The Challenges of Globalization

The world economy is becoming increasingly integrated, and many businesses have extended their reach beyond national borders. Yet the process of globalization is controversial, and the involvement of corporations in other nations is not always welcome. Doing business in diverse political and economic systems poses difficult challenges. When a transnational corporation buys resources, manufactures products, or sells goods and services in multiple countries, it is inevitably drawn into a web of global social and ethical issues. Understanding what these issues are and how to manage them through collaborative action with governments and civil society organizations is a vital skill for today's managers.

This chapter focuses on these key learning objectives:

- Defining globalization, and classifying the major ways in which companies enter the global marketplace.
- Recognizing the major drivers of the globalization process and the international financial and trade institutions that have shaped this process in recent decades.
- Analyzing the benefits and costs of the globalization of business.
- Identifying the major types of political and economic systems in which companies operate across the world and the special challenges posed by doing business in diverse settings.
- Examining the major codes of conduct governing the social and ethical behavior of transnational corporations.
- Assessing how businesses can work collaboratively with governments and the civil sector to address global social issues.

In 2000, a bitter dispute erupted in Bolivia over control of a very basic commodity—water. As part of a program of privatization promoted by the World Bank, the government of Bolivia had auctioned off the water utility of Cochabamba, the nation's third-largest city. The buyer was a consortium controlled by the U.S. construction and engineering firm Bechtel. Under the terms of the deal, Bechtel agreed to improve the badly dilapidated water system. In exchange, the company received exclusive rights to all the water in the city, including the underground aquifer, and was guaranteed a minimum 15 percent annual return on its investment. The company moved in, began the upgrades, and promptly hiked water rates—stunning local households and small businesses who were then expected to pay up to a quarter of their income for basic water service. A broad coalition quickly formed, and people took

to the streets by the thousands. The army moved in and declared a state of siege. Faced with a popular insurrection, the Bolivian government informed Bechtel that it had revoked the contract. The company retaliated by filing a complaint with the World Bank, demanding $25 million in compensation. This was an amount that Bolivia, a land-locked nation high in the Andes and the poorest country in South America, could hardly afford. In 2005, Bechtel finally dropped its claim in the face of intense public pressure in Bolivia and around the world.[1]

This extraordinary episode captures much of the turmoil and controversy that surrounds the globalization of business and its far-reaching social impacts. We live in a world that seems increasingly small, more connected, and highly interdependent. It is a world in which transnational companies such as Bechtel often bring much-needed technical know-how, capital, and managerial experience to poorer nations deeply in need of these resources. Yet corporate involvement abroad often involves challenging social and ethical issues. In this case, Bechtel had to proceed in the context of World Bank mandates over which it had, at best, indirect control. It faced contradictory stakeholder expectations, confusing norms about subsidies for basic services, and a surprise military intervention. Moreover, it failed almost completely to anticipate any of this or to resolve the problem effectively when it arose. How companies can best negotiate the difficult challenges of doing business in a global world is the subject of this chapter.

The Process of Globalization

Globalization refers to the increasing movement of goods, services, and capital across national borders. Globalization is a *process*, that is, an ongoing series of interrelated events. International trade and financial flows integrate the world economy, leading to the spread of technology, culture, and politics. Thomas Friedman, a columnist for *The New York Times* and a well-known commentator, has described globalization as a *system* with its own internal logic:

> (G)lobalization is not simply a trend or a fad but is, rather, an international system. It is the system that has now replaced the old Cold War system, and, like that Cold War system, globalization has its own rules and logic that today directly or indirectly influence the politics, environment, geopolitics, and - economics of virtually every country in the world.[2]

Firms can enter and compete in the global marketplace in several ways. Many companies first build a successful business in their home country, then export their products or services to buyers in other countries. In other words, they develop *global market channels* for their products. Nokia, for example, began in Finland, but now sells its cellular phones and other products all over the world. Other firms begin in their home country, but realize that they can cut costs by locating some or all of their *global operations* in another country. This decision leads to establishing manufacturing plants or service operations abroad. Sometimes, companies own their own factories and offices overseas; sometimes, they subcontract this work to others. For example, in the apparel and shoe industries, companies such as Nike, Gap, and Guess have extensive networks of subcontractors outside the United States who make products of their design. Finally, a third strategy involves purchasing raw materials, components, or other supplies from sellers in other countries. In other words, these companies develop *global supply chains*. Although they do not make entire products overseas, they source supplies that are then assembled in the home country.

These three strategies of globalization can be summarized in three words: *sell, make,* and *buy*. Today, many companies have all three elements of global business—market channels, manufacturing operations, and supply chains.

Major Transnational Corporations

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Who are these leading transnational corporations? Figure 7.1 lists the top 10 nonfinancial transnational corporations, ranked in order of the value of the foreign assets they control. Leading the list is General Electric, the American electrical

equipment and electronics conglomerate. Rounding out the group are several of the world's leading oil companies, automakers, and telecommunications firms. The world's major financial corporations also extend across the globe; Citigroup, the largest of these, has 320 foreign affiliates in 77 host counties.

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The Acceleration of Globalization

Global commerce has taken place for hundreds of years, dating back to the exploration and colonization of Africa, Asia, and the Americas by Europeans beginning in the 15th century. But it is during the past 60 years or so, since the end of World War II, that global commerce has truly transformed the world's economy. According to the World Bank, about one-fourth of all goods and services produced worldwide are sold to other nations, rather than domestically; this is almost double the percentage in 1960. In other words, the world's economy is becoming increasingly integrated, as an ever-higher share of output is being exported across national borders.[5] In earlier years, most exports were of goods; an important recent trend is the globalization of services, as shown in Figure 7.2, which chronicles growth in this sector over the most recent decade and a half.

The acceleration of globalization has been driven by several factors:

- *Technological innovation:* Sophisticated software, Internet, fiber optics, wireless, and satellite technologies, among others, have made it easier and faster for companies to communicate with employees, partners, and suppliers all over the globe in real time. In the words of Thomas Friedman, the world has become increasingly "flat," as technology has leveled the playing field and allowed all to participate on an equal footing in global commerce.[6]
- *Transportation systems:* Improvements in transportation—from air freight, to high-speed rail, to new generations of ocean-going vessels—enable the fast and cheap movement of goods and services from one place to another.
- *The rise of major transnational corporations:* Big, well-capitalized firms are better equipped to conduct business across national borders than smaller, local companies.
- *Social and political reforms:* Critical changes, including the rise of dynamic growth economics on the Pacific Rim and the collapse of the former communist states of central and eastern Europe, have opened new regions to world trade.

In recent years, Volkswagen, Renault, Audi, and other European car companies have shifted much of their production across the former Iron Curtain that divided communist and noncommunist Europe, drawn by the availability of cheap skilled labor, from assemblers to engineers. The VW Touareg and Porsche Cayenne are now made in Slovakia, the Renault Logan in Romania, and the Audi TT roadster in Hungary. The Asian companies Toyota, Kia, and Suzuki have followed suit, either operating or planning to build plants in Slovakia, Hungary, and the Czech Republic. The

concentration of auto factories in Central and Eastern Europe has gone so far that some have begun to call the region "Detroit East."[7]

Finally, the process of globalization has also been spurred by the rise of international financial and trade institutions that stabilize currencies and promote free trade. These institutions are discussed in the next section.

