THE ASPEN INSTITUTE
Business and Society Program

Leadership and Values: Moving Beyond the Ethics Debate

Presented to the Corporate Contributions Council of the Conference Board by Judith Samuelson, Founder and Executive Director of The Aspen Institute's Business and Society Program. Delivered September 22, 2003.

Good morning.

I was invited to speak with you today about the challenges of leadership and ethics in business and your work at the forefront of corporate giving. I was pleased to be asked. After all, our work with executive educators and business faculty at the Business and Society Program of the Aspen Institute is deeply rooted in these concerns.

Michael Feller suggested I lay out what I see as the key issues facing business today in the arena of business ethics and corporate responsibility, and furthermore, not to be constrained by the focus of this particular meeting. When I began to consider how to address so vast a topic—particularly with a group of your expertise and experience, an unexpected image came to mind—to which I have not given thought in many years. The image I have in mind was the cover of the very first issue of Ms. Magazine when it was created by Gloria Steinum and her friends back in—I think—1972. I was a sophomore in college and the advent of Ms., as a 19 or 20 year old budding feminist, was quite exciting. Women of a certain age in this room may remember that first issue. I held on to it for many years.

The picture on the cover was a cartoon of the "typical" housewife—the fully engaged but undervalued homemaker that Betty Freidan wrote about, juggling a dozen tasks simultaneously—from managing the household budget to driving in the carpool to doing the wash to vacuuming the floor to gardening to running the PTA. The cover cartoon showed the housewife with the implements of her trade—or multitude of trades—arrayed in spokes around her—like the displayed implements of a well-endowed swiss army knife. The woman had as many arms as an octopus, which she needed to simultaneously wield all those tools—from the car keys to the sewing machine to the scotch tape to a box of band aids to the mix master.

Not an exalted image—of course, for Ms. Magazine, that was the point—but it is what came to mind when I tried to put myself in your shoes and think about the roles that you, as a group, are asked to occupy in the firm.

Before moving to the Aspen Institute, I spent almost equal time as a lobbyist in Sacramento, at Bankers Trust Company—now Deutsche Bank—as a banker and at the Ford Foundation as a philanthropist. So when I use my imagination and superimpose the different cultures and expectations of these environments—government, philanthropy and business, my empathy for you grows, and when I read the list serves that flood my email and when I track the pace at which complex social and environmental problems are crowding the board room—my empathy grows again. And then we add in the dynamics of the last two years—from 9/11 to Enron to the implications of terrorism and the war in Iraq and a devastating economy wreaking havoc on grant budgets and staff levels, it's amazing that you all still standing. For the roles you fill in the firm and issues you address—sandwiched between community and the corporate suite—require, today, remarkable breadth and depth and balance. You sit between human rights advocates and executives looking for donations to their client dinners—between environmental activists wielding boycotts and lawsuits and regulators seeking a bright line on board level conflicts of interest. Between members of Congress looking for the next big issue—and to the President of the United States—one day seeking corporate partners on a current domestic social challenge—be it welfare reform or workforce development or refurbishing our public schools—and the next, pressing your networks and grantees for agents of Osama bin Laden. More than philanthropists—you now are—well, magicians comes to mind. Contortionists may be more accurate.

Few things have worked out the way that I anticipated in the last several years, so I, like many of you, are on a search for some patterns that I can use as a guide for where the world of corporate citizenship—corporate philanthropy—corporate social responsibility is likely to move next. I was surprised, for example, that 9/11 didn't build a more public and sustained dialogue on global economic conditions and the needs of LDCs. I was equally surprised that Enron and its ilk—World com to Tyco to Global Crossing—was largely interpreted as the work of "a few bad apples" leading to a tightening of regulations rather than a rallying cry for a fundamental reexamination of the incentive systems and first principles that produce this level of greed. So I am reluctant to trust my crystal ball—maybe with this group in particular.

But I will say this. I don't think that your job will get easier once the lawyers and accountants finish with Sarbanes Oxley. Or once there is a meeting of the minds on the interpretation of the New York Stock Exchange's rules on charitable giving and board director independence. Yes, these issues and the reporting requirements that result are tricky as well as time consuming. Energy and attention is being siphoned off onto compliance. You are or will be encountering conflicts between the letter and the spirit of the law; and work that always felt challenging probably feels even more so. And yes, the reality of closer scrutiny may even feel unjust, or at a minimum, a complicating factor in doing the good work that you want to be doing.

