BOSTON COLLEGE
CARROLL SCHOOL OF MANAGEMENT
Center for Corporate Citizenship

Step Up: A Call for Business Leadership in Society

CEOs examine role of business in the 21st century

A Boston College Center for Corporate Citizenship Monograph

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To the Reader:

Today's rapidly changing business environment requires chief executives to deal with challenges business school did not prepare them to manage.

Strategies to stay competitive globally and return dividends to shareholders still, rightfully, consume a majority share of an executive's time. But they must also be attentive to a wide range of stakeholders and issues as disparate as climate control, employee health care and pensions and global pandemics.

Pressure from inside and outside is forcing social and environmental issues—and their relationship to business—onto the agenda. In this monograph, we share the observations, concerns and actions of prominent CEOs and other senior executives representing a cross-section of industries and companies that are influential in setting today's business agenda. A majority of those interviewed sit in U.S.-based corporate headquarters but manage global enterprises.

During the in-person interviews most executives conceded they do not spend enough time explicitly examining the role their company plays in society. While they said forums for such debate are limited and the vulnerability of being outspoken can be great, a majority agreed to speak on-the-record for this project.

Fewer than 10 percent of executives interviewed believe the business maxim that their greatest duty is solely to create wealth for investors. Today's CEOs offer a more sophisticated approach to blending non-financial activities with the bottom line.

Their comments are certainly instructive for other business leaders and will provide a glimpse of what goes into managing in today's turbulent environment and the impact of more businesses stepping up to the challenges of the 21st century.

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“I think you can run good businesses, but also solve big problems. Typically profits are created by businesses that are doing things that ultimately have real societal benefits.”

– Jeffrey Immelt, GE

1. INTRODUCTION

Never has it been more important to know what is on the minds of corporate leaders. Companies are being driven by short-term demands while the challenges of a rapidly changing world require them to address long-term issues. In this climate, the role of business is being redefined but is currently a work-in-progress. This reality led researchers from the Boston College Center for Corporate Citizenship to interview 48 top executives—including 26 CEOs—representing 27 major multinational companies from a cross-section of industries to learn what they see as the trends and challenges facing business and wider society in the 21st century.

Given that this study is the first where a large group of executives has spoken out about the role of business in the 21st century, it is fair to conclude that this is not something that is a top priority for companies. Yet the executives were prepared to speak, on the record and at some length, about this topic. Without dismissing the fact that business's relationship with society ebbs and flows, 71 percent of the 48 executives interviewed felt that a fundamental transformation is taking place, and will have a long-term effect on business.

Three strong messages emerged:

- Public perception of the role of business has changed since the 1970s.
- New responsibilities are being thrust on companies.
- The current business model is on a collision course unless companies recognize that society's issues are impacting–positively and negatively–their long-term business success.

While it is agreed that changes have taken place over the last 30 years, there is no consensus what they are. As one CEO said: “There's both a higher expectation, and a higher cynicism, among the general public.”

Executives admit business has brought much of this change upon itself: for example, after years of advocating for greater labor market flexibility that fractured the employer-employee bond, some companies find themselves in a war for talent where employees often hold the upper hand and feel little or no loyalty to their employer. Likewise, companies lobbied aggressively for less government interference, and a diminished role for unions, but are now expected to fill the holes this has created in the social fabric. In some cases, such as pensions, social security, and health care, shifting expectations are a result of companies trying to reduce costs and increase returns, and there is recognition that the public is skeptical that business can meet the new expectations.

Nonetheless, just as expectations regarding equal opportunity and diversity were once contested, the more recent expectations coming to the fore such as environmental stewardship or human rights in supply chains, have become accepted as part of business's responsibilities. What emerges from this dynamic and at times confusing picture is a real shift in public expectations: that today's company is no longer expected to be a passive bystander in society, but rather to engage directly in addressing societal issues, such as finding solutions to global warming, health care provision, product and workplace safety, and disaster relief.

Among executives interviewed there are mixed opinions about how far companies should go in becoming more involved. On the one hand, there is a nervousness that companies could become so burdened with social and environmental issues that they can't be agile and fast, and will tilt too far toward becoming a social enterprise rather than an economic one. Others observed that companies must be part of the public debate and agree there is a role for CEOs in parts of that debate.

HOW EXECUTIVES DEFINE THE ROLE OF BUSINESS IN SOCIETY

Each executive interviewed chose the definition they said best describes how business relates to society

6% **The private search for profit advances the public good.** An executive's duty is to create wealth for investors. Society is best served when a company does well.

4% **Private enterprise best serves the public good when it is subject to public intervention** (e.g. taxation, public spending, regulation). It is government's role to correct market failures. Business should not decide matters of public policy.

27% **In pursuing private profit, companies should take care to protect the environment, uphold the rights of workers, and be a good neighbor to communities.**

25% **A company should lead with its heart and nurture its soul as it makes money. It should inspire other companies to aim high.** It should do more than simply avoid doing harm; it should consciously seek to do good.

15% **Unprincipled capitalism ultimately inflicts damage on all its stakeholders.** The good company leads by demonstrating the moral principles of capitalism, and by showing the connection between those principles and financial success.

23% **Other**

With only six percent of the executives interviewed agreeing that the private search for profit alone advances the public good, it's clear the group of executives interviewed question the Milton Friedman model that prevailed for much of the past 40 years. Some executives questioned how far the Friedman viewpoint was ever representative, as reflected by Raymond Plank, president of Apache, a Houston-based oil company: "I believe that responsible corporations, if they choose to embark on anything other than an self-aggrandizement, have both the opportunity, but principally the responsibility, to use the progress that they're making on the monetary side to enhance their outreach for the benefit of other portions and other segments of the human race."

Several executives emphasized that refuting Friedman does not mean shareholders are unimportant. Rather, as Ernst & Young Chairman and CEO James S. Turley said: "I believe very strongly in the private sector, but I think an executive's duty is to do more than create wealth for investors. If we don't think about anything but that, you can get short-term thinking versus long-term thinking."

> "What is different now is that the concept of shareholders has expanded to stakeholders."
> – Sam Palmisano, IBM

While there are many reasons executives are paying attention to the role business plays in society, they are largely connected to pragmatic objectives supporting business success. This might be because paying attention to social and environmental trends is felt to deliver long-term value for investors, or because employees are more likely to be motivated by the reputation a company has in a community than by the share price. It could also be because attending to the business-society relationship may actually benefit the financial bottom line. Or it might be based on a recognition that investors are only one of the stakeholders to whom a company should be responsible.

There is no strong consensus, but a large number of executives stress that consideration of social and environmental impacts must not undermine their fiduciary duty to stockholders. But what most executives do recognize is that companies today have multiple responsibilities to multiple constituencies, and if they ignore this their business will suffer. One significant shift in executive thinking: while not all agree that effectively managing the relationship with wider society creates value,

MORE THAN EXECUTIVE RHETORIC

Reason 1: Executives see the ongoing changes as hitched to the prosperity and viability of their companies.

Reason 2: Executives say there are good financial reasons for tackling social and environmental challenges.

Reason 3: Executives see no contradiction between awareness of societal issues and building long-term value.

Reason 4: Executives see this as an evolutionary change not a revolutionary step.

they share the opinion that failure to manage that relationship can definitely destroy it.

> "Be careful what language you're using. Because when you say you should give something back, you are intrinsically saying that you have been exploiting society. I have nothing to give back to society; I have given to society before."
> —Peter Brabeck-Letmathe, Nestlé

Baxter International's Chairman and CEO Robert Parkinson sees societal involvement becoming mainstream business thinking: "The environment today is like quality management in the past," he said. "Managers used to say if we want quality we have to pay for it, and it will increase our costs. They said it was a trade-off, and you have to find the balance. Well, we learned from the Japanese that it's a symbiotic relationship. You can have both. I think in a few years we'll look back and ask how could we have been so shortsighted?"

Indeed, executives frequently returned to the fact that there is a good business case for investing bottom line dollars in addressing societal issues. To an extent, this is an endorsement of the business case justification for responsibility that has both benefited and hindered the field of corporate responsibility. It is also the case that, in thinking about the relationship with society, many CEOs are trying to prevent social responsibilities being siloed and make them part of management thinking. "It's my fundamental belief that if you have management teams that have leadership who understand how to create shareholder value, and the fact that shareholder value is driven by understanding what's going on with societal issues, then the company is a much better investment. And it's one that most analysts aren't focused on," said Todd Thomson, Chairman and CEO of Citigroup's Global Wealth Management Division.

Some executives believe that companies should not be concerned about their impact on society, at least not beyond creating shareholder value, employment, and products that consumers want and can depend upon. Some say companies giving back to society makes no sense, and is, in fact, dangerous. Others are simply nervous about the direction the public would like companies to move. "Once companies are bearing social costs that are a bit too burdensome, all of a sudden, you don't have capital flowing in, you're not generating value and creating jobs, creating employment, new research, and new products," said one CFO.

The majority of executives, however, while not wanting to turn their companies into social organizations, feel they have to take business's role in society seriously. Asked to choose between five different opinions (see box on page 2) about the role of business in society, only six percent agreed with the proposition that the private search for profit advances the public good: that an executive's duty is just to create wealth for investors. By contrast, over 50 percent believed that companies had a much more inclusive social purpose, while 15 percent felt companies should demonstrate the moral principles of capitalism.

