Value and Values in the Age of Transparency

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DIGITAL 4SIGHT

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1 | State of the Corporation

If the Twentieth Century was the age of nation-states, will the Twenty-First Century be the age of global corporations? How will these transnational entities shape tomorrow's economic, social, and political landscape? As the world faces a growing list of challenges, are global corporations key to the solution or a cause of the problem?

Making sense of these issues is a tall order, especially since many of the assumptions we took for granted during the past century are now in a state of flux. We used to believe, for example, that nation-states would be permanent, and supremely confident, guarantors of peace, security, and good government; today we can no longer assume so. We used to see a clear division of labor between governments, business, and workers; increasingly these roles and responsibilities are in question. Despite the uncertainty (indeed, because of it), it is important to grasp how the changing nature and role of corporations will transform the world we live in.

Today's enormous private-sector corporations are unprecedented. Corporations, as we know them today, were generally unheard of until the mid-Nineteenth Century.[3] These "creatures of the state" had roots in the mediaeval European guilds, trading companies, and municipal corporations that were run by associations of journeymen, merchants, and clergy. During the colonial period, joint-stock organizations such as the East-India Company were practically extensions of the state as they advanced the process of colonization with vast armies at their command. In the 1800s, public officials chartered monopoly corporations to raise the capital to build the infrastructure for rapidly industrializing societies. But these early manifestations of corporations all functioned under the province of sovereign rulers. It was not until 1870 that most Western nations adopted laws enabling the modern corporate form of shareholder capitalism: the limited liability corporation. Corporations could now freely incorporate (without the need for government authorization of the corporation's purposes) and limited liability was extended to shareholders to encourage investment. One hundred and thirty-three years later, limited-liability corporations are ubiquitous. The most successful are global entities transcending the states that gave rise to them.

While only 7000 multinational enterprises existed in 1970, there are now more than 60,000 in all major economic sectors and regions of the world. Most are rooted in the G7 countries. They expand their global reach through more than 820,000 affiliates, and hundreds of thousands of additional subcontractors, licensing agreements, and strategic alliances between parent companies and foreign entities. Their annual sales of goods and services have grown from $2.4 trillion in 1980 to $15.6 trillion in 2000 (equivalent to approximately 50% of world GDP).[4] The three largest companies in the world alone (Wal-Mart, Exxon-Mobil, and General Motors) have combined annual revenues of $588 billion and employ more than 1.8 million people.[5]

Corporations influence every facet of life: from the production of essential goods and services to the pursuit of research and development; from the cultivation of desires to the formulation of technical standards; from the integration of national economies to

"The lesson that capitalist countries needed to combine the efficiency of markets with the broader values of community … did not come to them easily. It took the calamitous collapse of the Victorian era of globalization — into worldwide war, followed by extreme left wing revolution in Russia, extreme right wing revolution in Italy and Germany, militarism in Japan, the Great Depression, unprecedented financial volatility and the shrivelling up of world trade." [1]

John Gerard Ruggie, Weil Director, Center for Business and Government, Harvard University

"Our challenge today is to devise a similar compact on the global scale, to underpin the new global economy… Until we do, the global economy will be fragile and vulnerable — vulnerable to backlash from all of the 'isms' of our post-cold-war world: protectionism, nationalism, ethnic chauvinism, fanaticism and terrorism." [2]

Kofi Annan, Secretary-General, United Nations

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the location of industry and investment. Within these arenas, corporations have tremendous leverage in important aspects of economic and social evolution, such as which technologies are commercialized, which countries receive investment, and which standards become universal. As the late Susan Strange put it, corporations are playing a more significant role in determining "who-gets-what in the world system."[6]

Myth of the All-Powerful Corporation

For many of capitalism's champions, the ascendance of multinationals is good news. Corporations generate unprecedented wealth and affluence in Western nations. Their investment in developing countries transfers technology and knowledge, spurs investment and economic development and, in many cases, improves local labor and environmental standards. Corporations should be applauded for their efficiency and wealth creation. Indeed, for free market proponents, recent prosperity can be largely attributed to the widespread government retreat from the economy in the forms of privatization, deregulation, and liberalization that has swept the globe since the 1980s. The lesson is that corporations, and capitalism more broadly, are the engines of prosperity and perform best when most free.[7]

But capitalism's detractors say we're in the midst of corporate takeover. For Noreena Hertz, author of *The Silent Takeover*, "corporations have become behemoths, huge global giants that wield immense political power."[8] The corporations flex their muscles in many ways. One: corporations centralize wealth and power in a global elite while disempowering the world's majority. Two: they corrupt national governments through campaign financing and backdoor lobbying. Three: they usurp the power of governments by pressing for international agreements that give them global rights. Four: with the increased mobility these agreements give them, firms liberate themselves from the constraints of national regulatory systems. Five: they externalize enormous social and environmental costs to society, without paying their appropriate share. Altogether, corporate-led globalization promotes mindless consumerism and undermines democratic institutions. To achieve healthy, sustainable economic growth, corporations need to be heavily regulated or dismantled altogether.

There is some truth in both accounts. Corporations are the most effective vehicles for organizing economic activity that the world has ever seen. They have become a nearly ubiquitous foundation for wealth creation and economic development. They deliver significant benefits to society, and have probably done more than governments and aid organizations to transfer wealth to the developing world.[9] But, because of their enormous power, it is inappropriate to give corporations free reign. Relatively unbridled free market capitalism is generating costly and damaging externalities with regard to health, welfare, income distribution, and the environment. Left unchecked, globalization could make an increasingly interdependent world a more risky and unequal place.

Consider the unsustainable level of inequality in the world. According to the latest measures, the world is an increasingly divided and unequal place. 1.2 billion people subsist on less than 1 dollar a day. Nearly 3 million people in developing countries, 2 million of them children, die each year from vaccine-preventable diseases. 120 million primary-school-age children are not in school. 1.3 billion people live on fragile lands — arid zones, slopes, wetlands, and forests — that cannot sustain them.[10] The latest UN human development report shows that many of these trends are getting worse. 54 countries are now poorer now than they were in 1990 and, if current trends continue, it will take 144 years to halve world poverty and 162 years to cut child mortality rates by two-thirds.[11] Meanwhile, the 900 million people lucky enough to reside in the West account for 86% of world consumption expenditures, 79% of world income, 58% of world energy consumption, 47% of all carbon emissions, and 74% of all telephone lines.[12] Even so, a growing number of people in the world's affluent regions are said to be on the losing end of globalization.[13]

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Some inequality is acceptable. As Nancy Birdsall of the Carnegie Endowment for International Peace points out, inequality "represents the healthy outcome of differences across individual ambition, motivation, and willingness to work."[14] However, if we learn anything from history, enormous disparities are not sustainable. As Birdsall notes, deep and persistent inequalities not only undermine economic growth and efficiency, they often result in the perception of injustice and unfairness. The risk of letting the gap between rich and poor widen is a short-term backlash against market institutions that in the long term are critical ingredients of shared and sustainable growth. Indeed, the prospect of a widespread backlash against globalization is giving growing currency to the idea that the Washington consensus, which favours liberalization, deregulation, and free trade, should give way to a new global version of the social contract. A number of leading economic thinkers and institutions are now debating how a reformed system of global economic governance could help build capacity, expand access to markets, and give priority to human security and development.

Where anti-capitalists get it wrong is in their assertion that corporations are ruling the world. On the surface, the claim sounds absurd. Simple comparisons between the annual sales of corporations and gross domestic product (GDP) of nations are not very meaningful.[15] As Anthony Giddens points out, "Nations have control of territory, corporations do not; nations establish frameworks of law, corporations do not; nations control military power, corporations do not."[16] In other words, corporations are not displacing the nation-state. But Susan Strange explains power should "be gauged by influence over outcomes rather than mere possession of capabilities or control over institutions."[17] In this respect, we see global market forces eating away at aspects of state sovereignty and undermining the social contracts that tamed the excesses of capitalism in the past half-century. We also see global corporations make daily decisions that influence the life chances of individuals and communities, that have impacts on the environment, that have implications for other areas of public interest. So, while most of the world assumes that national governments are still the most effective institutions for regulating national economies, we increasingly have to question whether they are also the most appropriate institutions for governing a global economy where corporations and policy issues stretch across borders.

Not by Government Alone

The primary challenge to state authority is the mismatch between the scale of the problems and the scope of national power. As Daniel Bell of Harvard University put it, nation-states have become "too small for the big problems in life, and too big for the small problems of life."[18] Globalization gives rise to so-called "boundary problems" that undermine the capacity of the nation-state to regulate, as an increasing number of transnational policy issues cut across territorial jurisdictions and political alignments. As David Held and other political scholars point out, many traditional domains of state activity and responsibility (including the protection of global public goods such as the environment and the regulation of multinational enterprises) cannot be fulfilled without new forms of international cooperation.[19]

The large vertically integrated corporations of the industrial economy are restructuring into decentralized production networks, drawing on suppliers and exporters around the world. A typical global corporation operates plants and subsidiaries with simultaneous decision-making with respect to financial, market, input costs, quality control, and labour process conditions in more than 50 different locations around the world.[20] Pressure to constantly innovate and reduce costs and turnover time requires managers to be ever more flexible and agile. If local conditions become unfavourable, companies switch suppliers or even countries without skipping a beat. In the most agile supply-chains, sourcing decisions are often made "on the fly" in electronic business-to-business marketplaces.[21] Charles Sabel of Columbia University explains, "These networks obstruct accountability as much by their flux as by their intricacy."[22]

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While they undermine the capacity for national oversight, there are also questions about the extent to which global economic actors and forces circumscribe policy options and diminish the autonomy of individual states. On one hand, the most powerful states form distinct responses to economic globalization by pursuing various policies of social protection. They also maintain bargaining power with corporations that want market access and national economic resources. On the other hand, this assessment overlooks the ways that global market forces constrain the capacity of even the most powerful governments to act in the public interest, not to mention those states with comparatively weak institutions of governance. Although governments retain the discretion to increase regulatory pressure on corporations, global competition for investment, the need to keep domestic businesses competitive, and the disciplining power of financial markets all increase the costs of government activism and reduce the running room available to policy-makers.[23] Furthermore, the superior resources of multinational firms can easily overwhelm those of the national regulatory agencies that attempt to impose legal controls on their activities.[24] Besides, as Ann Florini points out, "it would take one whopping big fine to constitute a serious penalty to companies with such enormous revenue."[25]

Collaborative attempts to redress the imbalance by creating a "big government" counterpart to multinational enterprises have never gone far. In the 1970s, several efforts to regulate business by global intergovernmental conventions, including the UN Center on Transnational Corporations and the International Labor Organization's Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, were resisted by rich states.[26] By the 1990s, the ideological climate had changed so much that, according to Florini, "international discussions of the role of multinational enterprises tended to focus on expanding their rights — such as intellectual property rights — rather than their responsibilities."[27] As for corporate responsibilities, governments are choosing to support voluntary principles and standards set out by the OECD Guidelines on Multinational Enterprises, the Global Reporting Initiative, the International Standards Organization, and the UN Global Compact.

Given these realities, regulatory strategies rooted in the policies and bureaucracies of nation-states are increasingly feeble. But the prospect of creating new centralized hierarchies and bureaucratic behemoths, on the other hand, seems equally inappropriate for a highly fluid and dynamic world. As Charles Sabel of Columbia University put it, "The shorthand is that you can no longer regulate anything, just about anything, with fixed rules made at the centre by a bureaucracy of any kind." Sabel argues that "The general backdrop of globalization is one that is familiar and increasingly taken for granted both by the regulatory authorities themselves and by a private actor subject to regulation, and implicitly, at least, by NGOs and public-private partnerships that less and less try to secure definitive legislation and more and more press for the creation of framework agreements within which some kind of learning and continuous improvement is possible."[28] In these new fluid systems of learning and continuous improvement, individuals (whether in the role of citizen, consumer, employee, or investor), civil society organizations, and business enterprises are likely to have as much, if not more, influence than government bureaucrats and policy-makers.

Yet, as the only democratically elected entities with powers of taxation, rulemaking, and coercion, national governments must play a leading role in defining and protecting the public good. As Saskia Sassen puts it, "If we don't also deal with the complex, and at this point, more effective environment of national states, we're nowhere…too much power and too much of the capacity to make something into law, regulation, or statute still runs through national state institutions."[29] And as Maria Cattaui, Secretary General of the International Chamber of Commerce, suggests, "…the biggest inequity [in the world] exists between people that are lucky enough to be governed properly, and those who are unfortunate enough to have no governance. If you don't have strong governance

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and civic structures to sort out conflicting interests in the public good, there will always be disaster."[30]

What are the appropriate roles for the nation-state? The key role, we argue, is for governments to become the framework-setters for a new era of global accountability. This means contributing leadership, democratic input, and state resources into a shared project of building more responsive institutions of governance. A long list of challenges awaits. They include: deepening democracy above, as well as below, the level of the nation-state; increasing inter-governmental cooperation and seeing past narrowly defined, state-based interests and goals; building capacity and consolidating political authority in weaker states; setting legitimate frameworks through which the market can become more involved in its own regulation; supporting civil society in its vital role of building more inclusive processes for governance; and being more courageous in their own efforts to translate the norms and principles set by public-private partnerships into enforceable domestic rules and regulations.

For some, only democratic institutions can provide the type of governance we need to cope with a "runaway world." While the goal is admirable and well worth pursuing, the disaggregated nature of power and authority in today's world means that other actors will have to be involved. Governments will not meet the challenges of governance alone. They have a better chance of doing so if they skilfully harness the capabilities of an increasingly networked citizenry and the innovative capacity of the market.

A New Way Forward?

Globalization is suffering a crisis of legitimacy. Many promised benefits haven't materialized, and the world suffers greater social disarray and a deteriorating environment. There is great risk that the global economy could be stopped in its tracks by growing feelings of injustice and vulnerability. Adding to popular disillusionment, the breakdown of the latest round of WTO talks in Cancun, a looming economic crisis in the US, and continued tension at the UN over Iraq signal more trouble ahead for the global economy. More than ever, future peace and prosperity rides on our collective ability to create a just and sustainable world order.

Yet, the existing model of governance based on the command of national governments over largely national economies is failing. Faced with the inability of governments to scale up their authority to match the global reach of corporations and markets, we need to find ways to reframe markets that harness the resources and competencies of a broader group of stakeholders in society, including corporations themselves.

What can corporations bring to the table? Deep resources, technological sophistication, and the managerial capacity for innovation and transnational operations position multinational enterprises as powerful catalysts of change. Corporations are too important a platform to be left out of the governance equation. For example, widespread adoption of new industrial technologies could substantially reduce pollution. A collective effort by governments and pharmaceutical companies could eradicate many treatable diseases. A principled and united business stance on corruption could ensure that more of the world's wealth is shared equitably. It is not the primary responsibility of business to solve the world's most pressing problems. However, by modifying behavior in key ways, and by building partnerships with governments and civil society organizations, corporations can help make global economic activity more responsive to public interest concerns.

Is there a moral duty for corporations to align their pursuit of profit with the interests of other stakeholders? One could easily argue so. After all, corporations are granted rights and a social license to operate by society and, as with other citizens, possessing rights usually requires the acceptance of a complementary set of responsibilities. Given the resources that companies could muster to make a significant difference, it might seem irresponsible not to apply these competencies to advance the common good. Although the moral arguments

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sound compelling for some, the idea of adopting altruistic behaviour without reward is largely alien and unappealing for a business focused on the bottom line.

For this reason, we should not naively rely on altruism. Changes in corporate behavior must be driven by re-conceptualizing self-interest in light of the many social and environmental risks threatening global stability. Political scientist Robert Keohane argues that, under conditions of increasing interdependence, "the gains of cooperation loom larger relative to the alternative of unregulated conflict."[31] This logic applies to corporations as much as it does to governments and other institutions in society. As globalization proceeds, corporations will find that cooperating with others to improve the equity and sustainability of the global economy is better than dealing with the risks and uncertainties of an unstable world. Such foresight merely requires a longer-term view of corporate survival.

Many prominent corporate leaders are heeding the early warning signs of public discord and becoming vocal about the need to forge a new social contract for the global economy. Increasing transparency, consulting non-traditional stakeholders, respecting human rights, reducing environmental footprints and contributing to global public policy networks have all become part of the new lexicon of corporate leaders. Yet, corporations face significant obstacles in turning rhetoric into reality. Corporate managers frequently feel thwarted by demands to respond quickly to competitive pressures and financial markets. Most still believe that firms able to externalize social and environmental business costs are at a systemic advantage over those that choose to internalize those costs. Not all corporate leaders have grasped the advantages of strategic social and environmental leadership. Many firms are understandably reluctant to act alone for fear of sacrificing their competitive advantage. While these views are wrong for our times, they are proving to be resilient in the face of uncertainty over how to adopt new models.

New models could efficiently and effectively align corporate self-interest with the broader public good. Our research suggests two ways to steer corporate activities in the right direction. One — transparency — is advanced by civil society groups that name and shame companies that are performing below social expectations. The other — the values-based enterprise — is led by firms that find pragmatic and profitable solutions which allow firms to behave consistently with the values and norms of the societies in which they operate. We outline each paradigm in chapters two and three.

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2 | The Rise of Transparency Networks

In December 1996, labor leader Isidro Gil was shot dead at the gates of an independent Coca-Cola bottling plant in Carepa, Colombia, just steps from the Coca-Cola sign marking the compound. Such violence, however, is not really news in Colombia. Drug cartels, paramilitary violence, widespread crime, impoverishment, and low government control and authority are very much part of the landscape in a country where traditional rules of law and order don't always apply. According to Global Exchange, the murder of unionists in Colombia - approximately 1,500 in the last decade - accounts for three out of every five trade unionist murders in the world.[1] It's not surprising, then, that executives at Coca-Cola headquarters Atlanta didn't make much of the event. After all, Coca-Cola has only arm's-length relationships with its global network of independent bottlers, where naming, packaging and pricing are customized to local markets. The issue, however, did not fade away as Coca-Cola might have expected.

News of paramilitary killings made its way through a network of trade unions and eventually reached the powerful Pittsburgh-based United Steelworkers of America. In July 2001, United Steelworkers launched a lawsuit, not just against the independent bottler in Colombia, but against Coca-Cola headquarters in the US as well. The lawsuit has since catapulted the issue into public consciousness.

A full-fledged anti-Coke network has emerged to monitor the issue. Cokewatch.org is the hub of the network, disseminating information and rallying consumer action. Other groups have also popped out of the woodwork. Student groups at universities such as Harvard and the University of Montana are organizing to remove Coke vendors from their campuses; a coalition of protest groups showed up at Coca-Cola's annual meeting in New York; media coverage of the issue has been extensive in both mainstream and alternative publications; one angry customer on a consumer-alert website said "sure I love the taste of Coke, but the company bites."[2] As Edgar Paez, a worker in the Carepa bottling plant put it, "We're giving our own global answer to their global operations."[3]

Rodrigo Calderon, a Coca-Cola executive based in Mexico, said the lawsuits contained "outrageous allegations" designed to grab headlines and promote "a political agenda." "The company or the bottlers had nothing to do with the attacks," said the executive.[4] Calderon may or may not be right. But, for strong brands like Coke, the question of responsibility relies on far more than issues of ownership; it embraces many other components, including intent, derivation of benefits, knowledge, brand perceptions, and degree of control. And in today's increasingly transparent world, these connections and associations are becoming increasingly visible.

"Whoever, or whatever, wins the battle for people's minds will rule, because mighty, rigid apparatuses will not be a match, in any reasonable timespan, for the minds mobilized around the power of flexible, alternative networks." [1]

Manuel Castells, Author of The Network Society

"In the long term, not being transparent is really not an option. You can say truth, like pregnancy, cannot be hidden for long. And even now, your stakeholders will find out one way or another, and you can no longer control the communication that's coming in and out of your organization." [2]

Susanne Stormer, Stakeholder Relations, Novo Nordisk

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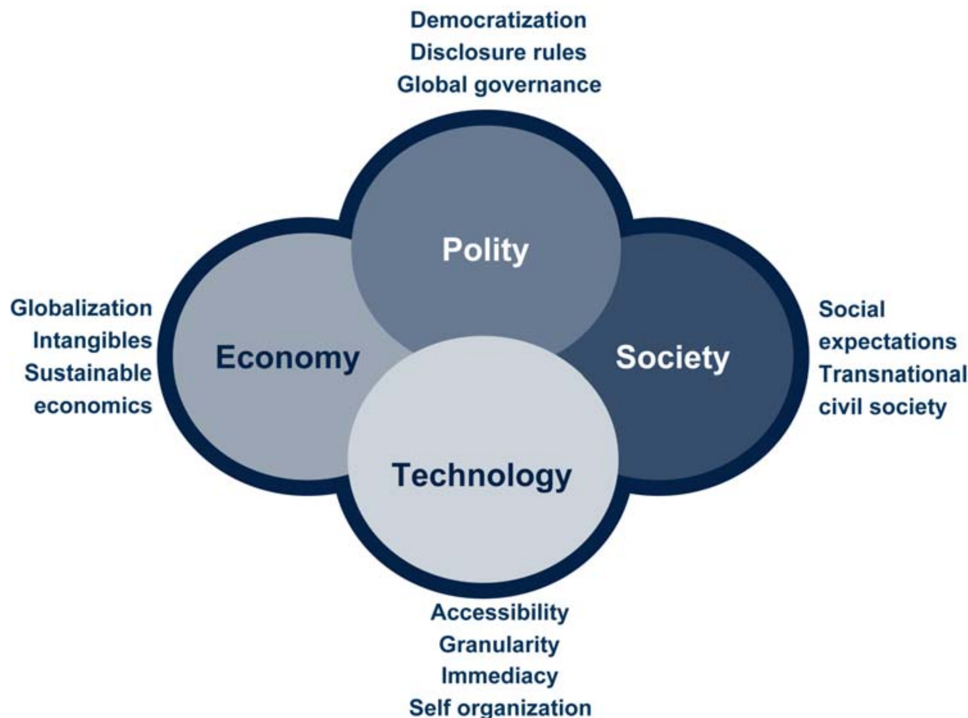
The Evolution of Corporate Transparency

The public interest in the Coca-Cola incident is not an isolated event or temporary phenomenon. Similar incidents involving many other well-known companies indicate that something more profound is occurring: As globalization and interdependence intensify and, as the national governments seem less able or less willing to cope with the consequences, individuals are turning to the one institution they think capable of making a difference — the global corporation. Public opinion polls reveal that a growing number of people are demanding these corporations take on greater responsibility for solving social and environmental issues.[5] When companies have not been responsive to these demands, corporate critics use the Internet to pepper management with detailed inquiries, monitor private-sector behavior around the world, and swap insight and intelligence with one another. Many companies are uncomfortable with such scrutiny. But, willingly or not, the intersecting realities of globalization, instant communications, and organized civil society are fueling a growing transparency trend.

Corporations are not alone. Transparency is becoming a well-established norm against which a growing number of organizations are judged.[6] Governments, international organizations, and even NGOs are routinely providing more information about their policies and activities to members and stakeholders.[7] The idea behind transparency is fairly simple: revealing information about the activities of powerful institutions is a potent deterrent to misbehavior. The more people can find out, inform others, and organize, the less politicians and corporate leaders can pursue self-serving behavior or act against the public interest.

