

Peace through Commerce Conference – Notre Dame University, 12th November, 2006

Mark Moody-Stuart

It is a pleasure and an honour to be here in this remarkable University of Notre Dame. My wife Judy and I had the opportunity to walk around the beautiful campus this morning and learn something of its history. We were everywhere conscious in buildings and ethos of the impact that Father Theodore Hesburgh has had, in history so to speak, as Dean for almost four decades, so it was a great honour and surprise to find myself sitting next to Father Hesburgh at dinner and to hear his wise words just now. I am also sorry not to be able to attend the main part of the conference tomorrow – there are papers from Nigeria, Angola, the Democratic Republic of Congo, Colombia and Sudan, all areas in which our industry and often companies with which I am directly involved have learned often hard lessons which I hope we are sharing and applying.

The terms corporate responsibility, corporate social responsibility, CSR, etc are relatively new, but the concept is not. There were two schools of thought in the 19th and early 20th Century. One tradition is represented by Rockefeller and Carnegie and perhaps continued by Bill Gates and Warren Buffet – essentially philanthropy and not related to how the money was made. The other tradition is that personified in England by the Quaker industrialists Cadbury and Rowntree. This was a concern for the effects of business and is integral to business, dealing for example with the improvement living and working conditions. This was followed in the United States by Henry Ford paying his workers five dollars a day.

I will take the second approach – activities integral to the business and not philanthropy, however important and beneficial philanthropy is. If we dealing with responsibilities that are integral to business the first question has to be – what is the object of a business?

The object of a business

Some time ago Judy and I were listening in bed in the morning to a representative of Levi Jeans being interviewed on corporate responsibility. He spoke of the work they were doing responsible employment and in their supply chain and so on, but when pushed by the interviewer he said that, of course, the object of our business is to make money. We agreed that in fact the object of Levi's business is to make the best jeans in the world. If they do that, people will flock to their door and they will certainly make money. To succeed and be sustainable, they have to make money. But it should be an enabler not an end in itself.

Just the other day I was in Singapore at a conference speaking on climate change. Someone from Procter and Gamble was speaking before me on a different subject, and the conference was (unusually for Singapore) running seriously behind schedule. So I was listening somewhat impatiently. But I was delighted to hear him speak with enthusiasm of the three billion times a day that P&G products touch people on this planet, presumably some of them several times, and the benefits that this brings. He was clearly passionate about what the products could do for consumers. He then added “as a result of this, but please note that it is as a result, we make money”. I recognised a kindred spirit.

In a recent film and book on The Corporation, Joel Bakan puts overwhelming emphasis on his view that a corporation's legal fiduciary duty is to maximise profit and that if directors and management do not do this they can be sued. I believe that this is a distortion of the duties of directors. During my years at Shell the Shell Business Principles, promulgated in the seventies, list obligations to what would now be called stakeholders – customers, employees, governments etc. The responsibility to shareholders is given as to provide an acceptable return and to protect the value of their investment. No one has sued us yet, although I suppose in this litigious world it may yet come to that.

One can perhaps draw an analogy with a car or automobile. The objective of a car is personal transportation from A to B. To do this you need to put gasoline into it. That is like the shareholders funds or borrowings of a company. But it is not an end in itself. Of course, that fuel, that enabler, needs to be converted efficiently into forward motion. If the wheels spin and the vehicle does not move, or the engine

does not convert the fuel properly, the vehicle is useless. That is like a business which does not make money. Utterly useless – it will not survive. The fuel, the engine and the wheels are essential to the vehicle, but they are not the object. The object is to move someone from A to B. Incidentally that process is not very efficient. Only about 15pct of energy actually moves the vehicle and its passengers, the rest is wasted. Only about 1 percent actually does the job of moving the person, the rest moves the vehicle, which is not the real object of the exercise. The same lack of concentration on the real objective is true of many corporations.