INTERVIEWEES

Company	Interviewee	Position**
AMD	Hector Ruiz	Chairman & CEO
AMD	Tom McCoy	EVP – Legal Affairs and Chief Administrative Officer
Apache	Raymond Plank	President
Apache	Steve Farris	Chairman & CEO
Aramark	Joe Neubauer	Chairman & CEO
Aramark	Tim Cost	Executive Vice President – Corporate Affairs
Baxter International	Robert Parkinson	Chairman & CEO
Baxter International	John Greisch	CFO
BD	Edward Ludwig	Chairman, President & CEO
BD	Pat Shrader	Senior Vice President, Corporate Regulatory and External Affairs
Booz Allen Hamilton	Ralph Shrader	Chairman & CEO
Booz Allen Hamilton	Chris Kelly	Vice President
Citigroup	Charles Prince	Chairman & CEO
Citigroup	Todd Thomson	Chairman & CEO Global Wealth Management Division
Ernst & Young	James S. Turley	Chairman & CEO
Ernst & Young	Steve Howe	Americas Managing Partner
GE	Jeffrey Immelt	Chairman & CEO
GE	Ben Heineman	Senior Vice President for Law and Public Affairs
Georgia Pacific	Pete Corell	Chairman & CEO
Georgia Pacific	James Bostic	EVP Government Affairs, Environmental, and Administrative Services
IBM	Sam Palmisano	Chairman & CEO
InBev	John Brock	CEO
Johnson Controls	Steve Roell	Vice Chairman & Executive Vice President
Johnson Controls	John Kennedy	Executive Vice President
KeySpan	Robert Catell	Chairman & CEO
KeySpan	David Manning	SVP Corporate Affairs
KPMG	Mike Rake	Chairman
KPMG	John Griffith-Jones	CEO UK
Levi Strauss & Co.	Phil Marineau	President & CEO
Levi Strauss & Co.	John Anderson	President, Asia Pacific Division
Lloyds TSB Scotland	Susan Rice	CEO
Lloyds TSB Scotland	Manus Fullerton	Corporate and Commercial Director
Manpower	Jeff Joerres	Chairman & CEO
Manpower	Mike van Handel	CFO
Nestlé	Peter Brabeck-Letmathe	Chairman & CEO
Raytheon	Bill Swanson	Chairman & CEO
Raytheon	Jay Stephens	General Counsel
State Street	Ron Logue	Chairman & CEO
Timberland	Jeffrey Swartz	Chairman & CEO
Timberland	Mike Harrison	Senior Vice President, Worldwide Sales & Marketing
Turner Construction	Tom Leppert	Chairman & CEO
Turner Construction	Jeff Herriman	SVP – Strategic Planning and Corporate Development
Unocal	Chuck Williamson	Chairman & CEO
Unocal	Joe Bryant	President & COO
Verizon	Ivan Seidenberg	Chairman & CEO
Verizon	Doreen Toben	CFO
Others	Jack Connors	Chairman and former CEO, Hill Holliday
Others	Jack Creighton	Former CEO Weyerhaeuser, United Airlines

*** Position held at time of interview*

2. DYNAMICS DRIVING CHANGE

The executives identified four significant dynamics that are driving much of the change in the business-society relationship: globalization, corporate governance, a new social contract, and the role of government. Each of the elements are often interconnected creating an extremely complex management calculus.

"For the first time, at least in my lifetime, we're having competition not from countries that have equivalent resources, natural resources, Russia or Brazil or Europe, but countries that have equivalent or potentially better human capital, human resources. To me that's the scariest thing that can happen to U.S. business."

Todd Thomson, Citigroup

Emerging global society

The rapid opening of global markets for trade and investment is altering business practices, fostering corporate growth, and changing expectations about the responsibilities of companies realizing opportunities from globalization. Companies are now being judged in terms of the new communities they are impacting and the communities they may be leaving behind.

Indeed, some executives said business leaders and politicians need to work together to influence how corporate and political power can be more positively harnessed. One CEO raised a concern that the political debate in some countries, including the U.S., favors domestic issues over globalization which puts companies in an uncomfortable position of addressing the consequences of globalization seemingly on their own.

Executives are denied the luxury of opting out on globalization: the positive and negative effects of globalization are part of the changing world they navigate. For example, they find themselves taking responsibility for the social and environmental performance of supply chains, putting in place standards for project financing in developing countries, and making health care products available to poor people at discounted prices. According to one CEO, success can no longer be measured by the linear company-to-customer relationship; but by the success of relationships with government, non-governmental organizations, academic institutions, employees, and other companies.

When the wheels start to come off because of lack of trust, the cost to the shareholder is astronomical.

Pete Corell, Georgia-Pacific

Corporate governance

The high-profile accounting scandals in the U.S. and elsewhere centering on large-scale malfeasance resulted in billions of dollars of lost shareholder value and a plummeting trust from investors and the public. In the U.S. the response has been tighter regulation, greater transparency and accountability—notably the 2002 Sarbanes-Oxley Act. "There's been a big loss in confidence in companies, boards, management teams, and the audit profession as a result of scandals over the last four or five years. And what's clear is that while that confidence is coming back, investors have long memories," said Ernst & Young Chairman and CEO James S. Turley.

If some executives still feel the cure has been disproportionate to the disease, most seem to agree: "Public trust was violated, and this is the price of restoring public trust," said Chuck Williamson, Chairman and CEO of Unocal.

"I think that as business leaders, sometimes we forget the simple things about life, about what's human and what isn't. And until we really get that right, we are condemned to continue in these periodic cycles of greed and untethering from social responsibility."

Tom McCoy, AMD

A new social contract

As global competition mounts, governments and companies find themselves negotiating a new social contract. In the U.S., for example, the expectation that major companies will, in addition to creating jobs, provide health care and pensions, is being challenged. At the same time government is seeking to make individuals more responsible for social security and health insurance. Globally, the private sector is viewed as the engine of growth, and yet to achieve higher productivity companies are often compelled to drive down labor costs, either by offshoring jobs or by automation.

Other dimensions to the new social contract include the changing demographic of the workforce where people in advanced economies often have to work beyond what used to be retirement age, the emphasis on environmental stewardship, and a shared responsibility for tackling global poverty and disease.

Also, as production and markets become global, companies must enter into social compacts with multiple markets. As one executive said: "I'm an American, but I'm a CEO. If I take a call center out of the U.S. and I put it in India, is that bad? Am I more obligated to people in the U.S. or to the 350 people I already have employed in India who will now get promotions, advancement, and create more for the society in India?"

The new social contract is not simply about issues such as work-life balance, human rights, and equality of opportunity; it is also about how issues are addressed. There is a vacuum in leadership that has provided space for nonprofits and community-based groups to step in and increase their influence. These civil society actors are creating expectations that companies meet broader standards of social justice than required by laws and regulations. Above all, in the context of business and society, the expectation that a new social contract will include new roles and ways of behaving is especially felt in the role of business itself.

"The view that there needs to be public policy established by the public bodies, the legislatures ... would get a lot more support if people had more confidence in the legislative bodies. I think a lot of people look at these now as if they've become theaters of the absurd."

John Kennedy, Johnson Controls

Civil governance and the role of government

Executives realize their companies cannot be absent from public debate about the effects of globalization and the new social contract. "To simply say it's not my job, or that I don't have time for that job, reflects a complete lack of understanding of where the corporation is today," said Booz Allen Hamilton Chairman and CEO Ralph Shrader.

Many executives said governments appear less willing or able to deliver solutions. Just as society needs leadership to navigate through times of significant social challenge and change, many executives agreed with Jack Connors, chairman and former CEO of Hill Holliday, who said "government no longer does a particularly good job of running the government."

Spotlighting the situation in the U.S., there is frustration that government refuses to take on more of a leadership role, leading one CEO to comment that too many in government see their job as keeping government out of business when in fact in many policy areas from energy to global warming to education there needs to be partnership between business and government. But this is not just a U.S. problem: although a handful of executives point to positive experiences partnering with government, more appear to agree with the executive who said, "If you look at the political leadership of most countries today, I've never seen such poor leadership anywhere in the world."

3. CURRENT RESPONSES TO THE CHANGING ROLE OF BUSINESS

The executives recognize that the expectations of business are changing as society goes through a period of enormous transformation. In many cases they feel that companies have to take the initiative and address societal issues, either as a business, ethical, or pragmatic imperative. In fact, a number of executives talked in terms of business taking more of a leadership role in addressing key issues. They say this for many reasons: supporting the business case, brand building, risk prevention, to address industry-specific challenges, rebuilding public and investor confidence, as well as reflecting the prevailing corporate culture.

The majority of executives, however, feel that business cannot turn its back on societal challenges, or even limit their concerns to the traditional responsibilities of creating wealth, employment, and goods and services. Having made this decision, sometimes reluctantly, companies have to choose in what areas they wish to engage. For example, will they address societal challenges through products they create? Will they seek to set an example for their peers, as many CEOs recognize John Browne of BP did in the area of global warming? Will they work with government, particularly in developing countries, to strengthen governance systems?

Examining what companies are now doing, many areas of activity can be identified. While not mutually exclusive, they do provide a framework to understand what can appear to be an untidy mix of policies and actions.

While each company will take different steps to address its relationship with wider society, the research revealed 10 common approaches. These approaches correspond with previous research by The Boston College Center for Corporate Citizenship, particularly the five step "Stages of Corporate Citizenship" developmental framework.

10 Corporate Styles for Relating to Society

- Reluctant participant
- Doing well by doing good
- Being a values-based company
- Embracing corporate responsibility
- Engaging with civil society
- Changing management practices
- Multi-company collaboration
- Commitment to corporate governance and policies
- Business leadership capacity

> "In most of the scandal-ridden companies, I think you see a leader or an individual who was more imperial, who was more focused on being the chief cheerleader of the stock, instead of being the chief conscience."
>
> - James S. Turley, Ernst & Young

Reluctant participant

The interviews revealed some executives are hesitant to take any action beyond the kinds of community investment and philanthropy that has long been part of American corporate life. For some executives, it is not so much a matter of ignoring issues, but focusing on the key role business already plays: "Our main enterprise, which is to make money honestly, is a pretty damn important thing," said GE's Senior Vice President for Law and Public Affairs Ben Heineman.

Another CEO went further, blaming the push for greater corporate social responsibility (and the lack of overt executive push back) for damaging corporate performance. And Nestlé,'s Chairman and CEO Peter Brabeck-Letmathe added: "The fact that the [European] economy is slowing down is directly related to the amount of attention which business is being given now to comply with things like this, instead of thinking about innovation and renovation."

"One of my passions was to see if you could really build both a great and a good company."
– Jeffrey Immelt, GE

Doing well by doing good

Given the importance many of the executives attached to treating societal issues as something that can affect business success, it is not surprising that the idea of investing in products that address these issues has a particular appeal. This is the kind of thinking that is behind the GE ecomagination initiative in which the company identified major societal challenges in health, water, and energy as areas for business opportunity. It is also at the heart of Turner Construction's Green Buildings, a set of initiatives for introducing sustainable construction and business practices throughout the organization. Similar thinking is also evident in particular areas of business operations. For example, companies such as Levi Strauss regard relationships with vendors built on a mutual commitment to human rights and social justice as having tangible business benefits.

The pharmaceutical industry in recent years has catalyzed debate about social good and private profit. Long accustomed to being considered a major contributor to public well-being, it found itself, as one executive said, on a par with the tobacco industry. Another CEO described how such companies could not expect if they spend a lot of money developing a drug and get it patented, to charge as much as they like.

BD, a global medical technology company, identified the significant and negative impact that the reuse of needles and syringes was having on health care delivery in developing nations. As such, BD is working to extend reuse prevention technology to a broad array of low-cost, general-purpose injection devices for the developing world. To get these devices into broad use, BD is working with government and non-governmental agencies, international aid organizations, health ministries in developing countries and local communities to ensure that safe injection devices are made available and that health care workers are properly trained and educated on their use. "In order for us to continue to provide these kinds of health care solutions in the developing world, we need to make the manufacturing, distribution and use of these devices economically viable and sustainable," said BD Chairman, President & CEO Edward Ludwig. "We are acting globally but thinking locally."