For this reason, the idea of transparency has always been somewhat antithetical to the corporate ethos. In a callous marketplace where competition among firms can be brutal and downright deceptive, secrecy commands a high premium. Indeed, the notion that the affairs of corporation are private and privileged has a long lineage. John Braithwaite and Peter Drahos point out that transparency was decidedly not a dominant principle in nineteenth century insider



Drivers of transparency

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capitalism, where knowledge was hoarded and key decisions made by an "opaque world of inner circles."[8] Indeed, it was not until 1934, in the wake of the Great Depression, that the idea emerged that sunlight was the best disinfectant, and publicly listed companies in the US were required to release annual corporate reports.[9] With shareholding expanding steadily out to the mass public, insider trading practices were shunned (although not altogether eliminated, as Martha Stewart reminds us) and the principle that the value and risks of tradable assets should be visible to auditors, investors, and regulators was enshrined in key financial centers around the world.

In the 1980s, corporate transparency began to evolve beyond financial reporting to include various dimensions of environmental performance. For the most part, this was a legal imperative. The most significant development was the globalization of right-to-know legislation, beginning with the Toxics Releases Inventory (TRI) created by US Congress in 1986, which required companies to publicly report their discharges of toxic chemicals and pollutants.[10] Finding out health, safety, or environmental performance information from companies themselves, on the other hand, was still difficult to impossible. There were a few exceptions, such as the first-ever corporate environmental reports released by Monsanto and Norsk Hydro. But, these reports were a novelty at the time; corporate environmental reporting did not take on mainstream significance until the mid- to late-1990s.[11]

The proliferation of powerful non-governmental organizations (NGOs) and advocacy networks during the 1990s is undoubtedly the most significant force in the evolution of corporate transparency. It was NGOs that truly raised public awareness of the social and environmental impacts of corporate behavior by monitoring and reporting on their activities. And it is probably the campaigns launched by NGOs that should be credited with increasing social expectations for corporate responsibility in countries around the world (therefore also leading to growing levels of ethical consumption and investment and greater public support for regulatory action on CSR related issues).[12] The sweatshop scandals, Shell's debacle in Nigeria, the ongoing anti-GMO campaigns: one dramatic event after another highlighted unsavory abuses of corporate power, and NGOs were most effective in seizing these opportunities to expand the principle of transparency to new areas such as environmental performance, labor practices, human rights, and corruption. By prodding governments and corporations, NGOs have been the driving force behind the steady growth in rules and new regimes for information disclosure, including corporate codes of conduct, third-party monitoring agreements, product certification arrangements, and corporate reporting standards.[13] After only a decade of pressure, the result is a more robust and expansive framework for corporate transparency than ever before.[14]

Few industries have been left untouched by these developments. Major players in the apparel and retail industry now subscribe to codes of conduct that include requirements for third-party plant inspections and regular public reporting on workplace health, safety and environment issues.[15] The forestry industry is being muscled into adopting more sustainable forestry practices as their downstream retail partners work with a third-party certification body, the Forest Stewardship Council, to certify that their retail goods are old-growth-lumber-free. New monitoring regimes have also emerged for diverse issues such as climate change, conflict diamonds, and corruption.[16] Oil and gas companies like Shell and BP hold regular stakeholder consultations and release detailed sustainability reports on an annual basis. Even the biotechnology industry has bowed to demands for greater transparency and dialogue around new products and technologies.

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Approaches to transparency-based governance (selective survey)

Actors	Initiative	Description	Significance
National governments	Toxic Release Inventory (US)	A legislative act that empowers the EPA to collect and publicly report emissions levels on 328 toxic chemicals in use in commerce	Web-enabled access to the TRI database allows citizens and NGOs to profile toxic releases in local communities and target polluters directly
	Corporate Environmental Reporting (government-mandated)	Domestically registered businesses are required to publicly report information about resource consumption, emissions, waste, and management systems (there is some variance in reporting requirements among countries)	Denmark, Norway, the Netherlands, Sweden France, and South Africa have mandatory rules while a growing number of countries are considering making environmental reporting mandatory
	Ethical Trading Initiative (UK)	An alliance of companies, NGOs and trade unions that identify and promote good practice in the implementation of codes of labor practices. Corporate members must report annually on their activities but only a summarized version is reported to the public.	The initiative was initiated by the UK departments of International Development and Trade and Industry, which indicates a willingness of national governments of incorporate corporate transparency and codes of conduct into their regulatory strategies
Inter-governmental bodies	UN Global Compact	A learning community that promulgates a set of core values in the areas of human rights, labor standards, and environmental practices	Includes 500 corporate members and commands UN authority and legitimacy. The Global Compact is becoming a focal point for other international initiatives.
	OECD Guidelines for Multinational Enterprises	A voluntary framework that provides guidance on appropriate business conduct across the full range of corporate activities	The only comprehensive code of corporate conduct agreed to by multiple nations
	European Union Green Paper on Corporate Social Responsibility	A voluntary policy framework that articulates a strong position for EU members on corporate transparency and responsibility	Stops short of advocating mandatory rules but could form the basis for more expansive political commitments to corporate responsibility across the EU
Industry and NGO initiatives	Global Reporting Initiative	A worldwide, multi-stakeholder effort to establish standards for how corporations report their economic, environmental and social performance	The GRI became a permanent, independent, international body with a multi-stakeholder governance structure in April 2002 and will play a leading role in shaping the future of corporate reporting
	Marine Stewardship Council (MSC)	A product labeling and certification scheme established by Unilever is and the World Wildlife Fund that certifies fish suppliers and products that source from sustainable fish stocks	An example of the increasingly common practice of using third-party verification schemes to certify products and services.
	International Council of Toy Industries	An ethical manufacturing auditing process supported by 20 national association members that employs independent monitors to evaluate compliance with labor and workplace safety guidelines established by the international council	Indicates industry leadership on corporate transparency, but has been criticized by NGOs for not covering sub-contractors, for not supporting collective bargaining, and for not having truly independent monitors

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How do we account for the significant impact of transparency on corporate behavior? We believe it can be largely attributed to the fact that cheap and effective ways of collaborating online are enabling people to coordinate complex activities in the absence of hierarchical control. As recent anti-war demonstrations illustrate, people who share similar goals, values or interests can already form just-in-time organizations or coalitions that are international in scale by linking up with others around the world or, perhaps more importantly, with people nearby (see sidebar). And, unlike the industrial age, when central broadcasters had a nearly exclusive monopoly as providers or withholders of information, the capacity for self-organization and low-cost Web publishing empowers small players to have a significant impact on public discourse. With this power to shape public discourse has come the ability of principled networks of actors to popularize new ideas or norms of what constitutes acceptable corporate behavior.

Demands for corporate accountability which might have seemed marginal only a decade before can acquire serious momentum overnight. Entirely self-organizing networks of like-minded individuals and organizations can easily share information about the policies and practices of corporations. Increasingly, these mostly self-organizing exchanges of information and viewpoints are gelling into more cohesive "transparency networks" in which loosely connected people work closely together to scrutinize the activities of suspect firms. Although NGOs are frequently in the lead, these networks gain real power when they successfully influence the perceptions, and ultimately the behavior, of a range of corporate stakeholder groups, including customers, investors, business partners and employees. By shaping public expectations and publicly disclosing inconsistencies between acceptable norms of behavior and the reality of corporate practices, transparency networks can put many key relationships and intangible assets at risk, including a firm's brand and reputation, its partner relationships, its access to capital, its market share, its social license to operate and its regulatory environment. Faced with these risks, a growing number of companies are opting to negotiate new standards of corporate practice with participants in the transparency network.

Transparency, the Internet and the Anti-War Network

The Internet is "the greatest grass-roots organization tool ever built."[19] That's how Michael Cornfield of George Washington University described it while commenting on the events of February 15, 2003, when millions of people from all continents (including Antarctica) staged an unprecedented coordinated protest against President George W. Bush's resolve to wage war against Iraq. On that day, street actions took place more than 400 cities and 60 countries. The size of the turnouts stunned news media and even the organizers of the protests. The largest actions were in Spain, Italy, and the UK, countries whose governments supported Washington's option for war. In London, about 1 million people from all over the country converged on Hyde Park. Media descriptions show that the throng represented a broad cross-section of UK society in terms of age, race, and social background. Even larger numbers marched in Spain and Italy. Large peace demonstrations also occurred in more than 50 US cities, including more than 350,000 in New York and 200,000 in San Francisco.

The idea for a February 15 day of action emerged less than three months earlier, from the European Social Forum. It spread worldwide through the Internet, and gained strong support from the World Social Forum at the end of January in Porto Alegre, Brazil. Almost all media commentators and protest organizers noted that the February 15 peace protest, and actions leading up to it, were much larger and broader than the anti-Vietnam war demonstrations of the Sixties. And, while the anti-Vietnam War movement grew gradually, these recent anti-war protests emerged almost instantaneously. According to Todd Gitlin, a sociology professor at Columbia University and longtime liberal activist, "The February 15 day of protest took less than four months to organize. Public opposition to the Iraq war in the United States had already reached the size of the largest anti-

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Vietnam war protests decades earlier – before the war had been officially launched."

Patrick E. Tyler of the *New York Times* described this international event as "A New Power in the Streets." "The fracturing of the Western alliance over Iraq and the huge antiwar demonstrations around the world this weekend," he wrote, "are reminders that there may still be two superpowers on the planet: the United States and world public opinion.[20]

The anti-war network did more than generate street protests. Poets and playwrights organized international days of protest in which their works were staged and read in hundreds of cities around the world. For sheer size, perhaps the most impressive non-street action was the February 26 "Virtual March on Washington" organized by an Internet group called "moveon.org." They report that more than 1 million people around the country flooded the Washington offices of their elected officials with antiwar messages, timed by electronic coordination so that phone lines wouldn't jam up.

Howard Rheingold, who is best known for his groundbreaking work on virtual communities, gave people who act together in self-organizing, leaderless protests a new name: "smart mobs" or masses summoned electronically, sometimes on very short notice via the Internet, instant messaging, and cell phones. "Whenever a new communications technology lowers the threshold for groups to act collectively," says Rheingold, "new kinds of institutions emerge. We are seeing the combination of network communications and social networks." The result is a shift from hierarchical organizations to amorphous self-organizing networks that are constantly changing form and innovating with their tactics.

The Internet's impact on grassroots organizing goes beyond communication speed. Perhaps more important is its role in facilitating the exchange of information, knowledge, debate and criticism. Within hours of any major event or government pronouncement, people can have access to alternative information, critical evaluations, opposing views and policy alternatives.

The London daily *Guardian-Observer* web site is good example of what's available to mainstream new consumers. It publishes special reports on globalization, the environment, corporate social responsibility, the antiwar movement, and other current issues. Each report features on line discussion and presents debates between specialists on various topics. Its Antiwar Special Report offers a guide to over 100 websites around the world involved in promoting peace. This kind of service is common in Europe, but less so in North America.

But even in the United States there is a vast array of alternative information and discussion taking place on the Internet. The Internet is much like a permanent, ongoing teach-in or public forum where anyone who wants to speak can be heard. It makes people far less dependent on the unidimensional mass media in the United States that often screen out dissenting views and unfavorable information, especially in times of war.

In late 2002 and early 2003, for example, attempts by antiwar groups to place TV commercials were denied by several networks, including MTV. Such actions were harshly criticized. Alex Jones, director of the Joan Shorenstein Center on the Press, Politics and Public Policy at Harvard, said that it is "irresponsible for news organizations not to accept ads that are controversial on serious issues, assuming they are not scurrilous or in bad taste. In the world we live in, with the kind of media concentration we have, the only way that unpopular beliefs can be aired sometimes is if the monopoly vehicle agrees to accept an ad."[21]

Attempts to silence debate in the mainstream media, however, will ultimately be deemed feeble and ineffective. The more people feel excluded from the mainstream media, the more likely they are to create new avenues of public discourse and dissent. The worldwide web is their most accessible and flexible medium, whose potential is only beginning to be appreciated. And it is far cheaper than making and paying for TV commercials that may never be broadcast. As this trend deepens and spreads, the so-called virtual domain of the web will become an even greater force in the real world of human protagonists and social change. And transparency networks will become the new platform for public discourse and social action.

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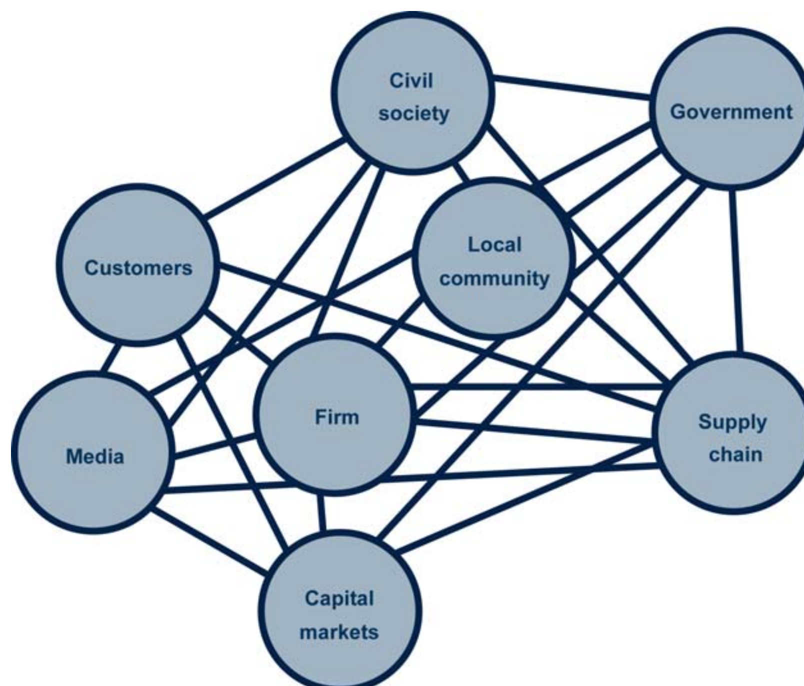
Transparency networks have ushered in a new wave of transparency-based governance, but will they provide an enduring and effective response to the question of how we align corporate self-interest with the broader public good? For some observers, transparency-based governance is an attractive regulatory strategy against the backdrop of globalization and the declining authority of states.[22] Rather than rely on multiple bureaucracies in multiple countries that provide multiple opportunities for corruption, advocates of a transparency-based approach suggest that regulating multinational corporations may be done more efficiently by promoting full disclosure of their activities.[23] Since much of the work of scrutinizing and sanctioning corporate behavior is done by self-organizing groups of consumers, investors, and advocacy groups, the costs to the society are lower than maintaining expensive public agencies and bureaucracies, especially in areas where few effective institutions of governance exist.[24] The next section explores the nature of transparency networks in more depth.

Nature of the Transparency Network

One of the distinguishing traits of a transparency network is that its power and effectiveness is not tied to formal structures, processes, or mandates. Unlike traditional organizations and bureaucracies, it rarely has an identifiable center of operations or a command structure. This does not mean it has no structure, or does not contain some structured and specialized elements. Rather, transparency networks tend to adopt a multi-nodal, many-to-many configuration in which different nodes play complementary roles (e.g., one node may act as an information clearinghouse, one may conduct research or certify company products, another will act as a liaison to the company, while several other nodes work to rally and synchronize the local actions of other participants). The flow of information among participants is horizontal and reciprocal, not hierarchical and linear. Some participants in the network — especially those at the edges of the network — may not even be fully aware hat they collectively operate as a coherent entity. Yet, this decentralized organizational framework actually boosts the ability to self-organize and develop new tactics.

In our observations, transparency networks fluctuate between states of low and high intensity (the volume of interactions), low and high extensity (the size and scale of the network) and low and high velocity (the speed at which information travels through the network). Examining a transparency network's behavior over time reveals different



Many-to-many networks

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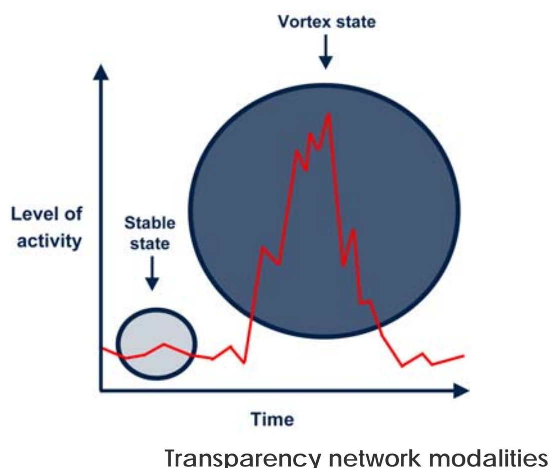
levels of activity along these three dimensions. In general, a network will oscillate between two different states of activity: a stable state and a vortex state.

A stable state is defined by fairly regular information flow, a small number of participants, and a generally benign impact on the target company. In other words, stable states exhibit low intensity, low extensity and low velocity. This is the latent or dormant state of a transparency network. When a network is dormant, it's easy for companies to overlook its existence. But transparency networks are inherently unstable and they easily and rapidly tip into what we call a vortex state.

Vortexes are crisis- or event-driven accelerations of activity and information flow that suck companies into volatile public debates about some aspect of their policies or performance. Vortex events are characterized by a greater number of participants exchanging larger volumes of information at increasing speeds across the network. In such cases, transparency networks can be large and influential, crossing many issues areas and drawing in people and organizations from around the world. It is in the vortex state that we see the potential for high impact as viral messages about the firm permeate public consciousness. The most heavily scrutinized companies such as Exxon and Microsoft live in a nearly constant vortex state.



Transparency network modalities

The ongoing controversy over the way Nike manages its overseas production networks provides an instructive example of transparency network dynamics. When so-called "sweatshops" were first discovered in Nike's supply chain, a significant public debate was triggered about labor standards in the developing world and the pros and cons of globalization. New questions were raised about the degree of Nike's responsibility for the quality of life of workers in outsourced production factories. The effects of the public disclosure rippled throughout multiple stakeholder relationships. Many of Nike's customers (but not all) were affected by the stigma of wearing shoes made in sweatshops, employees were discouraged by bad press, investors endured a temporary dip in the share price, and supply chain partners were forced to raise standards and participate in new supply chain monitoring systems that were designed in partnership with NGOs and various industry and governmental bodies.[25]

While the intense public pressure eventually subsided, questions about Nike's behavior get raised repeatedly, triggering recurring vortex events. In 2001, Jonah Peretti tried to personalize his Nikes with the label "sweatshop" and his humorous exchange with the Nike representative initiated a viral e-mail blitz and eventually landed him an interview on NBC's *Today Show*.[26] More recently, Marc Kasky catapulted the issue into mainstream consciousness when he brought a case against Nike in the California courts charging that Nike had misrepresented its record on labor practices in letters, press releases and op-ed articles that amounted to false advertising.[27]

Nike's sweatshop saga illustrates how transparency networks now form part of the backbone of political discourse and public opinion in the information age. In today's highly connected world, knowledge has become the basic currency of power in society. The effective use of it gives individuals and groups the power to inform perceptions, shape public discourses, and sway the decisions and behavior of people. In this new architecture of power, transparency can be an empowering and democratic phenomenon. It releases information so that the powerful can be held accountable. And for many groups in society, it increases their ability to make arguments that change the way things are done.[28]

One conclusion to reach is that power is migrating to actors who are skilled at developing networks that are increasingly agile, resilient and well organized for disseminating information. To be sure, the ability of

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transparency networks to mobilize quickly and effectively gives them advantage over their hierarchical counterparts, who remain hampered by their cumbersome structure and their "obey and agree" modality. A single PR department is helpless in the face of thousands of independent computer operators passing information on to all who want to know. But many questions remain about the long-term impact of transparency networks on corporate behavior and, ultimately, about the implications of the phenomenon for building an effective system of governance for global economic activity. Will the transparency trend endure? Who really participates in transparency networks, what form of legitimacy do they claim, and are they accountable? What issues and firms do they coalesce around (and which issues and firms are left out)? Might these self-organizing transparency networks take on more institutionalized forms in the future? Most importantly, are these transparency-based governance mechanisms effective — do they actually change behavior and enhance accountability?

Digital 4Sight's Leadership in the Networked Economy research program looked at 28 transparency networks involving companies and issues in a variety of sectors to get more precise answers to these questions.[29] Of those 28 cases, only two detailed case studies are presented here: De Beers and Monsanto. Each company has encountered transparency networks in one shape or form, and each faced its transparency network with varying degrees of success. By identifying the key nodes, modalities, and discourses in these networks, and by studying the impacts on these companies, we developed some conclusions about the evolution of transparency networks as a force for corporate transparency.[30]

De Beers and the Diamond Supply Chain

The diamond industry has deliberately and carefully crafted a brand for diamonds as symbols of love. Highly successful marketing campaigns targeting old and young couples alike have ensured that diamonds are an essential and ongoing part of romantic relationships. Meanwhile, diamond suppliers such as De Beers operate quietly in the background, attracting little public attention. Yet the image portrayed by De Beers stands in stark contrast to the harsh realities of the diamond supply chain.

In countries such as Sierra Leone, Liberia and Angola, where oversight is scant and crime and corruption are rampant, diamonds provide hard currency for rebel groups and terrorists to purchase weapons and wage war on elected or internationally recognized governments. The result is prolonged conflicts and terrible human rights violations in many African countries. Violence, mutilation, and even kidnapping (as a means of military recruitment) have destroyed the social and economic foundation in many countries where diamonds are mined. Ironically, a precious natural resource that has enriched the likes of De Beers has also produced some of the harshest living conditions in the world.

The brutal civil wars and human rights violations that diamonds fuel are completely at odds with the purity of the images De Beers and other suppliers sell to consumers. In the past, the diamond brand was protected by the extreme opacity of De Beers' supply chain.[31] Diamonds move easily from one country to another, making it difficult to pinpoint their true origin. De Beers's own aggregation, sorting, and reselling only compound these difficulties.[32] This opacity not only makes it difficult to track the true source of rough diamonds, it also obscures public insight into corruption and violence that the trade in diamonds fuel. In a more transparent world, the risk that consumers will start to make an association between the two threatens the foundation of De Beers's marketing activities.