But once the dust settles on Sarbanes and Enron and its cousins—I don't predict that life in the corporation will recede from the Front Page back to the business pages. I think the microscope will be focused again on the firm—not because of wrong doing or the public scrutiny of excessive compensation packages—but rather because of the growing consensus that business, not corporate philanthropy, but business is our best and maybe last hope for addressing a growing list of extraordinary challenges. Like the AIDS crisis. Deforestation and global warming. Destabilizing civil wars in Africa and the Middle East. The crumbling infrastructure in our inner cities and ominous reports of water shortages and, yes, even hunger. I don't mean to be melodramatic, especially not early on a Monday. But you know and I know the kinds of problems I am talking about. They make Enron and reorganizing the NYSE look like a cakewalk.

There will be room again for close examination of the way multinational firms conduct their business. Not just avoid conflicts of interest at the governance level, but manage the entire supply chain. Where the companies you work for decide to manufacture and provide services and where they decide you no longer can. The long-term impacts of materials and other inputs to the manufacturing process, but also how the products are disposed of once the consuming is done. There will be discussion of the loans your companies finance, the images you choose for your next ad campaign and how you use the information you collect in the sales cycle. In other words, the way your companies tackle the myriad of demands of people—the proverbial stakeholders—who have never walked through your doors, but consider themselves "Fenceline Neighbors."

Whether or not the structure of your department or your own job description includes strategic thinking on these issues—I predict that the unique expertise and knowledge base and networks that you represent will become more, and more and more important as your firm takes these issues on.

I suppose you can look at this one of two ways. On the one hand, you can see yourselves as the "canary in the coal mine"; on the other hand, from a more optimistic vantage point, you can see yourselves as real pioneers. Your work as philanthropists—at the intersection of business needs and wider societal concerns—positions you for a critical role in this brave new world of heightened consumer and public expectations. My purpose is not to flatter you although I have every reason in the world to do so—and I don't think you will be effective working single handedly. I am saying that the companies that recognize people with your knowledge and skill set as central to the zeitgeist of the firm are more likely to manage successfully through the turmoil ahead.

So what makes you so unique and valuable? From the sidelines of the nonprofit world, we see you as part of business, working within the very firms that face the greatest risks and the greatest opportunities from the erosion of public trust, heightened media and NGO scrutiny, and the emerging realities of globalization. And from that position within business, you focus your work on wider social needs, which means you know the language and the concerns of these other stakeholders. And you are the first line of contact, in many cases, with these groups…that makes you both vulnerable and potentially critical to the firm's success.

You can play a mediating role; you can model ethical management for your firm and put a human face on the firm for the stakeholders with whom you interact. You can be the front line of the corporation's efforts to understand and build more constructive dialogue with these groups.

And the way I see it, this "pioneering" role is much broader than a compliance-centered and reactive commitment to ethics, narrowly defined. It is actually a much more strategic and complex positioning. Wherein you need to know and understand the ethical "rules" but you also need to look beyond them to the deeper questions regarding the relationship between business and the societal fabric of which it is a part…a very powerful—even extremely powerful part, but still only a part.

So, if I were to make any forecasts—it would be this one—that these issues of compliance and new definitions of what constitutes conflict of interest, as important as they are in restoring public trust, are neither the most compelling nor the most complex issues we face. Because in the end, all the rule-following in the world is not going to satisfy the NGOs and the media and wider public of consumers and communities who believe that the corporation is taking an unfair share of the goodies or placing an unfair burden of risks—environmental or economic—on a world of limited resources. In the end, ETHICS is not enough to address the public skepticism and criticism of business.

Now I find this skepticism is troubling when, in my view, it is ultimately business—big, audacious, profit-hungry, globe trotting business that will unlock the solutions to our most complex problems as a society. It won't happen alone—it will happen in partnership with government or at the prodding of the third sector, who function as advocates, watchdogs and increasingly as partners—but more frequently, in important cases, I expect the change will be business led because it is business in the US and around the globe, that has the resources, the talent, the problem-solving skill, the distribution systems and, increasingly, the motivation to act…and that is where you come in.

You can be the advance scouts who see the issues that most need corporate attention; you are the diplomats who forge relationships with the NGOs and issue advocates; the firm asks you to evaluate the credibility of potential partners and monitor the quality of the relationships…

And as the issues that the firm tackles and are expected to embrace get hairier, as they certainly have in recent years, this requires a whole new set of skills and a whole raft of new knowledge generation…precisely the kind of skill-building and knowledge generation that at Aspen BSP we spend our time identifying, promoting and evaluating in business schools and for executive education.