I might add that of course for some people transport from A to B is not what they use the vehicle for – it is for show, cruising round town, making a lot of noise, beating the next person of the start at traffic signals, sometimes just the sheer pleasure of driving, or the thrill of speed. That is similarly true of some people running businesses – they do it for kicks, or for fun, or for show, or beating the guy next door. But the real objective of a business is to supply goods or services which its customers need or want, to do so at affordable and probably decreasing prices, continuously improving on the product. Some of the rest may be essential, and some of it is certainly fun, but it is not the real objective.

When I was a teenager, my father asked me what I wanted to do. We lived on an island in the Caribbean and he was a sugar planter. I used to go round with him seeing ploughing or cutting of the cane. It was a great job and you could really see the results of the human effort working with nature, essentially producing sugar loaded into ships, but with large employment and many challenges. I said I wanted to do that. He said that that era had come to an end. I should go and do something else useful. So I taught myself geology at school and then studied it at university and eventually joined Shell as an exploration geologist.

It is very important for people to enjoy and feel committed to their work. It is not just the ethics of the business or the utility of the product – whether you are a carpenter, an artist, an exploration geologist or a financial wizard – it is important to enjoy it and apply your talents.

Sustainable Development

I have never had a moment's doubt that the provision of energy to people is useful to society as a whole and the same is true of the metals that the mining company I now work for produces. The modern world depends on energy for everything from food to lighting and comfort to transportation. The metals are equally essential in that process. Energy and metals certainly meet the needs of modern society. But in the mid 80's the UN Brundlandt Commission came up with the report "Our Common Future" which defined Sustainable Development as Development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

This is a brilliant definition – not a static one, but one which does mean that if this generation is using up a finite resource, a part of our natural capital, it will only be sustainable if we are converting it into other forms of capital – human capacity and education, infrastructure etc. Our forebears radically changed the planet, just as we are changing it now. In the case of our forebears they made many mistakes, but they left us with legacies of education, art, science, commerce, religion, political systems and infrastructure. I do not think that they have compromised our abilities to meet our needs. Far from it. You have but to look around the campus of Notre Dame to see it. The words on the monument to Christopher Wren, the architect, in St Paul's Cathedral are just as appropriate here. *Si monumentum requiris, circumspice*. If you seek a monument, look around you! But I am not at all sure that we can still claim the same. If we look at the proportion of people in the world who are not adequately fed, not educated, who do not benefit from modern medicine, and who do not currently have the means to earn an adequate livelihood we are plainly not meeting the needs of the present generation. I do not take an apocalyptic view of the environment. Some countries demonstrate the means to ensure that the national environment is reasonably protected, although many countries do not. But in at least one urgent sense, it would appear that we are compromising the ability of future generations to meet their needs. It is plain that while we in the developed world can use energy very much more efficiently, if the needs of the developing part of the world are to be met, large amounts of additional energy will be needed. And yet we know that our main sources of energy, the fossil fuels on which our own economies are built, are having an impact on our climate.

I have had the privilege of living in ten countries and visiting natural resource operations in another thirty or so. I have been able to see the impact on development over time. When I first worked in Oman in the sixties as a field geologist, it was a mediaeval country. There were only a couple of doctors for a million people, the disabling eye disease trachoma was rife, female genital mutilation was common and education was basic or non-existent. In the intervening years, with a change of ruler and wise government, Oman has become a modern country, with a reasonable distribution of its oil income, an excellent education system, medical care to be proud of and an elected Majlis or parliament with women represented.

In the same period Malaysia has been transformed from an economy dependent on primary resources – oil and gas, tin, palm oil and rubber - where race determined both perceptions and generally the actualities of occupations to a modern economy with a strong light manufacturing base, a sound educational system and a society where one can no longer guess occupation from race.

In Nigeria on the other hand, the outcome and application of income from oil and gas development has been less happy. Oil revenues have often been misapplied and in some cases stolen through corruption. There are divisions in society as arguments develop over the allocation of revenue expenditure to different parts of the country.