International Financial and Trade Institutions

Global commerce is carried out in the context of a set of important **international financial and trade institutions (IFTIs)**. The most important of these are the World Bank, the International Monetary Fund, and the World Trade Organization. By setting the rules by which international commerce is transacted, these institutions increasingly determine who wins and who loses in the global economy.

The **World Bank (WB)** was set up in 1944, near the end of World War II, to provide economic development loans to its member nations. Its main motivation at that time was to help rebuild the war-torn economies of Europe. Today, the World Bank is one of the world's largest sources of economic development assistance, providing almost $22 billion in loans in 2005 for roads, dams, power plants, and other infrastructure projects, as well as for education, health, and social services. The bank gets its funds from dues paid by its member countries and from money it borrows in the international capital markets. Representation on the bank's governing board is based on economic power; that is, countries have voting power based on the size of their economies. Not surprisingly, the United States and other rich nations dominate the bank.

The World Bank often imposes strict conditions on countries that receive its loans, to make sure the debtor countries can pay back what they owe. These conditions, called *structural adjustment plans*, may include demands that governments cut spending, devalue their currencies, increase exports, liberalize financial markets, reduce wages, and remove agricultural price subsidies. These conditions often lead to hardship, particularly for the poor. Critics charge that developing countries are unfairly burdened by these conditions. They also say that poor countries are often hard pressed to pay back principal and interest on World Bank loans.

The World Bank's sister organization is the **International Monetary Fund (IMF)**. Founded at the same time as the bank (and today residing across the street from it in Washington, D.C.), the IMF has a somewhat narrower purpose: to make currency exchange easier for member countries so that they can participate in global trade. It does this by lending foreign exchange to member countries. Like the World Bank, the IMF imposes strict conditions on governments that receive its loans. Some observers think that over the years, the IMF has become even harsher than the World Bank in the conditions it imposes.

One country that has been particularly hard hit by IMF conditions is Jamaica, a developing island nation in the Caribbean. In exchange for IMF loans, Jamaica agreed to a number of conditions, including opening up its borders to free trade with other nations. The problem was that Jamaican dairy, poultry, vegetable, and fruit farmers were unable to compete with the United States, whose meat and produce were produced more efficiently by large agribusiness companies. The result was that many Jamaican farms failed, and the country became increasingly reliant on imports to feed its people. Jamaica fell into an increasing spiral of debt, its citizens became poorer, and the country found it increasingly difficult to repay its IMF loans.[8]

Recently, major lending organizations, including the IMF, have begun to extend **debt relief** to some poor nations, a subject that is explored in Exhibit 7.A.

The final member of the triumvirate of IFTIs is the **World Trade Organization (WTO).** The WTO, founded in 1995 as a successor to the General Agreement on Tariffs and Trade (GATT), is an international body that establishes the ground rules for trade among nations. Its major objective is to promote free trade, that is, to eliminate barriers to trade among nations, such as quotas, duties, and tariffs. The WTO conducts negotiations, called *rounds*, on various topics, rotating its meetings among different cities. Most of the world's nations are members of the WTO, which is based in Switzerland. Unlike the WB and the IMF, the WTO does not lend money or foreign exchange; it simply sets the rules for international trade.

Under the WTO's most favored nation rule, member countries may not discriminate against foreign products for any reason. All import restrictions are illegal unless proven scientifically, for example, on the basis that a product is unsafe. If countries disagree about the interpretation of this or any other WTO rule, they can bring a complaint before the WTO's Dispute Settlement Body (DSB), a panel of appointed experts, which meets behind closed doors. Rulings are binding; the only way a decision can be overruled is if every member country opposes it. One contentious issue that recently came before the WTO, involving agricultural subsidies, is profiled in Exhibit 7.B. Another area of controversy has involved the WTO's position on intellectual property rights, particularly as they relate to the protection of patents for pharmaceutical drugs. This issue is explored in the case study, "GlaxoSmithKline and AIDS Drugs for Africa," at the end of this book.

These three international financial and trade institutions are important because no business can operate across national boundaries without complying with the rules set by the WTO, and many businesses in the developing world are dependent on World Bank and IMF loans for their very lifeblood. The policies these institutions adopt, therefore, have much to do with whether or not globalization is perceived as a positive or negative force, a subject to which we turn next.

The Benefits and Costs of Globalization

Globalization is highly controversial. One need only look at television coverage of angry protests at recent meetings of the World Trade Organization, World Bank, and International Monetary Fund to see that not all people and organizations believe that globalization—at least as currently practiced—is a positive force. Yet, many others feel that globalization holds tremendous potential for pulling nations out of poverty, spreading technological innovation, and allowing people everywhere to enjoy the bounty generated by modern business. Clearly, some benefit from globalization, while others do not. In this section, we present some of the arguments advanced by both sides in the debate over this important issue.

Benefits of Globalization

Proponents of globalization point to its many benefits. One of the most important of these is that globalization tends to increase economic productivity. That means, simply, that more is produced with the same effort.

Why should that be? As the economist David Ricardo first pointed out, productivity rises more quickly when countries produce goods and services for which they have a natural talent. He called this the *theory of comparative advantage*. Suppose, for example, that one country had a climate and terrain ideally suited for raising sheep, giving it an advantage in the production of wool and woolen goods. A second country had a favorable combination of iron, coal, and water power that allowed it to produce high-grade steel. The first country would benefit from trading its woolen goods for the second country's steel, and vice versa; and the world's economy overall would be more productive than

if both countries had tried to make everything they needed for themselves. In other words, in the context of free trade, specialization (everyone does what they are best at) makes the world economy as a whole more efficient, so living standards rise.

> Many countries today have developed a specialization in one or another skill or industry. India, with its excellent system of technical education, has become a world powerhouse in the production of software engineers. France and Italy, with their strong networks of skilled craftspeople and designers, are acknowledged leaders in the world's high fashion and footwear design industries. The United States, with its concentration of actors, directors, special effects experts, and screenwriters, is the global headquarters for the movie industry.

Comparative advantage can come from a number of possible sources, including natural resources; the skills, education, or experience of a critical mass of people; or an existing production infrastructure.

Globalization also tends to reduce prices for consumers. If a shopper in the United States goes into Wal-Mart to buy a shirt, he or she is likely to find one at a very reasonable price. Wal-Mart sources its apparel from all over the world, enabling it to push down production costs. Globalization also benefits consumers by giving them access to a wide range of diverse goods and the latest "big thing." Teenagers in Malaysia can enjoy the latest Tom Cruise or Will Smith movie, while American children can play with new Nintendo or Sega games from Japan.

For the developing world, globalization also brings benefits. It helps entrepreneurs the world over by giving all countries access to foreign investment funds to support economic development. Globalization also transfers technology. In a competitive world marketplace, the best ideas and newest innovations spread quickly. Multinational corporations train their employees and partners how to make the fastest computer chips, the most productive food crops, and the most efficient lightbulbs. In many nations of the developing world, globalization has meant more manufacturing jobs in export sectors and training for workers eager to enhance their skills.