Timberland, the footwear and apparel maker, is trying to take "rethinking the business model" a step further by putting it at the heart of its business. Some observers might wonder if Timberland is not the same kind of social entrepreneurship made famous by The Body Shop or Ben & Jerry's, and which some might feel is ultimately better suited to being privately owned. But Timberland Chairman and CEO Jeffrey Swartz rejects this: "People have said, 'There's a lot of private equity money out there. You wouldn't get questions about whether social responsibility is a waste of shareholder money if you took the company private.' I said, I want these questions that say prove that our model works, because otherwise its not a scalable model. ... That's why being on the Fortune 100 Best Companies to Work For list is nice, but being on the Forbes Platinum list of the best performing public companies is not nice, it's essential."

And when companies succeed in making profits from tackling societal challenges, this has an important multiplying effect: "I like it when big businesses say things like what GE has been saying [they can do well by doing good]. It makes us all look responsible. We all have to find a way to settle our issues in a way that the public sees as responsible. We're all affected by the weakest link," said one Fortune 100 Chairman and CEO.

At present this is taking place largely without attracting attention from the investment community, yet this by itself should not be a barrier. Susan Rice, CEO of Lloyds TSB Scotland said: "There are CEOs who say, 'The investor community isn't interested, therefore, I'm not.' I don't think that's a good enough answer. I think the answer is, 'Let me see if there are reasons for my business that make sense to do these things, in which case, then, I have the ball in my hands. I can talk to my investors, and I can tell them why I'm doing this.'"

"I would submit to you that in the end, the companies that are the most successful leaders are the ones that are living a full life. They're not just building that car, but rather considering the context in which that car gets built."

– Ralph Shrader, Booz Allen Hamilton

The values-based company

Doing well by doing good may or may not entail a company to reflect more deeply about how it interacts with society. But it is the possibility that decisions about taking on societal challenges can be subjected to hard-headed business rationale that lead some executives to take a different approach where the relationship with society itself is at the core of management thinking. "How you manage your relationship with society strengthens the company," said Jeff Joerres, Chairman and CEO of Manpower. "It's not the nice to do. It creates who you are."

This can manifest itself in different ways. For example, it can be about creating a corporate culture that legitimizes the business-society relationship as a valued part of decision-making and strategic development. It can require senior management to provide what one executive called a values compass for employees. And it can also involve developing a supportive mindset, described by one: "The word that most people outside the U.S. use to describe an American business person is ruthless, and many of us take pride in the fact that we are a ruthless competitor. But the last time I looked it up in the Webster's dictionary, ruthless wasn't exactly a great word to be associated with. I think that the time has come for these things to move."

At a minimum, the values-based or full-life company is one that ensures its values are aligned with the accepted values of the wider society, and the challenge today is to accommodate the values of the multiple cultures in which it operates without getting lost in a morass of cultural relativism. It can be harder for large companies to develop and preserve a cogent value set compared to smaller companies that often adopt the culture of their founders. But regardless of size, companies face what GE's Heineman called "the fundamental tension at the core of capitalism: the question of how you have the right sort of performance with integrity."

Not only, as several executives pointed out, will there be at any given moment someone somewhere inside a large organization doing something wrong, but there is also recognition that greed drives the capitalist process. As one executive said: "For people who want to make money, that's the engine. But how does the engine get domesticated so it doesn't run off the tracks and demolish the town?"

Controlling this engine is critical to the culture of a company, and establishes the internal norms that ultimately influence how the company interacts with society as a whole. "You really have to create a culture where people act not just because they're afraid of sanctions, but because it is their ideal of what the company should be," said a legal counsel. This is a particular challenge when there is a widespread perception that corporate leaders have created a culture of entitlement and self-aggrandizement while employees feel insecure and overworked. Not surprisingly, most executives did not discuss this, and those willing tended to shrug it off as a consequence of market forces.

One company founder framed it differently: "[Once the company's stock price goes up] pretty soon, [the CEO's] got an aggravated and exaggerated sense of self-worth. So what's he going to do with that? He's going to show it off… and so you've got a clan of people that are dissociated. You've got that growing cultural gap here in this country, and excessive pay is a very, very real problem, and it makes business very vulnerable."

The idea of a values-based company, however, is more than corporate culture. To the outsider trying to understand what this type of company is can be frustrating with too many intangibles, especially in a world that favors discernible models. Yet to those within such companies the benefits can be quite tangible. As one CEO explained: "One of our board members said, 'I'm on different corporate boards, and I find it very helpful when I talk about your firm to speak about you as someone that's a good corporate citizen, because I know of your values because you talk about them and how important they are to how you operate the firm. And so the actual existence of this corporate values set inside of your company is a corporate advantage for you because it give me comfort and confidence when I'm relating your work to others."

Some who think in terms of the values-based company put it in the context of a distinct management framework. For example, Phil Marineau, President and CEO of Levi Strauss & Co. said great enduring businesses are founded on three fundamental principles: "First, the products or services you're offering are very appealing and relevant to consumers. Second, through quality products and responsible practices, you earn the trust of the people you serve. And third, this trust helps to build a reputation that enables you to attract the most competent and talented people you possibly can to accomplish the first two things."

Another CEO put it in terms of what his company did not do. He told the story of an industry peer who responded to questions about how to deal with changing employee expectations by saying that the person who asked such a question was not that company's type of employee. In contrast, he said the values-based company did not treat employees like "brains-on-a-stick."

The successful values-based company affects both its internal and external stakeholders, said Marineau "There's a halo effect around the brand and around the company that allows you to endure your own mistakes," he said. In contrast to a general trend where the bond between employee and company has weakened, a feature of the values-based company is that it generates loyalty and trust that, as he says is "rooted in people saying, 'This is a great company. I'm loyal to the company. I'm loyal to that product.' And if you don't think that exists today, you're wrong. It does. It's what great brands and great companies are built on."

> "One of the main things I think is different today and will be different tomorrow … is to make [corporate responsibility] far more integral to what you're doing."
>
> – Charles Prince, Citigroup

Corporate responsibility

Corporate responsibility as a distinct business management competency is one of the main ways that companies today are tackling social and environmental issues connected to business.

Executives are clearly aware of corporate responsibility or one of the many other terms used: corporate social responsibility, corporate citizenship, business sustainability. Moreover, they see it as something that is evolving and becoming more central to business operations. Companies such as Levi Strauss have codes of labor practice and terms of engagement for their vendors, BD has programs targeted at developing countries, and Citigroup is a signatory to the Equator Principles on project finance in developing countries, as well as investing in micro-finance for poor communities.

Additionally, Manpower recently announced a major initiative to tackle human trafficking, GE supports a range of community partnerships, and Unocal ran an array of programs for communities affected by its mining and drilling operations. Most of these companies, including Ernst & Young, Georgia-Pacific, Verizon, and InBev, have full-time corporate responsibility staff, while the chairman of KPMG also chairs the UK-based voluntary organization Business in the Community and Susan Rice at Lloyds TSB Scotland is Ambassador for Corporate Social Responsibility in Scotland.

For the most part, executives endorse the view that corporate responsibility is something related to but different from the kind of philanthropy, corporate giving, and similar 'giving back' programs that were long the most obvious way that business interfaced with society.

But some also acknowledge that corporate responsibility does not fully capture all of the dimensions of the business-society relationship. For the most part, corporate responsibility embraces issues to do with company risk and reputation, or the development of goods and services related to social and environmental need. This is not an insignificant development in how companies relate to wider society. There is plenty of evidence that it is starting to permeate into mainstream business thinking, and this research makes clear that it is an important lens that is helping executives think about business's role. However, major issues of social concern such as employment, retirement, immigration, and the influence business has over government do not register on corporate responsibility's radar screen.

What the interviews also show is that for many executives the principle that individuals and companies should invest in communities remains strong. This might be an individual wanting to do something for society such as AMD Chairman and CEO Hector Ruiz, who aims to build a hospital in his hometown in Mexico, but generally when executives talk about giving back to society today, they are talking about more than individual benevolence.

IBM, Georgia-Pacific, Raytheon, and Apache are among the companies that have identified U.S. education as an area demanding corporate attention. As seems increasingly common, companies today invest in areas that either relate to their own skills and competencies (e.g. IBM funds employees with a scientific background to transition into becoming math or science teachers), or are seen as affecting business competitiveness in the long-term. A CEO concerned about the lack of engineering graduates, said, "We need 4,000-5,000 new engineers every year. Right now we are okay, but the market won't produce this many in the future. So we need to brand ourselves outside our swim lanes to make that happen."

"We need partnering with the NGOs. We don't need antagonism. If we're going to get something done in the communities we work in, we need a consortium."

– Chuck Williamson, Unocal

Civil society engagement

One of the recurring themes when talking about how to deal with the business-society relationship is how companies are working with other organizations and institutions. Executives suggest they work with a variety of partners such as industry associations, local government, faith-based organizations, trade unions, and other non-government organizations. Such partnerships evoke different responses.

Discussing the need to partner with its unions, Johnson Controls Executive Vice President John Kennedy said, "Unions will be a really positive force as we go forward in establishing changes in the workforce that will better position us for the 21st century, because expecting an act of faith in the employer who has an obvious interest in profit strains credibility. Whereas the unions come in and say, 'There's a need for balance here. If we want to have these jobs in the future and not have to go someplace else, we've got to work to make sure this is a healthy company.' And they're the only ones who can do that."

In referring to non-governmental organizations, GE Chairman CEO Jeffrey Immelt said, "What I've learned as part of our ecomagination campaign … is that a lot of [NGOs] are pretty smart. A lot of them are broad, smart and can help you think through things that may be beneficial to the business."

That non-governmental organizations (NGOs) kept cropping up in conversations is no coincidence. Although some executives mention industry associations and partnerships with other companies as ways of addressing the business-society relationship, they also think that creating inter-company alliances is time consuming, and there can be a tendency to pull issues down to the lowest common denominator in order to reach a consensus. The reality is that civil society has become very adept at putting pressure on business, and executives are very aware of this, as stated by one: "Anybody who thinks that they can ignore NGOs is fooling themselves."

"[the company's] interests are driven by our people and the communities in which they live, as well as how we're perceived in the wider populous. Today issues are so quickly communicated and they can have such an influence on reputation and our position with the business that any business person who doesn't take them into consideration is running a big risk."

Tom Leppert, Turner Construction

There are those who think this is going too far. Nestlé's Brabeck-Letmathe said: "Many of my colleagues are feeling pressure from NGOs, from the media. That's being translated into the board, and then you have to have a civil society member on the board so this keeps the pressure up. So in some boards you have environment specialists or members of NGOs in order to ensure that social responsibility is being taken care of. And if you don't have one, you will be asked by a social or investor group, 'Why don't you have somebody on the board?' That's what reality is."