In our work with executive educators and business faculty, we have found that the terms that are used to describe this set of issues and relationships—corporate citizenship, or sustainability or corporate social responsibility—tend to marginalize the work involved and scare off the people we most need to reach. We had to coin a new term—one that positions the concerns at hand squarely within the terrain of business function, operations and investments. We use the term, Social Impact Management. Let me define it. Social impact management encompasses the field of inquiry at the intersection of business needs and wider societal concerns that respects the complex interdependence between the two. Social Impact Management focuses on how to manage this complex interdependency to the mutual benefit of both.

As such: Social Impact Management is a critical part of contemporary business because without understanding and acting on this interdependence, neither business, nor the society in which it operates, thrives. This has become abundantly clear, in a world in which 50 of the largest economies around the globe are multi-national corporations and when BP and Pfizer are larger and have far greater resources, talent, distribution and supply chains than all but a handful of nation states.

Social Impact Management is a way of thinking about business activities and especially about what questions to ask. It explicitly considers and evaluates 3 aspects of a business:

1. First, Purpose: what is the purpose—in both societal and business terms—of a business or a business activity?
2. Second, Social Context: Are the legitimate rights and responsibilities of multiple stakeholders considered? Examples include the employees, the pensioners, local residents, and those most immediately affected by the decline or deterioration of natural resources or those advocating on their behalf.
3. And Third, Metrics: meaning, how is performance and profitability measured? What is being counted and more importantly, what is not being counted? Are impacts and results measured across both short and long term time frames? How do we compute the impacts of what we tend to call "externalities"—the stuff outside the gate—that increasingly rebounds directly to the business environment, to intangibles like reputation and the ability to attract talent, and the franchise to operate around the globe?

Now, the issues that fall easily within the definition of social impact management—are both exceedingly complex—and getting more so. While we tend to think of ethics in the framework of right and wrong—Enron or Tyco as cases in point—many of today's most vexing managerial questions present themselves not as black and white, but as gray, stuck between two "rights" or two "wrongs". E.g.: What's the true cost—and how does one manage—a layoff in a down economy? How do we address privacy issues on the Internet without changing the culture that makes the Internet so flexible and accessible? Low cost labor abroad or full employment at home? How about when the jobs in question are technology jobs—rather than low wage piecework? Do we exploit tax-advantaged havens, or pay the tax willingly to support government functions like education and transportation (on which business depends). Do we apply the same environmental standards across every border or reduce costs and create more jobs in economically deprived nations? Who does child labor hurt when the family can't eat? The reality is that a decade or two ago, we believed these dilemmas were best adjudicated by government. Few people are comfortable with that answer any more. For good or for ill, today these are business concerns.

These issues, now, are managed in many corners of the firm—depending on whether the presenting problem is viewed as a labor problem, government relations or regulation, tax, reputation or risk management. If it requires the skills of a human relations manager, or a compensation specialist—or an engineer. But without a unifying principle of how to measure success, and how to calculate the impact on parties that are directly affected by the outcome, the firm is vulnerable. Without the ability to measure results—not in quarters, but in generations—the firm runs the risk of even greater scrutiny and reprisal.

One of the knotty problems in this domain is that when we probe students in business schools, they say they are not being prepared to manage the conflicting demands of multiple stakeholders —and if we look at any short list of the greatest risks faced by businesses today, especially global business, they have to do with these conflicting demands. The whiplash is felt by big brands—Nike, Shell, and Chiquita among them—that are carefully watched by outside monitors, expert at use of the Internet and media to publicize their concerns. But today it's more than the extractive industries and consumer products companies that are at risk or are required to graft new business responsibilities onto the management model.

Here is a sample from a list serve that I receive.

- Manufacturers from Panasonic to Motorola to Nokia have agreed to the Basel accord that places responsibility for environmentally sound disposal of cell phones back on the company. This is a standard that Germany already applies to most manufactured products and is soon coming to an industry near you. Some of you probably have colleagues who are already working on this challenge.
- A new Australian law requires all investment firms to disclose "the extent to which labour standards or environmental, social or ethical considerations are taken into account." Least you think that Australia is a long way from Boston, remember that Citigroup and Barclays are leading a group of 16 global banks to adopt and promulgate the World Bank's environmental and human rights and labor

standards—the so-called Equator Principles. These principles will be applied when the banks consider long term financings of projects in environmentally sensitive industries and regions—from chemicals to forest products and virtually everything in between. When I asked a friend at the World Bank to e-mail the standards to me, she said laughed and said she couldn't—they filled several cd-roms.

- Re-insurers like Swiss Re who back up insurance companies on their investments and risks are puzzling over the real need to discount, now, the eventual costs of global warming and global health and environmental hazards as they write new policies. What will this mean in today's prices and who should pay?
- And finally, the California courts are leading the country on revisiting the Constitutional rights of firms—Nike and Unocal are two examples—brought by citizen groups who have been frustrated in their attempts to negotiate human rights or environmental concerns and are now eager to test the application of laws and legal precedents that go back as far as the 1800s.