Public awareness of the problems created by the diamond trade began to increase when a well-organized transparency network called attention to what became known as "conflict diamonds."[33] A map of the transparency network reflects the diverse group of organizations that intersect with the conflict diamonds issue (see below).[34] The key node in this network is the influential left-leaning weekly newsmagazine, The Nation. The Nation has run several stories on the

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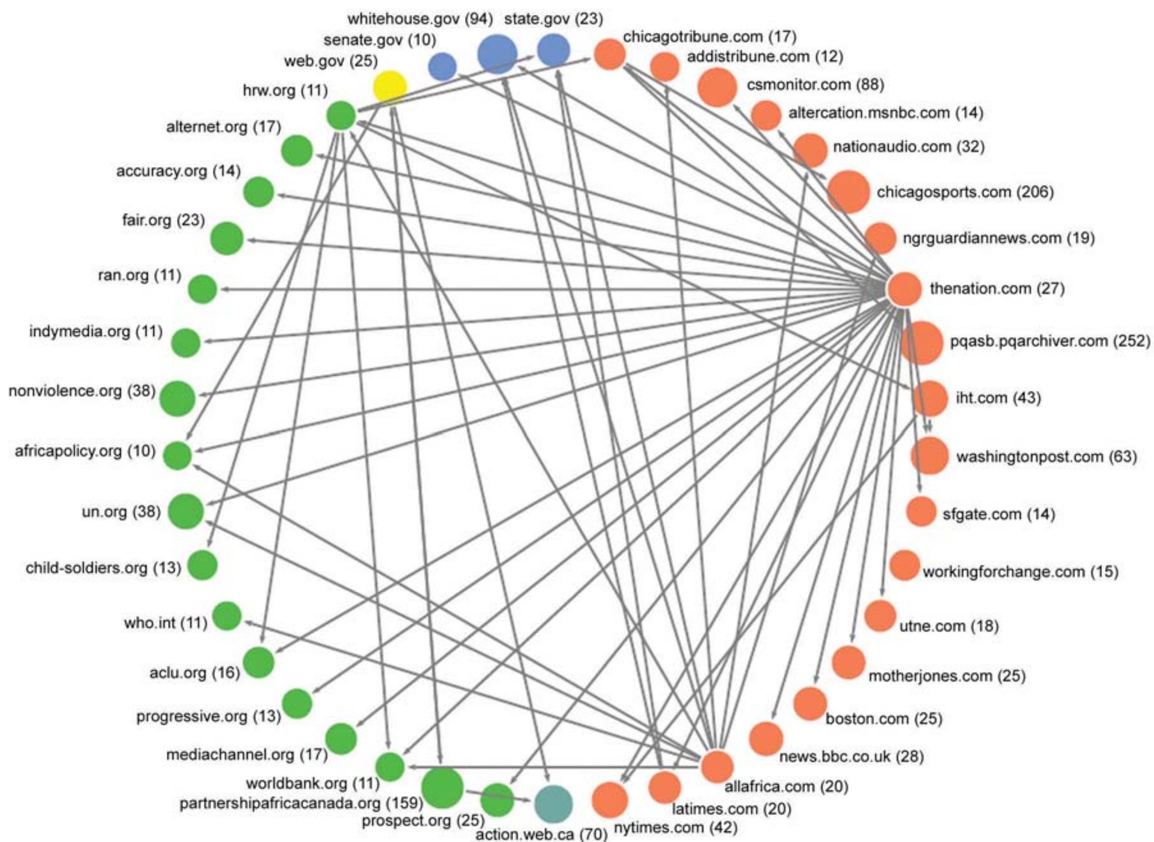
conflict diamonds issue and has strong links to NGOs that are active in the debate about the diamond supply chain, including The Coalition to Stop the Use of Child Soldiers (child-soldiers.org), Partnership Africa Canada (partnershipafricacanada.org), Global Witness (globalwitness.org), and Africa Action (africapolicy.org). Another key node in the network is AllAfrica.com, the largest electronic distributor of African news and information. AllAfrica.com has also published extensively on the activities of De Beers and problems associated with diamond mining in African countries. AllAfrica.com links to other prominent players in the issue including the UN, the World Bank, Amnesty International, and Human Rights Watch.

The network has dramatically increased the transparency of the diamond supply chain and encouraged public debate about conflict diamonds. Organizations such as the UN, Partnership Africa Canada, and Global Witness have published extensive reports, case studies, and points of view on their websites, each of which are linked with other transparency network members. These websites describe the conflict diamonds issue in vivid terms. They refer to diamonds in the context of their association with issues such as child slavery, war, poverty, and resource exploitation, which are juxtaposed against affluent Western consumers and the massive profits of companies like De Beers.[35] Amnesty International lobbied the Bush Administration on the basis of the revelation that conflict diamonds may be funding Al Qaeda. A report on the troubles in Sierra Leone published in 2000 by Partnership Africa Canada was particularly damaging. Robert Kaplan, Director of Rex Diamond Mining Corporation, said the company "lost market value of $600 million in the three days following the *Globe and Mail* article about the report."



De Beers network map

"Perhaps more important for the long term," said Kaplan, "is that no public company, including us, will be likely to invest in the diamond industry in Sierra Leone into the indefinite future."[36]

Public exposure made it essential for De Beers to deal with the conflict diamonds issue before further damage could be done. The advocacy work of various transparency network participants also helped raise the issue with the United Nations and government bodies in the United States, Europe, and Africa. A multilateral debate ensued about how to increase the diamond supply chain transparency and eliminate conflict diamonds. The so-called Kimberley Process involved the diamond industry, 50 countries, and several NGOs in the campaign. After two years of lengthy discussions that concluded in November 2002, the Kimberley Process resulted in the voluntary agreement calling for certification and tracking mechanisms for diamonds that ensure diamonds' origins are known. The system includes a "chain of warranties" that will create an audit trail for diamonds stretching from the mines where they are unearthed to the jewelers' shop where they are cut and polished.

With the Kimberley Process coming into place, the diamond industry is now trying to position itself as a leader in solving the conflict diamonds issues. For example, De Beers and the World Diamond Council (WDC), an industry association, posted position papers on the Internet, calling for a self-regulatory approach to managing the diamond supply chain.[37] The Diamond High Council (HRD), the official representative of the Belgian diamond industry, has gone further, developing an entire website (conflictdiamonds.com) dedicated to tracking news and industry progress on the issue.[38]

Despite the fact that the Kimberley Process brought together disparate points of view to forge an agreement for eliminating conflict diamonds, and despite the diamond industries' recent attempts at transparency, transparency network participants seem unconvinced that sufficient measures are being taken to stop diamonds' financing rebel organizations. Concerns cited are the lack of binding legislation, the narrow definition of conflict diamonds and the absence of independent monitoring. A summit held in April 2003 to tighten the Kimberley Process failed to endorse a plan for independent monitoring, despite a call from Abbey Chikane, Kimberley Process chairman, to "consider dissuasive and proportional penalties for non-compliance by participants"[39] Speculation is mounting, however, that some of the measures called for by NGOs could come to fruition when the next round of talks occurs in October 2003.

Will an effective system of governance emerge from the combined efforts of industry, government, and transparency network participants? It's too early to make final judgments, but some evidence suggests that steady progress is being made. In a speech on April 29, 2003, Nicky Oppenheimer, Chairman of De Beers Corp, said "…transparent verification of both government and industry procedures is essential to the credibility of the certification scheme in the eyes of the world. […] the industry wholeheartedly supports the NGOs' objectives in securing a credible system of monitoring."[40] Yet the adversarial relationship between the diamond industry and the transparency network seems destined to continue. Fundamental differences will likely remain over whether to pursue legally binding legislation, backed up by strong monitoring and enforcement, on one hand, and or a more diluted form of industry self-regulation, on the other. This is not necessarily a bad thing. In fact, in many cases, a healthy degree of mutual skepticism between corporations and transparency network participants helps keep the dialogue open and honest, and pushes all participants towards a regulatory solution that serves a wide range of interests.

The De Beers case provides key lessons for firms and industries responding to increased transparency.

1. Transparency can change rapidly and unsuspecting companies can easily be caught off guard. The ability of NGOs such as Global Witness to push the right buttons (e.g., building empathy for the victims of conflict diamonds, warning of the potential for diamonds to fund

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terrorism, threatening the diamond brand) elevated the conflict diamonds issue from a marginal concern to a mainstream political issue. The same has been done for other issues and we can expect more unsuspecting firms and industries to become targets.

2. Improving transparency can solve industry collective action dilemmas. Now that the conflict diamond issue is out in the open, all firms in the industry have equal incentive to rid their supply chains of tainted diamonds. By creating an industry-wide mechanism for certifying conflict-free diamonds, De Beers and other companies can protect their image and brands, while discouraging free riders trying to skirt the rules.[41]

3. Tough problems can be solved when firms, governments, and civil society groups work effectively together. Despite occasional conflict between various parties to the Kimberley Process, the involvement of all three sectors adds legitimacy and improves on the outcomes that could be achieved by any player single-handedly. A cooperative approach facilitates an appropriate balance of roles, competencies, and responsibilities among participants for implementation of the Kimberley Process. Companies can focus on building internal control processes for rooting out conflict diamonds, governments can lead the diamond certification process, while NGOs monitor the process and call attention to gaps along the way.

While the Kimberley Process is not perfect, an end to the cycle of exploitation, corruption, and violence may be closer than ever before. As Paul Collier, director of the World Bank's development research group, observes, "Transparency is the first step toward effective national scrutiny."[42] Transparency also puts pressure on companies like De Beers to avoid public relations disasters by leveraging their control over the diamond trade to affect change. Other measures will also need to be taken to improve governance in war-torn countries. But, as Collier suggests, the Kimberley Process could serve as a model for how to manage other natural resources, like timber and oil, which are often harvested in areas of conflict.

Monsanto and the Failed Promise of Biotechnology

At the height of its success in the late 80s early 90s, Monsanto was a juggernaut promising to revolutionize agriculture, alleviate world hunger, and move the world toward sustainable development. Scientists argued that genetic modification (GM) would allow society to quickly and safely introduce desirable characteristics into agricultural crops. Through clever genetic manipulation, natural pesticides would be accentuated and environmentally harmful chemical pesticides wouldn't be needed. Crop yields would soar, and the world could eliminate hunger by exporting new agricultural technologies and crops to developing countries.

But then Monsanto critics effectively raised the specter of "frankenfoods," widespread environmental contamination, and monopolistic control over the food chain. They pointed to the StarLink episode, where traces of the banned biotech corn variety showed up in Taco Bell's tortillas and many of other food products, to demonstrate that there are inadequate controls to prevent GM genes from contaminating human food sources and other plant species.[43] Critics also claimed Monsanto was unfairly locking farmers into a complete farming system by ensuring their pesticides and plant products would only work together.[44] And, GM dissenters warned, allowing biotech firms to patent new life forms would lead to large companies' owning and controlling the building blocks of life.

The battle between Monsanto and its critics still rages on multiple fronts. Environmental groups, farmers, regulators, mainstream consumers, organic food enthusiasts, and anti–bio-piracy advocates all raise concerns about biotechnology. Today, few of the early promises of the biotech revolution have been fulfilled and Monsanto's business is merely a

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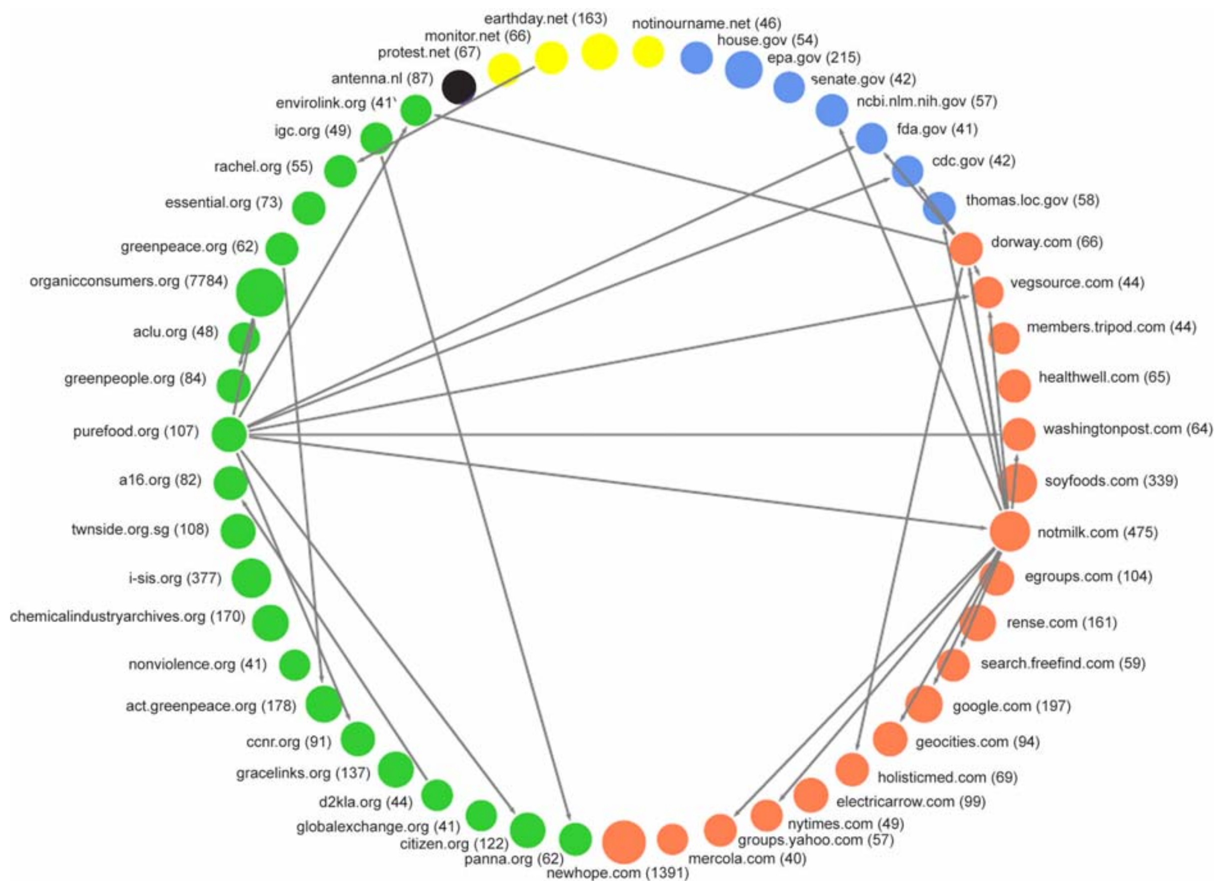
fraction of what observers predicted it would be during the biotechnology heyday.

What did Monsanto do wrong? By its own admission, the company became arrogant and overly expedient in its push to get its products to market (particularly in Europe) during the mid-90s. With a booming stock market promising high rewards, Monsanto focused primarily on its relationships with investors, regulators, and agricultural customers. Company officials cared much less for the onerous process of building trust with end consumers (the general public) and NGOs. Instead, they dismissed critics as unscientific and extreme. They resisted attempts to impose labeling schemes for genetically modified foods (GMOs). There were no attempts to engage naysayers, and no credible communications plan to counter their claims. In the vacuum of reliable information, a swirling tide of opinion, fact, fiction, and hearsay surrounded the subject of GMOs, creating the perception that Monsanto's business is a danger to public health and safety. This initial tide of fears (legitimate or otherwise) did not go away. On the contrary, a vast transparency network that closely scrutinizes every move that Monsanto makes is sustaining public debate about the pros and cons of biotechnology.

The map of Monsanto's transparency network shows an extensive and dense web of participants actively sharing information. The largest nodes include the Organic Consumers Association (organicconsumers.org and purefood.org), a rallying point for organic food enthusiasts who see Monsanto as a threat to the safety and purity of foods, and notmilk.com, an "anti-milk" megasite containing vast amounts of information about the alleged dangers of milk, including Monsanto's Bovine Growth Hormone product. Both sites link to a number associated with vegetarian or vegan lifestyles, and also to regulatory



Monsanto network map

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bodies such as the FDA. Other prominent nodes include Greenpeace and Envirolink, which put forth an environmental critique of Monsanto's business; the Institute of Science in Society (i-sis.org), which has rallied the scientific community against the patenting of life forms; and the Third World Network (twnside.org.sg), which is primarily concerned with bio-piracy issues and has fought hard against Monsanto's "terminator" technology.[45]

Monsanto has been hit hard by the virulent exchange of information that constantly circulates critical points of view. The arguments made by GM opponents resonated particularly strongly with the European public. On one hand, Europeans as a whole were sympathetic to the messages about the human health and environmental risks of biotechnology. But they were also resistant for cultural reasons. Jeremy Rifkin points out that, "While Americans long ago accepted a corporate-driven fast food culture, in Europe food and culture are deeply entwined…In a world of globalizing forces…the last vestige of cultural identity most Europeans feel they have some control over is their choice of food."[46] Because of public sentiment, many countries began restricting imports and placing moratoria on the domestic production of GM crops, including the entire European Union and countries such as Mexico, Brazil and Argentina in Latin America. By 1999, Monsanto's stock price had fallen so low that the company became an attractive takeover target for the US-based pharmaceutical company, Pharmacia.[47] Pharmacia subsequently absorbed the company's G.D. Searle drug division and its promising pipeline, and spun off the agricultural biotechnology division as the "new" Monsanto in an IPO late in 2000.[48]

At this juncture, Monsanto tried to make some changes in its approach to engaging with critics. Robert Shapiro, former chief executive who led the race to market in the 90s, publicly acknowledged that the company made a mistake by not taking threats from non-traditional stakeholder groups seriously — a lesson that executives in other beleaguered industries such as oil and gas and automotives were also learning. "We've learned that there is often a very fine line between scientific confidence on the one hand and corporate arrogance on the other," said Shapiro. "It was natural for us to see this as a scientific issue. We didn't listen very well to people who insisted that there were relevant ethical, religious, cultural, social and economic issues as well."[49] In its *Fulfilling Our Pledge (2000–2001)* Report, the company pledged to abandon several controversial practices.[50] It has also initiated several stakeholder consultations. But, despite its efforts, Monsanto has been unable shift the biotechnology debate. The launch of the Biotech Knowledge Center website only invited further ridicule from critics who like to point out the inconsistencies in Monsanto's approach to transparency.[51]

Key stakeholders and allies like farmers, consumers, food producers and regulators also remain unconvinced of the "new," in the new Monsanto. Consumer opposition to GM crops is still strong in Europe,[52] and European regulators have imposed labeling and production restrictions on GM food products.[53] Hendrik Verfaillie, another former chief executive, admitted in an interview with the Financial Times that such is the public resistance to GM crops that Monsanto believes there will be no progress in Europe until 2005 at the earliest.[54]

There are also some signs that the disillusionment with GM foods is spreading to North America. Falling demand for GM foods from US food producers has depressed GM crop prices and caused farmers in the US to roll back their commitment to grow them.[55] Monsanto's aggressive and litigious stance against patent infringement has generated a groundswell of indignation among some farming communities that claim the so-called unlawful "plantings" of Monsanto seeds are, in fact, "contamination" by seed from adjacent land.[56] Finally, a new study by the USDA on the effects of information on consumer demand for GM foods found that, on average, consumers discounted the price of foods labeled as "GM" by 14%.[57] The study reinforces the powerful role of information in shaping consumer behavior, and

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indicates that the anti-biotech lobby has so far done a much more effective job in building credibility and getting its message to the US public.

The key lesson from Monsanto's saga is that losing the public trust is tantamount to self-destruction of an entire industry. Once this trust is lost, it is difficult to regain. With many of its stakeholders alienated, and with positions on how to deal with the health and environmental issues that GM foods raise still relatively polarized, Monsanto's business remains uncertain for the short term. No broadly legitimate or internationally accepted systems of regulation, labeling, and post-market oversight have emerged — at least none that would satisfy all of the groups that claim to be stakeholders in the issue. Industry self-regulation, the long-time preference of US regulators, is unlikely to untangle the biotech industry from the (largely self-inflicted) political quagmire. A more successful approach might follow in the footsteps of the diamond industry. On one hand, by forging a collective process, governments, industry, and civil society groups can build consensus on key issues - and, on the other hand, by increasing transparency at all stages of the biotechnology lifecycle. This would help instill more confidence that the risks associated with new technologies have been thoroughly evaluated and that these technologies will be monitored as they are released into the environment.[58] Without these elements, it is likely that an industry will continue to lose the battle for the public trust.

The Promise and Peril of Transparency Networks

Our research demonstrates that the effects of transparency networks on corporate behavior are real and they are measurable. But are they significant in the scheme of things? When one steps back to consider the changes in social expectations and corporate behavior that have occurred over the past decade, they do appear to have had a substantial impact (see earlier discussion on the evolution of corporate transparency). The Monsanto and De Beers cases provide only two examples, but transparency networks are drawing attention to many important fissures in the global economy that threaten to undermine global peace and stability (including issues such as climate change, rainforest depletion, indigenous rights, slavery, child labor, and corruption). They are mobilizing public opinion to create new norms as to how corporation should contribute to solving these issues, and they are acting as watchdogs over corporate progress toward operationalizing these new norms. For largely self-organizing entities, these are remarkable accomplishments.

On one hand, the conditions seem right for transparency networks to increase their reach and broaden the scope of the issues and firms on which they focus. The forces of transparency, like the growth of public awareness and activism and the declining costs of communicating and networking, will ensure that those organizations and individuals who are critical of companies have an effective vehicle for finding out information, sharing it with others, and organizing. Based on a small but growing number of examples of successful institutionalization, it's clear these networks could play a growing role in the complex global architecture governing multinational enterprises.

The prevalence of transparency networks, on the other hand, does not imply that this emerging form of transparency based-governance will either affect a critical mass of firms or result in changes in corporate behavior that are necessarily consistent with the values and aspirations of the societies in which they operate. Here we come back to reflect on some of the key questions posed earlier about whether transparency is an effective mechanism for aligning corporate behavior with the public good. Five issues stand out as significant in assessing the effectiveness of transparency:

- Will the transparency trend endure?
- Can the transparency model be scaled up to cover a critical mass of issues and firms?
- Will more institutionalized mechanisms of governance emerge from self-organizing networks?

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- Can the exploding number of codes and competing standards be narrowed down into a manageable number?
- What, if anything, can ensure that largely self-organizing dynamics of transparency networks will steer corporate behavior to contribute to public interests, rather than special interests?

Endurance

While powerful, the transparency trend is neither irreversible nor infinitely extensible. First, as recent post-September 11th developments in the US illustrate, transparency is vulnerable to shifts in political climate. When the Bush administration introduced rules in the USA Patriot Act that trump existing right-to-know provisions, they effectively undermined pressure US companies feel to be transparent. Thus, "it is still the case," as Ann Florini put it, "that if you have governments heading one way, and civil society heading the other, civil society isn't going to win."[59] Second, there are limits to the amount of information that people are willing and able to absorb, let alone act on. It is a mistake, says David Wheeler, Chair of the Business and Sustainability program at the Schulich School of Business, "to believe that ordinary stakeholders are sitting around waiting to be deluged with environmental or social information." On the contrary, says Wheeler, "in an information-rich world, people will increasingly grab what information they can off the Internet, and if that makes sense at the moment, then great." [60]

Thus, while the social and technological forces of transparency are unlikely to disappear, we should temper some of the bolder predictions about transparency. The ebb and flow of political support for transparency and finite ability of people to process information will impose real limits on the extent to which we can depend upon the ongoing mobilization of awareness to hold companies in check. There is a real possibility that transparency fatigue will soon set in.[61] For advocates of transparency, this means fighting ongoing political battles to reinforce the value of transparency and finding creative ways to engage people's interest in corporate accountability. As Ann Florini remarked, "There's Jefferson's old quote about 'refreshing the tree of liberty with the blood of patriots'; well, it doesn't have to blood, but it does, at least, have to be attention."[62]

Scalability

For transparency to qualify as a robust system for governing global economic activity, it must be scalable in two dimensions: first, in terms of the firms that are susceptible to scrutiny, and second, in terms of the scope of issues and needs that transparency networks address. Both are important if we don't want to end up with a system of governance that tackles only the most marketable causes and the most publicly interesting firms.

On the first dimension, our research suggests that most high-profile multinational enterprises are surrounded by, or embedded in, transparency networks of varying size and intensity. This includes most of the major brand names and consumer-facing firms in the so-called Fortune 100. It especially includes firms that are perceived to have a substantial impact on public interests or, as David Wheeler put it, "the companies that have irritated the activists over the years."[63] Firms that provide essential services such as food and medicine, or firms that visibly degrade the environment by polluting the air and water, for example, are more likely to be subject to scrutiny than the many firms that act as powerful, but largely invisible, intermediaries in the economy. Ultimately, the number of highly visible firms that have been seriously affected by transparency networks is very low in comparison to the 60,000+ transnational firms operating internationally (never mind the myriad small-to-medium-size businesses that operate nationally and locally). This does not mean that these firms are necessarily out of reach. Attempts to broaden codes of conduct and certification schemes like the Kimberley Process across supply chains and entire industries suggest that many more firms could become caught up in the web of transparency as a result of downstream pressure from lead firms. There

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is also, as Art Saper of the Canadian International Development Agency points out, "a sampling and demonstration affect." "A certain number of companies will get scrutiny at any point and time and it will become evident to everybody what happens to the bad performers…"[64] However, when you compare the vast numbers of firms that escape public scrutiny to the relatively limited resources of transparency networks, it's clear there are limits to their scale and reach.