One CEO felt it necessary to emphasize: "Investors own the company. There's nothing subtle about that. An NGO or anyone else is a voice. We should listen to their voice. They can certainly make life miserable for us and can hurt the company. But I think we forget sometimes that there is a very technical definition of who owns the company."

Even those, however, who are critical of these trends recognize they represent a new business reality, and some are excited at the opportunities they present. Two CEOs referred to the experience of Home Depot which had been the target of environmental organizations and subsequently became a champion of timber procurement from sustainably managed forests.

Moreover, rather than judging interactions with other groups by things such as reduction in conflict, one executive said business should acknowledge diversity: "Everybody's got a different role. The NGO should scream like crazy. I say, 'Yell at us. Do anything you want. That's your job. I have a different job. I sit in a different place.'"

Another way companies are engaging in civil society is by encouraging managers to sit on boards. For example, Todd Thomson of Citigroup is on the board of the World Resources Institute and others such as Lloyds TSB Scotland and BD are among the companies that see this type of role as a key element of engaging with society.

A further form of engagement that has come to the fore with the series of natural disasters that marked 2005 is companies providing access to its resources and expertise. Some executives pointed to the response of Wal-Mart and Home Depot to Hurricane Katrina, a response that *Fortune* magazine reported under the headline "Government broke down. Business stepped up." Most executives regard this kind of intervention, along with responses to the Asian tsunami, as laudable and proper. What is less clear though is whether at some stage this sense of responsibility will become an obligation, and whether companies should be held accountable for their responses to civil crises.

"We're in this business for the long-term. I want this to be a bank that's thriving in 20 years. I could make more money if I took decisions that would give me more profit this year. But they would ultimately destroy the customer belief in us and destroy the franchise, and we wouldn't be in business in 20 years."

– Susan Rice, Lloyd's TSB

Changing management practices

The emergence of partnerships with stakeholders, especially those outside of the business community, certainly represent the changing business-society relationship and is also altering management practices. Executives are more openly wrestling with how to manage the company in such a way that the interests of investors and those of others are not treated as contradictory or mutually opposed. As BD's Ludwig said: "I think you can be very fair with workers, you can be environmentally responsible, and you can still produce a good product that is profitable. It's a matter of the system. It's a wrong debate to say, 'I have to be environmentally irresponsible, and utilize unfair labor practice, just to be competitive.' I just don't buy that."

There are many ways that CEO practices are changing, and only the surface is scratched in these interviews. Among the advice: listening to others is an important element, as is a willingness to share experiences with peers, recognizing global companies require global values and getting on the right foot in defining the debate.

Some believe that managing the business-society relationship is an increasingly important part of the CEO's role. Some take this further, arguing that CEOs should see themselves as leaders in society, not just their companies. Others felt this was going too far, and stressed that CEOs were chosen to lead the company, not elected to represent anyone. Nonetheless, CEO behavior is widely held as crucial to how the company interacts with society, be this discouraging the kind of corner cutting and "legal corruption" that undermines public trust, taking responsibility for building leadership into the brand, or simply attaching one's name, and therefore reputation, to issues that are considered important.

Some executives felt that increasingly what comes across their desks are the external issues including those that are a priority to society. Mike Rake, Chairman of KPMG, proposed that the criteria for selecting CEOs of public companies needs to change to emphasize the value of integrity, ethics, the ability to drive the business forward, and to bring people along with them. He said, "If that started to be the criteria by which chief executives were seen to be successful and appointed, you'd quickly create an environment where analysts would have to adjust to the reality of that. You'd move the whole game forward."

This is part of the reason a handful of executives want to separate the CEO and chair roles because representing the company while chairing the board increases the pressure to blur the short and long-term interests of the company. At KPMG, Rake described his redefined chairman role: "My responsibility is to try and protect the reputation of the brand, protect the people, protect the values, operate within those, and keep a view without being lost in the heat of the day to day, to make sure there's balance within the organization, and recognize if you do that over a period of time, you'll be successful."

Not surprisingly, many changes to management practices are happening among employees. This includes a wide range of developments such as company-backed volunteering, incorporating values into performance appraisal across the company, commitment to building employee capacity in relevant areas, promotion of diversity and equality programs, adapting ways of working to suit the needs of different age groups, and installing internal mechanisms that allow employees to factor society into decision-making.

An important part of this change is demonstrating daily that aspects of the business-society relationship are valued. For example, compliance with the law is a must-do, but that as a senior legal executive highlighted, is no reason why it should not be lauded because employees are often under pressure to take short cuts and bend the rules. Thus, while facilitation of internal dialogues about why issues such as human rights, corruption, and ethics matter to business are an interesting step forward, there are other steps that can be taken to build a culture that balances performance with integrity.

It has to be acknowledged, however, that these kinds of forward-looking initiatives take place against a backdrop involving employees uncertain about their futures, stagnant wages, and benefits packages being reduced. Some executives were clearly uncomfortable talking about this, especially as several of the companies involved in the research have made significant changes to programs such as pension funds and other retirement benefits. One felt that employee discontent was created by poor communication by senior management and another felt that an important part of leadership was creating realistic expectations for employees.

Some felt, however, that management could not escape the blame for the loss of jobs and benefits in some industries, and believed this was making it tougher for all concerned. "I can't think of anything more sobering as a CEO than not to be able to meet the retirement obligations of your employees. That's an ethical responsibility and you do anything, anything to meet it," said a Fortune 100 CEO. And if changes are an inevitable outcome of global competition, then this does not absolve companies of their obligations. For example, at Levi Strauss & Co., Marineau identified three areas of obligation for a company's relationship with the workforce: a) to provide a benefits package that helps workers and their families thrive, b) to keep employees' skills relevant in the job market, and c) provide a soft landing to dislocation.

> Leaders should be sitting down with their peers in the industry and finding the common ground rather than trying to beat each other to be first in everything.
>
> – John Anderson, Levi Strauss & Co.

Multi-company collaboration

There seems to be a general agreement that one company cannot tackle major societal problems alone, and that inter-company partnerships hold various theoretical advantages. But in reality, such partnerships are often too time consuming to build and maintain, and those that exist are usually either focused on the narrow interests of an industry (e.g. the electronic industry's code of conduct), or the protection of the industry's reputation.

There are exceptions such as BD's involvement in the Partnership for Quality Medical Donations and Citigroup's collaboration with other financial institutions on the Equator Principles. There are also signs of a shift from individual company activity to a cross-industry mapping of needs and strategy development. "'How do we get the entire tide to rise?' And then, 'How do we rise at a higher rate?' Not 'How do we do things that are more competitive?' But 'How do we get the whole level of the discourse and the economic environment raised to a higher level?' That is a much more beneficial approach," said Pat Shrader, Senior Vice President, Corporate Regulatory and External Affairs for BD.

Levi Strauss & Co., for example, is working with other apparel companies to develop human resource guidelines for vendors and companies in the accounting industry are jointly thinking through approaches to principles rather than rules-based accounting that could affect how societal issues are factored into business decision-making.

It seems likely that companies are more frequently joining together to think about major societal challenges, but not always in formal or systematic ways. There is a sense that the time is right for this kind of out-of-the-box thinking where, for example, a medical company partners with a coffee company to see what they can together do to address village level poverty in Latin America. What is more, said another executive, this kind of multi-company collaboration, though difficult, is needed because, ultimately, it is too difficult for any one company to constantly take the lead on any given issue.

"Self-regulation of the accounting profession died with Enron, and regulation began."

– Steve Howe, Ernst & Young

Corporate governance and policies

Governance is one area that is being affected by changes in thinking about the business-society relationship. This includes both formal, regulated changes such as the stricter requirements on transparency and disclosure that followed the corporate scandals of the last several years, and informal or voluntary changes such as the introduction of terms of engagement between buyers and vendors that push social and environmental issues to the fore.

Formal changes such as ones in board structure and the possibility of independent directors are treated with hostility by some executives, and some stress that it is one thing to introduce principles of governance, and another to accurately assess how the company is being run. Nonetheless, the trend for revitalized governance continues with, for example, investors, government, and companies collaborating on convergence in financial reporting, and a growing interest in non-financial reporting.

Voluntary changes, however, are also happening. For example, some boards are considering how to appraise their senior management team on social and environmental performance matters, some are stepping away from suppliers and franchisees that do not share the company's values in areas such as human rights or sustainability and company systems for assessing social and environmental risks and opportunity are growing more sophisticated.

What is the point of leadership? What do you do with your gain? The point is to invest it in life.

– Tom McCoy, AMD

Business leadership capacity

An important component of changes in management practice is building the capacity to sustain that change. This can be done within the company through, for example, the kinds of internal universities found at GE or BD. It can be done by influencing the curricula of business schools so that, for example, what they teach is more innovative in their approach to ethics. "I don't think business schools teach leadership [in a meaningful] way. They teach ethics as some sort of compliance course, rather than an integrated approach to, 'This is how I'm going to interact with the marketplace, me personally and me as a business.' Business leaders have the capacity to make business not only a source for economic wealth, but also a force for social change," said Levi's Marineau.

Moreover, this capacity could become the asset that marks out individual leaders: "What's going to distinguish [a student] from the other person who had 800 on their GMAT scores and all A's in college? Why is one person going to succeed versus another in terms of accomplishing their objectives? It's going to be your ability to be a leader, simply defined as an agent of positive change. What's going to contribute to your leadership? It's going to be your ability to earn people's trust," said Marineau.

Part of this focus on leadership can be building the capacity of others to understand the benefits of markets, entrepreneurship, and the basic values of capitalism as happens with one of Ernst & Young's programs in countries such as Russia, Ukraine and China. And a number of executives point to a trend of decentralized corporate structures that means regional managers in the future will need the capacity to manage the business-society relationship more directly.

Another prediction is that boards will get more aggressive and professional, and they will impose tougher standards on executives to stave off further regulation and media scrutiny. One executive imagined a future where individuals had different jobs and roles within the company such as the 'main job' (e.g. department manager), member of nonprofit boards, and volunteering at local charities. All of these roles would be supported by the company, and people would no longer be defined by a single function. Again, these are areas where capacity needs to be developed.

Furthermore, executives will need to acquire a broader range of skills, gaining an understanding of political science and world economics alongside sales and manufacturing. As AMD Chairman and CEO Hector Ruiz said with a mind to the challenges of managing the multinational, multi-cultural company of the future: "A reporter once asked me in an interview, 'If you had to take one particular area you think your company's weak in, and you should start to work on [what would it be?]' I said, 'Anthropology.'"

"Being a CEO gets you a seat at the policy table. But when you are at the policy table and in those public policy discussions you do it representing the interests of your shareholders, customers, employees, etc."