This is only a random sample of the issues hitting boardrooms, literally, as we meet.

We challenge business schools to prepare students to better understand and thus to take seriously these sophisticated critics making increasingly credible demands. We believe that these questions belong in Marketing classes that address the impact of drug pricing decisions and in Finance classes that examine the cost of capital for investments in developing countries and in Operations and Strategy classes that are considering the impacts of outsourcing production.

For our research on the attitudes of the next generation of business leaders reveals that most students expect to confront values conflicts in their business careers. They will arise around the need to weigh trade-offs—between and among shareholders, employees, customers and the environment. In particular, students see challenges in decisions about downsizing, about investing in less developed countries, and about natural resource exploration. About three quarters of them think conflicts over financial reporting are somewhat, or even very likely.

The implications for these findings for business are all too obvious. There is a growing need for managers with what Daniel Goleman and Richard Boyatzis at Case Western call EQ—emotional intelligence—and for the willingness and commitment to measure impact of business decisions from the vantage point of the communities in which your facilities rest. Managers with the courage and skill set to raise the right questions, and sound the right bell, not just when there is an ethical or legal problem in the firm but when the problems and the implications to risk management and reputation lie far outside the gate—these managers are gong to be in great demand. For the issues in the domain of social impact management are not going away—they are growing in importance and scale.

In closing, I would like to share some of my recent observations about the challenge ahead for firms that are beginning to explore the arena of social impact management or CSR. I have four points to make from our vantage point at the Aspen Institute.

First, I just returned yesterday from a CSR conference in Copenhagen, so the cultural differences between the US and Europe is still very much on my mind. I understand why the claim is often made that European firms are ahead of companies rooted in the US when it comes to corporate responsibility. Yet I am no longer inclined to generalize the differences between American companies and their European counterparts. I think that divide is getting dated—and that to accentuate the differences fails to move the field forward. Certainly, the commitments made to fully integrate principles of sustainability in companies like BP and Novartis are truly outstanding and indeed are more common in firms with a Scandinavian or European heritage than American. And yes, I believe, ironically, that our strong culture and practice of philanthropy in the US has been more of a box than a bridge to corporate responsibility. It makes it too easy for senior executives to sideline the issues as the responsibility of the contributions manager. However, I don't think that has to be the case, and furthermore, the experience philanthropy offers of actually working in communities, the history of specific regulations—from the Community Reinvestment Act to the Foreign Corrupt Practices Act—offer significant advantages and experience on this side of the Atlantic. What I have seen in the last year, is the beginning of a rigorous exploration of CSR in US companies working to understand corporate citizenship as a business proposition—thus requiring a sophisticated vision and management plan. And maybe the key motivation is still a swift kick in the butt from 30 individuals linked by e-mail, but when US based firms begin to integrate some of their philanthropic know how with business knowledge and capacity, and add in our unique history with and abundance of civil and community organizations, it will be quite powerful. This American know-how includes remarkable depth of experience in community and economic development, and public-private partnership as found in the US banking and insurance sectors. It includes the entrepreneurial successes of what we call the Ben and Jerry's crowd—that have their pulse on the intersection of savvy marketing and consumer consciousness of environmental concerns. It includes the growing business sophistication of our NGOs, as well as the American instinct to bring market forces to bear on complex problems—rather than leave it to government to solve. I repeat, I think what we accomplish will be quite powerful.

Second, I am ready to declare the debate over about the lack of a business case for business investment in issues outside the gate. When I got into this work, now 10 years ago, the need for a business case is all we heard about. I no longer think that the lack of research to support the bottom line benefits of socially motivated business investment holds us back. In fact, a study that Aspen supported a few years ago at the University of Michigan, and was provoked by a conversation I had with David Ford, then at Lucent in 1997, and which is now widely cited in the literature, found some 120 studies over a 30 year period that have attempted to understand the link between a company's social and financial performance. The great majority of these studies, ranging from the upside of investing in the Philharmonic, to firm specific benefits of creating day care centers—suggested a positive correlation—but as a body of literature, do little to help managers make the generic case.

The fact is, most global corporations are quite good at articulating the business case—one, the desire to enter and exit markets with confidence, two, to recruit the best and brightest that our colleges and professional schools offer, three, to create consumers that can afford our products, just like Henry Ford did when he paid a living wage to the assembly line, four, to avoid the reputation pitfalls that accompany departure from global standards and norms for labor and environment. These firms recognize that market opportunity goes hand in hand with market responsibility.

