.S. government, and because America's intellectual, cultural, and media elites play such a potent and influential part on the world stage, U.S. companies find that it is difficult to sidestep the difficult challenges that sometimes accompany the association.

Perceptions about the role of the modern corporation in general, and U.S. companies in particular, vary widely from region to region. Moreover, judgments also diverge from one part of the world to the next when defining what it means to be a good corporate citizen or to exhibit acceptable standards of social responsibility. Each region's political, economic, and cultural legacy exerts a strong influence on the development of what is required or proscribed. These are issues that transcend borders, political frontiers, community traditions, and cultural standards.

In some parts of the world, being an American company can be highly advantageous. But ever since the United States launched a global war on terror in response to the horrific events of September 11, 2001, U.S. companies have had to meet additional challenges affecting the terms by which social responsibility is understood and addressed. In the Asia-Pacific region, being an American company can be a competitive advantage. In Europe, it can be a good thing or not, depending on the country or even the region within a country. And across the continent, U.S. corporations are being asked to assume responsibility for activities that Americans have traditionally regarded as functions reserved exclusively for government. In the Middle East and parts of Africa, political tensions have made the business environment increasingly difficult in some countries. But in other regions, such as Latin America, the climate for investment and commerce remains conducive to growth and trade.

While so much has been written in recent years about the role of American business in society—not only in the United States, but beyond its borders and across the frontiers of the global economy—the expectations placed upon today's corporations far exceed those that were understood to be relevant, lawful, or even morally acceptable at America's founding.

For Jefferson, Hamilton, Adams, Franklin, Madison, Jay, their contemporaries, and their philosophical antecessors, modern conceptions about a corporation's social obligations or responsibilities would be alien except as they pertained to private contracts or the law. Just how far the concept has journeyed from their time to the present day can be seen in the words of the World Economic Forum's Global Corporate Citizenship Initiative:

> Corporate citizenship is about the contribution a company makes to society through its core business activities, its social investment and philanthropy programs, and its engagement in public policy. The manner in which a company manages its economic, social and environmental relationships, and the way it engages with its stakeholders (such as shareholders, employees, customers, business partners, governments and communities), has an impact on the company's long-term success.

Today, the already long list of issues that stand under the social responsibility umbrella continues to grow. In addition to its broader and long-standing legal, ethical and philanthropic dimensions, the concept now embraces, *inter alia*, the manufacture and sale of goods and services, diversity, human rights, animal rights, health, the environment, technology transfer, supply chain management, labor practices, and corporate governance, transparency, and reporting norms.

In the last decade, business has had to respond to the imperatives comprised by the Global Reporting Initiative, the United Nations Universal Declaration of Human Rights, the Global Sullivan Principles of Social Responsibility, the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the London Principles of Sustainable Finance, and the UNEP's Finance Initiatives —to cite only a few examples of the international, regional, and local efforts by governments, nongovernmental organizations, and activists to exert influence over every aspect of a corporation's activities.

How did current ideas about corporate social responsibility develop?

Many important milestones can be cited in the evolution of thought concerning the role of the corporation in society. In 1612, in the case of *Sutton's Hospital*, the English jurist Sir Edward Coke asserted that "corporations cannot commit treason, nor be outlawed, or excommunicated, for they have no souls."

Two centuries later, in *Dartmouth College v. Woodward*, Chief Justice John Marshall concurred in that sentiment:

> A corporation is an artificial being, invisible, intangible, and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence. These are such as are supposed best calculated to effect the object for which it was created. Among the most important are immortality, and, if the expression may be allowed, individuality; properties by which a perpetual succession of many persons are considered as the same, and may act as a single individual. They enable a corporation to manage its own affairs and to hold property without the perplexing intricacies, the hazardous and endless necessity of perpetual conveyances for the purpose of transmitting it from hand to hand. It is chiefly for the purpose of clothing bodies of men, in succession, with these qualities and capacities that corporations were invented and are in use. By these means, a perpetual succession of individuals are capable of acting for the promotion of the particular object, like an immortal being. But this being does not share in the civil government of the country, unless that be in the purpose for which it was created. Its immortality no more confers on it political power, or a political character, than immortality would confer such power or character on a natural person.