– Robert Parkinson, Baxter International

Involvement in public policy

The above view of the modern day CEO brings out an important area where companies are starting to change their thinking, i.e. their involvement in public policy.

Of course, business attempts to influence public policy are nothing new. Corporate lobbying is one of the reasons often cited for loss of trust in companies that appear to be working against the public good while advancing their financial self-interest. Clearly, any attempt to engage in public policy differently will be affected by this legacy, and as one CEO said: "Government needs to be extremely, extremely careful of companies with strong views of what the public interest is, because it's remarkable how often it's in alliance with their own interests, and especially those of their senior people."

Nonetheless, if it is true that there are major societal changes taking place and new structures, institutions, and alliances are required to cope with them, then the role of business in public policy needs serious consideration.

There were some executives interviewed who want to see government stay clear of their business, but a far greater number see that it is essential to have effective government if business and wider society are to flourish. Corporate governance, non-financial reporting, promoting a common platform of business reform rather than having change limited to individual industries, regulating markets to ensure free trade, restoring investor confidence, and ultimately as one executive saw it, stopping capitalists from destroying capitalism, these were all mentioned as areas where government should lead. But referring to the U.S. situation, a CEO expressed his frustration with the current state of play thus: "You got a government that says, 'We don't need any more government in corporate American business.' And you got a bunch of sheep who say, 'Well, we don't need government in our business.'"

Overall, executives feel that companies do have a role to play in public policy, but the questions are: a) how much of a role, and b) whose interests should be represented? The question of "how much of a role?" revolves around what companies feel is the reason to engage in public policy. Is it to further their financial interests? Is it to make the expertise and knowledge of the corporation available to public debates? Is it right for companies to talk about issues beyond their narrow self-interest and competency? Is it to make up for weaknesses in government competency?

All of these possibilities came up in interviews, and largely remain open. Perhaps there are no hard and fast rules, and one CEO remarked that just because a big company can get its voice heard does not mean it should always have a voice. In the words of another executive, "There's real magic here in the sense that [the company needs] to introduce a concept and then get out of the conversation. A company really has no role and should never be so arrogant as to think they have a role in this kind of governance or transparency or the relationship between people and their government. That's not our job."

Or as Manpower CEO Joerres put it more succinctly, "Business should not decide matters of public policy. We might have influence, but we shouldn't decide it."

It is fairly apparent, however, that companies have long sought to influence public policy, and in recent history many have been focused on trying to achieve policy outcomes from tax reform to changes in labor law that allowed executives to meet their fiduciary obligations to investors regardless of the wider societal consequences. Some executives are now reconsidering this, as expressed by Booz Allen Hamilton Vice President Chris Kelly who said: "Business definitely has a responsibility to influence. The interesting thing is when companies begin to see that influencing authority for their own 'selfish' outcome, is distinct from their own self-interested outcome."

Baxter International Chairman and CEO Robert Parkinson acknowledges his personal enthusiasm for being engaged in the public policy debate. "'One of the many reasons I was motivated to be the CEO of Baxter is because of my strong beliefs around health care issues and policy," he said. "When you are the CEO of a company like Baxter, with its size and global reach, you have the opportunity to engage in dialogue with business, policy and governmental leaders around the world to tackle some of the most pressing health and social issues."

"I think we have to have a heart in terms of the role we play in capital markets. I think we have to have a soul. We have to be focused beyond just earning the greatest dollar."

Steve Howe, Ernst & Young

Comparing Current Responses

Although there are examples of how companies engage with societal challenges, few have placed these challenges into a coherent framework that allows them to move beyond activities that appear to be ad hoc and incomplete responses. As Mike Harrison, Timberland's Senior Vice President, Worldwide Sales and Marketing said: "In private conversation, nine out of 10 CEOs will, a) agree that managing their companies' impact on society is important, and b) will quite openly confess that they wish they knew more about how to do something about it or how to wrestle with it. They're much more adept at putting together a business plan than they are putting together a plan and a strategy for how they can best add value to their communities."

The idea that size invites scrutiny and triggers certain obligations within companies was cited by Citigroup's Prince: "If you're the big kid in the room and you don't act like the big kid, with all that means, you're going to get in trouble; you're going to break something." There is also ample evidence that companies are turning societal challenges into business opportunities, be that through the development of new products or new ways of doing business.

As companies seek new relationships with society KPMG's Rake cautions: "[A lot of people are asking], 'Is this about companies taking over from the state? Where does it ultimately lead to?' Maybe our whole question [is] about whether unbridled capitalism is necessarily the right answer to the issues that we all face in society. Those have become big issues."

4. WHAT LIMITS CURRENT RESPONSES

The interviews revealed strong feelings but also a high level of ambiguity among executives regarding the role of the corporation in society. Most decisions about societal responsibility, they admit, require careful balancing of benefit and risk. Interestingly, what motivates one company might be seen by others as a limitation.

> "I'm a big fan of The Godfather. But he got it wrong when he said, 'It's nothing personal, it's just business.' To me, that's anathema. I can't imagine how we could operate without the personal dimension."
>
> – Jeffrey Swartz, Timberland

Making values meaningful

There was a lot of discussion about the importance of companies living their values, eloquently put by Levi's Marineau: "Each of us needs to use the power we have to define the character of our enterprises, so that they nurture values important to our society. Only then will business fulfill its obligation to help build an economy worthy of a free society, and a civilization worth celebrating." There was a reluctance to go into detail about these values and what happens when events bring the company into conflict with its values. Executives, including some we interviewed, are often in the press saying that pension funds were making companies less competitive, yet at the same time stating they have responsibilities to their employees. Irony colored the remarks of one CEO who has made substantial changes to the company's pension arrangements: "The primary reason we are in business is to provide great service to our customers and behave the way they expect us to behave. Next on the list of priorities are our employees, and then our shareholders."

Another Chairman and CEO described this reality: "the consumer and citizen has to take responsibility for their actions. We don't provide health care for retirees any more. That's not part of the implied social contract we have with them. To pay for our retirees means money taken out of the pocket of our employees and our shareholders." Not all executives would agree with this, but it demonstrates how business efficiency, profitability, and return on investment influence the social contract.

In fact, one limitation to tackling the business-society relationship is that some executives see the values of the company ultimately in terms of what is valued by shareholders, as evident in the following exchange with one CEO who was asked to identify the moral principles of capitalism. He answered: "Make money for your shareholders. Next question."

Executive thinking about values, however, is typically more nuanced than this. The difficulty is less about explaining what the values are than how one builds the values-based organization that many seem to admire. Nonetheless, there remains a contradiction and potential impasse between recognizing that values cannot always be legislated or codified, and the fact that if you do not adopt rules and have measurable indicators, they are hard to manage in a corporate culture that emphasizes efficiency.

> "It's become such a rule-based society [that the first response is] 'Let's get a lawyer in to work out how to deal with the rules.' It creates an environment where you have a rules-based society with no principles."
>
> – Mike Rake, KPMG

Rules-based enterprise

A number of executives were concerned that, even if regulation was justified and recent corporate malfeasance warranted tighter controls, overall business is getting too rules-based. "People, to some degree," said an executive, "have become disillusioned with running public companies because it's all about regulation. It's all about control. It's all about disclosure. They feel that there is too much box-ticking on regulatory requirements, to an excessive level." Referring to the situation in Europe, a CEO said, "I would break out in hives if someone said, 'Here is a rule book of how you should contribute to society.' But what happens is they want to put it into a box called the Lisbon Accords: how many times did we flush our toilets, how much toilet paper we're using, or what's our energy efficiency? But we lease all our buildings; we have no control over a lot of that."

The debate over rules versus principles is highly evident when the future of accounting, not least non-financial reporting, is examined. The business-society relationship is a possible component of non-financial reporting, although it is fairly marginal to the debate at present. Nonetheless, a fear of rules, and with it regulation and accountability, is something that affects the way the business-society relationship is being treated.

> Business managers should not be confused about what their objective is, what their purpose is. Their purpose is to create value for shareholders. The way to do that, however, I think is to understand all your stakeholders."
>
> – Todd Thomson, Citigroup

Limitations of corporate responsibility

The fear of rules is evident in the field of corporate responsibility where many have long advocated that responsibilities should be approached in a voluntary way. A number of executives clearly believe through actions associated with corporate responsibility, companies are managing their companies' impact on society. When considering the breadth and depth of the business-society relationship, however, it becomes apparent that there are significant gaps and inconsistencies. For example, major companies have various offices and officers to deal with that relationship, from the general counsel, to the community affairs office, to lobbyists, and so on. Corporate responsibility is only a small part of this, and may not even be referred to at all when confronting major aspects of the business-society relationship such as corporate taxation, tort reform, and investments. For the most part, it offers little practical guidance about wrestling with the negative externalities of efficiency and competitiveness (e.g. the consequences for workforce consolidation), even though companies frequently deal with the consequences of this (e.g. severance packages, placements), and they are an important element of how companies are perceived.

It is the narrowness of contemporary corporate responsibility that makes it a potential limitation on how companies think about and address the business-society relationship. Corporate responsibility has, in some companies, proved to be a very effective lens to start viewing that relationship, and to begin tackling some of the externalities of business activity. But there is a danger if the lens is too narrow, companies will not see the full landscape.

There are clear signs that corporate responsibility thinking is maturing, and becoming more central to business management. The importance of this is not lost on Citigroup's Prince who emphasized: "Now why is that important? It's important because on a long-term basis, if you end up degrading and pillaging the earth today, there won't be any projects to finance in the next generation. And so you're going to have sustainability not because you get good PR, or because they don't picket your house, but because you want your business to be in business in the next generation, as opposed to 'you're going to use it all up in my generation.'" Yet he was among those who felt contemporary business thinking was concentrated on the short-term, and mainstream corporate responsibility today–because it typically looks to the business case for its legitimacy–too often thinks about risk and reputation over a short time horizon.

As IBM's Chairman and CEO Sam Palmisano explained: "Financial success is the most powerful precedent in capitalism, and profit is the measuring stick. There are numerous examples of the unchecked pursuit of profit exacting a huge society cost, whether that is environmental degradation or human rights abuses. Huge society costs are usually met with government intervention and regulation, which eventually shrink profits. Therefore, for profits to be sustainable, principles must be applied." This is what corporate responsibility in some ways tries to achieve, but its focus on the business case and short-term risk management means that issues can be left unresolved. For example, regardless of how important an issue is in its own right, it can be more profitable for a company to wait for regulation even if that turns out to be more costly because ultimately the company knows the regulation will apply to everyone (i.e. be a common burden), whereas adopting principles voluntarily early on (even if it might seem cheaper than regulation) could put the individual company at a disadvantage to its competitors who do not have to bear that cost. Therefore, without dismissing the analysis and solutions corporate responsibility has provided, these are seen as only a partial response to future challenges.

