TRADE UNION ALERT

The global corporation: provider or parasite?

by Sir Geoffrey Chandler, Chair, Amnesty International UK Business Group

The limited company has proved the most successful instrument the world has known for producing goods and services and creating financial wealth. The demise of Communism has extended the company's domain to most of the world and the company has never enjoyed greater opportunity or greater apparent success. But at the same time it has also never faced a greater challenge or been at greater risk. Its economic reach has outstripped its moral reach and it has failed to recognise the full range of its responsibilities. The world it has helped and is helping to create is one of increasing injustice and inequality. Injustice is exemplified by a growing violation of human rights in many countries; inequality by the increasing gap between rich and poor both nationally and internationally.

If our clothes and shoes are produced by sweatshops paying starvation wages; if our footballs are produced by prison or forced labour in China, or stitched by exploitative child labour in Pakistan or India; if the oil and petrol we use is produced under repressive regimes; then we had better start asking "what can be done about it?" After all, companies are the servants of society, not the reverse. The limited company is accorded privileges by society, therefore society is entitled to expect its values to be reflected in corporate practice. These values change over time. There is today the danger of a significant and growing gap between the legitimate expectations of society and corporate performance; a growing gap between corporate affluence and human poverty.

In the last two decades the context in which companies operate has changed faster than they have. The changes are familiar and need little spelling out - globalisation of the world economy, a communications revolution, a context of growing conflict and human rights violations in many countries, and more critical consumers. The implication of these changes has yet to be fully understood. Globalisation is a cliche, but reflects a reality. It has hugely extended the reach and influence of investing companies. It has increased opportunity for retailers who now source from thousands of producers in the Third World with little idea of the conditions in which these producers work. Globalisation is proving largely a one-way street in benefits brought - an unstable world of increasing inequality.

Companies cannot be permitted to create wealth at the cost of harm to those on whom they depend for their success or whom they affect through their operations. A company can only operate with the help or consent of others - employees, shareholders, the community, the social and physical environment in which it works. The challenge for companies today is to define these stakeholders - which will differ for each company - and to find an appropriate response to their needs. If companies accept this as their responsibility and apply their collective intellect and skills to interpreting it into action with regard to the full range of their stakeholders, they can make that world a better place for all of us and for themselves. The trouble is that this is only accepted by a few far-sighted companies.

What has gone wrong and why?

There are a number of possible answers. The insulation of top management is a real factor. Breadth of vision and open-mindedness tend to go in inverse ratio to hierarchical status. It is observable that perception and understanding of the real world are narrowed by the company car and chauffeur, the company aircraft and the corporate palaces which isolate top executives.

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A further cause is adherence to the myth of the "free" market. The market is not free: it has been constrained over time by the contemporary values of society. These values determine its parameters without damaging the market's basic strength and utility. Good companies will do more than the minimum prescribed by law. It is in their interest to have regulation to curb the practices of those who will try to do less. Yet corporate leaders and the institutions that represent them collectively have a hostile knee-jerk reaction to extending an established principle - a market with moral boundaries.

But the most fundamental cause lies in a false and misleading perception of the purpose of a company, in a confusion of ends and means, and from the fact that money has therefore become the sole measure of performance. Many business schools teach, many company directors affirm, that the purpose of the company is "to maximise value to shareholders". The satisfaction of shareholders is of course an essential condition of corporate success and survival, but it is a manifest nonsense both in practice and in principle to consider it a purpose. However, it is this misapprehension of corporate purpose that lies at the heart of the company's problem today. It is probably also the prime reason why in any survey of opinion business ranks near the bottom in public esteem, together with politicians and journalists.

Where do we go from here?

How do we encourage companies to respond constructively, not just defensively, to the values of society? The potential incentives to change are provided by the market and the law. Of these the market, with its all-pervasive impact, is the most important. There is a glib saying that what cannot be measured cannot be managed. While not wholly true, this has some validity. What is wholly true is that the market only works effectively on what is measured. Since at present this is only money, the market is essentially short term in its impact. If we had comparable standards for the measurement of the quality and development of the human resource, something of far more importance to the long-term success of the company, if we had measurement of the environmental and social impact, the market would operate on a different time-scale.

The choice for companies is either a continuing rearguard action with loss of reputation, or a new paradigm, a new framework of thought, in which they take the initiative in meeting the full range of their responsibilities - not merely through external codes or as the outcome of external pressure, but also as a result of their own internal imperative and corporate leadership.

Without a radical change of thinking about the role and responsibilities of companies, without recognition in practice and in the law of the meaning of stakeholders, without established means of measuring the corporate impact on them, not only will the licence to operate of individual companies be at risk, but we will also jeopardise a remarkably effective mechanism for the creation of wealth. And we will do so because we have failed to understand that the point of departure must be morals not money, principles not profit. We will do so because we have failed to recognise that to be a parasite as well as a provider is the inexorable path to an unsustainable world.