For much of their history, America's corporations have been expected to "stick to their knitting" since the nation's founding.

When companies appeared to step out from or violate this expectation, formidable voices hurled criticism. "All contributions by corporations to any political committee or for any political purpose should be forbidden by law," President Theodore Roosevelt wrote in his 1905 State of the Union message to Congress.

Two decades later, President Calvin Coolidge famously declared to a gathering of the American Society of Newspaper Editors in Washington that "the chief business of the American people is business." That utterance aptly expressed the nation's heady optimism and self-confidence, even as it underscored the belief that America's future was firmly linked to the proven success of its free-market capitalism and the U.S. companies that were its most visible representatives.

In 1970, the University of Chicago's Milton Friedman put forward the argument that has been central to the debate about the role of business in society ever since. In a letter that appeared in *The New York Times*, Friedman asserted that "there is one and only one social responsibility of business—to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud."

While perceptions about the social responsibility of business have undoubtedly changed significantly since Friedman's now-famous letter appeared, American businesses understand the obligation to obey the law and conduct their affairs in an ethical manner at all times. Despite the intense media coverage that accompanies the rare cases where companies cross an ethical line, obeying the law and playing by the rules are qualities that American companies have always honored as essential to their own long-term growth and profitability. Moreover, because U.S. businesses must conduct their activities in countries where adherence to rules concerning social responsibility can constitute a *sine qua non* for market entry or commercial success, companies sometimes best serve their primary responsibility to shareholders by faithfully and effectively addressing the interests of stakeholders, apparent or even self-appointed.

What do host governments want from U.S. companies?

First and foremost, they hope that investments made by U.S. companies will enhance the living standards of their citizens and produce jobs. They want to build a better life for their children and grandchildren. They also aspire to develop their country's economic and natural resources to reach its maximum productivity and economic potential. Host governments want to create highly skilled jobs and generate added revenues to fund governmental and social priorities and programs, and also to develop or expand infrastructure. And, finally, host governments want to establish or develop technical, scientific, and economic expertise in their own country.

What do American companies seek when doing business abroad?

U.S. companies will lean heavily toward doing business first in countries where the investment climate is conducive to making a good profit for their shareholders. Countries that foster an environment for business that includes respect for the rule of law, a predictable and nonconfiscatory tax structure, sanctity of contracts, an impartial court system, protection for intellectual property, elimination of duties and unnecessary regulations, and support for political and economic stability will attract business. Those countries that follow another path will find that the road is more difficult.

The articles included in this book provide a thoughtful and instructive overview of the important contributions made by each of these great American companies in the course of doing business in countries throughout the world. All are committed to achieving financial results that justify their shareholders' confidence by delivering profitable long-term returns. All have infused their organizations with a business culture predicated on integrity. And, in every instance, the authors highlight the values, policies, and experiences that best describe the many ways that these companies are addressing and advancing the highest standards of ethical conduct, social responsibility, and corporate citizenship.

From them, we gain useful insights and a better understanding of the numerous ways in which legal, cultural, ethical, and economic interests vie for predominance, and we acquire a keener appreciation for the reasoning that underlies the various approaches taken to address the multitude of challenges that arise from one country or culture to another.

From Kenneth Frazier, we learn how Merck is working to improve the quality of life while also containing overall health costs. We see how the company is helping to eradicate the disease known as "river blindness" by donating medicines in poor, developing countries in Latin America and Africa. We also gain a better appreciation for the actions Merck is taking to practice good citizenship worldwide by combating the HIV/AIDS pandemic in Africa by donating medicines, upgrading strong health care infra-structures, and helping to build and sustain economic development in the region.

DuPont's Stacey Mobley describes how his company is fulfilling its mission to sustain growth, improve the living standards of people all over the world, and to provide a safe, healthy, motivating employment opportunity for all of the company's employees. We also read about the numerous ways in which DuPont takes global citizenship seriously by adhering to local laws and regulations, supplying local jobs, being a part of the fabric of the local community, and addressing local needs.