The futurist Allen Hammond identifies two additional benefits of globalization. First, he says that world trade has the potential of supporting the spread of democracy and freedom.

> The very nature of economic activity in free markets . . . requires broad access to information, the spread of competence, and the exercise of individual decision-making throughout the workforce—conditions that are more compatible with free societies and democratic forms of government than with authoritarian regimes.[9]

Second, according to Hammond, global commerce can reduce military conflict by acting as a force that binds disparate peoples together on the common ground of business interaction. "Nations that once competed for territorial dominance," he writes, "will now compete for market share, with money that once supported military forces invested in new ports, telecommunications, and other infrastructure." In this view, global business can become both a stabilizing force and a conduit for Western ideas about democracy and freedom.

Costs of Globalization

If globalization has all these benefits, why are so many individuals and organizations so critical of it? The answer is complex. Just as some gain from

globalization, others are hurt by it. From the perspective of its victims, globalization does not look nearly so attractive.

One of the costs of globalization is job insecurity. As businesses move manufacturing across national borders in search of cheaper labor, workers at home are laid off. Jobs in the domestic economy are lost as imports replace homemade goods and services.

> In the American South, tens of thousands of jobs in the textile industry have been lost over the past several decades, as jobs have shifted to low-labor cost areas of the world, leaving whole communities devastated. In 2003, Pillowtex, the last remaining major textile company operating in the region, declared bankruptcy and shut down 16 plants, citing intense foreign competition. Pillowtex (formerly Fieldcrest Cannon) had at one time been the world's largest producer of household textiles like towels, sheets, and blankets.

In the past, mainly manufacturing was affected by the shift of jobs abroad; today, clerical, white-collar and professional jobs are, too. Many customer service calls originating in the United States are now answered by operators in the Philippines and India. The back office operations of many banks—sorting and recording check transactions, for example—are done in India and China. Aircraft manufacturers are using aeronautical specialists in Russia to design parts for new planes. By one estimate, as many as 3.3 million white-collar jobs will be outsourced from the United States to lower wage countries by 2015.[10] Even when jobs are not actually relocated, wages may be driven down because companies facing foreign competition try to keep their costs in check. Much of the opposition to globalization in affluent nations comes from people who feel their own jobs, pay, and livelihoods threatened by workers abroad who can do their work more cheaply.

Not only workers in rich countries are affected by globalization. When workers in Indonesia began organizing for higher wages, Nike Corporation moved much of its production to Vietnam and China. Many Indonesian workers lost their jobs. Some call this feature of global capitalism the "race to the bottom."

Another cost of globalization is that environmental and labor standards may be weakened as companies seek manufacturing sites where regulations are most lax. Just as companies may desire locations offering the cheapest labor, they may also search for locations with few environmental protections; weak regulation of occupational health and safety, hours of work, and discrimination; and few rights for unions. For example, the so-called gold coast of southeastern China has become a world manufacturing center for many products, especially electronics. One journalist offered the following description of a young worker there:

> Pan Qing Mei hoists a soldering gun and briskly fastens chips and wires to motherboards streaming past on a conveyor belt. Fumes from the lead solder rise past her face toward a ventilating fan high above the floor of the spotless factory. Pan, a 23-year-old migrant worker, said the fumes made her light- headed when she first arrived from a distant farm village three years ago. Now she's used to them—just as she's used to the marathon shifts, sometimes 18 hours a day.[11]

Weak health and safety and environmental regulations—and lax enforcement of the laws that do exist—are a major draw for the companies that manufacture in factories in China's industrial zones.

A related concern is that the World Trade Organization's most favored nation rules make it

difficult for individual nations to adopt policies promoting environmental or social objectives, if these have the effect of discriminating against products from another country.

> One incident that provoked considerable controversy involved protection for endangered sea turtles. In response to concerns voiced by consumers and environmentalists, the United States passed a law that required shrimp trawlers to use nets equipped with special devices that allowed turtles to escape. It also banned the import of wild shrimp from nations that did not require such devices. Shortly thereafter, Thailand, Pakistan, Malaysia, and India brought a complaint before the WTO, saying that the U.S. law violated trade rules by discriminating against their shrimp (which were caught without protection for sea turtles). The WTO ruled against the United States and ordered it to either change its law or pay compensation to the other nations for lost trade.

Critics of globalization say that incidents such as this one show that free trade rules are being used to restrict the right of sovereign nations to make their own laws setting environmental or social standards for imported products.

Another cost of globalization is that it erodes regional and national cultures and undermines cultural, linguistic, and religious diversity. In other words, global commerce makes us all very much the same. Is a world in which everyone is drinking Coke, watching Hollywood movies, talking on Motorola cell phones, and wearing Gap jeans a world we want, or not? Some have argued that the deep **anti-Americanism** present in many parts of the world reflects resentment at the penetration of the values of dominant U.S.-based transnational corporations into every corner of the world.

With respect to the point that globalization promotes democracy, critics charge that market capitalism is just as compatible with despotism as it is with freedom. Indeed, transnational corporations are often drawn to nations that are governed by antidemocratic or military regimes, because they are so effective at controlling labor and blocking efforts to protect the environment. For example, Unocal's joint-venture collaboration to build a gas pipeline with the military government of Myanmar (Burma), a notorious abuser of human rights, may have brought significant financial benefits to the petroleum company.

Figure 7.3 summarizes the major points in the discussion about the costs and benefits of globalization.

What is public opinion on these issues? A survey of 20,000 people in 20 countries around the world in 2005 found that in all countries except one (France), most people thought that the free market economic system was best. But solid majorities in all countries also favored more regulation of big companies to protect the environment and the rights of workers, consumers, and shareholders. The director of the study concluded, "There is now an extraordinary level of consensus about the best economic system. But . . . there is also near-unanimous rejection of unbridled capitalism."[12]

This discussion raises the very real possibility that globalization may benefit the world economy as a whole, while simultaneously hurting many individuals and localities. An ongoing challenge to business, government, and society is to find

ways to extend the benefits of globalization to all, while mitigating its adverse effects.

Doing Business in a Diverse World

Doing business in other nations is much more than a step across a geographical boundary; it is a step into different social, political, cultural, and economic realities. As shown in Chapter 1, even businesses operating in one community or one nation cannot function successfully without considering a wide variety of stakeholder needs and interests. When companies operate globally, the number of stakeholders to be considered in decision making, and the diversity of their interests, increases dramatically.

Comparative Political and Economic Systems

The many nations of the world differ greatly in their political, social, and economic systems. One important dimension of this diversity is how power is exercised, that is, the degree to which a nation's people may freely exercise their democratic rights. **Democracy** refers broadly to the presence of political freedom. Arthur Lewis, a Nobel laureate in economics, described it this way: "The primary meaning of democracy is that all who are affected by a decision should have the right to participate in making that decision, either directly or through chosen representatives." According to the United Nations, democracy has four defining features:[13]

- -Fair elections, in which citizens may freely choose their leaders from among candidates representing more than one political party.
- An independent media, in which journalists and citizens may express their political views without fear of censorship or punishment.
- Separation of powers among the executive, legislative, and judicial branches of government.
- An open society where citizens have the right to form their own independent organizations to pursue social, religious, and cultural goals.