> "We're not sacrificing profit by developing long-term partnerships that we invest in."
>
> Mike Harrison, Timberland

Company resources alone are never enough

Although there are many examples of corporate responsibility partnerships, its focus is often on the actions individual companies can take. Yet the size of some of the challenges that we have talked about suggests strongly that not only do companies need to work together in some cases, but that the resources of business may be insufficient. As one executive described the formula for a successful business-government approach to tackling one city's challenges: "if you have strong elected leadership and you have strong business leadership, the ability to make significant improvements in that community are much, much improved." In some cases, however, companies are not putting in place the basic blocks to allow a coordinated response to develop such as establishing local or regional offices.

> "As someone who leads a private company, I have great sympathy for leaders facing the pressures of these public companies that are expected to deliver quarterly results. It greatly complicates the decisions that they get forced to make and the trade-offs that they get forced to make."
>
> – Ralph Shrader, Booz Allen Hamilton

Influence of ownership

It is noticeable that the several executives who talk in terms of the values-based company are mostly running privately owned firms or partnerships. The growing number of firms that are being taken private is, in part, driven by frustration at the short-termism dogging publicly listed companies. It cannot be concluded from these interviews that any companies have gone private in order to better address the new realities of 21st century business, but a fair amount of frustration surfaced in the interviews, as articulated by Unocal Chairman and CEO Chuck Williamson: "On the one hand, you've got Wall Street squeezing you harder and harder for shorter and shorter term performance. On the other hand, you have a broader constituent base that wants more than financial results. ... Most CEOs will tell you, 'This is damn hard work.'"

Or as Manpower's Joerres said, "It wasn't that long ago that the pinnacle of someone's aspiration would never to be the CEO of a private company.

You had to be the CEO of a public company on the New York or London Stock Exchange. Now I'm hearing from some managers who are one, two steps away from the CEO, 'I'd never want your job.' That's not a good thing. I want them to want my job."

Although private ownership, especially through private equity firms, brings its own pressures and demands, future research into how ownership affects the business-society relationship certainly deserves consideration. One executive felt that it was much easier for privately owned companies and limited liability partnerships to talk to their owners about their short, medium, and long-term perspectives compared to publicly held companies, although another felt it "was just specious" for a CEO to say that being publicly held prevented the company from taking certain courses of action.

The short-term perspective of investors is affecting the way business is evolving, and several executives mentioned a similar type of short-termism affecting boards of directors who in many ways have greater control over companies than stockholders. Remarking on the widely observed increase in CEO turnover, one CEO said: "if the average tenure of a CEO is now a year and a half or two years,... it will create a generation of hunker-down CEOs who come in and operate within a very narrow range of acceptability, make their money, maximize profits, and get the hell out. Because during that period of time, you don't have enough of a track record to be judged on anything other than earnings."

According to Manpower CEO Joerres: "If you're only in [the CEO] job for two years, I can't imagine that you are focusing on how do you really play a meaningful role in society. You're just trying to make sure you've got Wall Street off your back for a little while. Once you get more in the job and you build a sense of personality, and understand what your organization is capable of doing, making an impact in society or doing it through some idea of legacy is not that hard, because you know where all the levers are." And it is worth noting that most of the CEOs interviewed had either been in that position for many years, or had recently been appointed after many years with the company. The importance of this is reflected by KeySpan's Robert Catell, a Chairman and CEO with a 14-year tenure and a keen focus on the future: "I think a lot of [the importance my company attaches to society] has to do with the fact that I have a good understanding of most of the areas in the company because I've worked in most of them, and that lets me put a stamp on the company."

In companies with greater CEO turnover, the challenge is to create a culture where the company's principles outlast any single leader. This requires leadership in the boardroom. One executive said pressure on CEOs was good because it creates the innovation to solve societal challenges. Rather, he saw the problem as one less of CEO turnover, more to do with the inventive systems created by compensation committees. "If the board is clearly holding the management accountable to what its corporate philosophy is there should be consistency, regardless of the leadership," said the executive.

There are questions, however, about how likely the board is to take this step in the current climate. "[In the current climate, a new CEO is only going to get engaged in social issues] when the board starts saying, 'Well, you should really be looking at these broader issues,' which is probably three plus years into their tenure, at minimum. And don't forget that the increased pressure for accountability on the boards, and the fact that they can now get sued, leads them to be much more cautious about what they would encourage a CEO to do in any case," said one executive.

The media and others

Another limiting factor that executives recognize is the way that the business-society relationship is covered in the media and viewed by others such as academics. Academic economists, in particular, have often treated corporate attempts to factor social and environmental issues into their decision making as a waste of executive time and shareholder money. The same tendency to over-simplify is found in the media where either companies are condemned for their impacts on wider society, or damned for even thinking about such impacts. During the course of the interviews with executives, there were several high-profile pieces on corporate responsibility in the *Wall Street Journal* and *The Economist* that drew executives' attention. Several said the media often misses the real story by trying to make the issues black and white.

Timberland's Swartz talked at length about how he saw the current media coverage as a limitation: "I say to media like The Economist, 'Here is what I ask: Just create a platform where there's syntax, there's discourse, and an engaged conversation about the role of business in society.' And I said, I'd actually make you not reporters of the news, and not creators of the news, but actually thought leaders, a place where the debate would create an outcome that would be worthwhile."

> "This is a capitalist democracy. By definition, the wealth generators have a leadership obligation."
>
> – Pete Corell, Georgia Pacific

Leadership

The issue of leadership limits current responses to addressing the business-society relationship. This was expressed by a CEO of a Fortune 500 company: "Leadership for corporate America is a very double-edged sword. It's a very thin line, unless it has a clear business purpose for their company."

For many executives there is a belief that the issues at hand and the role of business are so important that companies should adopt a leadership role in addressing societal challenges. But others are reluctant, or even fearful, to take on these challenges, especially if the actions cannot be justified in purely business terms. Part of what we see today is executives who want to address societal issues because they are important to their companies and business as a whole, yet hesitant to take it too far because of the reaction that may come from investors, analysts, board members, or the media.

As a result, more often than statements about leadership, what one hears from executives is a desire to achieve what they can while keeping a low profile. One executive expressed this well: "You develop a level of trust [with investors]. They say, 'He's performed every quarter, 18 quarters in a row; we don't need to be giving them a complete anal cavity search every time we get on the phone with them.' And as long as that trust is maintained, we have a little more latitude to do interesting things, including on the social dimension."

As described by Manpower Chairman and CEO Jeff Joerres: "I think companies are stepping up to the leadership of [social challenges] but it's still potentially fragile. You step into these things and they're not for the faint of heart, so you've got to really keep at it. It does cost money at the outset. It takes a tremendous amount of time. ... I firmly believe that companies have an obligation to play a role [in society]. But the role must be defined within the comfort zone of an organization in order for it to be sustainable."

Executives who take leadership positions are generally admired, although it needs to be emphasized that successful leadership includes commercial success. But there is also regret that executives have not spoken out on important issues, such as those that damage trust in corporations.

"I am disappointed that CEOs have not been more vocal about malfeasance and excesses," said Jack Creighton, former CEO of Weyerhaesuer and United Airlines. "I know that there are issues around liability, but they should have stood up and said, 'These acts are not representative of the bulk of American corporations, and we abhor them. And as a representative of U.S. business I want you to know that we make mistakes, but what these people have done taking advantage of the company is not the norm.'"

5. WHAT NEEDS TO BE TACKLED

While there are all manner of small steps that could be taken to strengthen the business-society relationship, four important areas stand out as ones where progress offers enormous potential returns:

- Challenging the short-term perspective of the capital markets
- The respective roles of business and government in public policy
- Creating a soft landing to globalization
- Courageous leadership

None of these is an easy option, and they certainly do not represent a package of ideas that all executives would support. But moving the needle on any one will yield significant dividends.

> "A short-term vision of profit creation, without thinking about the long-term, will not create value for our shareholders."
>
> – Todd Thomson, Citigroup

The challenge of short-termism

Out of the general messages that: a) the majority of executives refute what in the 1980s and 1990s became the conventional definition of the social responsibility of business, and b) companies are having to pay more attention to managing their relationship with wider society, three important lessons emerge:

1. Companies that ignore the business-society relationship jeopardize long-term prosperity.
2. The short-term culture among the investment community is hindering how companies address societal issues.
3. Short-termism is damaging shareholder as well as stakeholder value.

How business performance today is seen through a short-term lens has already been examined, and although executive compensation packages are typically aligned with short-term shareholder interests, nonetheless, executives are highly aware that many of the societal issues they are concerned about demand long-term solutions. This is echoed by John Brock, InBev CEO who said: "I think that the mark of a truly successful business is one that takes into consideration the views of Wall Street and investors and analysts as but one vector. They are an important vector that has to be considered, but it's only one vector out of all the others you must consider and balance."

Executives struggle to communicate this to the markets. As Citigroup Chairman and CEO Charles Prince put it bluntly: "The investment community has no sense of social responsibility. And when I say 'no sense,' I can't use smaller words than that."

This sense of investor disinterest is not surprising, even though some executives feel it means the investment community is deaf to an important aspect of business performance. Citigroup's Todd Thomson challenges this notion: "There's no question that analysts are short-term oriented. There's no question that the vast majority of them are not insightful. It's a lot easier to analyze profits than it is to figure out the insights of whether people are investing appropriately for future performance or not, so most of them don't do that." In fact, in some cases attempts to wrestle with such issues evoke hostility as the following story told by Timberland's Swartz shows:

"In the 15, 18 years I've been doing the conference call [to analysts] every 90 days, I've gotten one question about social justice. This guy said something like, 'Based on the results of the business, it looks like too much time spent on saving the world and not enough time on developing products.' I said, 'I reject the premise. Next question, please.' You can't accept the view that whatever happens with the company follows from too much social justice and not enough product development. I don't agree with that assessment. I can't have that conversation."

The reality for most executives was expressed by Citigroup's Prince: "There is no reward for long-term growth. ... Nobody cares at all about long-term, sustainable growth outside of the institution itself. It's one of the harshest lessons to learn about business. And why is that? Not because people are bad. Investors get rewarded on how much profit they made, how much their portfolio grew. Not whether or not they're investing in something that lasts for 300 years."

Executives today find it hard to communicate to investors the important dimensions to creating long-term value. The interviews reveal that CEOs believe this will have serious consequences. Short-termism affects how executives lead their companies as noted by Ernst & Young's Turley as he recalled a meeting of corporate and investor leaders in Washington: "And to a person, everybody around the table, divergent points of view, felt that more than being upset or concerned about Sarbanes-Oxley, most CEOs were concerned about the short-term thinking of the financial markets, and that those companies and those CEOs that wished to take their companies private are primarily doing so not to avoid regulatory costs but to avoid the short-term hurdles."