At General Motors, the Global Sullivan Principles help guide and express the fundamental values that Thomas Gottschalk believes such companies should observe in conducting business around the world. He describes how General Motors demonstrates its commitment to supporting universal human rights, promoting equal opportunity, improving the quality of life for employees and citizens of those countries, and providing fair compensation and safe and healthy workplaces. Gottschalk explains why General Motors believes that good corporate citizenship involves incorporating a set of environmental performance standards that often are stricter than local law, and how his company is supporting local cultural, educational, and philanthropic activities in host countries, while also working to eliminate bribery and corruption.

Charles Matthews and Kenneth Cohen offer details about ExxonMobil's adherence to a code of ethical and legal standards that was formulated four decades ago. They describe the company's strong commitment to the rule of law and its efforts to support the rule of law in more than two hundred countries and territories where it does business. In many of the new areas where the company is pursuing oil and gas development, the host country's legal system is under development or in transition. They explain how ExxonMobil's ability to help the country develop one of its most valuable natural resources is a strong incentive for it to create a legal environment that permits development to proceed. They also detail the company's efforts to acquaint foreign lawyers and judges with the rule of law, and they give an overview of economic development programs designed to hire and train local workers.

The fundamental responsibility of a good corporate citizen, according to General Electric's Benjamin Heineman, is compliance with the law. General Electric believes that compliance should be viewed as a core element of corporate social responsibility. From Heineman's perspective, ethical issues also are very important; and at General Electric, ethical practices and policies go beyond legal requirements and obligations. He describes the company's commitment to building facilities around the world that exceed local law requirements, resolving any threats to health and the environment, enforcing nondiscrimination provisions for all employees, and working to boost the economic development of the host country.

Pfizer's Jeffrey Kindler tells how his company developed the Diflucan Partnership Program to provide women with anti-infection medicine at no charge in the 50 least-developed countries in the world. He reviews how Pfizer is working with Ugandan and American infectious disease experts to establish an HIV/AIDS treatment and training center in Uganda. Kindler also discusses the International Trachoma Initiative that Pfizer helped establish in partnership with the Edna McConnell Clark Foundation, an initiative in which the company provided access to a proprietary antibiotic at no cost and also helped in training local physicians. We also learn about Pfizer's donations to the research effort to find a treatment for SARS, and about its efforts aimed at maintaining high environmental, health, and safety standards in its operations in host countries.

Corporate responsibility at Microsoft has two main facets. First is the responsibility as a result of being part of the IT industry, which involves trustworthy computing, ensuring protection and security of personal information online, and creating a safe online environment for children. Second is the responsibility of being a good, responsible global citizen. According to Brad Smith, global companies need to consider the impact they have on local communities and the countries where they have operations, and they need to focus on improving local economies, working with governments, and adhering to laws and ethical obligations. Smith describes the company's view that Microsoft, as the world's IT leader, has a responsibility to work in partnership with governments and policy maker's. In responding to computer virus attacks, for example, Smith believes that his company has the responsibility to make quality products that are more resilient to such attacks and to provide services and education to customers about protecting their personal computers.

Sodexho's Robert Stern says that his company's mission is to create and offer services that contribute to a more pleasant way of life for people all over the world. Noting that his company also is a signatory to the Global Sullivan Principles, Stern describes Sodexho's involvement in addressing human rights, equal opportunity and diversity, the environment, job training, and community outreach. He also highlights the company's commitment to maintaining high ethical standards and helping to recruit and retain employees. According to Stern, consumers prefer companies that have a good reputation as responsible corporate citizens.

Each of the articles shows that the irreducible essence of corporate social responsibility is to serve the interests of shareholders in a profitable, ethical, and responsible manner. These companies understand that, as the global economy evolves, they will be continually challenged by changing conditions in countries with diverse legal systems, cultures, interests, and national priorities. although the core values that guide their actions are strikingly similar, their varied perspectives and experiences offer invaluable insights into the ways in which some of America's best companies are exemplifying corporate citizenship at its finest throughout the world.