The reality is that the question about business engagement has moved beyond whether it makes sense for a business to invest in the community or engage with stakeholders. The question is how to do so. Which opportunity to pursue? Who to work with? And where to start? Perhaps it was Enron or Anderson that taught us (without the need to measure it in dollars and cents and return on investment) about the close relationship between employee morale and reputation and the business license to operate. I don't think we will turn back that clock. The power of the Internet to communicate bad news is an important factor in this shift. This doesn't mean we won't still attempt to measure reputation hits and other intangibles like the good will created through community investment, but the lack of hard numbers will no longer let us ignore stakeholder perspectives or fail to benchmark our peers on how to handle a plant closing.

Third, it appears that the next frontier of CSR or corporate citizenship will employ—instead of the language of cost-benefit—the strategic thinking behind competitive advantage. The good news, to me, is it doesn't really matter whether you put your stake in the ground around economic opportunity in Zimbabwe or are examining privacy issues on the internet, the fundamental questions of business purpose, context and metrics still ring true. What is the purpose—in both societal and business terms—of a business or business activity? Are the legitimate rights and responsibilities of multiple stakeholders considered? And how is performance and profitability measured? Once these questions take root in a specific business or product offering, the opportunity for migration into general business practice grows significantly. This is the management challenge as we look to the next generation of managers in our firms and our education feeder systems. And while it has been the big brands—the firms that actually make things and sell products that consumers buy off the shelf that have taken the heat on the CSR front—from Kathie Lee Gifford and child labor, to Kate Spade and sweatshops, to Tiffany's and blood diamonds, to Heineken and the AIDS crisis, to Norwegian cruise lines and the despoiling of the coral reefs in the Caribbean, I suspect that will not always be the case.

Finally, one area that seldom gets discussed in CSR meetings. A troubling disconnect often exists, I believe, even in firms with the most strategic and well considered CSR strategies—between stated policy on environment or community investing or public education and what's on the docket for the governmental affairs staff. If we are going to make progress and the public is to rightly perceive business as an agent of public benefit, then the lobbying arm of the firm will need to be part of the master plan.

Which takes me back to the role that you play.

Last week we invited a small group of HR managers to our office for a conversation about the training programs for investment analysts in investment banks. In the world of NGOs, one of the areas of new and growing inquiry is what we might call "follow the money" campaigns. The strategy is familiar to those of you who have followed the Rainforest Action Network campaign again Citigroup. The strategy, simply, is to connect the dots between unsustainable practices like clear cutting in the forests of Asia, and the trade agreements and credit facilities and financing arrangement that enable the practices to continue. Given, again, the power of the Internet to make these connections clear, the targets can include not only the World Bank and Import-Export Bank, but also the Investment banks that raise capital in private markets and syndicate public debt and equity financings.

These strategies are bringing to the table a set of businesses that have been shielded by the tactics familiar to consumer products and extractive industries—and we were curious what is sifting down to the entry levels of firms in the financial sector. I wasn't surprised to find that they too were talking mostly about training for appropriate use of e-mail, sexual harassment and Chinese wall and other conflicts of interest rather than these issues outside the gate. What did surprise me was that in the course of learning to run the numbers, it isn't necessary or important for the analyst to know what the target company makes, where it operates, how it hires its workers. What is made off shore and the structure of its supplier relationships. Perhaps, I exaggerate to make the case, but only slightly. The numbers are the story. End of story.

Basically, the analysis is "context free."' And it works. Up to a point, and that point isn't until that analyst has worked his or herself far enough up the food chain to be responsible for the bank's balance sheet or its reputation, not just transacting. However, you can see the problem. The tone is set on day one.

So, one way to look at your role in the firm—is that you are providing that context. Not to every analyst—God forbid. But you may be in a position to inquire about the due diligence process that the analyst supports with his or her spreadsheet. Or the third party consultation process that proceeds bringing a new product to market. Or what the relationship is with governments of the principle countries in which you do business.

And finally, you may also ask what opportunities exist to train staff and employees to act on their values. To assure that everyone is prepared to be the eyes and ears—to provide the context that the firm will need more and more as we enter the brave new world of rebuilding the public trust.

Exactly 10 years ago, a trustee of the Ford Foundation asked in a Board meeting why the Foundation never talked about the private sector and its contribution to economic development. That question changed everything for me personally and it's been an interesting ride.

It has been a pleasure and honor to lay out these ideas. I hope they will be at least somewhat useful as you carry on your exploration of ethics and trust-building and, then, contribute to this dialogue back home.