A more dire warning:

"Failure to properly understand the need to take a longer-term view and other areas of responsibility toward communities and the environment, i.e. corporate responsibility, will lead to real concern as to whether globalization is aimed to benefit the few and not the many and whether on this basis unbridled capitalism is sustainable."

Mike Rake, KPMG

Executives say the move toward short-term measures of profitability is changing for a variety of reasons. "The analysts don't care. That I can tell you with pretty good certainty," said Ron Logue, State Street Chairman and CEO. "But investors care more and more because how you conduct your business is becoming important. They're concerned about protecting their investment."

From Chuck Williamson's perspective: "There is leadership that Wall Street looks for in a company. But it's hard for them to differentiate our program from anybody else's. That's the problem. All they're looking for is differentiation, whether it's strategy, management, or assets."

In the interviews one subject rarely raised by executives was Socially Responsible Investing (SRI). It was sometimes praised for seeking to raise the bar on social and environmental performance and corporate governance. And one CEO summed up the overall significance to date: "You occasionally see a 'socially responsible' fund, but it's like reading The Nation: there are seven people in the world who care about what's in The Nation."

Therefore, even though the SRI community may exert some influence over the coming years, especially if, for example, there is continued growth in environmentally oriented investments, what else can companies do to meet the challenges of short-termism? Some believe that it is just a matter of time before the logic of factoring integrity and honesty into mainstream investment decision-making happens. As AMD's Executive Vice President Tom McCoy said: "Experience proves that, in the long run, [ethical choices] are the best choices. In the long run, the ethical choice is the one that maximizes wealth. The short-term ethical decision to avoid paying taxes or [only to] maximize wealth always turns out to grow into a monster."

Some feel that balancing short and long-term perspectives is simply one of the skills CEOs need to have: "You're the CEO of a public company. Do you manage for today or tomorrow? The answer is, 'Yes, I'm responsible for providing profits to my shareholders.' If I don't they'll find someone else.

At the same time, planning for the future is an important part of ensuring ongoing services of the company and shareholders over the longer term," said one CEO.

Overall, there seem to be four types of responses: a) endure it, b) take the company private, c) take no notice, and d) change it. The 'endure it' camp believes executives are too quick to blame the capital markets: "CEOs always feel put upon. I understand that they feel this way. But I think the opposite," said a Fortune 500 CEO. "I think these are part of the challenges that come with the job. They're fun challenges." Or as another put it more succinctly: "If people whine about the Street, it's a cop out."

Moreover, they believe it is possible to win investor support. As GE's Immelt said: "By and large if I'm hitting the financial targets that I put forward to investors, they will give me a little bit of leeway to make a few bets that improve the reputation of the company. I think it's very personal, and it's all based on the residual goodwill that you build up with investors."

"There are CEOs who say, 'The investor community isn't interested. Therefore, I'm not.' I don't think that's a good enough answer. I think the answer is, 'Let me see if there are reasons for my business that make sense to do these things, in which case then I have the ball in my hands. I can talk to my investors, and I can tell them why I'm doing this.'"

Susan Rice, Lloyds TSB Scotland

A practical example of this is contained in one CEO's philosophy that puts the onus on investors and others to justify why companies should not be socially engaged. "The view we've taken on that is we can't cut [a social program or policy] out until we can prove that it's not doing something," said Joerres of Manpower. "Let's be careful here because it's how we are built. So you can show me or you can tell me that you can't quite prove what it's doing, but you also can't prove to me that it's not doing anything." Or as a Fortune 50 CEO said: "The Street doesn't care what we do as long as we deliver results... The burden is on us, and it's up to us to find the capacity to [have a positive impact] and never let the Street see a trade-off."

But there are also executives who think the current situation needs to change and are seeking solutions. If there is to be change, there needs to be an accurate diagnosis of the problem: is the concern (at least in the U.S.) to do with quarterly reporting per se? Or is it, as seems more likely, over quarterly earnings guidance? Similarly, how much of the worry about short-termism is to do with the changing nature of company ownership where in recent years a class of investors has arisen more akin to 'renters' than owners of stocks because of the speed with which they buy and sell?

Beyond these basics, there is a clear need to demonstrate to the investment community that the business-society relationship is important, and how it can hurt or create shareholder value. Organizations such as Business in the Community, the Boston College Center for Corporate Citizenship's Institute for Responsible Investment, State Street, and Citigroup's UK operation are working on different aspects of this, and there are initiatives such as Trueva (for True Value Added) and Enhanced Analytics that aim to provide ways of measuring corporate value that factor in aspects of social and environmental performance.

More fundamental change can only come about by figuring out how to create a dialogue between companies and investors and how to frame the debate. For example, as Citigroup's Thomson explained, "[When I talk to analysts] the first discussion is always, 'Okay, so you want us to find good things to invest in; companies that do good.' And no, that's not the answer. The answer is, how do you find companies that understand the opportunity of doing good, so that the investment is more valuable?"

Looking very much to the long-term, as Swartz of Timberland explained, "the way to influence the investment audience is to live ethically, and to create social value without compromising on expectations of financial performance. And while our company gets no credit for the former, we will get credit for the latter."

These are early days in terms of persuading investors and analysts why new thinking about the business-society relationship matters. There is a legacy of investor mistrust following recent corporate scandals, and a perhaps understandable concern that taking on societal issues will be the next vanity project of the "imperial CEO": "We don't elect our executives to speak about those things. We elect CEOs to be fiduciaries of the financial success of an enterprise," said an executive.

Managing for long-term performance and predicting it are hazardous, as evident by the collapse of companies such as HealthSouth, WorldCom, and Enron. Indeed, mention of these collapses reminds us that boards can have significantly more influence than investors, and might be a more fruitful place to tackle the issues we are talking about.

The views of Charles Prince, Citigroup's Chairman and CEO on the challenges of changing short-termism are worth quoting at length: "I don't know how to begin to affect change among the investors. I've heard some people say, 'Instead of doing quarterly reporting, we ought to do annual reporting.' I've heard people say you ought to issue long-term securities, 50-year bonds or something like that, that have some kind of equity part to them. That it requires an investor who has long-term gain opportunities and needs, but not even pension funds have acted that way. And so where does that leave us? It leaves us with an inconsistency: you have a requirement as management to balance the short-term needs of the outside community and the long-term needs of the institution."

> "I view this as an exciting time when we revisit the respective roles of government, organizations, and individual responsibility. Particularly when it comes to the fair expectations and callings of leadership."
>
> – Tom McCoy, AMD

Rethinking role of business and government

"I think some people in business still say, as they would have done 20 or 40 years ago, 'My job is to create value for my shareholders. And that's what I have to focus on. The rest will take care of itself. If I'm creating shareholder value, then I'm contributing to taxes. The government will do what the government does; it all just happens,'" said Susan Rice, Lloyd's TSB CEO. "Now, I think you've got more companies saying, 'Well, actually, it's not enough. The government can't do it and actually is not very capable at doing it on its own.... Therefore it's our place as a private-sector business to be involved.'"

There appears to be a simultaneous fear and push for business to take on wider, different responsibilities than in the past. Most executives would probably rather not take on such responsibilities, but recognize that this is no longer an option as business today has the competencies, resources and infrastructure to help meet societal challenges. Executives say the question is not so much what does business have to offer, but what are the legitimate roles for business and government in shaping 21st century society.

What seems lacking is the will and means to discuss and decide what both parties should be doing together and separately. Ironically, governments in many countries, not least in the U.S., have become so convinced that free enterprise is the main creator of the public good, it has become almost blasphemous to acknowledge a middle ground where government, business, and others have their respective, complementary roles and duties. This continues despite an appeal from executives that business cannot and should not be expected to undertake every societal issue.

A solution does not appear close at hand, especially as partisanship and dogma have tainted the debate and created considerable distrust on all sides. Some executives think that when government is involved the outcome is more regulation; while many politicians see their role as keeping government out of business; and there is public cynicism that government and business are already too tightly in each others' pockets.

Perhaps a starting point is to ask, "What is the responsibility of the 'good company' with respect to government?" Robert Monks, who posed that question, has said the responsibilities come down to: a) disclosure of relevant information, b) exercising restraint regarding trying to influence government, and c) obeying the law. But there may well be other responses: the important thing is that the question get asked.

Furthermore, if this discussion begins, the challenge at the top tiers of the company will be how to engage in ways that reflect the new role of business that includes the perspective of different stakeholders, rather than the narrow interests of capital.

As yet, however, there are marked differences of opinion about why companies should engage in public policy (e.g. is it because of their knowledge, their self-interest, or their being a citizen?); the conditions under which business should participate (e.g. should it be impartial, or supportive of a particular ideology?); and the purpose of participation (e.g. is it to seed a debate, or to represent public opinion?).

Fortunately, there are relevant examples of collaboration such as initiatives to address education and other priorities, or international events such as the World Economic Forum. None of these is a model, but they each provide lessons on the ingredients of success, and the pitfalls to be avoided.

"Sixty-five percent of the world's wealth is here in the United States. We're watching it being redistributed before our eyes. How do you participate in that in a way that is consistent with your values and that earns people's trust?"

– Phil Marineau, Levi Strauss & Co.

Creating a soft landing to globalization

Marineau's question, and the perceived failure of government and others to provide a clear answer, is one of the chief reasons expectations and distrust of business have risen in parallel. Often governments around the world have been cheerleaders of globalization, but have relied on market forces to demonstrate, and distribute, the benefits. Yet for many people, globalization is proving traumatic, and avoiding responsibility for dealing with its consequences is unwise. Recent political outcomes in parts of Latin America, the Middle East and Europe may be a repeat of history. The first wave of liberal globalization in the late 19th and early 20th century came to an end, not so much because it was an economic failure, but because the public perceived it to be a failure.

For business, therefore, rather than trying to tackle a seemingly endless line of social and environmental issues, it might make more sense to frame its approach to the relationship with wider society by what one CEO called "creating a soft-landing to globalization." Even if one believes that globalization is a positive force in the long run, there is ample evidence of the disparities and harm it can bring in the short-term to justify this way of thinking. It is something that lends itself to partnerships with government and civil society. It is also something that lends itself to solutions that enhance reputation, creating new business opportunities, and lessening the risk attached to loss of public trust.

Globalization is certainly something corporate responsibility professionals think about, but tend to equate with developing countries, and the responsibility companies have in countries where business has been accused of exploiting workers, communities, and the environment. Creating a soft landing to globalization, however, is as important in the advanced economies where manufacturing jobs are declining, the service sector is on the rise, and there is concern that for many citizens the opportunities to build a better life are being curtailed.