One of the truly remarkable facts about the past century has been the spread of democratic rights for the first time to many nations around the world. Consider, for example, that at the beginning of the 20th century *no* country in the world had universal suffrage (all citizens could vote); today, the majority of countries do. One hundred and forty of the world's nearly 200 countries now hold multiparty elections, the highest number ever. The collapse of communist party rule in the former Soviet Union and its satellites in eastern and central Europe in the early 1990s was followed by the first open elections ever in these countries. These changes have led some observers to call the end of the 20th century the "third wave of democracy."

On the other hand, many countries still lack basic democratic rights. Single-party rule by communist parties remains a reality in China, Vietnam, Cuba, and the People's Democratic Republic of Korea (North Korea). **Military dictatorships**, that is, repressive regimes ruled by dictators who exercise total power through control of the armed forces, are in place in, among others, Myanmar, Equatorial

Guinea, Turkmenistan, and Belarus.[14] Some countries, such as Pakistan, for example, have reverted to authoritarian rule after a period of democracy. The rights of citizens to organize in support of cultural and religious goals are restricted in a number of Arab states, including Iran, Syria, and Saudi Arabia. According to United Nations estimates, 106 countries still limit important civil and political freedoms.

Even in some countries that are formally democratic, people perceive that they have little influence on policy. A survey of citizens in 60 countries conducted by Gallup International showed that less than a third said their country was "governed by the will of the people," even though most of these countries held open elections.[15]

The degree to which human rights are protected also varies widely across nations. As explained in Chapter 5, *human rights* refers broadly to the rights and privileges accorded to all people, simply by virtue of being human, for example, the rights to a decent standard of living, free speech, religious freedom, and due process of law, among others. Fundamental human rights have been codified in a number of international agreements, the most important of which is the Universal Declaration of Human Rights of 1948.[16] The second half of the 20th century was a period of great advances in human rights in many regions, and over half of the world's nations have now ratified *all* of the United Nations' human right covenants. Nonetheless, many human rights problems remain. Consider the following examples:

- More than 10 million children die each year before their fifth birthday. Most of these deaths are preventable.[17]
- Gross violations of human rights have not been eliminated. *Genocide*, mass murder of innocent civilians, has occurred all too recently in Rwanda, Iraq, Bosnia and Herzegovina, the Congo, and Sudan.
- Over a million girls and young women under the age of 18 are forced into prostitution every year.
- Minority groups and indigenous peoples in many nations still lack basic political and social rights. In Nepal, the life expectancy of "untouchables," the lowest caste, is fully 15 years less than that of Brahmins, the highest caste.

The absence of key human rights in many nations remains a significant issue for companies transacting business there.

Another dimension of difference among nations today is how economic assets are controlled, that is, the degree of economic freedom. On one end of the continuum are societies in which assets are privately owned and exchanged in a free and open market. Such **free enterprise systems** are based on the principle of voluntary association and exchange. In such a system, people with goods and services to sell take them voluntarily to the marketplace, seeking to exchange them for money or other goods or services. Political and economic freedoms are, of course, related: as people gain more control over government decisions they often press for greater economic opportunity; open markets may give people the resources to participate effectively in politics.

At the other end of the continuum are systems of **central state control**, in which economic power is concentrated in the hands of government officials and political authorities. The central government owns the property that is used to produce goods and services. Private

ownership may be forbidden or greatly restricted, and most private markets are illegal. Very few societies today operate on the basis of strict central state control of the economy. More common is a system of mixed free enterprise and central state control in which some industries are state controlled, and others are privately owned. For example, in Nigeria, the oil industry is controlled by a government-owned enterprise that operates in partnership with foreign companies such as Shell and Chevron, but many other industries are privately controlled. In the social democracies of Scandinavia, such as Norway, the government operates some industries but not others.

The Heritage Foundation, a conservative think tank, has scored the nations of the world according to an *index of economic freedom* defined as "the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself." Among the freest nations in 2006, by this measure, were Hong Kong, Singapore, and Ireland; among the most repressed were Burma, Iran, and—the least free in the world—North Korea.[18]

Nations also differ greatly in their overall levels of economic and social development. Ours is a world of great inequalities. To cite just one simple measure, the richest 1 percent of people in the world receive as much income annually as the poorest 57 percent. The lives of a software engineer in Canada, say, and a subsistence farmer in Mali (in central Africa) could not be more different. The engineer would have a life expectancy of 80 years, access to excellent medical care, and a comfortable home in an affluent suburb. His children would likely be healthy, and they could look forward to a college education. The farmer, by contrast, could expect to live only to age 48, probably could not read or write, and would earn an annual income of less than $1,000 (U.S.)—in good years when his crops did not fail. He would likely not have access to clean drinking water, and his children would be poorly nourished and unprotected by vaccination against common childhood illnesses. Several of his children would die before reaching adulthood.[19] Even as the world has become freer politically and economically, inequality has grown; the gaps between the richest and poorest nations are rising, as are gaps between the richest and poorest people in many nations.

Meeting the Challenges of Global Diversity

As the preceding discussion suggests, transnational corporations today do business in a world of staggering diversity and complexity. Not surprisingly, the wide range of political, social, and economic environments in which business operates poses complex and challenging questions for managers, such as the following, for example:

- If a company does business in a nation that does not grant women equal rights such as Saudi Arabia, for example, should that company hire and promote women at work, even if this violates local laws or customs?
- Should a company enter into a business joint venture with a government-owned enterprise if that government has a reputation for violating the human rights of its own citizens? For example, Unocal, mentioned earlier in this chapter, was criticized and later successfully sued for entering into a joint venture with the repressive military government of Myanmar.

- Does a company have a duty to offer its products or services—say, life-saving - medication—at a lower price in poor countries like Mali, to customers who desperately need them?
- If a government fails to provide basic services to its citizens, such as primary education, decent housing, and sanitation services, is it the duty of a company to provide these things for its own employees or for members of the community in which it is located? This question is particularly likely to arise for companies in extractive industries, such as oil, natural gas, and metal mining, where production may be located far from established communities.

Many people believe that when transnational corporations operate according to strong moral principles, they can become a force for positive change in other nations where they operate. This is known as **constructive engagement**. Under some situations, however, constructive engagement may not be possible. At what point do violations of political, human, and economic rights become so extreme that companies simply cannot morally justify doing business in a country any more?

The experience of Shell Oil in Nigeria, further explored in a case study at the end of this book, illustrates this dilemma. Shell entered into a joint venture with the Nigerian government, then ruled by a military dictator, to produce and export oil. Citizens of the oil-producing regions organized to protest Shell's behavior, charging that the company had despoiled the environment, failed to provide services to the community adequately, and not hired enough indigenous people from the local area. In response, the Nigerian government imposed martial law and arrested the leaders of the protest. Civilians were killed, and several leaders of the protest were executed after military tribunals where they were not given the right to defend themselves. Should Shell have intervened? Was Shell responsible for what the government did? Should Shell have provided basic services in the oil-producing regions that the government had not? Should Shell leave Nigeria, or try to work with the government and communities there to improve conditions in the oil-producing regions?