On the second dimension we know that most corporate transparency networks are actually embedded in larger issue networks (e.g., labor, human rights, the environment) in which corporations have become symbolic or strategic targets in broader political battles, just like Monsanto became everybody's favorite villain in the biotechnology saga. We also know, however, that many worthy issues are left off the agenda of under-resourced advocacy groups and, by extension, the consumers, investors, and other stakeholders who may be inclined to follow their lead. Where some foresee a world of "radical transparency" in which "no contentious action would go unnoticed and unpublicized, "others see a "harsh, Darwinian marketplace where legions of desperate groups view for scarce attention, sympathy, and money."[65] The reality may be somewhere in between, where the have-nots of the world are increasingly empowered to make their causes visible, but where the limited capacity to pay attention means that only the most magnetic causes will rally significant constituencies.

We agree with Virginia Haufler, an advisor to the UN Global Compact, who says you have to pick the transparency trend apart a little bit and ask: "transparency about what and for whom?" For corporations, says Haufler, "The degree of transparency is going to depend on things like the sector itself, large companies versus small ones, highly visible consumer-oriented ones versus ones that mostly serve other businesses, public companies versus privately held ones."[66] By the same token, we have to ask, which issues are getting left off the agenda, and who's going to address the gaps? In the end, transparency networks are not infinitely scalable. They will address certain niches very well, but the phenomenon cannot be generalized to the entire world of economic and social activity.

Institutionalization

To succeed in generating widespread shifts in corporate behavior, transparency networks will have to evolve into more institutionalized forms in which companies and stakeholders devise more formalized rules and monitoring systems, whether in the form of corporate codes of conduct, product certification schemes, performance reporting or supply-chain auditing arrangements, or some combination thereof.[67] Institutionalization has proven to be relatively successful in some cases, including the Fair Labor Association, the Forest Stewardship Council, and the Global Reporting Initiative. These more permanent and structured mechanisms of governance certainly have their advantages. Institutionalization establishes stability and predictability; with effective leadership it can often lead to greater consensus, scalability, efficiency, and productivity (although the opposite is equally true); and when a broad range of players agree to work collectively through a common institutional framework, institutionalization implies legitimacy.

A majority of the networks in this study adopt confrontational relationships with companies and gravitate toward less formal structures and processes. In these cases, the goals of network participants and the firm or industry often prove difficult to reconcile. Underlying the confrontational dynamics are fundamental disagreements related to the nature of the company's business the way it is run. Monsanto, for example, operates within a transparency network that rejects the legitimacy of its products. This polarization has prevented any meaningful institutional solution from emerging.[68]

As companies and activists become more experienced with these transparency-based systems of governance, however, an increasing number of institutional solutions are emerging. On one hand, firms see the benefit of working with the

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transparency network. As Charles Sabel suggests, "without a way of credibly demonstrating the seriousness of their intent, the accuracy of the information they release, and the credibility of the reforms they carry out…they get no benefit from these systems."[69] On the other hand, transparency network participants see that their ability to influence depends on more than waving placards; it means having a seat at the table when new rules are being designed. The Kimberley Process represents such an instance where there was a sufficient overlapping of interests between industry, government, and transparency network participants to create a single process and institutional framework for eliminating conflict diamonds.[70]

The extent to which transparency networks evolve into more formal institutions will depend largely on the willingness of corporations, governments, and civil society groups to collaborate and experiment with these emerging forms of regulation. This in turn depends on the ability of transparency networks and industry players to evolve relationships based on trust and cooperation. Many factors come into play. They include the degree to which the behavior and commitments of other participants can be relied on; the pre-existing alignment or misalignment of the various institutional goals; the degree to which one participant may have control (perceived or actual) over the outcome; the degree of knowledge-sharing among participants, particularly their level of awareness of each other's interests and of the consequences of their behavior; and finally, the willingness of all participants to compromise their objectives in order to reach a common ground.

Given the deep divides between transparency network participants and business leaders on many issues, the examples of conflict far outnumber the instances where collaborative relationships have developed. When transparency networks drive changes in corporate behavior, it is largely because of the threat of exposure rather than positive incentives to do things differently. The object for most players in the transparency network is to drive accountability and compliance, not to foster learning and innovation. This is starting to change, and we advocate for widespread adoption of these dynamics in the next chapter.

Coherence

In addition to building institutions, there is a need to reduce fragmentation and foster greater coherence among the exploding number of competing codes and standards that have emerged for corporate transparency. This is just as important for companies trying to comply with the endless reporting requirements of overlapping and competing codes as it is for the end consumers of this information who must be able to make sense of what is reported to them. Ann Florini argues that we ultimately have to end up with "a very small number of widely accepted, widely recognized, widely understood" transparency-based codes, "or they're useless."[71]

Not everyone agrees that the prospects for achieving greater coherence are overwhelmingly positive or desirable. As Saskia Sassen put it, "it's not going to become central planning." On the contrary, she argues that "the new map of corporate responsibility is going to fragmented and fairly diverse" because "we are dealing with different strategies, different objectives, different points of intervention, and different levels of globality attached to different types of firms and sectors."[72] In other words, a complex world demands a complex architecture of governance. David Wheeler is skeptical about the prospects for a more unified system of corporate transparency, because, as he claims, transparency-based governance is "already running up against the buffers of how much value-added it has for companies and real stakeholders." "Just because we can rank Shell number 12, and BP number 11," says Wheeler, "doesn't mean that's going to affect how the customers, employees and investors are going to feel about the company; it has more to do with day-to-day experience than some kind of quasi assessment or rank."[73]

The challenge is for transparency-based governance not to become rooted in one or two institutional locations. Indeed, the process of setting and monitoring standards should not become so

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centralized that we eliminate competition among standards for transparency and corporate accountability. It would be better to arrive at a meaningful range of standards that are applicable in particular circumstances and intelligible to a wide audience of corporate stakeholders.[74] Neither is the point to create rigid or universal rankings of corporate behavior. Rather, we should create flexible principles and mechanisms that guide corporate practice, while ensuring that stakeholders get the information that counts.[75]

Accountability

Transparency-based governance raises at least two important accountability-related questions. First, are voluntary systems of transparency-based governance sufficient to ensure that corporations comply with the rules? Second, how do we ensure that the rules themselves are serving the public good when so many of the emerging transparency-based governance systems are being determined by unelected civil society and business leaders?

In all of the emerging transparency-based governance systems we examined, including the institutionalized forms, participation and compliance is voluntary. In these cases, the commitments that companies make to meet certain standards of behavior rules are not enforceable in any traditional legal sense. Rather, they tend to be enforced through the force of public opinion or the discipline of the market.[76] For some observers, such voluntary systems are toothless, mere PR exercises on the part of the companies wanting to avoid more government regulation. We, on the other hand, believe that voluntary rules can be effective, especially under conditions of high transparency.

Even in the most self-organizing and un-institutionalized systems (such as Monsanto's network) we see the intense scrutiny and unmediated debate engendering discipline in the organizations involved. Transparency networks encourage self-reflection as the firms caught up in them are continuously examined. Over time, firms develop greater awareness of their footprint on the world. This awareness, coupled with stakeholder scrutiny, drives firms to be more responsive to the norms and values acceptable to stakeholders. If corporations don't adopt these norms, network participants reveal these inconsistencies to corporate stakeholders such as employees, investors, business partners, community members, and regulators. By doing so they can often generate feedback loops that constrain, or help correct, unacceptable conduct, while encouraging new values and behaviors that conform to the expectations set by the network (see footnote for examples).[77]

In cases where more formal processes of transparency-based governance have been established, voluntary rules are often an effective precursor to binding government regulations. In this respect, John Braithwaite and Peter Drahos argue that forcing a revaluation of firm interests is more important than forcing behavior against a firm's interests.[78] Starting with a voluntary program is often the best way to encourage dialogue, which in turn is the best way to convince firms to consider taking action on a problem. Once you have established concern, you can move toward setting new norms, then to building capacity toward satisfying those norms, then from norms to rules, then to actual enforcement of the rules. There is political necessity about a creating a forum for iterated decision-making in which this type of dynamic can take place. As Braithwaite and Drahos put it, "There can be no enforcement until there are rules, no rules until global consensus-building has generated norms, no norms until there is concern."[79] The evidence presented in their extensive study of business regulation suggests that concern, norms, and capacity build faster when not induced by threat and coercion. The problem as discussed earlier is that, unlike government regulations, not all firms, given the choice, will participate in institutionalized systems of dialogue and transparency. But if industry leaders can be convinced to adopt higher standards of corporate conduct, then the laggards will be drawn in as rules become encoded in national regulatory systems and corporate

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management systems such as ISO 14000. We discuss this more fully in the next chapter.

The second dilemma concerns the problems of democratic accountability and legitimacy that arise from these emerging forms of transparency-based governance. The issue-areas that many of these systems strive to regulate, such as the environment, human rights and labor standards, touch on fundamental aspects of public policy that remain highly contested within national political systems around the world. Yet, much of the content of these transparency-based governance mechanisms (objectives, rules, processes, etc.) is determined by unelected groups of individuals representing either the interests of business or various civil society organizations. The primary job of companies and industry associations in these negotiations is to look after their own narrow sectoral and material interests. NGOs, on the other hand, will claim to represent broader public interests, while in reality they are pursuing single interest issues. Neither of these constituencies is in a legitimate position to sort out conflicting notions of the public good; they are not mandated, as governments are, to weigh competing stakeholder interests within complex societies; and no one has the power to recall them if they think they are misrepresenting (or indeed harming) public interests.

Ngaire Woods of Oxford University points out in a recent study of international institutions that important questions about the legitimacy and inclusiveness of transparency-based governance are often brushed aside in favor of more "pragmatic" concerns about efficiency and "getting the job done."[80] For Woods, too little attention is paid to questions such as: Who determines who can participate in the exercise? Who sets the agenda? Who sets the parameters within which acceptable outcomes must fall? And to that list we would add questions such as: How are firms to know which civil society groups represent genuine public interests or broadly accepted norms and values, and which ones represent minority or fringe concerns? What should firms do when they face competing stakeholder interests? On what criteria should they base their decisions about the trade-offs they make in these intensely political issues? These are tough issues that defy simple answers, but they do suggest that governments have to become more active framework-setters in these emerging networks if we are to ensure that democratic accountability is not eclipsed by global processes of governance that bypass national political institutions.

Perhaps the toughest accountability challenge facing firms is determining where the boundaries of private-sector responsibility for social and environmental problems begin and end. Transparency networks can easily create unrealistic expectations which companies are ill-equipped to fulfill. Coca-Cola's arms-length relationships with bottlers in Colombia raised questions about whether it should help stop the murders of union leaders. In the eyes of its transparency network, Coca-Cola's control of the brand (and share of the profits) makes it responsible. But given Coca-Cola's lack of control over paramilitary violence in Colombia, the company can't resolve the issue single-handedly.[81] There is also a danger that, in thrusting corporations into the role of welfare providers and environmentalists, we undermine the efforts to build state capacity in areas where it is desperately needed. If, for example, a company agrees to build schools and hospitals in communities, does that reduce the incentive for local government authorities to provide these public goods themselves? Furthermore, what happens to these facilities when the company moves away? More thinking needs to be done to identify effective ways for companies to contribute to social development and environmental protection in a manner that is both sensible (given the balance of strengths and weaknesses that companies bring to the table in addressing such issues) and sustainable (in the sense that the solutions that companies help put in place are able to outlive the direct involvement of the company itself).

Transparency provides a fresh solution to the limitations of national strategies of governance, without which many global corporate activities would remain almost entirely unmonitored. The

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alternative of globally binding rules is not going to happen, at least not soon. Charles Sabel of Columbia University argues this is largely because the machinery to compel global companies to adopt consistent international standards for their sectors does not exist and will be quite hard to build (see our discussion of government in chapter one).[82] Apart from that, there are too many local differences that would make uniform global rules unworkable. As Ann Florini points out, this is the problem with institutions like the World Bank and the IMF, often criticized for imposing Western rules and models of development on the rest of the world.[83] Thus, we may have to accept that accountability is becoming multi-dimensional and more complex. In an increasingly networked world, it will not always be clear exactly who ought to be accountable to whom and for what. Instead, accountability will be a product of ongoing dialogue and deliberation in multi-stakeholder networks, in which we hope democratic representatives will be key participants.

Conclusion

Whether transparency is seen as an effective mechanism for aligning corporate behavior with the public interest depends on our expectations. As Ann Florini points out, "If you think of transparency as a replacement for government regulation, where you're going to get the same rapid transformation of corporate behavior, you're going to be disappointed."[84] Recognizing that transparency has limitations, we view the phenomenon as an enabler, but not a panacea, for driving more socially and environmentally responsible corporate behavior.

The key advantage of transparency networks is that they have been able to scale-up their response to the social and environmental consequences of globalization faster and more effectively than governments. They have taken the lead in setting new norms and expectations for corporate behavior by initiating critical public dialogues. Transparency networks should continue to push the envelope, bringing attention to important issues and helping create the platform for change (for this reason, we note that institutionalization should not always be the goal, as someone has to be the vanguard of these issues). Meanwhile, governments should catch on to these regulatory innovations and use their power, resources, and democratic legitimacy to help scale-up transparency-based governance.

The key disadvantage of transparency networks (aside from those discussed above) is their propensity to use the threat of exposure as their main point of leverage with recalcitrant firms. While understandable, this tactic drives firms, with some exceptions, to adopt a more defensive posture of risk management. Under these circumstances, the changes firms adopt, if any, are likely to more cosmetic and reactionary than those adopted under conditions in which learning and innovation are encouraged. To be sure, you often need the stick and the carrot. But when cooperation and learning can be fostered, the accountability dynamics can shift to a more proactive value-adding approach in which firms take a strategic interest in adopting change. Indeed, part of the success of transparency networks can be measured by the fact that a small but growing number of firms are seeing the challenging of aligning their behavior with the public good as a means to build sustainable competitive advantage. In the following chapter we take a deeper look at this phenomenon, which we call the values-based enterprise.

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3 | Values-Based Enterprises

Corporations are well-positioned to be powerful catalysts for change. With skilled managers, sophisticated technologies, deep resources, and transnational reach, corporations can advance causes such as sustainable development and poverty reduction, especially through partnerships with governments and civil society organizations. But how do we change the corporate mindset to balance private and public value?

In Chapter One we argued that national governments and international organizations cannot remedy the harmful social and environmental fallout of globalization alone. There are three constraints. First, the issue of scale — the mismatch between national institutions and global economic activity means that many problems escape their regulatory grasp. Second, the ability to national governments to cooperate on key issues is questionable and international institutions are not filling the void. Third, legislation is a sluggish mechanism for regulating a fast-changing world.

Chapter Two examined the rise of transparency networks that pressure global firms to adopt higher standards of behavior. These primarily NGO-driven networks hold companies accountable to higher standards of corporate conduct, especially when they enroll the support of consumers, investors, public agencies, and occasionally even company employees. In several cases, these new standards are formalized in corporate codes of conduct and third-party supply chain auditing or product certification schemes. But most transparency networks are fluid, unstable, and confrontational. Volatile dynamics interfere with building institutionalized solutions and the lack of democratic accountability can make these informal arrangements seem illegitimate and ineffective in the eyes of the public. Furthermore, while transparency networks can shape the behavior of "branded" firms, they are not infinitely scalable, and neither is the public's attention span. Therefore, many issues and firms escape scrutiny. But on the whole, transparency-based governance is a powerful tool to align corporate self-interest with the broader public good.

Although many networks use naming and shaming tactics, a growing number prefer a collaborative approach that fosters mutual learning and innovation. The concern for the public good, fidelity to norms, and the capacity to operationalize those norms, build faster when they are not induced by coercion. These cooperative, trust-based relationships give rise to a new form of enterprise, one driven by lead firms that negotiate and internalize public values and then use their influence to ratchet up standards of industry behavior.

A growing number of companies believe a values-based approach to business is the best path to competitive advantage. Some companies now have entire departments dedicated to developing social partnerships and embedding public values "in the DNA of the firm." We see enormous opportunity for corporate leaders to create widespread commitment to the values-based enterprise concept. But this raises a number of questions. What is a values-based model of private enterprise?

"Companies are still operating on a passé set of beliefs…Not everyone has switched on to the fact that the way we create value today is different to how we created it 20 years ago — there's been a dramatic shift in market evaluation of companies from hard assets to soft assets such as intellectual property, human capital, social capital, and brand… The people who invest in relationships, whatever the sector, are the ones that have worked out the value, the driving value, of companies is usually contingent on the quality of relationships you have with your suppliers, employees and other people in your business web."[1]

David Wheeler,
Chair of the Business and Sustainability Program,
Schulich School of Business,
York University

"If I'm looking at the next quarter and I'm focused on MY self-interest as the firm now I would take a set of pretty extreme actions that would not be in the interest of the vast majority of my stakeholder groups. If I take a timeframe of 5 years, I would be driven to a very different behaviour even based on the interests and priorities of the stakeholder groups that I most closely identify with. And if I begin to consider other stakeholder groups that are more peripheral, but are growing in power and influence, that shifts the equation even further."[2]

Debra Dunn, Senior Vice President of Corporate Affairs, Hewlett Packard

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Can the notion of public value comfortably coexist with need to create shareholder value? How does it create competitive advantage? And, how do firms operationalize a values-based approach?

The Values-Based Enterprise: Balancing Private and Public Value

A question as old as capitalism itself is whether the unconstrained self-interested actions of firms (and individuals) in pursuit of profit necessarily furthers the common good. If the answer is No, what measures could ensure that private and public interests actually align?

Traditional business doctrine holds that corporations exist to make a profit, and that a company has a fiduciary responsibility to maximize a shareholder's return on investment. Most economists assume firms will be less efficient if managers pursue any goals other than maximizing profits. Accordingly, pursuing profit is not only the most efficient way to run an enterprise, it is also the best way to serve society.

In the tradition of the laissez-faire thinkers such as Adam Smith, Friedrich Hayek, and Milton Friedman, a free market is the most responsive and dynamic mechanism for determining the "collective" choices of individuals in society.[3] With robust and competitive markets, businesses will be "strongly motivated to act in ways that further the general interest — by responding to the demands of their customers, by keeping costs and prices down, and through timely and well-judged innovation."[4]

As a corollary, companies pursuing goals other than profit maximization undermine the market economy and make people worse off. According to David Henderson, a leading critic of corporate social responsibility, companies balancing private gain with public interests would reduce competition and economic freedom. Henderson believes there are a number of reasons for this. One is the increased costs of doing business associated with factoring social and environmental criteria into business decisions. Revenues are reduced as management copes with time-consuming consultation and review processes with outside parties. Companies might cause companies to sponsor low-yielding investments such as reducing a firm's environmental footprint.[5] All these behaviours reduce profits, and therefore the aggregate wealth of society.[6]

Few people disagree that a market economy is the most efficient system for supplying society's material needs. Few suggest that firms ought not to make a profit. Yet it's not sensible to see the pursuit of profit and efficiency as the only corporate goal. As George Soros remind us, "markets left to their own devices do not tend toward equilibrium that guarantees the optimum allocation of resources."[7] Indeed, there are several inter-related conditions under which they fail to produce optimal outcomes for society. These include:

- Public goods: The inability of markets to provide public goods or protect common resources from over-exploitation, leaving many goods and services that people value, like public education and defense, or clean air and water, underprovided.[8]

- Externalities: When self-interested actors offload the costs of economic activity to society, while hording the benefits for themselves, such as when the costs of controlling and cleaning up pollution are borne, not by the firm that created the pollution, but by the larger community.[9]

- Imperfect information: The failure of markets to supply perfect information about the motives and actions of firms, without which firms have few incentives to consider the interests of others, since their behavior is unlikely to be observed, let alone punished.[10]

- Short-termism: The propensity for self-interested actors, out of ignorance or greed, to trade off risks or costs that are perceived to manifest later (e.g., future environmental liabilities) in favor of short-term gain.[11]

- Imbalances of power and accountability: The lack of checks and balances for the global

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economy that prevents firms from pursuing individual gain at the expense of the system, or compensates for many of the market failures just mentioned above.[12]

Since these market imperfections generate costly effects for society and the environment, it is short-sighted to assert that profitability is the best measure of net social welfare. By focusing on short-term profits and ignoring long-term trade-offs, we can easily deplete important social and environmental resources that contribute to quality of life. And, since governments often lag behind the need to address these failures, aligning profit-seeking behavior with the common good is a more direct and efficient way of taking care of public interest concerns. By pursuing a values-based approach to enterprise, firms make profitability a better indicator of the social welfare.

Values-based enterprises (VBEs) strive to maximize their net contribution to society, once all of the costs and benefits of corporate activities are properly accounted for.[13] VBEs believe that business's main contribution to society is to help build a dynamic global economy that opens up opportunities for prosperity for ordinary people world-wide. (Advocates of corporate social responsibility all too often overlook this basic, but essential, role in society). VBEs consciously compensate for the market's failure to produce optimal results for society. For example, the propensity to short-termism is countered with a longer-term view of self-interest, costs currently externalized to society are reduced through more efficient or less wasteful production, and the gap in market information is filled by disclosure of economic, social, and environmental dimensions of corporate performance.

For values-based enterprises, profit-seeking is contextualized by a larger corporate purpose and set of objectives. Hewlett Packard, for example, defines its corporate objectives as customer loyalty, profit, market leadership, growth, employee commitment, leadership capability and global citizenship. Its declared purpose is to "make lasting and meaningful contributions to the world."[14] Much of HP's contribution is derived from its core business of creating and disseminating new technologies, providing jobs and training and promoting local economic development. According to Debra Dunn, Senior Vice President of Corporate Affairs at HP, these principles also translate into social initiatives. One example is the i-communities project where HP works with partners to build "a sustainable information, communication, technology, services model" that can expand access to health and educational services in underserved communities.[15] These initiatives generate brand value and a positive marketplace reputation. More significantly, HP builds deep relationships with governments, communities and other stakeholders, and as Dunn points out, it "gets access to business."[16] For Dunn, the company's strategy can be summed up as aligning citizenship objectives with business objectives. For values-based enterprises in general, profitability is a necessary condition for existence and a means to more important ends, but it is not an end in itself.[17]

Looking back at the recent history of business, one finds many successful companies that pursued a values-driven agenda. When George Merck II described the purpose of the Merck & Company in 1935 he said, "We are workers in industry who are genuinely inspired by the ideals of advancement of medical science, and of service to humanity."[18] Merck's vision wasn't inspired by simple altruism, but by a form of pragmatic idealism. As Merck explained in 1950, "We try to remember that medicine is for the people. It is not for the profits. The profits follow, and if we remember that, they have never failed to appear."[19] Merck and HP are not alone. Indeed, the conclusion reached by Jim Collins and Jerry Porras in their landmark study of the characteristics of visionary companies was that, in the most successful, enduring and profitable companies, values lead and profit follows.[20]

If we take day-to-day corporate practice as our guide, we could argue that the idea that most corporations pursue profit maximization to the exclusion of all other considerations rarely captures the full picture. As Saskia Sassen put it, "Corporations

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are complex organizations and, hence, their purposes are also complex…there's a broad set of agendas that corporations are already negotiating, de jure or de facto."[21] While in theory efficiency-seeking firms should seek out the lowest cost location in terms of labor costs, they frequently weigh the cost savings with the benefits of having access to a healthy, educated, and disciplined workforce; they balance the short-term advantage of the least burdensome environmental regulations with the longer-term reality that environmentally friendly production processes often turn out to be more economically efficient; and they often forego the seemingly expedient option to skirt human rights considerations with the knowledge that such behavior is out of step with the norms and values held dear in their most affluent consumer markets. The façade of profit maximization is giving way to the reality that companies negotiate the issues and agendas of many stakeholders when they make strategic decisions. Today's complex world dictates that short-term profit maximization alone should not determine corporate strategy.