Earlier one CEO's idea of what a company's responsibilities might be in that kind of situation was offered: a) to provide a benefits package that helps workers and their families thrive; b) to keep employees' skills relevant in the job market; c) to provide a soft landing to dislocation. This kind of commitment demonstrates that business's responsibilities are changing, and that the old social contract no longer applies. At the same time, it makes clear that any change does not mean business is abnegating all responsibility.

As one CEO said, explaining what a new social contract with workers might look like, "My commitment to you is that, I can't promise you a job forever, but I can commit to you that I will keep your skills as relevant to the marketplace as I can, and if for some reason those skills aren't important to us tomorrow, they will be important to somebody else."

Presently there is reluctance to make this commitment. Instead, the news pages are filled with examples of companies that stay committed to the old social contract too long and watch it unravel in a manner devastating to employees and communities. There are few examples of companies that attempted before a catastrophic event to educate people about anticipating change and constructing prosperous lives around that.

Consequently, globalization is experienced not as a soft landing but a hard jolt—one that is making it harder and harder for business to establish itself as a respected member, rather than a callous exploiter, of global society.

"We need chairmen and chief executives to be courageous and determined to take a longer term view on their business. They need to be leaders of the business in a sense that really engages their people, their stakeholders, their shareholders, their communities, in believing that what they're doing is good for their business, good for their communities, and that these are inextricably intertwined."

– Mike Rake, KPMG

Courageous leadership needed

The above call from the head of a multinational company reflects the challenges confronting business as it moves toward taking on a new role in society. While the days when corporate responsibility was synonymous with the acts of individual corporate leaders has transitioned to a situation where companies themselves are expected to add value in new ways, the individual leader nonetheless has an important contribution to make.

There are examples, aside from the high profile cases of John Browne at BP or Starbucks' Howard Schultz, where executives have exhibited the kind of leadership the new roles of business require. This takes different forms—from Jeff Immelt insisting that societal challenges be turned into business opportunities, to the commitment to local issues by Bob Catell, to the way Jeff Swartz has put the social purpose at the center of his business model, to Phil Marineau's insistence that a company's values cannot be shed just because a company is going through hard times.

Almost any of the CEOs interviewed could be cited as examples of executive leadership. But overall, the business community is populated by corporate leaders who when it comes to societal issues either limit their commitment to what one CEO referred to as "hunkering down and sending a check" for certain causes, or playing the role of bystander to ensure they do enough but not too much in terms of maintaining their reputation as good citizens.

The executives interviewed are wrestling with the expansive nature of leadership—and are beginning to realize understanding and engaging with the expectations of a wide range of stakeholders has become a critical CEO function.

Given the nature of the challenges at hand, and the importance of the role of business in addressing them, neither sending checks nor standing by are what is required of business leaders today. Some of the reasons that discourage executives from taking on this type of role do make sense: e.g. this is not what CEOs were chosen to do; executives living in glass houses should not throw stones; and that there is more risk than advantage in becoming the poster child for particular causes.

But justified though they might be, they ignore the reality that business is being held to account by multiple constituencies for the myriad aspects of its behavior. Executives make clear that ignoring these constituencies is not an option. This is not to say that every CEO will then embark on a social mission: in the view of one CEO, "if our main responsibility is to investors, then I think it's purely optional beyond that how active a role a CEO wants to play vis-à-vis some of the broader issues. Some will do none. Some will do a lot. And I'm not sure you can call one a bad CEO and the other a great CEO."

MOVING THE BUSINESS AGENDA IN THE 21ST CENTURY

Forward-looking agenda for 21st Century companies will:

1) Invest in products that address societal needs.

2) Create business models that explore the limits of what the principled enterprise can achieve.

3) Make corporate responsibility a distinct business management competency.

4) Build a long-term perspective for the capital markets.

5) Work with non-business organizations to find solutions to societal issues that go beyond a narrow definition of business self-interest.

6) Engage in public policy in ways that take place at different levels on a wider range of issues, and that seek to represent the interests of a wider range of stakeholders.

7) Build new ways to understand and communicate the impact business's relationship with society has on company value.

8) Actively seek to rework the social contract to maintain and maximize their wealth creation function.

6. CONCLUSION

We are at a junction where companies are driven by short-term demands while the challenges of new societal expectations require business to address long-term issues. In this climate, the role of business is being redefined but is still a work-in-progress. What we are seeing played out are a number of experiments involving the role of business and how it should be managed.

For instance, executives are struggling with the extent to which business can regulate itself or is in need of more regulation. To what extent can it be organized through principles and how much through rules? How much should profit be used to validate business's actions, and how far should alternative notions of value be part of the equation?

These experiments are at different stages, and some will prove more important than others. Sometimes it will prove vital to have a single answer, and at other times it might be possible to live with alternative models running in tandem. But the reality that the outcomes of some of these experiments will shape not only business, but the very nature of society should not be ignored. It can be stated with certainty because society demands business be more cognizant of its impact on society and because business has accumulated enormous resources. More than just wealth, multinational companies have technical, infrastructure and human resources that exceed anything at the disposal of most other sectors in society. Moreover, business leaders are often in a better position to bring together leading thinkers from all sectors on issues as diverse as globalization, climate change, and poverty reduction.

Put simply, business has the ingredients of power. But there is no consensus among its leading executives about if, when, and how such power should be used. As is to be expected, many critics of big business fear the influence of major corporations. More surprisingly, the executives, certainly some of the strongest supporters of free enterprise, echo fears about imperial capitalism and investor short-termism. Some of the business leaders interviewed looked askance at the way some in business and government are so trusting of the market as the arbitrator of the public good, and share the view of the British government's science advisor, David King, that markets cannot decide what mitigation is needed, or establish the kind of international frameworks needed to tackle some of today's major issues.

Today's business leaders are often uncertain, confused, and timid about exerting leadership beyond the confines of the corporation. This is especially true where the challenges require them to look beyond the business case; when decisions and success cannot be measured by reference to share price or other financial indicators.

> "Some business leaders do actually view their role as one where being a leader in society is the important part of what they do. But it's not the norm."
>
> Hector Ruiz, AMD

Executives are often challenged when there are four equally profitable choices but each with quite different social consequences. They recognize a single company cannot be expected to bring about change but there are few proven models of collaboration. And they wrestle most frequently with situations that put the interests of the investor at odds with other stakeholders. With candor, executives interviewed conceded that corporate commitment to leadership is not yet matched by vision or action.

Less surprising, executives are far more confident when business self-interest and fiduciary duties encourage them to think seriously about taking on social and environmental challenges. While this leaves many dimensions of the business-society relationship on the sidelines, as the executive interviews revealed, it still provides business leaders enormous space in which to make decisions with societal interest in mind, and to persuade others in society that return on investment can be equated with what one former CEO calls "a return on integrity."

Another CEO struggling with this spoke of the "CFO belief" and the "believer's belief." The CFO focus in on supporting activities with very apparent financial benefits. The "believer" he said, understands to win the support of stakeholders and energize employees a company has to look beyond the bottom line. One CEO talked about creating a values culture "that has people coming to us because they want to be associated with us; employees that don't leave because it creates loyalty; communities that have more jobs because we create the jobs and the skills." And in a culture where employees feel less loyalty to companies, many executives say a strong values set can be rewarded by the bottom line.

Some 75 percent of the executives interviewed believe there are opportunities for companies to address the new approaches businesses are taking to adjust to the dynamics of the 21st century. They certainly recognize and are trying to respond to the fact that with size comes greater scrutiny, and that societal needs can create business opportunity. They are also aware that there is a corollary between stakeholder and shareholder satisfaction, and take seriously the arguments that companies need flourishing communities, that global growth requires global gains, and that companies' interests lie in sustainability. Where they are finding it more difficult to make progress is in dealing with the consequences of the drive for efficiency, and the primacy attached to the interests of investors, and we should recognize that in the day-to-day world of public firms striving to meet earnings targets and fulfill reporting requirements such as Section 404 are a dominant factor in the lives of executives.

While no CEO wants to betray the trust of investors, executives of some of the world's largest companies feel the interests of the firm are being damaged by the failure of the investment community to acknowledge and act upon the importance of effectively addressing business's relationship with wider society.

An irony of this situation is that even though executives recognize that societal issues need addressing, they find themselves in an environment where they might be rewarded for ignoring them, and wait instead for regulation that will share the costs across an industry. Breaking out of this mindset requires what one executive calls "courageous leadership" that does not mean forsaking financial imperatives, but rather building a prosperous business that also meets standards of integrity and social innovation. Such leaders are seeking answers to three questions:

1) Are there market-based solutions to key social issues?
2) Are there whole or partial solutions to those issues?
3) What role should business play when it is not able to provide the whole solution?

Having answers to these questions will determine how far companies are able to move from the old paradigm of business focused on shareholder value, to one built on new expectations. The consequence of not finding answers to these questions were on display with the social turmoil that accompanied the economic crises in parts of South America and Southeast Asia when government, civil society, and business formed a circular firing squad when it came to allocating blame.

> ""I'm hoping that my successor will have more opportunity to focus on going forward and less need to go forward and change direction at the same time."
>
> – Charles Prince, Citigroup

The CEOs interviewed are often aware of the need for business leadership in tackling social and environmental challenges, but do not feel companies have been given, or perhaps earned, the mandate to do more than nibble at the edges. Ironically, they feel they lack the legitimacy to do what they sense will ultimately benefit shareholders and society, and restore public trust that business can be a good citizen. They are also uneasy about expectations that they are considered public officials—a job they say they did not choose. Yet they realize companies that are not proactive run the risk of getting stuck in a reactive mode.

It is an irony that while modern politicians in many developed economies can win election by securing a plurality of the minority who vote, companies increasingly feel the need to appeal to the majority if they are to grow their businesses.

Moreover, even where government is taking on major societal issues, there is recognition that it cannot do so alone. A major change over the past few decades is, as Ernst & Young Chairman and CEO James S. Turley describes: "the most sophisticated information technology, the most sophisticated processes around almost everything used to be governmentally controlled, whereas today, some of the most sophisticated technology and infrastructure, and supply chain management,and ability to streamline logistics are in business hands, and in multiple business hands, not those of one company." What is more, this change is no accident said Turley: "Companies have, in general, wanted a freer hand, in terms of government regulation, restrictions on their business activities. And with that freer hand comes an obligation. You can't ask for one and not deliver on the other."

The more business leaders become aware of the challenges of 21st century society, and of the potential and necessity for business to step up and address them, so the need for courageous leadership will become of growing importance. Such leaders will not be absent from or bystanders to debates about the public good: their enterprises will chart a new course that restores faith in the social purpose of free enterprise.

"The corporation's primary responsibility is to ensure its existence within an ethical and responsible framework. The idea of profit at any cost is something that is past its time.

Ralph Shrader, Booz, Allen

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