In this situation, Shell decided not to take a public stance against the government's actions, on the grounds that it should "stay out of politics." The company was strenuously criticized for this and later had to rethink its position on political action (a subject that is explored in the companion case study at the end of this book, "The Transformation of Shell"). Eventually, Shell announced that it had changed its view and was prepared to make known to governments its position on political matters, such as this one, that affected the company or its stakeholders. It also took action to better protect the environment and to train its managers in human rights principles.

Like Shell, many companies face ongoing dilemmas deciding how to respond to conditions in repressive nations.

Global Codes of Corporate Conduct

In recent years, a number of important efforts have been made to address the challenges facing transnational companies as they confront a bewildering diversity of laws, norms, cultures, and stakeholder expectations. Most companies take for granted that they should, unless the circumstances are truly exceptional, follow the laws of the nations where they do business. But beyond merely obeying the law, what other standards should transnational corporations follow? Do universal standards, applicable to all companies in all global circumstances, exist? What

guidelines would help a company in a situation like the one that confronted Shell in Nigeria?

These difficult questions have been addressed by international organizations such as the United Nations, by corporations and business advisory groups, and by scholars and ethicists. Recent years have seen a proliferation of **global codes of conduct** that seek to define acceptable and unacceptable behavior for today's transnational corporations.

Of the codes that have been developed by groups representing multiple nations, two of the most important are those developed by the United Nations and by the Organization for Economic Cooperation and Development (OECD), a group representing 30 advanced industrial countries, mostly in Europe.

- The *United Nations Global Compact* was initiated in 2000 by Kofi Annan, the -secretary-general of the United Nations. In consultation with corporations and nonprofit organizations, the secretary-general proposed core basic principles covering labor, human rights, and environmental standards and invited corporations to voluntarily endorse them. The United Nations described the Compact as "a values-based platform designed to promote institutional learning." As of 2006, over 2,000 businesses had endorsed the principles, and many had participated in a series of dialogues on corporate responsibility designed to share best practices.[20] The experience of one company that has endorsed the United Nations Global Compact, Novartis, is profiled in Exhibit 7.C.
- The *OECD Guidelines for Multinational Enterprises* is a code of conduct for corporations developed by member nations of the OECD. The guidelines, which like the UN Global Compact are voluntary, address employment relations, information disclosure, environmental stewardship, consumer interests, and the management of technology.

Codes have also been developed by businesses themselves or by groups or individuals that advise businesses. Among these are the following:

- The *Global Sullivan Principles* were proposed by the late Reverend Leon Sullivan in 1999. Reverend Sullivan, who for many years had served on the boards of General Motors and other corporations, had earlier sponsored a code for companies doing business in South Africa before the end of apartheid in that country. The objectives of the Global Sullivan Principles were to support economic, social, and political justice by companies where they do business. It also called on companies to support human rights and to encourage equal opportunity at all levels of employment, including racial and gender diversity on decision-making committees and boards.
- The *Caux Principles*, developed by a consortium of European, Asian, and North American business leaders called the Caux Roundtable, emphasizes *kyosei* (that is, working for the common good) and a respect for human rights.

It should be noted that the issues of bribery and improper payments, conflicts of interest, and receiving gifts are addressed in nearly all global codes of conduct. These issues were discussed in Chapters 5 and 6.

Although they differ in emphasis and particulars, all these codes converge on a few key elements. All emphasize the responsibility of transnational corporations to protect human rights, respect the rights and dignity of their employees and other stakeholders, and act as stewards for the natural environment.

Collaborative Partnerships for Global Problem Solving

As the preceding section suggested, doing business in a diverse world is exceptionally challenging for businesses. Multiple codes of conduct have been developed to guide the actions of transnational corporations, yet most of them are too general to provide a road map for many of the specific problems that confront today's large corporations doing business abroad.

Since the questions facing transnational corporations are so challenging, one solution is to approach them collectively, through a collaborative process. An emerging trend is the development of collaborative, multisector partnerships focused on particular social issues or problems in the global economy. This final section of Chapter 7 describes this approach.

A Three-Sector World

The term *sector* refers to broad divisions of a whole. In this context, it refers to major parts or spheres of society, such as business (the private sector), government (the public sector), and civil society. **Civil society** comprises nonprofit, educational, religious, community, family, and interest-group organizations, that is, social organizations that do not have a commercial or governmental purpose.

The process of globalization has spurred development of civil society. In recent decades, the world has witnessed the creation and growth of large numbers of **nongovernmental organizations (NGOs)** concerned with such issues as environmental risk, labor practices, worker rights, community development, and human rights. The number of NGOs accredited by the United Nations has soared in recent years, rising from 1,000 in 1996 to more than 3,000 in 2006. This figure counts just major organizations. In the United States, the number of NGOs large and small is estimated to be more than 2 million, 70 percent of which are less than 30 years old. A similar pattern exists in Europe, where half of all NGOs were founded in the last decade.[21]

Experts attribute the growth of NGOs to several factors, including the new architecture of global economic and political relationships. As the Cold War has ended, with democratic governments replacing dictatorships, greater openness has emerged in many societies. More people, with more views, are free to express their pleasure or displeasure with government, business, or one another. NGOs form around specific issues or broad concerns (environment, human rights) and become voices that must be considered in the public policy debates that ensue.

Recent research has recognized that each of the three major sectors—business, government, and civil society—has distinctive resources and competencies, as well as weaknesses. For example, businesses have access to capital, specialized technical knowledge, networks of commercial relationships, and the management skills to get projects completed on time and on budget. On the other hand, businesses tend to disregard the impacts of their actions on others, especially in the long term. For their part, government agencies have knowledge of public policy, an ability to enforce rules, and revenue from taxation, but are often inflexible, slow to mobilize, and poorly coordinated. Finally, NGOs often enjoy strong community knowledge, volunteer assets, and inspirational leaders, but may lack financial resources and technical skill and may suffer from a narrow, parochial focus.[22] One model highlighting various of the attributes of actors in the business, government, and civil society sectors is presented in Figure 7.4.

Many businesses have realized that these differences across sectors can be a resource to be exploited. In this view, alliances among organizations from the three sectors, **collaborative partnerships**, can draw on the unique capabilities of each and overcome particular weaknesses that each has.

The opening example of this chapter illustrated a failed effort by a transnational corporation to modernize the water utility in a developing country. Contrast that

example with the following more successful one, in which a company used a collaborative partnership strategy:

> A collaborative partnership formed to bring water and sanitation services to some of the poorest regions of South Africa. Ondeo (formerly, Suez-Lyonnaise), a French transnational corporation, brought its expertise in designing and managing large-scale water works. Group 5, a local construction company, brought construction know-how. The government agency in charge of water services provided public funding and staff for regulation and monitoring. A local NGO called the Mvula Trust, headed by a former antiapartheid crusader who had turned his attention to economic development after the overthrow of the racist regime, mobilized the community to define what services were needed and later to help maintain the system. All three groups worked together, drawing on the special talents of each in service of a single goal. This successful collaboration has brought running water and sanitation to many rural communities.[23]

Collaborative partnerships, like this one, carry a number of important advantages for transnational companies. They can enlist the special skills of governments and communities, educate the company about stakeholder expectations, and ensure that a particular project is consistent with local norms and values. Other applications of the principle of cross-sector collaborations are explored in Chapters 12 and 17.