Some corporate responsibility critics, such as David Henderson, argue that pursuing public value undermines the performance of firms, with the company and society the net losers. But such criticisms don't withstand scrutiny. First, a values-based approach is not about altruism. Striving to maximize public value does not mean that companies forsake the value they provide to customers, shareholders, and employees. On the contrary, adopting the more expansive notion of value creation encapsulated in the public value concept ensures that firms are not squandering valuable long-term relationships and assets for short-term gain. At times, this may mean making trade-offs between what may appear to be immediately expedient and profitable for the firm and the interests of other stakeholders in society. These trade-offs needn't erode shareholder value or reduce the welfare of society. For example:

- The costs of "time-consuming" consultations with stakeholders pay off when stakeholder groups reciprocate with cooperative behavior .

- In today's economy, firms compete not just on price and quality, but on a range of intangible factors such as reputation, brand, and track record for corporate citizenship .

- The "low-yielding" investments in social and environmental initiatives that Henderson worries about needn't amount to inconsequential pet projects; a growing number of companies pursue strategically aligned social innovation and leadership as a means to achieve competitive advantage.

Indeed, for values-based companies, it is not a choice between values and pragmatism, or profit and public interest. Rather, the challenge is to find pragmatic and profitable solutions that allow firms to behave consistently with the values and norms of the societies in which they operate.

The Case for a Values-Based Approach to Enterprise

As discussed earlier, two factors form part of the case for the values-based enterprise. One is growing interdependence. The increasing indivisibility of self-interest and system interest is, in some ways, the ultimate justification for the values-based enterprise. As the world becomes interconnected, the more corporate interests become inextricably tied to the well-being of other actors in society. Since inequality and environmental degradation erode social and economic stability, participants in the system have a stake in preventing a potential collapse (see Chapter One). The second factor is the role that transparency networks play in exposing harmful behavior. Networks keep consumers, investors and regulators informed, and help redress imbalances in power and accountability. As transparency increases, firms will be less able to pursue behaviors contrary to public interests, and more likely to comply with the norms and values that govern society.

While forming an important part of the context for change, neither of these factors — growing interdependence and increasing transparency —

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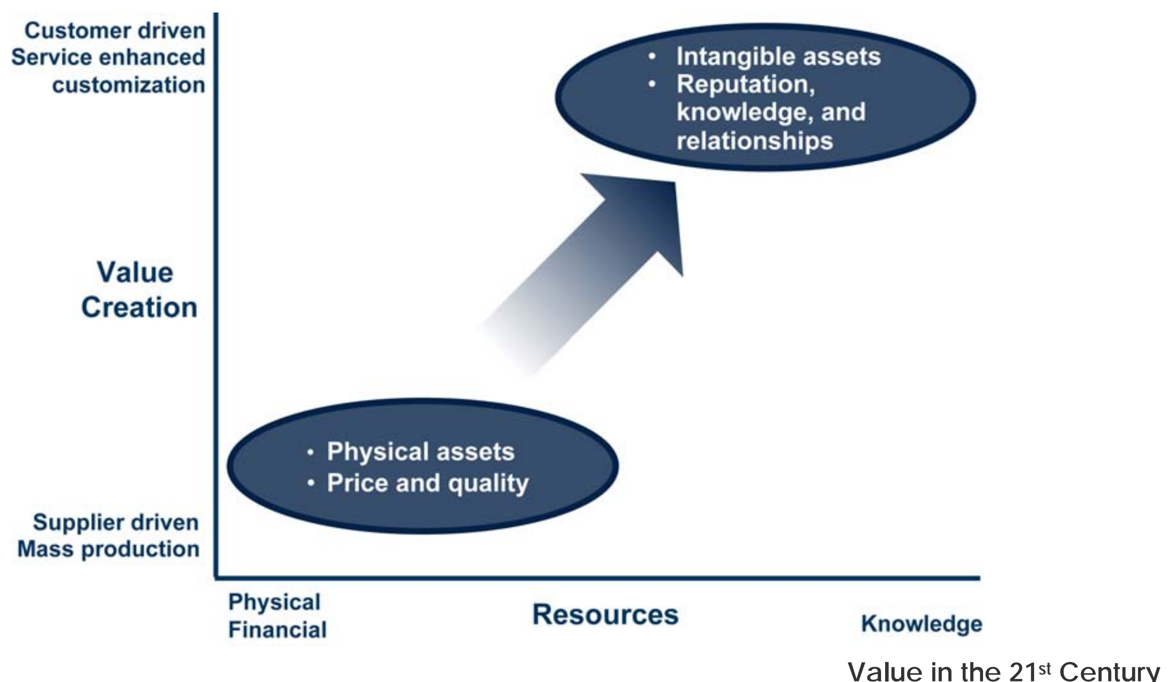
helps make the prospect of pursuing a values-based approach to enterprise more strategically compelling for corporate managers. They make the case that a values-based approach to enterprise could be considered a sophisticated form of political risk management. But they do not point toward a new way for firms to succeed in the marketplace, and for that reason it is unlikely that either justification will foster widespread adoption of a more balanced and long-term view of corporate self-interest. Some firms may act out of an enlightened sense of self-interest, but a majority will act only insofar as they seek to secure their vital interests. There is, however, one more important factor to consider that does provide a strategic case for the values-based enterprise.

Values-based enterprises operate on the basis of a more complete understanding of how competitive advantage is created. Values-based enterprises don't compete solely on the price, quality, or availability of their products (although these fundamentals remain as important). As price and quality are increasingly standardized, values-based enterprises compete on the basis of their ability to create and apply knowledge to drive innovation, to sustain value-adding relationships with key stakeholders and build a reputation as a great company. These firms have become less dependent on the capital contained in land, factories, buildings, and big bank accounts, and more reliant on the human and intellectual capital that firms harvest from a wide range of stakeholder relationships.

The competitive advantage of a values-based enterprise lies in its superior ability to develop committed stakeholder relationships, which in turn is based on its ability to establish shared values, earn trust, and build social capital. It weaves the knowledge and contributions of employees, customers, investors, and business partners, community members, public officials, and non-governmental organizations into a dynamic web of value creation. The skills, experience, and knowledge of these participants are fully brought to life when there is a social infrastructure in place to facilitate learning and cooperation. The quality of the social infrastructure, in turn, depends on the social capital they create around a set of shared values and a sense of trust among people. Shared values provide a cognitive link between people that forms the basis for committed, trust-based relationships.[22]



Value in the 21st Century

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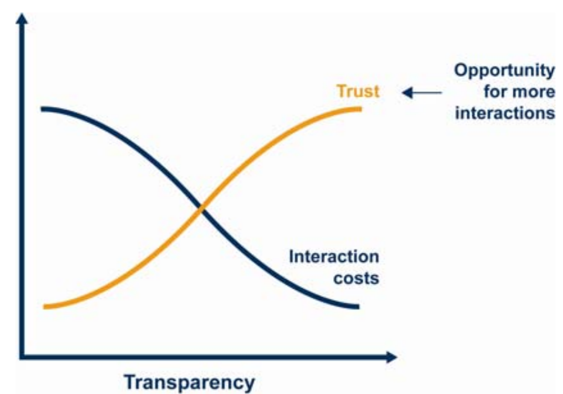
An extensive body of literature has grown around the importance of social capital in a wide range of relationships and institutional contexts.[23] Business is no exception. Business systems depend heavily on a high level of interaction and cooperation. In a networked business enterprise, social capital provides the glue that holds together the complex linkages of people who interact to create value. As today's firms are increasingly defined by a large, interwoven set of interdependent relationships both inside and outside the firm, social capital is increasingly important. This is true of core stakeholders such as employees, partners and customers, and increasingly, with "non-core" stakeholders such as community members, public officials, and NGOs that have major influence on the success or failure of the firm. While the fabric of shared values and trust may be largely invisible to an outside observer, it plays a critical role in aligning people and organizations around common goals and coordinating their efforts for mutual benefit.

How does this work in practice? David Wheeler points out that "stakeholders act as gatekeepers to resources that firms need." For example, customers decide whether to give the company money, communities decide whether to let a company locate in their area, and employees decide whether to share innovative ideas with their employer or defect to a competitor. According to Wheeler, "The better the company's relationships with its stakeholders, the better its access to resources." Likewise, "poor stakeholder relationships make stakeholder-controlled resources less accessible." In this sense, "the quality of a company's relationships with its stakeholders can be seen as an indicator of the organization's capability to access valuable resources."[24]

The reality that stakeholders can act as gatekeepers to critical resources is best embodied in the notion of a "license to operate." A social license to operate implies that a company has the support of a community of stakeholders to conduct its business, usually because there is an implicit or explicit agreement the company will operate by the rules and norms that stakeholders and the company find acceptable. For example, companies involved in natural resource extraction (e.g., mining, forestry) have a major environmental impact and therefore must work hard at maintaining their social license to operate. A mining company, for example, must pay more attention to its relationships with environmental NGOs, communities and regulators, or risk costly sanctions against its activities. Sanctions could come in the form of a fall in the share price, a decrease in productivity, or a loss of sales. Moreover, high social transaction costs generally mean that management capacity is taken up with defensive activity and is less able to shape the future.



Trust and transaction costs

Trust and social capital can be a decisive market advantage, especially when a corporation offers products and services similar to the competition in quality and usefulness. As Wheeler puts it, "Stakeholder relationships...allow companies to exercise unique capabilities, which, in turn, can be deployed strategically as core competencies to yield a competitive advantage."[25] A good example is the Canadian oil company Suncor, which spent 10 years developing a competency in negotiating with First Nations groups (Aboriginals). Suncor obtained environmental permits for its oil sands development in Alberta 18 months ahead of schedule because of strong community support. Similarly, BP's successful bid for oil rights in Alaska was secured by earning a community license to operate based on a positive reputation for community involvement.

The case for a values-based approach to enterprise is different for each firm, since values are specific to the

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context and relationships in which they are embedded. Services firms may be less concerned about a social license to operate, and more likely to be preoccupied with ensuring access to highly trained and motivated workers. Biotechnology companies may be less anxious about the immediate communities in which they operate, and more concerned about the broader public's demands for choice, transparency, and safe and nutritious food products. However, while the issues, value-sets and stakeholders will differ with each firm, the principle largely remains the same: aligning a network of stakeholders around a set of shared values is the key to enhancing the trust and cooperation firms need to gain access to valuable resources and lower the friction they encounter in pursuing their goals.

A Roadmap for Value-Based Enterprises

Becoming a values-based enterprise involves a wide-reaching set of changes in the culture, structure, and processes of corporate governance. This includes not just the formal procedures for managing the relationship between senior executives and shareholders but, more importantly, the less formal processes for interacting with the normative and civic environment in which companies operate. As these less formal processes grow in importance, they do not replace the traditional processes of corporate governance; they enrich them by establishing more robust feedback mechanisms for drawing on external sources of knowledge and support. These feedback mechanisms become a means for weaving the inputs of both traditional and non-traditional stakeholders into the fabric of corporate decision-making. They help establish equilibrium between private and public value. And, over time, a robust system of feedback loops helps cement the trust and social capital that firms establish with a network of partners and stakeholders.

Three interrelated areas of organizational innovation form the foundation for values-based enterprises:

1. Culture: fostering the right corporate culture and ethos to support transparency and a values-based approach to enterprise.

2. Process: managing a continuous process of learning and improvement that embeds shared values and acceptable behaviors in the DNA of the firm.

3. Structure: building the networks and institutions that can mobilize collective action and secure the competitive advantage of values-based firms.

CREATING A CULTURE OF ENGAGEMENT

Many companies fail to recognize and tackle tough issues because they lack the right experience and perspectives to guide them through new challenges. Fault partly lies in corporate cultures that rarely encourage or reward managers or employees for thinking about the social and environmental dimensions of their operations. Firms often avoid interacting with people or organizations that criticize them. The result is that most decisions are set within a narrow financial context, even when a more expansive set of social and ethical considerations are appropriate.

Creating a culture of engagement is about harnessing knowledge networks and stakeholder relationships to help firms to recognize important changes in their environment and adapt to them with foresight and planning. The first objective for values-based enterprises, then, is to foster a corporate culture that will establish an enabling environment for learning, engagement and innovation. This means instilling the desire to seek out new information, consider other perspectives, and be more transparent about corporate policies and activities.

Sharing knowledge. Changing the culture of corporate governance begins with strengthening the capacity to seek, share and integrate new knowledge and information. Firms should abandon an inward-focused culture in favor of one that draws

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insights and opinions from a broader, more representative group of stakeholders. Employees and managers need to spend more time exchanging views with non-traditional stakeholders. Hiring younger employees from more diverse backgrounds infuses the firm with new thinking.

Sharing information with a larger network of organizations yields two benefits. First, it establishes an early-warning system that helps firms more accurately foresee the risks and opportunities in tomorrow's social and political landscape. This better positions firms to negotiate with key stakeholders before crises emerge. Second, sharing knowledge means that the combined skills and resources of stakeholders and the firm are brought to bear on shared tasks and goals. Over time, these advances enable firms to better navigate changes in society and the economy as new perspectives and knowledge are integrated into corporate strategy.

Leading firms in the energy sector, for example, work with Environmental Defense, a large environmental NGO, to develop strategies for reducing greenhouse gas emissions through the Partnership for Climate Action.[26] The environmental insights provided by Environmental Defense (as well as other corporate participants) help firms such as Dupont and BP build the capacity to position themselves as leaders in battling global warming while preparing themselves for tougher emissions regulations in the future.

Expanding participation in decision-making. Forward-thinking companies adopt a more consensual and inclusive decision-making process for issues. They shed their doubts about the competence of other stakeholders to help corporations make better decisions, and abandon their sense of monopoly over the governance process in favor of participatory models that invite ongoing input. Such processes appear in stark contrast to the fast-paced, no-bullshit approach to corporate decision-making. But the added effort upfront to arrive at reasonably consensual decisions can save a great deal of frustration and friction down the line. When deciding about when to open decision-making to scrutiny, firms should remember that decisions reached through inclusive processes garner more legitimacy, and enjoy a higher rate of compliance.

Shell, for example, having been stung by the 1995 debacle in Nigeria (in which Shell was implicated in human rights abuses and state corruption), now consults widely with a range of stakeholders before embarking on new gas and oil extraction projects. Shell claims that community partnerships and stakeholder consultations actually lead to superior project design and implementation. The Energy and Resources Group at University of California-Berkeley reviewed a recent Shell project in the Camisea gas fields of Peru and found that the cost of these efforts represented only 2% of the total start-up costs of $300 million and "leveraged financial benefits quite out of proportion to their costs." The benefits, according to their report, included risk reduction, goodwill and cost avoidances in future development phases.

Improving transparency and accountability. Sociologists point out that a system to monitor and sanction members' actions is a common feature in any successful community.[27] Monitoring and sanctioning is important not simply as a way to punish rule-breakers, but also as a way to assure members that others are doing their part to maintain the integrity of the community. Yet many firms cling to a culture of secrecy because they fear that, by arming critics with information, they make themselves vulnerable to hostile groups. Values-based enterprises, by contrast, learn that withholding information, or failing to honestly and clearly communicate, can alienate stakeholders and strain important relationships. For this reason, they anticipate and disclose the information stakeholders seek to demonstrate the firm is a trustworthy partner.

Over time, a commitment to transparency reinforces the notion that a company's commitments are reliable and that its behavior consistently aligns with the values and images it projects in the marketplace. Moreover, transparent firms build the credibility they need to engage effectively in public

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debates that are shaping the future of their industries. As Ann Florini notes, "if business wants to be able to respond to its critics and be believed, and if it wants to be seen as having a legitimate voice in its own regulation, it has to be highly transparent. Otherwise it's not going to be trustworthy."[28] This doesn't mean companies divulge all of their secrets. No one argues that companies should reveal trade secrets or competitive information. But when stakeholders make legitimate requests for information, transparency presents new opportunities for building and maintaining key relationships.

ENABLING A PROCESS OF CONTINUOUS LEARNING AND IMPROVEMENT

The point of the values-based enterprise paradigm is not necessarily to secure definitive regulations, but to define a process through which firms can learn and continuously improve their performance. The challenge in aligning public and private value, as Charles Sabel of Columbia University suggests, "is to find a way of using experience to create a framework that suggests what's allowable from the point of view of the world's consensus on moral values, and what's feasible by way of improvement."[29] Over time, this dialogue between firms and society is updated continuously as experience helps inform realistic expectations. Firms reinterpret society's values, while society re-specifies what's required by way of improvement. Both judgments become more nuanced as firms learn more about what society wants, and society learns more about what firms can do in different contexts.

This process of mutual learning and improvement can be broken down into three key components: negotiating values with stakeholders, embedding values in the way firms operate, and measuring and reporting corporate performance to keep the process of learning and improvement alive.

Negotiating values. The first step in driving learning and improvement is to establish an iterative process through which the values that guide corporate behavior can be negotiated with key stakeholders. The process is iterative because the values and expectations of stakeholders are not static and immutable, they are contingent, conflicting, and ever-changing.[30] What was considered responsible best-practice in 1980 might be considered shameful today. What is valuable to one stakeholder is anathema to others. And, to make it more challenging, notions of "good" or "responsible" corporate conduct will change even faster in an increasingly networked world where new expectations are rapidly mobilized with the changing of public moods and priorities. If companies want to stay in sync with these expectations, they need to engage directly in a continuous process of negotiating the standards against which stakeholders will judge their performance.[31] Waiting for governments to catch up to social expectations is not the way to succeed in this turbulent social and political environment.

Susanne Stormer of Novo Nordisk, a company world-renowned for its proactive engagement strategies, explains that its iterative process of values-based management is based on regular feedback through stakeholder dialogue and the systematic monitoring of the global trends. "We have developed a very systematic stakeholder engagement approach, and we have learned a lot by doing that. We see it as kind of a learning curve where the issues that emerge move up the ladder of our organizational understanding, and then they become integrated with the business. The next step is to recognize the need for change, and then to strategically review the business implications, to define a proactive strategy, and then again to engage with the stakeholders on how we're going to deal with it."[32] As Novo Nordisk learned, interactive stakeholder communication is an ongoing commitment.[33] The notions of responsible corporate conduct are moving targets that must be developed from sometimes-competing interests of stakeholders.

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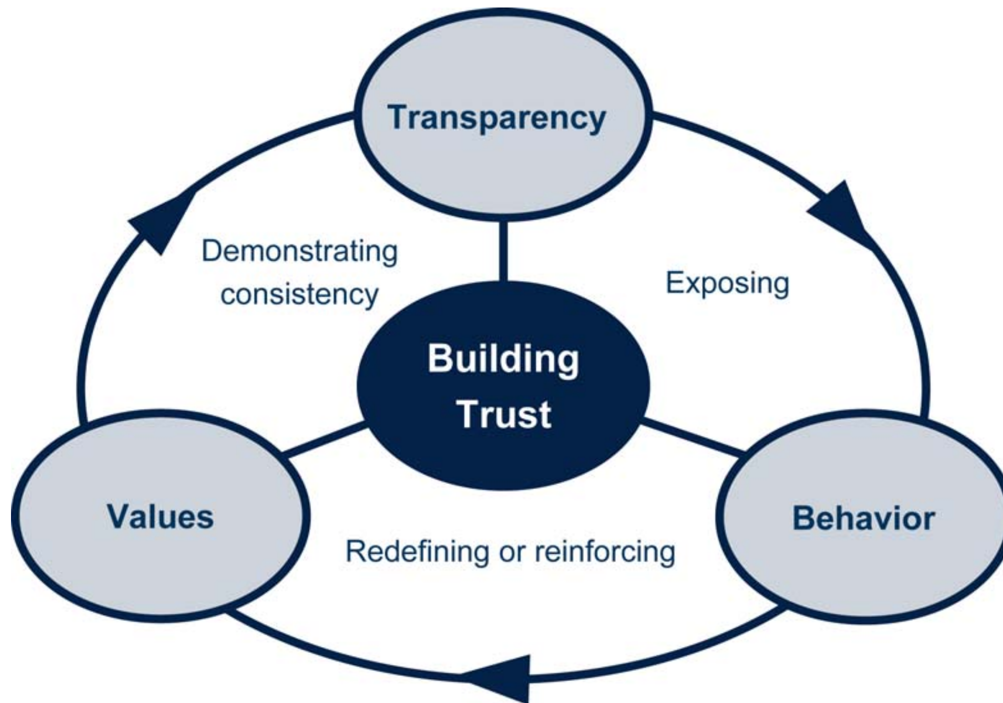

Values cycle

The diagram above illustrates the iterative cycle of forming, evolving or reinforcing values in partnership with stakeholders. The model has three basic elements: transparency, behavior and values, interlinked in a repetitive cycle. While it is possible to start anywhere in the cycle, for the sake of argument we begin with transparency. Transparency's role is to expose inconsistencies between the conduct of firms and the stakeholders' expectations. Gaps between expectations and behavior force firms to rethink or redefine the values that guide their behavior. As new corporate policies and practices are adopted, these redefined values are subsequently projected out into the marketplace where stakeholders will re-evaluate the behavior of firms. Stakeholders will respond with feedback on what they see, initiating another round of self-reflexive examination by both the firms and stakeholders. Through this iterative process, values and standards of responsible conduct are continually redefined according to the changing expectations of stakeholders and the evolving capabilities of firms.[34]

The process of negotiating corporate values can sometimes be painful. It can immerse firms in intensely political issues. In many cases, this means engaging in issues with which the companies have little experience. To some executives, social and environmental issues seem only tangentially related -- if at all -- to their real business. But companies get caught in the crossfire of complex issues, and seemingly mundane products become subject to politically charged debates. For example, until 1997, Home Depot thought it was in a fairly uncontroversial business: selling nails, hammers and lumber at discount prices. Then the Rainforest Action Network demanded the company phase out old-growth lumber from its product lines, and Home Depot was forced to take a position on rainforest depletion. For two years, Home Depot tried to scuttle RAN's campaign. It made minor concessions in an attempt to quiet the protest, all of which were rebuffed by RAN. When the pressure became too much to bear (Home Depot was facing a barrage of store pickets, negative media coverage and the possibility of losing new store locations) they decided it was less costly to align themselves with good forest