The process of globalization presents today's business leaders with both great promise and great challenge. Despite the ever-present threat of war and terrorism, the world's [illegible], with their financial assets and technical and managerial skills, have a great contribution to make to human betterment. Yet, they must operate in a world of great diversity, and in which their presence is often distrusted or feared. Often, they must confront situations in which political and economic freedoms are lacking and human rights are routinely violated. The challenge facing forward-looking companies today is how to work collaboratively with stakeholders to promote social and economic justice, while still achieving strong bottom-line results.

- Globalization refers to the increasing movement of goods, services, and capital across national borders. Firms can enter and compete in the global marketplace by exporting products and services; locating operations in another country; or buying raw materials, components, or supplies from sellers abroad.
- The process of globalization is driven by technological innovation, improvements in transportation, the rise of major multinational corporations, and social and political reforms.
- Globalization brings both benefits and costs. On one hand, it has the potential to pull nations out of poverty, spread innovation, and reduce prices for consumers. On the other hand, it may also produce job loss, reduce environmental and labor standards, and erode national cultures. An ongoing challenge is to extend the benefits of globalization to all, while mitigating its adverse effects.
- Multinational corporations operate in nations that vary greatly in their political, social, and economic systems. They face the challenge of deciding how to do business in other nations, while remaining true to their values.
- Several important global codes of conduct have established standards for companies doing business across national borders. These include the UN Global

Compact, the OECD Guidelines for Multinational Enterprises, the Global Sullivan Principles, and the Caux Principles.

- Businesses can work with governments and civil society organizations around the world in collaborative partnerships that draw on the unique capabilities of each to address common problems.

Discussion Case: *Conflict Diamonds*

In the 2000s, a common concern emerged among members of an oddly matched group: the diamond industry, the United Nations, several governments, and human rights campaigners. All wished to end the trade in *conflict diamonds*—gemstones that are mined or stolen by rebels fighting internationally recognized governments.

The $6 billion a year diamond industry has long been dominated by the De Beers Corporation. Founded in South Africa by Cecil Rhodes in the 1880s, De Beers' strategy has been to own as many diamond mines as possible and to sell its rough (uncut) stones exclusively to a small group of preferred dealers at prices set by the company. To maintain its control over supply, De Beers operates buying offices all over the world, "sweeping up" diamonds produced in mines operated by others. The result, for many years, has been a virtual monopoly.

De Beers has also been a shrewd marketer, pouring millions of dollars over the years into advertising. Using the slogan "a diamond is forever," the company cultivated an association between diamonds and romance. The company first promoted solitaire engagement rings; later, it shifted its marketing focus to the so-called eternity ring, a band of multiple smaller stones aimed at older married couples.

In the 1990s, events in several diamond-rich African nations converged to tarnish the gem's carefully cultivated image of love and purity.

During the Cold War, many partisans in civil conflicts in Africa received funding from either the United States or the Soviet Union, both anxious to maintain alliances in the nonaligned developing world. After the collapse of the Soviet Union in 1991, this source of funding largely dried up. Accordingly, some combatants began to seize control of valuable mineral resources to finance their operations.

The situation was particularly gruesome in Sierra Leone, a small nation in West Africa, which was devastated by civil war for much of the 1990s. A journalist who covered the war there described the methods of the Revolutionary United Front (RUF), the rebel force:

> The RUF's whole mode of operation was just to roll into a village that had a diamond mining operation. . . . What made the RUF stand out as a brutal organization was their campaign of amputation. That served no strategic purpose but to terrorize the population. Little children, women, men had their hands and arms chopped off as if they were wood.

By some estimates, the RUF mutilated as many as 20,000 people in Sierra Leone in this manner. Needless to say, the rebels quickly secured control of the mines, and they began selling rough diamonds in exchange for weapons, food, and other supplies.

Similar stories emerged from Angola and the Democratic Republic of the Congo, other African nations with active civil wars and considerable diamond wealth. In Angola alone, the UNITA rebels were reported to have built up a war chest of almost $4 billion during the 1990s from the sale of diamonds, which they used to fund a sophisticated military operation. By some estimates, as many as 6 million civilians were forced from their homes and 3.7 million died in these African conflicts.

By the mid-1990s, several human rights organizations had begun to spread the word about these atrocities. In 1998, Global Witness, a British NGO, issued a report called *A Rough Trade* estimating that up to 8 percent of the world's diamonds were coming from conflict areas. It joined with other NGOs, including Amnesty International and Oxfam, in a campaign to alert the public to the issue of conflict diamonds.

The United Nations also acted; its Security Council passed a resolution in 2000 prohibiting the import of diamonds from Sierra Leone until a process could be set up to certify they did not come from the RUF. The governments of several countries with legitimate diamond industries, including Botswana, South Africa, Namibia, Canada, and Australia, also expressed concern that their economies would be hurt.

Countries with large retail operations were worried about the possible impact of lost sales. The United Kingdom's foreign minister, for example, told the press: "We want to ensure that if somebody goes to buy a diamond from a jeweler's shop, they know that when they put it on the finger of their loved one, they are not pledging a diamond that has cut off the finger of a child in Sierra Leone or Angola."

De Beers reacted swiftly and decisively to these events. In 1999 the company suspended all buying operations in West and Central Africa and, shortly thereafter, stopped buying diamonds from any mines outside its own direct control. In 2000, a De Beers representative appeared before a U.S. Congressional hearing and readily acknowledged that conflict diamonds were a problem: "Having spent hundreds of millions of dollars on advertising its product, De Beers is deeply concerned about anything that could damage the image of diamonds as a symbol of love, beauty, and purity."

Shortly thereafter, the industry association, the World Diamond Congress, passed a resolution banning conflict diamonds. It also took the unusual step of establishing a new organization, called the World Diamond Council, to bring together diamond companies, government representatives, and other interested parties. In 2002, their joint efforts led to the development of what became known as the Kimberley Process Certification Scheme, a system for tracking diamonds all the way from the mine to the jewelry shop, so that consumers could be assured that their gem was "conflict-free."

By 2006, 45 diamond-producing countries, accounting for virtually all of the world's rough diamond production, had endorsed the Kimberley Process. Although human rights activists praised the progress that had been made, some also called for independent monitoring to eliminate abuses. "Despite repeated commitments by the diamond industry to combat conflict diamonds, some of its members still evade Kimberley Process controls while the rest turn a blind eye," said a representative of Global Witness.

Sources: Greg Campbell, *Blood Diamonds: Tracing the Deadly Path of the World's Most Precious Stones* (Boulder, CO: Westview Press, 2002); also, articles appearing online at *www.cnn.com, www.salon.com, www.fpa.org, www.worlddiamondcouncil.com, www.un.org/peace/africa*, and *www.globalwitness.org*.

[1] William Finnegan, "Leasing the Rain," *The New Yorker,* April 8, 2002, pp. 43–53. Updates may be found at the Web site of the Democracy Center, *www.democracyctr.org.*

[2] Thomas L. Friedman, *The Lexus and the Olive Tree* (New York: Anchor Books, 2000), p. ix.

[3] United Nations, *World Investment Report 2005: Transnational Corporations and the Internationalization of R&D* (New York: United Nations, 2005).

[4] *World Investment Report 2005,* Annex Table A.I.9, p. 269.

FIGURE 7.1

The World's Top 10 Nonfinancial Transnational Corporations, Ranked by Foreign Assets

Source: United Nations, *World Investment Report 2005,* Annex Table A.I.9, p. 267. All data are for the year 2003.

	Corporation	Home Economy	Industry	Foreign Assets (in $ millions)
	General Electric	United States	Electrical Equipment	$258,900
(i)	Vodafone	United Kingdom	Telecommunications	243,839
(ii)	Ford Motor Company	United States	Motor Vehicles	173,882
(iii)	General Motors	United States	Motor Vehicles	154,466
(iv)	BP	United Kingdom	Petroleum	141,551
(v)	ExxonMobil	United States	Petroleum	116,853
(vi)	Royal Dutch/Shell	UK/Netherlands	Petroleum	112,587
(vii)	Toyota Motor	Japan	Motor Vehicles	94,164
(viii)	Total	France	Petroleum	87,840
	France Telecom	France	Telecommunications	81,370

FIGURE 7.2

[illegible]

Source: World Bank, *World Development Indicators 2006,* Table 4.6, "Structure of Service Exports." Services include all commercial service exports, minus exports of government services. Such services include transportation; travel; insurance and financial services; and computer, information, and communications services, among others.
*Europe refers to nations using the common European currency, the euro, in 2004.

[5] Current data on exports of goods and services as a percentage of gross domestic product are available at *www.devdata.worldbank.org*.

[6] [illegible]

[7] "Detroit East: Eastern Europe Is Becoming the World's New Car Capital," *BusinessWeek,* August 1, 2005, pp. 47–53.

[8] *Life and Debt,* a film by Stephanie Black. For more information, see *www.lifeanddebt.org*.

Many developing countries now owe huge debts to the World Bank, the IMF, and other lenders. The total amount of money owed is almost $3 trillion.

One of the unintended consequences of past loans has been persistent poverty, because a large share of many nations' earnings goes to pay off debt rather than to develop the economy or improve the lives of citizens. (Imagine an individual who accumulates a large credit card debt, and then has to use most of his income just to make payments, rather than saving money or buying things he needs now.) One of the troubling aspects about developing nations' debt is that in some cases the original loans never even helped the people of these countries. Some funds were used to buy arms, bolster oppressive regimes, or personally enrich dictators such as Marcos of the Philippines and Suharto of Indonesia.

Some people feel that developing nations ought to pay off their debts, just as individuals have to pay off their credit cards. But others believe that accumulated debt imposes such a huge burden on poor nations that if something is not done they will never be able to develop. Since the 1990s, several initiatives have advocated debt forgiveness. In this approach, international financial institutions would permit debtor nations to "declare bankruptcy" and start over. One of the best known of these initiatives was called Jubilee. It took its name from a passage in the Old Testament that called for the forgiveness of debt every 50 years, on the occasion of a celebration called a *jubilee* at which the community celebrated its unity.

Recently the international community has made significant progress in implementing debt relief. In 2005, the G-8 (the eight industrialized nations France, Germany, Italy, Japan, the United Kingdom, the United States, Canada, and Russia, as well as the European Union) called for the cancelation of the debt owed by 18 heavily indebted poor countries to the World Bank, IMF, and African Development Fund. The amount to be forgiven was about $41 billion. The IMF later agreed to most aspects of this proposal. Advocates of debt cancelation praised this move, saying that "After decades of paying back often illegitimate debts contracted under dictatorships for dubious projects, and

siphoning away critical funds from social spending and development, these [poor] countries now have the opportunity to invest . . . much-needed resources into their societies."

Sources: The quotation is from Sameer Dossani of the 50 Years Is Enough Network, a debt relief organization, in "IMF Debt Relief Is Welcomed as First Step," *Inter News Service,* December 21, 2005. For more information on recent debt reduction initiatives and on the Jubilee Debt Reduction Campaign, see *www.worldbank.org, www.imf.org,* and *www.jubileeusa.org*.

Is trade among nations really free when governments aid their own producers? This issue has been at the heart of an ongoing dispute within the World Trade Organization over farm subsidies.

The European Union, the United States, and Japan all provide generous agricultural subsidies. In the mid-2000s, for example, the U.S. government paid farmers around $16 billion a year to support production of a range of commodities, including cotton, wheat, rice, and peanuts. The farm lobby strongly backed these subsidies, which it said were necessary to protect the rural way of life. Critics, however, said that subsidies allowed farmers to "dump" their products on world markets at artificially reduced prices, competing unfairly with agricultural products from poor countries that could not afford similar support payments.

In the cotton industry, for example, every acre under cultivation in the United States received an annual government payment of $230. Elimination of these payments, according to one economic analysis, would raise the world price of cotton by 26 percent. Particularly hurt by U.S. cotton subsidies were poor farmers in west and central Africa, where more than 10 million people depended on this crop for their livelihoods. In a painful irony, the U.S. government provided more dollars to its own cotton farmers than to all of Africa in the form of development aid.

In 2005, ruling in a complaint brought by Brazil with support from several African nations, the WTO declared the United States and other countries would have to end their cotton subsidies. "These rulings are a triumph for developing countries and a warning bell for rich countries who consistently flout the rules at the WTO and whose unfair systems are creating misery and poverty for millions," said a representative of Oxfam International. The ruling did not put an end to the broader controversy over farm subsidies, however, which continued to be a major point of contention at the WTO meetings a few months later in Hong Kong.

Sources: "The Cotton Debate: A Global Industry Argues over Government Subsidies," *The National Peace Corps Association Worldview,* Fall 2005; "Busted: World Trade Watchdog Declares EU and U.S. Farm Subsidies Illegal," Oxfam International, September 9, 2004; "Cultivating Poverty: The Impact of U.S. Cotton Subsidies on Africa," Oxfam International, 2002, available online at *www.oxfam.org;* "Brazil Triumphs over U.S. in WTO Subsidies Dispute," *Inter Press Service,* March 3, 2005; "WTO Agreement on Agriculture: A Decade of Dumping," Institute for Agriculture and Trade Policy, 2005, available online at *www.globalpolicy.org*.

[9] Allen Hammond, *Which World? Scenarios for the 21st Century* (Washington DC: Island Press, 1998), p. 30.

[10] "Is Your Job Next?" *BusinessWeek,* February 3, 2003, pp. 50–60.

[11] "Cheap Products' Human Cost," *San Jose Mercury News,* November 24, 2002.

FIGURE 7.3

Benefits and Costs of Globalization

Benefits of Globalization	**Costs of Globalization**
Increases economic productivity.	Causes job insecurity.
Reduces prices for consumers.	Weakens environmental and labor standards.
Gives developing countries access investment funds to support development.	Prevents individual nations from adopting policies to foreign promoting environmental or social objectives, economic if these discriminate against products from another country.
Transfers technology. linguistic, and religious	Erodes regional and national cultures and undermines cultural, diversity.
(i) Spreads democracy and freedom,	Is compatible with despotism. and reduces military conflict.