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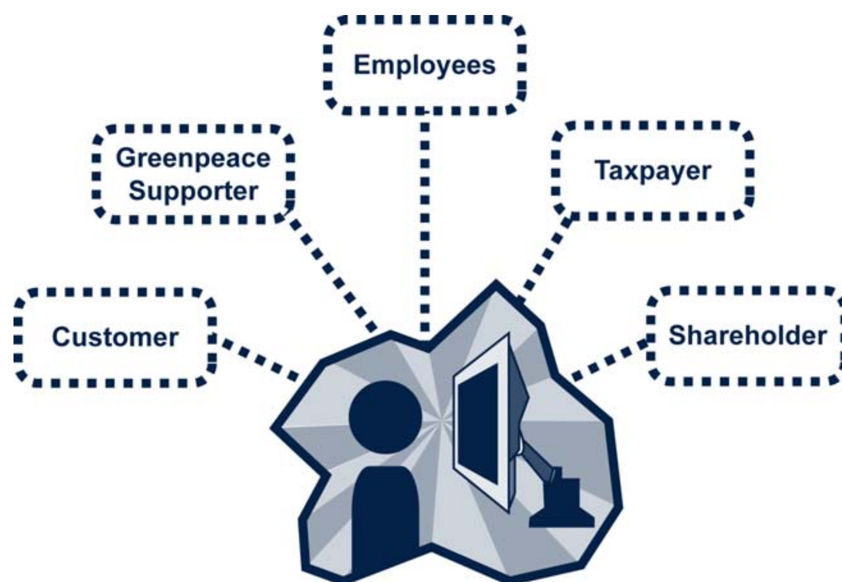
stewardship practices by agreeing to certify their products with the Forest Stewardship Council (FSC).[35]

Taking a stand on such issues can be difficult, particularly when the interests of multiple stakeholders must be balanced in an atmosphere of high risk and uncertainty. Home Depot had to balance its financial interests (can we afford more bad publicity, how will customers and investors react, how much will it cost to certify our products as "old-growth" free?) with the interests of its suppliers (who would be forced to comply with the new certification scheme to remain a Home Depot supplier), with the interests of the broader industry sectors that would feel the repercussions of Home Depot's decision (not just other home improvement chains, but all supply chain participants ranging from product manufacturers to the forestry companies), with societal interests in rainforest conservation as represented by RAN. Indeed, when Home Depot decided to go with the FSC certification program over the industry-preferred Sustainable Forestry Initiative (SFI), it dealt a major blow to the industry groups promoting the less stringent SFI program.[36]

Embedding values. In navigating the external world of political issues and social expectations, firms must secure employee support in embedding and enacting new values-based behaviors. As new issues and values emerge, corporate leaders must develop internal alignment around the firm's changing ideals and goals. Many firms move to reinforce the alignment on values with a set of organizational processes and structures, and often a system of incentives to modify old ways of thinking and deeply engrained behaviors. In our recent study of anti-corruption strategies, for example, we found that leading firms combined all three elements — alignment on values, organizational processes, and individual incentives — to help eliminate corrupt practices. Mark Wade of Shell, for example, describes their approach as a combination of using carrots and sticks. "The first thing is to say [anti-corruption] is a 'value of Shell' and there is intolerance for people who go the wrong way and that's why we fire people, even very senior people occasionally, if they've been found to be guilty in this way. So you have the 'stick' element but the 'carrot' element is to help people see, from their own value systems, that this is something they shouldn't do and they don't need to do and they shouldn't be afraid of losing business for that."[37] These strategies were bolstered by bottom-up alert systems with genuine whistle-blowing protection and proper training to ensure employee buy-in and commitment to anti-corruption strategies.[38]



Multiple roles, multiple identities

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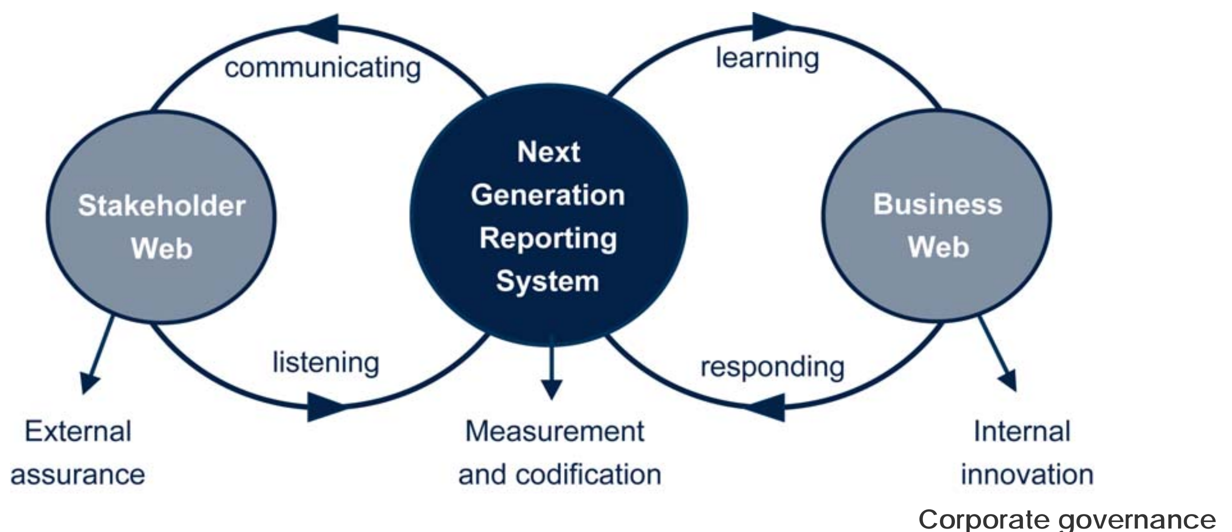
A top-down approach to infuse the firm with new values must be balanced with a bottom-up orientation that is responsive to employee needs and perspectives. Employees don't simply want values dictated from up high; they want a meaningful role in influencing the values and behaviors of the companies they work for. Employees, after all, are also taxpayers, voters, investors, and often parents; they may even be Greenpeace supporters. All of these interests come to bear when employees evaluate their employer's behavior against society's broader values and expectations. Providing employees with a meaningful role in defining corporate values means creating genuine opportunities for them to shape and take ownership of the value-setting process. Robert Haas, CEO of Levi-Strauss, recently said, "If companies are going to react quickly to changes in the marketplace, they have to put more authority, accountability, and information into the hands of the people who are closest to the product and the customers. Values provide a common language for aligning a company's leadership and its people"[39]

Taking the time and effort to build employee consensus inevitably pays off. It is much easier to move toward a values-based enterprise approach when employees genuinely believe those values are meaningful. If the workforce is capable of assessing information and making judgments based on the firm's core values and, furthermore, if management is seen to respect those values, then employees will be better equipped, and more motivated, to make decisions that enhance and protect the firm's economic position. Employees also provide the lifeblood for change and renewal. Getting their buy-in is critical to building the learning and innovation capabilities that are core to a values-based firm.

Measuring and reporting corporate performance. Measuring and reporting corporate performance in social, environmental and financial dimensions plays an important role in institutionalizing the process of learning and continuous improvement. The role of measurement and reporting is to link the external consultations with customers, business web partners, shareholders and public stakeholders that help shape and inform corporate values with the process of creating internal alignment on values and building the capability to enact those values in corporate practices. A robust system of measurement and reporting therefore serves two purposes. On one hand, it satisfies internal requirements to assess the effectiveness of corporate policies, improve business processes, and adapt strategy to changing circumstances. On the other hand, it satisfies external communities of stakeholders that firms are learning and improving as they listen to stakeholder feedback and develop the capacity to respond.

In the model above, the measurement and reporting process is the hub of a dynamic system of



Corporate governance

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feedback loops that reinforce and embed the values that underpin action in four stages: communicating, listening, learning, and responding. A firm starts by measuring and codifying its social, environmental, and financial performance. It communicates the results to provide external assurance to stakeholders, and then listens to the feedback. It assimilates and synthesizes the learning from this experience and then infuses new knowledge throughout the firm's business web. Key participants in the business web develop the capacity to respond with innovations and new patterns of behavior, and the process of measurement and reporting begins again. This enterprise-wide system of organizational learning drives continuous improvement as the information collected is fed back to managers and employees.

BUILDING A NETWORKED ORGANIZATIONAL STRUCTURE

If culture is about changing mindsets, and process is about creating a system for defining shared values and driving continuous improvement, creating a networked organizational structure is about building the partnerships and institutions that enable values-based enterprises to acquire new skills and competencies and organize collective action.

Leveraging multi-stakeholder networks. Forming broader and stronger networks with external groups enables companies to stay more attuned to emerging issues and social expectations, and also provides the complementary resources and capabilities to address them. Firms aren't currently well-equipped to deal with all of the social and environmental challenges that await them, nor would it be appropriate to try to build such internal capacity.

The most fruitful advances will come from networked structures that pool the competencies and resources of a broader, more representative group of stakeholders in society. Debra Dunn of Hewlett Packard notes that each of the three major sectors — civil society, government, and business — bring unique capabilities to the table.[40] Dunn encourages all firms to go beyond the typical public/private partnership model and strive to build multi-stakeholder systems that "enable true collaboration between stakeholder groups."[41] As Dunn suggests, when partnerships consist of real engagement and mutual learning, you have the opportunity to "leverage the competencies of different groups to tackle very hard problems like economic development and poverty alleviation."[42] Sharing risk and responsibility among stakeholders creates incentives to work collectively toward a shared vision and outcome. Failures will inevitably occur, but all participants can share the blame and consequences.

Government agencies can make a range of contributions to helping these multi-stakeholder networks perform effectively. First, governments can draw on their experience in multi-stakeholder governance to help firms shape the institutional framework that manage the relationships among firms and diverse stakeholder groups. An effective institutional framework helps broaden participation, manages group dynamics, and creates trust and commitment. Second, with so many competing interests and perspectives, governments can help discover common ground among network participants. Government is the best positioned to mediate among competing social and economic interests. Third, as the representative of the electorate, governments need to be careful to balance inputs and protect the broader public interest when non-state actors take on broader governance roles. Governments will need better sensors for probing these new developments and nimble ways to decide where government intervention is needed and where it would just get in the way. Finally, governments will need to ensure democratic accountability is maintained amid significant transformation. More international decision-making and a shift in power towards politically powerful non-state actors could exacerbate the democratic deficit and sentiments of political alienation. Governments need to take the lead in designing new processes for citizen participation and broadening concepts of democratic accountability beyond geographic definitions.

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Organizing collective action. In some cases, the benefits of values-based activities will be clear and compelling. Values-based enterprises know their good deeds will be reciprocated by supportive employees, customers and investors. Contributing to community organizations and treating employees well are some of the easy wins. But how can values-based enterprises push the envelope to address some of the really hard problems, where the competitive or financial rewards of leadership are not quite as obvious? For example, problems such as reducing greenhouse gas emissions, halting the spread of HIV infections in Africa, and ending the corrupt practices that undermine economic development. Not only do these complex problems overwhelm the capabilities of individual companies to solve them (even when, as suggested above, they harness the resources and competencies of multi-stakeholder networks), the economics of unilaterally investing in solutions run contrary to interests of shareholders. Although corporate leaders may be motivated to help, there are structural barriers to effective corporate action.

Consider greenhouse gas reduction, for example. Pursuing unilateral action could expose values-based firms to substantial risks, including:

- Substantial investments in changing processes and adopting new technologies will not be recouped, and the end benefits might take years to manifest;

- Less environmentally committed competitors will take advantage of cost increases to undercut them in the marketplace;

- A commitment to reducing greenhouse gas emissions would fail to produce any significant environmental benefits unless it was widely emulated.

In this case, not only would the firm's action cause financial harm to shareholders, the strategy itself would not significantly lower overall greenhouse gas emissions. Meanwhile, the same collective action dilemma plays itself out in other similarly complex issues. Roger Martin, dean of the Rotman School of Business at the University of Toronto, notes how the problem of securing collective action extends to bribery and corruption. "A large exporter," explains Martin, "may balk at paying bribes to foreign officials to win sales. But if its offshore competitors persist in the practice, the company and its shareholders are put at a disadvantage while the norms that countenance bribery in the first place remain unchanged."[43] Thus, in many instances, principled action is stifled by risk and uncertainty. Because no firm can be sure how others in the industry will react, no firm can be reasonably expected to bear the costs and risks of acting alone.

Values-based enterprises need to build their strategy with collective action dilemmas in mind. Their success in achieving goals will often depend on their ability to rally other firms in the industry around the same goals. This predicament creates a strong incentive for values-based enterprises to encourage like-minded leaders to join them in adopting higher standards and, where possible, to organize widespread industry cooperation. As Charles Sabel put it, the goal of collective action is to provide an opportunity for firms "who once saw their interests as adverse to redefine them as compatible in the act of institutionalizing cooperation."[44]

The success of collective action varies across sectors and depends on many factors, including the size of the group, the degree of stakeholder interdependence, the ability of lead firms to influence laggards, and expectations about cooperation and reciprocity. But, according to Elinor Ostrom, an expert on collective action, "All efforts to organize collective action…must address a common set of problems. These have to do with coping with free-riding, solving commitment problems, arranging for the supply of new institutions, and monitoring individual compliance with rules."[45] It's worth taking a brief look at each one of these issues.

- *Discouraging free riders.* Creating and sustaining public goods (or common pool resources) is dependent on discouraging free riders, or those who enjoy the benefits while letting others pay

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the costs. Values-based enterprises wanting to lead in social and environmental arenas will often need to discourage lagging firms from undermining their objectives. Counter-strategies include increasing the level of transparency to put pressure on free riders, influencing standards bodies to ratchet up industry codes and standards, and enrolling the support of NGOs and governments to impose regulations or sanctions that improve the conduct of laggards.

- *Securing commitment.* Securing commitment to collective action is difficult because the willingness of one participant to commit often depends on their perception of the willingness of others to commit. That is, some participants are prepared to act, but not if they must act alone. Convincing bitter competitors to toe the line can be arduous work at best. Despite the barriers, corporate leaders with a combination of vision, energy, and communication skills can help convince other leaders to share the risk and responsibility of collective action. Initiating dialogue about shared goals and objectives, sharing best practices, and publicizing their successes are strategies for securing commitment.

- *Building institutions.* Institutions often coordinate, monitor, and enforce collective action on an ongoing basis. Institutions can range from informal "understandings" about rules or behavior to more formal arrangements such as an independent industry standards body. As noted above, institutional frameworks help broaden participation, manage group dynamics, create trust and commitment, and facilitate progress on issues and challenges. Examples include the World Business Council on Sustainable Development (a coalition of 165 international companies) and the Global e-Sustainability Initiative (a partnership of ICT service providers and suppliers and the UNEP and ITU).[46] Essential strategies for institution builders include acquiring anchor tenants first, touting the benefits of cooperation, and gradually accumulating power and influence through numbers.

- *Monitoring compliance.* Successful collective action depends on a system to monitor participants' actions and enforce compliance with rules. In most cases, rules will be voluntary and enforcement will largely be exercised through the sanctions of peer pressure, market discipline and public opinion. Such monitoring regimes already prove effective in a range of industries (see Chapter Two). However, monitoring is not simply a way of punishing rule-breakers or ensuring that all participants hold up their part of the bargain. As discussed earlier, monitoring can also be used to spur learning and to engender innovations and improvements. Values-based enterprises should seize the opportunity to enlist NGOs and other credible third parties as indispensable collaborators in adopting and extending their current best practices as milestones and benchmarks for assessing lagging industry competitors.

Organizing collective action is not impossible, but it will take a combination of dexterity and diplomatic leadership to bring it about. Roger Martin suggests that "the most significant impediment to the growth of corporate virtue is a dearth in vision among business leaders."[47] Perhaps, on the positive side of the equation, this lack of vision leaves the playing field open for a new generation of creative and courageous corporate leaders. Their task will be to promote the notion that by working together as industries, and by enrolling the support of civil society and government, they can extend and enhance the benefits of economic activity for society.

Unilever's Road to Sustainability

Unilever is a UK-based firm which makes products like Becel margarine, Lipton tea, and Dove soap and operates in more than 100 countries around the world. Even though it's one of the world's largest consumer goods companies, it has largely escaped the public scrutiny that many comparably sized

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companies have endured. But this has not stopped Unilever from pursuing many of the goals championed by public interest organizations. To the contrary, Unilever has quietly built a track record as a corporate sustainability leader. But its approach to sustainability issues is driven less by NGO exposure and reputation risk, and more by the growing awareness among the company's leadership that sustainability is a commercial imperative. Unilever is an exemplary values-based enterprise.

On a strategic and political level, for example, Unilever recognized the threat that anti-globalization and anti-corporate sentiments pose to a company that is heavily dependent on the international free flow of goods and services. The prospect of a more divided and protectionist global economy has prompted company officials to publicly extol the benefits of globalization, while demonstrating the potential contribution that global enterprises could make toward taming the downsides of globalization.[48] Unilever promotes local control by decentralizing decision-making to national and regional units where products and processes are customized to local needs. The company also engages in international forums, such as the UN Global Compact, that promote a more sustainable approach to furthering globalization.

Unilever recognizes the acute operational impact that sustainability issues could have on its business. More than two-thirds of the raw materials used in Unilever products come from agricultural crops and livestock, fisheries and other potentially renewable sources. Environmental experts have pointed out that issues such as deteriorating soil fertility, increasing soil erosion, loss of biodiversity and declining availability of clean water will undermine the ability to obtain these resources at predictable prices and quantities. Unilever is now working with environmental NGOs and researchers to set targets and establish new mechanisms for monitoring and improving sustainability performance in its supply chain. The company also reports regularly on its progress in this area by releasing independently verified social and environmental reviews that provide five-year data trends of its performance.

Take, for example, Unilever's response to the rapid depletion of fish stocks around the world. The United Nations Food and Agriculture Organization recently reported that 70% of the world's commercial fish stocks were either fully fished, overexploited, depleted, or only slowly recovering under protective regulations. Worldwide demand for fish is expected to reach 110 million tons by 2010, but even optimistic forecasts suggest that catches will fall short by 40 million tons.[49] Meanwhile, with each nation (and its domestic fishing industry) pursuing its own self-interest, little has been done to prevent a "tragedy of the commons." Sensing its vulnerability to a worldwide collapse of commercial fisheries, Unilever had sufficient incentive to help ensure the long-term sustainability of its frozen fish business.[50] In 1996, Unilever and the World Wildlife Fund (WWF) bridged past differences and partnered to implement a partial solution to the problem.

The proposed solution was the Marine Stewardship Council (modeled after the Forest Stewardship Council), a certification scheme that would establish a worldwide standard for sustainable fisheries and create market incentives to spur its adoption. Products and fisheries that comply with the standard would be certified by the MSC and become eligible to use the MSC logo on their products. The rest was up to consumers, who were relied upon to use their buying power to support sustainable fish products.

The ultimate success of the MSC is still in doubt. Many players in the fishing industry, and several governments, reportedly remain quite hostile to the initiative.[51] A growing number of retailers and food processors, on the other hand, have publicly endorsed the MSC initiative.[52] In the end, much will depend on the awareness of consumers and their willingness to buy products with the MSC label (currently carried on 100 products). As for Unilever, it has committed to buy fish only from sustainable stocks by 2005 and encourages all of its suppliers to move toward MSC certification. By the end of 2001, 5% of its supply chain was MSC-certified, which is expected to rise to 25% by the end of 2003. By raising the transparency of the issue with the MSC

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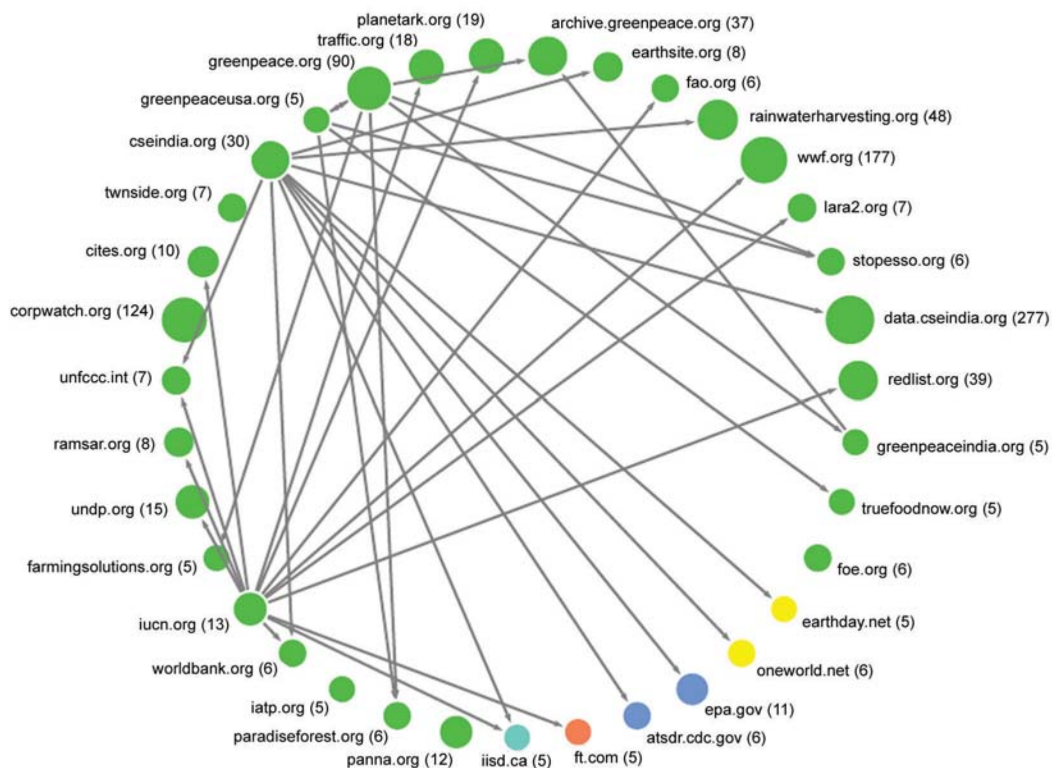
labeling scheme, Unilever may be able to force competitors to do the same.

Unilever's deft approach to the contemporary realities of globalization and sustainability enabled it to develop value-adding partnerships with a network of public agencies, NGOs and community organizations in most of the countries in which they operate. Unilever believes the approach benefits the company competitively and maximizes the shareholder value over the long term. To be sure, Unilever generates a fair amount of good will and recognition for its accomplishments from trade associations, ethical indexes and some environmental groups. The Dow Jones Sustainability Index ranks Unilever as the market leader in the food products industry, describing its performance as excellent. SustainAbility, a UK-based consultancy, lists Unilever among its top 50 best-practice sustainability reporters, while the Association of Chartered Certified Accountants gave Unilever the Best Environmental Report award for 2002. Many environmental groups also concede that Unilever is a responsible company, or at least headed in the right direction. Jonathon Porritt, a leading environmentalist in the UK, said, "I've no doubt that Unilever could be somewhat fleeter of foot in meeting these challenges ... but I still feel that Unilever's science-based, socially-responsible approach to developing more sustainable agricultural practices over time gives it a real edge over its competitors."[53]



Unilever network map

Our mapping of Unilever's transparency network confirms these observations. The network map reflects Unilever's good relationships and reputation with a number of key allies. For example, in April 2002 Unilever, in partnership with the World Conservation Union (IUCN) and Earthwatch Institute (Europe), held a workshop, "Biodiversity Plans for Business," during the 16th Session of the Global Biodiversity Forum.[54] A key node in Unilever's network turned out to be the IUCN (iucn.org). The IUCN links out to organizations such as the United Nations Development Program (undp.org), the World Bank (worldbank.org), the Food and

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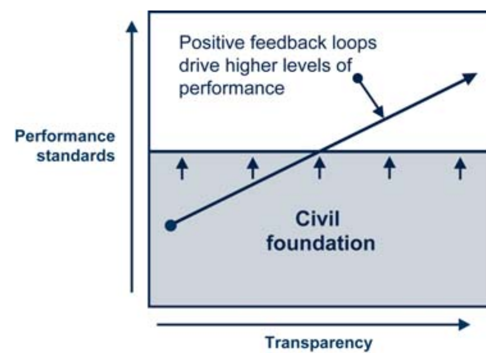
Agriculture Organization (fao.org), and Farming Solutions (farmingsolutions.org), each of which make small but complimentary mentions of Unilever's sustainability activities. The World Wildlife Fund's website (wwf.org) — Unilever's partner in the MSC initiative — also appears in the transparency network.

While Unilever's website is not included in the network map, it does link to the sites above, enabling visitors at either end to find out about Unilever's good work. These references and network relationships help establish the credibility of Unilever's claims about its environmental policies and performance.

The Performance-Based Playing Field

The power of a values-based approach to enterprise is based on the fact that concern for the public good, fidelity to norms, and the capacity to operationalize those norms build faster when not induced by threat or coercion. Threats tend to cause firms to redefine their interests in opposition to the threat. Coercion can achieve short-term compliance, but often at the expense of undermining long-term commitment. Today, it is more likely that shifts in corporate mindsets and behavior will come about not because regulations require them, or because NGOs would prefer it, but because corporations themselves are intrinsically motivated to embrace change. Ultimately, it matters little what provides the impetus for firms to reevaluate their self-interest — our conclusion is that a strategy motivated by opportunity will outperform and outlast a strategy driven by threats from NGOs or coercive measure taken by governments. Promoting a reevaluation of corporate interests is more important dynamic, we think, than forcing behavior against a firm's interests.

What the values-based enterprise paradigm needs is leaders — leaders who see the potential to leverage these dynamics as a new path to competitive advantage. By moving early to adopt new norms on a voluntary basis, these leaders will be better positioned to shape new rules that emerge in the future.



Performance-based playing field

The success of the values-based enterprise paradigm, however, is not guaranteed. Designing broader forms of accountability, creating new institutions for collective action, and sharing risk and responsibility: these will be challenging, and occasionally agonizing, advances. But the promise is that more transparent and participatory forms of governance will enable corporations to become more integrated with the societies in which they operate, more attuned to social and environmental concerns, and better equipped to develop pragmatic and profitable solutions for advancing the common good. Through a dynamic process of dialogue, piloting and innovation, firms can make the transition to a values-based enterprise paradigm.

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Endnotes

State of the Corporation:

[1] John Gerald Ruggie. 2002. *Taking Embedded Liberalism Global: The Corporate Connection*. Miliband Public Lecture on Global Economic Governance, London School of Economics and Political Science, June 6, 2002.

[2] Kofi Annan, "A Compact for the New Century." January 31, 1999.

[3] This brief history of the corporation draws on the work of John Braithwaite and Peter Drahos. See especially chapter 9 of John Braithwaite and Peter Drahos. 2000. *Global Business Regulation.* Cambridge: Cambridge University Press.

[4] For these statistics and others see UNCTAD. 2001. *World Investment Report 2001: Foreign Direct Investment and the Challenge of Development*. New York: United Nations

[5] See Fortune 500. http://www.fortune.com

[6] Susan Strange. 1996. *Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press, p. 54

[7] Most free market proponents accept that minimal governments play an important role in creating a legal environment (contract law, securities regulation, protection of private property, etc.) for the pursuit of free enterprise.

[8] Noreena Hertz. 2001. *The Silent Takeover: Global Capitalism and the Death of Democracy*. London: Arrow Books, p. 8.

[9] Susan Strange, 1996, ibid, p. 54

[10] World Bank statistics, June 2003, see http://www.worldbank.org/povertynet

[11] *Human Development Report 2003: Millennium Development Goals, A Compact Among Nations to End Human Poverty*. New York: United Nations.

[12] David Held and Anthony McGrew. 2002. *Globalization/Anti-Globalization.* Cambridge: Polity Press, p. 77.

[13] Many sectors of advanced industrial economies, particularly the manufacturing sector, have become more vulnerable to globalization as "mobile capital relocates jobs and production in the world economy, trade intensifies international competitive pressures, and global finance constrains the welfare and redistributive capacities of states." See David Held and Anthony McGrew. 2002. ibid, p. 82.

[14] Nancy Birdsall. 1999. Globalization and Developing Countries: The Inequality Risk. Remarks at Overseas Development Council Conference, Making Globalization Work, Washington D.C., March 18, 1999.

[15] The most-often-referenced study was conducted by the Institute for Policy Studies, which claimed that 51 of the largest 100 'economies' in the world are corporations when you compare annual sales and with GDP, see Sarah Anderson and John Cavanagh. 2000. *Top 200: Rise of Corporate Global Power*. Washington: Institute for Policy Studies. Others point out, however, that a more accurate comparison would be value-added and GNP, in which no companies get into the top 40 in this list, and only 15 are in the top 70, see Martin Wolf, "Countries still rule the world." *Financial Times*, February 6, 2002, p. 7. John Micklewait suggests that multinationals have been losing economic clout and that the world's top 50 firms have grown more slowly than the world economy as a whole, see the Open Democracy interview with John Micklewait, March 25, 2003, http://www.opendemocracy.net

[16] Anthony Giddens. 2003. *Runaway World: How Globalisation Is Reshaping Our Lives*. New York: Routledge, p xxv.

[17] Susan Strange, 1996, ibid, p. 53

[18] Daniel Bell, quoted in *The Economist*, July 26, 1997, p.13

[19] David Held and Anthony McGrew. 2002. *Globalization/Anti-Globalization.* Cambridge: Polity Press, p. 17.

[20] Dicken, Peter. 2000. "A New Geo-economy." In *The Global Transformations Reader.* Eds. David Held and Anthony McGrew. Cambridge: Polity Press

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[21] Charley Fine. 1998. *Clockspeed: How to Win Control in an Age of Temporary Advantage*. Perseus Publishing.

[22] Charles Sabel, Archon Fung, and Dara O-Rourke. 1999. "Ratcheting Labor Standards: Regulation for Continuous Improvement in the Global Workplace." World Bank Group Social Protection Unit Discussion Paper SP 0011. Washington D.C.: World Bank Group.

[23] For example, the downward pressure on tax rates for corporations, investment income and high-income earners is seen as evidence of one of the ways in which global economic forces shape national policies (see Noreena Hertz, 2001, ibid. p.68-69). See also, chapter 4 of *Globalization/Anti-Globalization* (David Held and Anthony McGrew, 2002) for a concise overview of competing arguments about national autonomy in a global economy.

[24] Although recent anti-trust cases in the US and Europe show that it can be done when the will-power is there.

[25] Ann Florini, 2003, ibid, p. 100.

[26] Ibid, p. 97

[27] Ibid, p. 98

[28] Interview with Charles Sabel, conducted by Anthony Williams, April 16, 2003.

[29] Interview with Saskia Sassen, conducted by Anthony Williams on April 16, 2003.

[30] "Making, and respecting, the rules." Interview with Maria Cattaui, conducted by openDemocracy, November 25, 2001. http://www.opendemocracy.net

[31] Robert Keohane. 2002. *Power and Governance in a Partially Globalized World*. New York: Routledge, p. 246

The Rise of Transparency Networks:

[1] Manuel Castells. 1997. *The Power of Identity*. Oxford: Blackwell Publishers.

[2] Recorded during a Digital 4Sight audio conference, *Understanding the Transparency Phenomenon*, May 31, 2002.

[3] See http://www.globalexchange.org/colombia/unionRepression.html

[4] See http://www.xanga.com/home.asp?user=mamaduck

[5] David Bacon. "It's the Real Thing: Murders at Coke." *The Nation*, November 21, 2001.

[6] Susan Ferriss. "Murder in Colombia Lands Coca-Cola in Court Battle" *Atlanta Journal and Constitution*, June 6, 2002. http://www.accessatlanta.com/ajc/business/coke/0602/06colombia.html

[7] See discussion below

[8] The exact meaning of "transparency" is subject to some interpretation. Part of the ambiguity can be attributed to the reality that transparency shows up in many issue areas and contexts ranging from government to military affairs to financial markets to drug control to corporate governance. In each application, transparency takes on different meanings and definitions. The Working Group on Transparency and Accountability in the International Monetary Fund highlights the importance of clarity and accessibility for its definition of fiscal transparency. The group defines transparency as "a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable" (Working Group, 1998. *Report of the Working Group on Transparency and Accountability*. Washington DC: International Monetary Fund). In government and politics, transparency is usually defined in the context of strengthening the legitimacy and credibility of democratic decision-making. The Consortium for Risk Evaluation and Stakeholder Participation at the University of Washington, for example, defines a transparent decision as "one that allows all people who are interested in a decision to understand what is being decided and why" (Decision Mapping System project website at the University of Washington. http://nalu.geog.washington.edu/dms/transparency_content.html). In drawing out the common threads in these and other various definitions, Ann Florini, Senior Associate at the Brookings Institution, notes that transparency is always closely connected with accountability — especially as citizens, markets and governments use transparency to hold others accountable for their policies and performance. She defines transparency as "the release of information that is relevant to evaluating those institutions" (Ann Florini. 1999. "Does the Invisible Hand of the Market

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Need a Transparent Glove? The Politics of Transparency." Paper prepared for the Annual World Bank Conference on Development Economics, Washington DC, April 29–30, 1999).

[9] Looking back, the contrast between the levels of transparency several decades ago and those today is significant in many issue areas. Ann Florini points out that, "Fifty years ago, few countries routinely released information about their economies — indeed, many treated such information as state secrets. Now scores of countries post the details on the IMF's website ... A half-century ago, no country had laws specifically requiring government officials to provide information to their citizens. Now, some forty countries do, and the number is growing rapidly. Until as recently as the 1980s, environmental regulation consisted largely of governments telling corporations what production processes to use. Now regulation is increasingly about telling them they simply have to report what they're polluting, and make that information public. See, Ann Florini. 2002. "The Challenge of Democracy: Information Technology as a Tool for Improving Global Governance." Paper prepared for the Conference on "New Technologies and International Governance," Nitze School of Advanced International Studies, Johns Hopkins University, February 11–12, 2002.

[10] John Braithwaite and Peter Drahos. 2000. *Global Business Regulation*. Cambridge: Cambridge University Press, p. 162-3

[11] Braithwaite and Drahos note that because of importance of US financial markets, many foreign firms also comply with US requirements for financial disclosure

[12] As an interesting aside, the US government's Toxic Release Inventory (TRI) would eventually spawn a website, Scorecard.org, which harnesses the information disclosed by the TRI to spawn a self-organizing network of citizens and environmental groups that use the website to target polluters in their local community. Scorecard was set-up by the US-based Environmental Defense Fund. The online service combines 400 scientific and government databases to profile local environmental problems and the health effects of toxic chemicals. Visitors to the website type in their zip codes to get instant access to information about pollution sources in their regions. Scorecard also provides action recommendations and phone numbers of plant managers at local polluters, helping translate information into immediate action. While Scorecard is not yet at the level where people can get access to real-time information about toxic releases, it's a significant leap forward from the days when individuals had to file a request for information from a government department to obtain such information. http://www.scorecard.org

[13] In 1999, a survey of 1100 companies conducted by KPMG found that 24% of companies produced stand- alone environmental reports. David Wheeler and John Elkington. 2001. "End of the Corporate Environmental Report?" *Business Strategy and the Environment*, no. 10, p. 1-14.

[14] Increasing demands for corporate accountability and social responsibility have been tracked across advanced industrial nations and, increasingly, in key segments of the population in many developing countries as well. Many recent opinion polls report significant percentages (more than 50%) of people are willing to punish companies that behave badly; want companies to play a larger role in solving social and environmental issues; and think that excessive "corporate power" is threatening to society. For access to particular stats on social attitudes see the following reports: Environics' *CSR Monitor* http://www.environicsinternational.com/; Edelman's survey on European and US Opinion Leaders http://www.edelman.com/people_and_perspectives/insights/index.asp; FT's *World's Most Respected Companies* http://specials.ft.com/wmr2001/FT3SFHBQ6VC.html; Cooperative Bank's research on ethical consumption http://www.co-operativebank.co.uk/bigissue.html; Social Investment Forum's research reports http://www.socialinvest.org/areas/research/.

Evidence for the rise in ethical consumerism is drawn from a range of work completed over the past five years. Our sources included: Roger Cowe and Simon Williams "Who Are the Ethical Consumers?" The Cooperative Bank; Deborah Doane. "Taking Flight: The Rapid Growth of Ethical Consumerism" New Economics Foundation; October 2001; Ethical Consumerism – A Research Study Conducted for The Cooperative Bank. Presented by Charlotte Hines and Ashley Ames, June 2000, Environics International .

Evidence that ethical investment is on the rise is also well documented. The Social Investment Forum, for example, reported that total assets under management in portfolios screened for socially concerned investors climbed from $1.49 trillion in 1999 to $2.03 trillion in 2001. The number of mutual funds in the US using social investment criteria increased to 230 in 2001, from 168 in 1999. Separate accounts (individual or institution investment portfolios) grew by 40% from 1999 to 2001. Of the $2.03 trillion in managed accounts, $601 billion is in portfolios controlled by investors involved in shareholder advocacy. SIF states that socially screened assets grew 1.5 times faster than all U.S. managed portfolio assets since 1999, and that one out of every eight dollars under professional management is involved in socially responsible investing (SRI). A recent survey of UK investment managers by Deloitte & Touche, found that in the previous 12 months, more than 50% of fund managers perceived an increase in interest in SRI from their pension fund and other institutional clients. They also present evidence that assets in professionally managed, social-screened investment portfolios are growing faster than assets in non-screened funds. While socially screened portfolio portfolios rose by 36% between 1999 and 2001, the total universe of professionally managed assets in the US grew at 22%, from $16.3 trillion in 1999 to $19.9 trillion in 2001. For these stats and many others see: Social Investment Forum, "2001 Report on Socially Responsible Investing Trends in the United States." See also: "Corporate Citizenship and Sustainability Arrive: Are Capital Markets Addressing New Business and Investment Risk Factors?" by Steven Godeke, senior research advisor for financial markets and corporate citizenship to The Conference Board, July 2002.

[15] Such transparency-based regulatory instruments are also common in banking and financial markets, international security, corporate accounting and auditing, multilateral development assistance and public sector governance. They range from formal institutions to informal arrangements, from voluntary agreements to mandatory compliance, and from state-led initiatives to initiatives led by the private sector or NGOs. For an extensive overview of this issue see Virginia Haufler. 2001. *A Public Role for the Private Sector: Industry Self-Regulation in a Global Economy*. Washington: Carnegie Endowment for International Peace.

[16] An OECD fact-finding mission reported on 246 corporate codes of conduct alone, which represents only a sample of the total numbers of codes in existence. See the OECD report: *Corporate Responsibility: Results of a Fact-finding Mission on Private Initiatives*, published February 2001. Available at: http://www.oecd.org/pdf/M00015000/M00015441.pdf.
See also: *Corporate Codes of Conduct: An Expanded Review of their Contents*, published May 2001. Available at:

http://www.oecd.org/pdf/M00015000/M00015433.pdf

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[17] For examples, see the Fair Labor Association and the Workers' Rights Consortium.

[18] See the Partnership for Climate Action, the Kimberley Process, and Transparency International.

[19] Quoted by Lisa Napoli, "Guarding Grassroots Democracy," New York Times, March 13, 2003.
http://www.nytimes.com/2003/03/13/technology/circuits/13priv.html?ex=1048576017&ei=1&en=2426a14489379ac1

[20] http://www.nytimes.com/2003/02/17/international/middleeast/17ASSE.html?ex=1046526201&ei=1&en=afba10961db2bf5b

[21] MTV Refuses Antiwar Commercial, by Nat Ives, New York Times, March 13, 2003
http://www.nytimes.com/2003/03/13/business/media/13ADCO.html?ex=1048575960&ei=1&en=b4cc21beb2976222

[22] Transparency-based governance refers to the efforts of state and non-state actors to promote disclosure of information and participatory decision-making as a means to compel actors (usually the powerful) to behave in accordance with rules or broadly held norms. An OECD fact-finding mission reported on 246 codes of conduct, which represents only a sample of the total numbers of codes in existence. See the OECD report: *Corporate Responsibility: Results of a Fact-finding Mission on Private Initiatives,* published February 2001. Available at: http://www.oecd.org/pdf/M00015000/M00015441.pdf. See also: *Corporate Codes of Conduct: An Expanded Review of their Contents*, published May 2001. Available at: http://www.oecd.org/pdf/M00015000/M00015433.pdf

[23] See, Thomas Blanton. 2002. "The World's Right to Know." *Foreign Policy*, issue 131, pp. 50–58

[24] Some of the costs are shifted to corporations, however, as they pick up the burden of having to engage in dialogue, measure their performance, and report their progress to stakeholders.

[25] At the peak of the sweatshop issue in 1993, Nike's share price fell more than 50% from a peak of $23 to $10. Since 1994, the share price has recovered.

[26] See http://shey.net/niked.html for a timeline associated with the dissemination of Peretti's email exchange.

[27] The issue is currently before the Supreme Court. Nike's lawyers have argued that this was not advertising but rather Nike's side of "an intense debate on the pros and cons of globalization." They say critics had used various media to portray the company as an exploitative employer and that "Nike used the same media" to defend itself in what became "a lively political dialogue about the realities of the third world and Nike's role in it." As the New York Times argues, the case is an important test of the definition of commercial speech and of the constitutional leeway afforded to corporate speakers. See, Linda Greenhouse, "Nike, Fighting Trade Suit, Asks Justices for Free-Speech Protection." *New York Times*, April 24, 2003.
http://www.nytimes.com/2003/04/24/politics/24SCOT.html?th

[28] This trend is not new. Knowledge has always been an effective source of power. Harold Innis, the founder of modern communications studies, noted in his seminal works that control over the communications infrastructure has historically been the primary condition for power because it determined how information was gathered and repackaged as knowledge, thus shaping the way individuals felt, thought and believed. Thus, as each successive generation of communications technologies contribute to an evolution in the distribution of knowledge, they drive a subsequent devolution from authoritarian forms of control to an increasingly flat society where power and authority are much more decentralized. In this sense, the network society is ushering in yet another wave in the historical shift towards greater dispersion of control over knowledge and greater dispersion of economic and political power. See, Harold Innis. 1950. *Empire and Communication*. Toronto: University of Toronto Press.

[29] The sample of case studies includes: Balfour Beatty, British Airways, British Telecom, Cable & Wireless, the chocolate industry and slavery, Citigroup, Clarica, Cooperative Bank, Coca-Cola, De Beers/Conflict Diamonds, Exxon-Mobil, Fair Trade (coffee), Genetic information and the Association of British Insurers, Home Depot, Microsoft/Hailstorm, Monsanto, Nexen, Inc., Novo Nordisk, Pacifica Radio, Scorecard.org, Sony, Shell, Unilever, Union Carbide, Wal-Mart, Whole Foods Market, World Bank, and the World Trade Organization.

[30] The methodology used in the study is anchored in online network analysis, which was used to assess the online, interlinking practices between corporations and transparency network participants. Visual maps of the transparency networks were created using third-party network mapping software that crawls the Internet to identify links associated with specific firms and issue areas. The network maps help identify the key participants that cluster around specific issues and companies, who they are networking with, and the relative weight of their influence in the overall network. Thus, the storyline of the interlinking patterns reveals a great deal about the status of online debates about "corporate responsibility" issues with respect to each case. Online network analysis is limited because it only captures the online environment, and therefore misses the dynamics of traditional media sources such as print, radio, and television. Interviews with key network participants and a thorough analysis of secondary sources were conducted to take these additional sources into account.

[31] Historically, DeBeers has operated as a cartel operating behind the scenes, controlling up to 80% of the world's rough diamond trade. As a cartel, one of De Beers's primary business goals is to control supply of diamonds. In the past this meant own mining operations, marketing diamonds for third parties, and mopping up the supply of diamonds wherever they could be found. As a result, it's highly unlikely that De Beers hasn't come into contact with conflict diamonds through one channel or another. The provenances of diamonds found in Antwerp's markets are especially suspicious. It's widely acknowledged that many of the diamonds from conflict areas can be found there, so it's not surprising that a large buyer like De Beers would be unable to avoid them.

[32] The rough diamonds that flow through the DeBeers supply chain eventually land in London, where they are aggregated and sorted at DeBeers's charterhouse street facility, which at any given time may hold up to $1 billion worth of rough diamonds. These diamonds are then divided and sold in multimillion dollar lots to special customers whom DeBeers calls "sightholders." Ironically, these sightholders do not actually *see* these diamonds beforehand. De Beers determines which diamonds go into which lots, and even sets the prices. Customers are buying "sight unseen" at fixed prices, a process DeBeers executives termed "feeding the ducks."

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[33] Conflict diamonds are estimated by the diamond industry to account for as much as 3.7% of the world's multibillion-dollar rough diamond trade. NGOs claim the figure is closer to 20%.

[34] See discussion of the methodology in endnote #31

[35] Global Witness, which claims to be first NGO to campaign on the issue of conflict diamonds, says, "Conflict diamonds used to be the diamond industry's best-kept secret ... The Conflict Diamond campaign exposes how the international diamond industry has operated for years with no rules or regulations and how this lack of corporate responsibility has wreaked havoc in some of Africa's most prolific civil wars."See

http://www.globalwitness.org/campaigns/diamonds/index.html

[36] Letter sent January 21, 2000, by Robert P. Kaplan (director in Rex Diamond Mining Corporation, Canada) to Hon. Lloyd Axworthy, P.C., M.P., Minister of Foreign Affairs of Canada. See: http://www.rexmining.be/rdmc/Company/Q_and_A/qea_content.htm

[37] AWDC press release, for example, says, "we fully accept the industry's continuing responsibility to play an active role in assuring that the practices envisioned by the Kimberley Process have real impact over the long term. Governmental action, while critical to the program's success, is insufficient by itself. The self-regulation required of WDC constituents is vital as well ..." The WDC press release even acknowledges some of the NGO criticisms of the agreement: "We are also sensitive to the sentiment of some allies who contend that the Kimberley Process regimen does not go far enough. While we understand the basis for that viewpoint, we are persuaded that to attempt any changes now, on the brink of global implementation, would serve to delay implementation — perhaps indefinitely." Statement From World Diamond Council, October 10, 2002. http://www.worlddiamondcouncil.com/index.html

[38] See http://www.conflictdiamonds.com/pages/Interface/reportframe.html

[39] Nicoli Degli Innocenti, "Warning to 'conflict diamond' traders." *Financial Times*, April 29, 2003.

http://news.ft.com/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&c=StoryFT&cid=1051389575654

[40] "Non-compliant countries face isolation." SABC News, April 30, 2003. http://www.sabcnews.com/economy/business/0,1009,57846,00.html

[41] It can be argued that De Beers is not only able to protect the image and brands which it has cultivated by certifying its diamonds as "conflict free", but the conflict diamond label is a very effective one for extending De Beers's control over the supply of rough diamonds as well.

[42] Paul Collier. "The Market for Civil War." *Foreign Policy*, no. 136 (May/June 2003).

[43] See Peter Pringle. "Caught in a flap." *Australian Financial Review,* August 1, 2003.