[12] The full survey results are available at *www.worldpublicopinion.org*.

[13] United Nations Development Programme, *Human Development Report 2000* (New York: Oxford University Press, 2000), Ch. 3, "Inclusive Democracy Secures Rights," pp. 56–71. The quotation from Arthur Lewis appears on p. 56.

[14] For profiles of the dictators of these nations, see David Wallechinsky, "*Parade*'s Annual List of the World's 10 Worst Dictators," *Parade,* January 22, 2006.

[15] United Nations Development Programme, *Human Development Report 2002* (New York: Oxford University Press, 2002), "Deepening Democracy in a Fragmented World," pp. 1–11.

[16] For more information on the Universal Declaration of Human Rights and other United Nations agreements on human rights, see the Web site of the U.N. High Commissioner for Human Rights at *www.unhchr.ch*.

[17] United Nations Development Programme, *Human Development Report 2005* (New York: Oxford University Press, 2005), Ch. 1, p. 24.

[18] Available at *www.heritage.org*.

[19] Profiles derived from human development statistics published annually by the United Nations Development Programme.

[20] More information is available at *www.unglobalcompact.org*.

An early endorser of the United Nations Global Compact was Novartis, a major pharmaceutical firm based in Switzerland.

In 2000, CEO Daniel Vasella publicly signed the Global Compact, saying, "Novartis would like to see [it] become a catalyst for concrete action of enterprises and nations . . . furthering worldwide acceptance of fundamental human rights, labor and environmental standards." The company reworked its own code of conduct to include the Compact's principles. It established a steering committee made up of representatives from its major operating divisions and functional areas. A senior member of the executive committee (board of directors) was put in charge, and the process was named the Novartis Corporate Citizenship Initiative.

One major challenge faced by the committee was to apply the Compact's very general prescriptions to specific business circumstances. For example, Principle 1 calls on companies to "support and respect the protection of international human rights." The committee quickly concluded that some human rights principles, such as protecting people from such acts as murder, arbitrary imprisonment, and torture, had nothing to do with corporate reality and could be dismissed as irrelevant.

Applying other human rights principles, however, proved more complex. The Universal Declaration of Human Rights states that each person has "the right to a standard of living adequate for the health and well-being of himself and of his family." What did this mean for Novartis? Did it mean the company had to provide health insurance to all employees? Did the right to medical care mean that the company had a duty to provide its pharmaceutical drugs to the needy? If so, at what price? Clearly, the Compact itself provided no specific guidance on these questions.

The committee took its job seriously, consulting widely within the company, writing briefs on various topics, and engaging in dialogue with stakeholders. As a result of this process, the committee announced that Novartis would undertake several health care initiatives. Among other things the company agreed to provide antimalarial drugs at cost for use in poor countries, to subsidize research on diseases of poverty such as dengue fever, and to donate thousands of treatments for tuberculosis. It also said it would provide prevention, diagnosis, treatment, and counseling services for its employees and their immediate family members for HIV/AIDS, TB, and malaria in developing countries. Similar efforts were undertaken in other areas covered by the Compact, leading to a series of actions on labor and the environment, as well as human rights.

One researcher who examined the process at Novartis concluded: "[Making] the general commitment is probably the easiest part of the Global Compact adventure for a company. The real challenge is to translate the top management's signature into an organizational commitment for concrete action and into the sustained motivation of employees that it is the right thing to do."

Sources: Klaus M. Leisinger, "Opportunities and Risks of the United Nations Global Compact: The Novartis Case Study," *Journal of Corporate Citizenship* 11 (Autumn 2003), pp. 113–31; and Klaus M. Leisinger, "Towards Globalization with a Human Face: Implementation of the UN Global Compact Initiative at Novartis," *Parallax: The Journal of Ethics and Globalization,* January–February 2003, *www.novartisfoundation.com/en/articles/csr /novartis_un_global_compact_globalization_print.htm*. For a full description of Novartis's corporate citizenship initiatives, see *www.novartis.com/corporate_citizenship*.

[21] Data are from *www.un.org/esa* and *www.globalpolicy.org/ngos*; and Curtis Runyan, "Action on the Front Lines," *WorldWatch*, November–December 1999, pp. 12–22.

FIGURE 7.4 Distinctive Attributes of the Three Major Sectors

Source: Adapted from Steven Waddell, "Core Competences: A Key Force in Business-Government-Civil Society Collaborations," *Journal of Corporate Citizenship,* Autumn 2002, pp. 43–56, Tables 1 and 2. Used by permission.

		Business	Government	Civil Society
Organizational form		For-profit	Governmental	Nonprofit
(i)	Goods produced	Private	Public	Group
(ii)	Primary control agent	Owners	Voters/rulers	Communities
(iii)	Primary power form	Money	Laws, police, fines	Traditions, values
(iv)	Primary goals	Wealth creation	Societal order	Expression of values
(v)	Assessment frame	Profitability	Legality	Justice

(vi) Resources knowledge,	Capital assets, knowledge, regulatory inspirational	Tax revenue, policy knowledge,	Community production skills power leadership	technical and enforcement
Weaknesses for internally	Short-term focus, moving, poorly parochial perspective	Bureaucratic, slow- financial resources,	Amateurish, lack of external impacts	lack of concern coordinated

[22] This paragraph draws heavily on Steven Waddell, "Core Competences: A Key Force in Business-Government-Civil Society Collaborations," *Journal of Corporate Citizenship,* Autumn 2002, pp. 43–56. See also Steve Waddell, "Societal Learning: Creating Big Systems Change," *The Systems Thinker* 12, no. 10 (December 2001/January 2002), pp. 1–5; Jonathan Cohen, "State of the Union: NGO-Business Partnernship Stakeholders," in *Unfolding Stakeholder Thinking II,* ed. Joerg Andriof et al. (Sheffield, UK: Greenleaf Publishing, 2003), pp. 106–27; and Dennis A. Rondinelli and Ted London, "How Corporations and Environmental Groups Cooperate: Assessing Cross-Sector Alliances and Collaborations," *Academy of Management Executive* 17, no. 1 (2003), pp. 61–76.

[23] Business Partnerships for Development, "Flexibility by Design: Lessons from Multi-Sector Partnerships in Water and Sanitation Projects," available at *www.bpd-waterandsanitation.org*.

Key Terms

anti-Americanism, *148*
central state control, *151*
civil society, *155*
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transnational corporation (TNC), *140*
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World Trade Organization (WTO), *143*

www.wto.org	World Trade Organization
www.imf.org	International Monetary Fund
www.worldbank.org	World Bank
www.ifg.org	International Forum on Globalization
www.globalpolicy.org	Global Policy Forum

Internet Resources

Discussion Questions

1. What are *conflict diamonds*? What groups benefited from the trade in conflict diamonds? What groups were hurt by it?
2. What three *sectors* were concerned with the problem of conflict diamonds? What was the interest of each, and in what ways did their interests converge?
3. Do you believe that any of these three sectors could have addressed the problem of conflict diamonds unilaterally? Why or why not?
4. Do you believe the Kimberley Process will be successful in achieving its objective? Why or why not?