[44] For example, Monsanto's leading herbicide product, Roundup, was developed in the 1970s and is now one of the most successful herbicides on the market.[1] It is a broad spectrum herbicide used to kill crop weeds. Unfortunately, at certain concentrations Roundup will kill the crop as well as the weeds. Monsanto's solution to this dilemma was to genetically modify crops to be resistant to its Roundup herbicide. These (Roundup Ready) plants allow the herbicide to be used without damage to the crop. To gain optimum efficiency, a farmer would be compelled to adopt Monsanto's complete system of plant stock, herbicide (and potentially pesticide), engineered to work together.

[45] What was surprising about Monsanto's network was the lack of apparent interlinking among these disparate groups. Unlike the De Beers case, the various constituencies that have rallied against Monsanto for their own particular interests do not seem to overlap in any significant way. The lack of interlinking suggests that a broad-based and unified movement against Monsanto has failed to materialize (online at least), even as individual communities continue on their separate paths of resistance.

[46] Jeremy Rifkin. "Bush's evangelising about food chills European hearts." *The Guardian,* June 2, 2003.

[47] By April 1999, the company's stock had dropped $20 in nine months. http://news.bbc.co.uk/2/hi/business/326558.stm. Deutsche Bank issued a warning to investors in 1999, warning that Monsanto's involvement in GMOs had made it a pariah. http://www.btinternet.com/~clairejr/Articles/artic_10.html

[48] Matthew Herper. "Crops, Shmops. Pharmacia Spins Off Monsanto." *Forbes*, November 28, 2001. http://www.forbes.com/2001/11/28/1128pha.html

[49] Kurt Eichenwald. "Biotechnology Food: From the Lab to a Debacle." *The New York Times*, January 25, 2001.

[50] Including the promises that the company will not pursue sterile-seed technology or use genes from animals or humans in products intended for food or feed, and that it will find alternatives to antibiotic-resistant genes in the genetic trait-selection process.

http://www.monsanto.com/monsanto/content/our_pledge/esh_report2.pdf).

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[51] A parody website (earthsummit.biz) that exposed "greenwash" at the Earth Summit awarded Monsanto Runner-up for Lifetime Achievement in the Green Oscars "for tireless promotion of transgenic crops that just happen to use Monsanto's own Roundup herbicide as the solution to world hunger, and for publicly promoting open discussion of genetic engineering while lobbying against public information disclosure rules and labeling of genetically engineered foods." See http://www.earthsummit.biz/awards/lifetime.html

[52] A poll conducted by MORI in Britain concluded that only 18% of people thought the benefits of GM outweighed the risks. When it came to labeling of GM foods, 76% backed the EU's position that consumers should be told products contained GM ingredients and only 6% supported the US's position that labeling should not be compulsory, with 20% having no preference either way. See: Paul Brown, "Trade war fear as public resists GM food," *The Guardian*, May 7, 2002. http://www.guardian.co.uk/gmdebate/Story/0,2763,711074,00.html

[53] The EU introduced legislation on October 17, 2002, to tighten rules for approving genetically engineered crops in the European Union's 15 member countries and to require the labeling and tracing of biotech ingredients. http://www.detnews.com/2002/nation/0212/01/a13-24213.htm

[54] See http://news.ft.com/home/uk. See also, David Teather, "Troubled Monsanto scales down GM hopes in Europe," *The Guardian*, Aug 20, 2002.

[55] See, for example, the following article from the UK's *Guardian* newspaper: http://www.corpwatch.org/news/PND.jsp?articleid=273

[56] Monsanto is currently prosecuting a number of farmers in the US for this practice, which it claims violates the technology agreement all buyers of its GM seeds are supposed to sign. See: http://www.organicconsumers.org/monsanto/seedsuits.cfm

[57] Consumers who received only anti-GM information would pay 35%-38% less for GM foods, while those who received negative information coupled with independent, third-party information from scientific authorities would pay 17%-22% less for GM foods. Only when consumers received pro-biotech information alone were they willing to pay marginally more for GM foods in 2 out of 3 food products studied. For more interesting conclusions from this research see, Abebayehu Tegene, Wallace Huffman, Matthew Rousu, and Jason Shogren. *The Effects of Information on Consumer Demand for Biotech Foods: Evidence from Experimental Auctions*. Economics Research Service, USDA, March 2003.

[58] This, admittedly, will not be easy to do in the early stages of the biotechnology lifecycle given the highly proprietary and confidential nature of the product development stage. Transparency is most important during the testing and "post-market" phase where transparent reporting to the public could help ensure the safety of biotech products.

[59] Interview with Ann Florini, conducted by Anthony Williams on April 30, 2003.

[60] Interview with David Wheeler, conducted by Anthony Williams on April 24, 2003

[61] Transparency Fatigue is a term developed in The Naked Corporation: How the Age of Transparency Will Revolutionize Business, Don Tapscott and David Ticoll. Free Press, 2003.

[62] Interview with Ann Florini, ibid.

[63] Interview with David Wheeler, ibid.

[64] Interview with Art Saper, conducted by Anthony Williams on May 15, 2003

[65] Clifford Bob. "Merchants of Morality." *Foreign Policy*, March/April 2002, p. 36-45.

[66] Interview with Virginia Haufler, conducted by Anthony Williams on April 16, 2003

[67] This does not mean that all transparency networks should become institutionalized. On the contrary, it would be better for many to remain "outside the tent" where they play a valuable role in guarding the guardians or, in other words, in keeping the emerging institutions responsive and honest.

[68] Another notable example is the oil industry, although in this case not all players in the industry are being painted with the same brush. Exxon-Mobil has been picked on for its aggressive stance against Kyoto and its practice of information barricading. Exxon's very fractured and divisive network of stakeholder relationships, however, stands in contrast to other players in the oil industry such as BP, Nexen, Shell, and Suncor. These companies and others have all made much more substantial efforts than Exxon to improve their relationships with stakeholders by adapting their long-term strategic goals to reflect societies' changing interests and releasing much more information about their activities to their transparency networks.

[69] Interview with Charles Sabel, conducted by Anthony Williams on April 16, 2003.

[70] For example, the chocolate industry, NGOs, and governments recently reached a similar agreement by establishing a monitoring process to help eliminate slavery from the cocoa supply chain. Under the plan, a protocol from the US government provides for the development of credible, global, industry-wide standards to identify and certify cocoa grown without child labour. Research by the ILO will help define the scope of the problem. NGOs like Free the Slaves and the Child Labor Coalition will lend their expertise to eliminating slavery on West African farms and help establish a system of

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independent monitoring and reporting. The chocolate industry will leverage the credibility and legitimacy conferred by non-industry partners to reassure the world that their products are not tainted by child slavery.

[71] Interview with Ann Florini, ibid.

[72] Interview with Saskia Sassen, conducted by Anthony Williams on April 16, 2003

[73] Interview with David Wheeler, ibid.

[74] For example, in the footwear and apparel industry the Fair Labor Association, supported by the World Bank, many industry players, and some NGOs, is in competition with the more stringent Worker's Rights Consortium, which draws support primarily from universities, labor unions and NGOs.

[75] There is some evidence that the UN Global Compact, the Global Reporting Initiative (GRI) and the Organization for International Standardization (ISO) are becoming focal points in the attempt to build a coherent, yet agile system of transparency-based governance and corporate accountability. The UN Global Compact provides broad internationally legitimate principles for corporate conduct; the Global Reporting Initiative provides a common set of measurement standards against which to report on progress toward meeting the Compact's principles; and the emerging ISO standards for CSR are to provide technical and operational guidance to firms that are implementing new standards of corporate practice. At this stage, it is too early to predict the outcome of these developments.

[76] Another well-known example includes the Fair Labor Association, which was formed through a partnership of apparel and footwear manufacturers, NGOs, unions, and government representatives, in which companies voluntarily submit their overseas factories to third-party inspection and verification.

[78] This was true in the case of Shell, who adopted a wide-ranging set of reforms after its debacles involving Nigeria and the sinking of the Brent Spar; it was true in the case of Pepsi and at least 27 other multinationals that decided to disinvest from Burma in the late 1990s as activists seeking to apply pressure to the military dictatorship launched a sustained campaigned against corporate investments in the country; it was also the case for Home Depot, who bowed to activist pressure to end their sales of rainforest lumber, as well as for Talisman, who left behind highly profitable investments in the Sudan due to allegations that the company was helping to fuel a vicious civil war; and the list could go on.

[79] John Braithwaite and Peter Drahos. 2000. *Global Business Regulation*. Cambridge: Cambridge University Press, p. 295

[80] John Braithwaite and Peter Drahos, ibid, p. 295

[81] Ngaire Woods. 2002 "The Role of Institutions." In, *Governing Globalization*. Eds., David Held and Anthony McGrew, Cambridge: Polity Press.

[82] Chocolate manufacturers recently faced a similar dilemma. Chocolate companies were accused of complicity in slavery, after a documentary aired on BBC revealed several cocoa plantations in the Ivory Coast using slave labor to produce the raw materials eventually sold to chocolate retailers such as Nestle, Cadbury, and Hershey. Chocolate manufacturers, however, don't own the cocoa farms — they don't even have arm's length contracts with them. Rather, they buy raw materials on agricultural commodity exchanges. Despite lack of direct control, the gravity of the situation forced chocolate manufacturers to negotiate with a wide range of cocoa growers, NGOs, international organizations, and government agencies to work out a long-term solution to the problem.

[83] Charles Sabel, Archon Fung and Dara O'Rourke. 1999. "Ratcheting Labor Standards: Regulation for Continuous Improvement in the Global Workplace." World Bank Group Social Protection Unit Discussion Paper SP 0011. Washington D.C.: World Bank Group.

[84] Interview with Ann Florini, ibid.

Values-Based Enterprises:

1 Interview with David Wheeler, conducted by Anthony Williams on April 24, 2003.

2 Interview with Debra Dunn, conducted by Anthony Williams on May 13, 2003.

3 See for example, Friedrich Hayek 1976. *The Road to Serfdom*. London: Routledge.

4 David Henderson, 2001. *Misguided Virtue: False Notions of Corporate Social Responsibility*. Wellington: New Zealand Business Roundtable, p. 85

5 David Henderson. 2001. ibid.

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6 The traditional interpretation also holds that it is not the appropriate purview of business leaders to play any part in defining the public good. As Milton Freidman famously put it, "Few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible…If businessmen do have a social responsibility other than making maximum profits for stockholders, how are they to know what it is?" Friedman and others did not preclude government intervention to decide where the public interest lies and what measures would help ensure that profit-maximizing firms will serve it, although their concept of good government typically limits such action to a very minimal definition. Neither do they rule out independent moral judgments by business leaders, although they do take a very restricted view of both the right and the competence of firms to do so. See for example, Milton Friedman, 1982. Capitalism and Freedom. Chicago: University of Chicago Press, p. 133

7 George Soros. "America's Global Role." The American Prospect, June 4, 2003.

8 At the root of the market failure are so-called collective action problems: when there is no way to exclude people from enjoying a good or service, free-riders will enjoy the benefit while letting others pay the cost. Since few people are willing to martyr themselves for the benefit of society, the collective good that people desire will not be provided without a mechanism for fairly distributing the costs and benefits. In a similar fashion, many of the common resources upon which we depend would be undermined if left solely to the market to determine their fate. Garrett Hardin described such a scenario in his 1968 article, "The Tragedy of the Commons." In a commons, explained Hardin, "the rational herdsman concludes that the only sensible course for him to pursue is to add another animal to his herd. And another… But this is the conclusion reached by each and every rational herdsman sharing a commons. Therein is the tragedy. Each man is locked into a system that compels him to increase his herd without limit—in a world that is limited. Ruin is the destination toward which all men rush, each pursuing his own best interest in a society that believes in the freedom of the commons. Freedom in a commons brings ruin to all." Despite the role that governments play in providing public goods and protecting the commons, we are reminded by global environmental problems of just how pervasive and intractable many of these collective action problems are. Garrett Hardin. "The Tragedy of the Commons," Science, 162 (1968): 1243–1248.

http://dieoff.com/page95.htm

9 Externalities occur when the costs paid either by the producer or the end consumer of goods and services do not reflect the true costs (social or environmental) associated with a given activity. In other words, those engaged in a particular economic activity benefit at the expense of those who suffer the costs of said activity, but do not enjoy the benefits. Externalities occur most often when the benefits of a given activity are centralized and the costs or consequences are widely distributed across a population. Environmental pollution is the most frequently cited example. While the pollution may feel insignificant at the individual level, the cumulative or aggregate effect can be substantial. That these costs are distributed, however, makes them easy to ignore and can prevent a more organized approach to dealing with the polluter.

10 In theory, perfect markets presume perfect information. When information is available it enables investors, consumers and regulators to assess risks, identify the most efficient suppliers of goods and services and make informed judgments about the operations of firms. When information is absent, firms can take advantage of information asymmetries to wield unwarranted market power or otherwise distort markets. Transparency is not only essential for the operation of efficient markets; it is also a critical tool for aligning self-interests with those of society. Making the motives and actions of firms transparent fosters a more balanced approach to self-interest. Putting the spotlight on the problem of externalities, for example, can force free-riders to bring their behavior into line with the needs of the broader system. As discussed in the previous chapter, information is power, and for that reason many self-interested actors will resist greater transparency.

11 Human intelligence endows us with the ability to form complex associations between causes and effects. This knowledge allows us to predict the future accurately based on what is known today. The problem with such associations is that they are often easier to recognize when there is a relative proximity between the cause and effect. When there are extended delays between cause and effect it's easy for people to make poor choices — choices where short-term benefits are extracted regardless of the long-term costs or consequences. The propensity of markets for short-termism means that market failures that unfold over long periods are hard to recognize, let alone address. Self-interested players acting out of ignorance or greed will forego prudent courses of action that may be more sustainable, and reap the short-term benefits instead. When short-term profits come at the expense of society, the trade-offs are easy to predict. But even firms with advanced systems for decision-making will pursue short-term behavior that erodes their own long-term advantage. Countless companies have depleted their brand equity and reputation by focusing on short-term profits and ignoring long-term trade-offs, just as corporations in the natural resource sector have been known to irreparably erode the long-term basis of their wealth to ensure steady growth in their bottom line.

12 Power and accountability need to be balanced for economic systems to operate efficiently. If individual actors are to pit their self-interests against one another, it's important that none of those actors be so powerful as to completely evade accountability. But, once again, theory does not always meet reality. David Held of the London School of Economics reminds us that the model of a free market where producers and consumers meet on an equal basis is "fundamentally at odds with the modern capitalist system… marked by complex patterns of market formation, oligopolistic structures, and …a tendency toward concentration and centralization of economic resources." Governments traditionally provided an effective check against abuses of power in largely national economies. But, as discussed in Chapter One, no such system exists for the global economy. Absent an effective system of checks and balances, we can expect less than optimal results from markets. David Held. 1995. *Democracy and the Global Order: From Modern Nation State to Cosmopolitan Governance*. Stanford: Stanford University Press, p. 245

13 Maximizing public value is not an exact science. At time it is ambiguous and difficult to quantify and even the most ardent experts acknowledge that, at best, we can only crudely measure the ROI that firms receive in return. Unfortunately, managers can't plug multiple variables into a sophisticated spreadsheet to arrive at an optimal solution for the firm and society. Rather, public value is defined in an iterative fashion where robust feedback loops funnel stakeholder perceptions and values into corporate decision-making processes and help align corporate business objectives with the common good. Firms embed this iterative values-based process in the DNA of the firm, and challenge their employees to discover the solutions that can make them economic, social, and environmental leaders in the marketplace. See the "Roadmap for values-based enterprises" presented later in the paper.

14 Carly Fiorina, HP Chairman and Chief Executive Officer

15 Interview with Debra Dunn, conducted by Anthony Williams on May 13, 2003.

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16 Ibid

17 Jim Collins and Jerry Porras. 1997. Built To Last: Successful Habits of Visionary Companies. New York: HarperCollins, p. 55

18 Quoted in Jim Collins and Jerry Porras. 1997..Built To Last: Successful Habits of Visionary Companies. New York: HarperCollins, p. 47

19 ibid, p. 48

20 For more examples, see chapter 3, "More Than Profits," in Jim Collins and Jerry Porras. 1997. Built To Last: Successful Habits of Visionary Companies. New York: HarperCollins

21 Interview with Saskia Sassen, conducted by Anthony Williams on April 16, 2003

22 Although definitions frequently vary, social capital is often defined as a composite term of which trust and shared values are core components. It adheres in a network of relationships among people and reflects the attributes shared within groups that facilitate coordination and cooperation for mutual benefit. Robert Putnam. 1995. "*Bowling Alone: America's Declining Social Capital*." Journal of Democracy, no. 1, p. 65-78.

23 For example, business leaders agree that trust is central to teamwork, leadership and organizational culture. See, for example, the work of Gilbert W. Fairholm, 1994. *Leadership and the Culture of Trust*. USA: Praeger Publishers. See also Nichols, Ted, 1993. Secrets of Entrepreneurial Leadership. USA: Dearborn Financial Publishing. The academic research community agrees that trust is essential in social relationships. See for example, Susan P. Shapiro. The Social Control of Impersonal Trust. AJS. November 1987, 93(3): 623–58; Russell Hardin. 2000. Trust and Trustworthiness. New York: Russell Sage Foundation. There is increasing recognition of trust as a social good or social capital that is fundamental to human interaction and cooperation which provide the basis for economic development. See, Francis Fukuyama. 1995. Trust: The Social Virtues and the Creation of Prosperity. USA: Simon & Schuster

24 David Wheeler et al. 2001. "Measuring the Business Value of Stakeholder Relationships." The Centre for Innovation in Management, Simon Fraser University.

25 Wheeler, ibid.

26 See http://www.pca-online.org

27 Elinor Ostrom. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.

28 Ann Florini speaking during a Digital 4Sight audio conference, Understanding the Transparency Phenomenon, May 31, 2002.

29 Interview with Charles Sabel, conducted by Anthony Williams on April 16, 2003

30 It would certainly be convenient if there were objective standards of responsible business behavior that could applied equally to all companies, in all situations, at all times. Companies and stakeholders would have little to disagree on, leaving firms to get on with doing their business, so long as they conform to universal norms. At one time, such objective and immutable standards were based on fairly clear, fixed assumptions derived from overarching frameworks such as religions or ideologies (albeit different across distinct cultures and belief systems). In today's complex post-industrial societies, such permanent and broadly accepted value systems are crumbling, giving way to a proliferation of identities and social networks that form to defend both traditional values (ethnicity, nation, God and family) and emergent values (environmentalism, feminism, anti-globalization, indigenous rights, etc.). See, Manuel Castells. 1997. *The Power of Identity*. Oxford: Blackwell Publishers.

31 The fluidity of values and the contingent nature of our notions of responsible behavior pose a challenge to efforts to codify and institutionalize transparency-based governance mechanisms. Can companies and their stakeholders achieve a reasonable level of stability and predictability in standards that govern behavior, while building enough flexibility and responsiveness into the systems that govern corporate behavior to account for the constant state of change in society? What types of governance mechanisms support this type of capacity? Are codes of conduct and certification schemes sufficiently flexible and responsive to social norms? These questions will only be answered over time as new institutional responses to transparency continue to evolve.

32 Digital 4Sight audio conference with Susanne Stormer, May 31, 2002.

33 For a more extensive case study on Novo Nordisk, see Digital 4Sight's report *Next Generation Reporting*.

34 The fluidity of values and the contingent nature of our notions of responsible behavior pose a challenge to efforts to codify and institutionalize transparency-based governance mechanisms. Can companies and their stakeholders achieve a reasonable level of stability and predictability in standards that govern behavior, while building enough flexibility and responsiveness into the systems that govern corporate behavior to account for the constant state of change in society? What types of governance mechanisms support this type of capacity? Are codes of conduct and certification schemes sufficiently flexible and responsive to social norms? These questions will only be answered over time as new institutional responses to transparency continue to evolve.

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35 The Rainforest Action Network (RAN) is a relatively small US-based advocacy group with a mission to reduce the number of rainforest trees being cut down for the benefit of North American consumers. Facing an entire industry value chain extending from loggers to homebuilders, RAN singled out Home Depot — the largest retailer of old growth lumber at the time — to request that it stop selling products containing rainforest lumber. Home Depot declined, claiming it was impossible to track the wood sources of its 50,000 products. Subsequently, RAN escalated the campaign. Two years of hard campaigning blended anti–Home Depot websites, full-page ads in The New York Times, and synchronized storefront picketing across North America. Home Depot faced a mounting pile of bad PR and growing local resistance to new store locations. In 1999, Home Depot signed a landmark agreement with the RAN, committing the company to phasing out old growth lumber from its product lines by 2002.

36 The FSC accepts no funding from industry and has developed a set of core principles guiding on-the-ground timber management and harvesting operations, including restrictions on pesticide use and requirements for biodiversity protection and erosion control. Firms seeking FSC approval must undergo an audit by one of a few accredited "certifiers." Arguing that the FSC guidelines are onerous and unwieldy, the timber industries in the United States, Canada and Europe have designed their own templates for appropriate forestry practices like the Sustainable Forestry Initiative (SFI) program, established by the industry's American Forest and Paper Association in 1994. For more details see, Gary Gereffi, Ronnie Garcia-Johnson, and Erika Sasser. 2001. "*The NGO-Industrial Complex*." Foreign Policy, 125, pp. 56-65.

37 Mark Wade – Shell International, Interview with Digital 4Sight, May 22, 2002

38 For example, all Nexen Oil employees are required to participate in an integrity-training workshop, while those in high-risk areas attend a separate workshop focused on improper payments. In addition to internal communication channels and employee training, Shell distributes a management primer that provides guidance and case studies as part of its anti-corruption training program. Last year, Shell reported 13 cases of bribery, and nine employee dismissals, while canceling 100 contracts with suppliers and removing eight contractors from supplier lists.

39 See http://www.cecglobal.org/publications/speeches/kuttner.htm

40 Interview with Debra Dunn, conducted by Anthony Williams on May 13, 2003.

41 Ibid.

42 Ibid.

43 Roger Martin, "*The Virtue Matrix: Calculating the Return on Corporate Responsibility*." Harvard Business Review, March 2002, p. 69-75.

44 Charles Sabel. 1993. "Learning by Monitoring: The Institutions of Economic Development."
http://web.mit.edu/polisci/research/sabel/learning.html

45 Elinor Ostrom. 1990. *Governing the Commons: The Evolution of Institutions for Collective Action*. Cambridge: Cambridge University Press.

46 See http://www.wbcsd.org and http://www.gesi.org

47 Roger Martin, ibid.

48 See recent speeches by Unilever Chairman, Niall Fitzgerald, http://www.unilever.com/environmentsociety/publicationsspeeches/

49 See a report from the US Environmental Protection Agency, http://www.epa.gov/owowwtr1/oceans/yoto/oceanrpt/intfish.html

50 Unilever is not a small player in the issue. Its fish purchases account for approximately 20% of Europe's fish catches.

51 George Radler, 2000. *The Marine Stewardship Council: Is A Joint Venture Possible Between Suits and Sandals?* International Institute for Management Development.

52 See George Radler's report, ibid.

53 See *Trust Us – The Second Annual Survey of Corporate Sustainability Reporting*. http://www.sustainability.com/publications/engaging/trust-us-50.asp; ACCA Sustainability Reporting awards http://www.accaglobal.com/sustainability ;and Jonathon Porritt's commentary on Unilever's sustainable agriculture practices. http://www.unilever.com/environmentsociety/sustainabilityinitiatives/agriculture/external_comment.asp

54 The IUCN is a broad, 980-member coalition of government agencies and NGOs that assist societies to become ecologically sustainable. See http://www.iucn.org/info_and_news/press/gbfpr.pdf

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