The causes of different outcomes

What causes different outcomes? In each case, the main company was the same, operating with similar people and to similar principles. The actions of companies, both positive and negative, undoubtedly had some impact. If we take some pleasure and credit for the positive outcomes we must also share the pain and the blame for the negative ones. But the real difference has come from the characters and motivations of the government leaders involved. Oman and Malaysia have been blessed with leaders with very clear visions and commitment to development, providing frameworks within which business and civil society operate. You might not agree with the political system in either case, but there is no denying the results. Nigeria on the other hand has suffered from frequent changes of leadership, normally by military coup, with leaders whose agendas have often been more personal than national. The present democratic government is making progress in the battle to establish sound and uncorrupted governance systems. President Obasanjo certainly established his national leadership credentials when he returned the country to civilian democratic government, stepping down as President in 1999 to make way for a civilian government.

But government alone is not enough – different parts of society need to co-operate. In Malaysia, perhaps as a result of staring into the abyss of racial slaughter in 1969, different ethnic groups have developed working compromises. In Oman, it has been possible to build on strong social and religious structures. In Nigeria, the creativity and energy of civil society is evident in the way that in response to a severe deterioration of the education system, people have got together to start their own schools. Religious institutions are strong and family cohesion and support systems are something which would benefit my own country. Without a government framework providing basic structure services, much creativity has gone in less socially constructive directions. You do not know how dependent society is on government until you experience the lack of it. Commerce is essential to development and poverty eradication, but so is government.

This is the “justice” and framework of order to which Father Hesburgh referred just now in quoting Thomas Aquinas and “*Opus justitiae pax*”, the work of justice is peace.

Limits to the Rôle of Business

If effective government and functioning civil society are essential components of development, what of corporations? What are the limits of their role? When I joined Shell in the sixties, the involvement of ITT in developing country politics was an issue and the activities of United Fruit had given rise to the epithet “banana republic”. Corporate concerns were to avoid involvement in political activity in any form. In the

seventies, I and many of my colleagues believed that if a company ran an efficient operation with sound staff development, employment, safety and environmental policies, did not bribe anyone, paid our taxes honestly and in the country where income was earned and engaged in a reasonable amount of community development, our responsibilities stopped there. The Economist newspaper still holds this line, expressing in a recent cover story the concern that companies might misguidedly take on responsibilities of host governments and vice versa. They stated “it is the job of elected politicians to set goals for regulators, to deal with externalities, to mediate among different interests, to attend to the demands of social justice, to provide public goods and collect the taxes to pay for them, to establish collective priorities where that is necessary and appropriate and to organise resources accordingly”. This is fine as an aspiration, but what about the large areas of the world where governments are either incapable or unwilling to carry out this role, or worse still, steal the means by which they are supposed to carry out the task? Where the proceeds of industry, particularly extractive industry, are mis-spent or mis-applied over long periods by governments, people turn to the company and say “You made money, but there is little in the country to show for it.” To protest that we paid our taxes is of no avail. It may not be our responsibility, but it becomes our problem. If we want the sort of functioning society in which we can do business, we need to work with others to create the capacities and conditions which sound governance requires. To say “once we have paid our taxes, responsibility stops” is like a fully paid up passenger refusing to help man the pumps on a foundering ship because it was the captain’s incompetence that caused it. It is short sighted at best, and certainly not in the interests of the shareholders.

Drawing the line of responsibility is difficult. Some time ago I had a discussion in London with a minister of a country in which the company I worked for played a major role. He asked me to intervene to try to stop the irregular activities of certain people in his country. We had, as a matter of deliberate policy and principle, avoided any connection with their activities and the minister knew it. When I pointed out that this was no concern of mine, that it was not my country or my government so why me, he replied that when it all went wrong I could guess whose fault it would be seen to be. At first this seemed to me to be unfair. But was it so unfair? We were friends of the country. Had the issue been a natural disaster, or even a social issue for the nation, we would have immediately offered to play our part. Is it the act of a friend to avert one’s eyes and walk down the other side of the street when a crime is being committed, just because it is not our business?

At a meeting recently I was asked, slightly aggressively, if I could give just one example of a corporate contribution to the delivery of the Millennium Development Goals (MDGs). I was able to say that taking my own company Anglo American as a typical business example, we employ about 80,000 people in Africa directly and about the same indirectly through contractors. Given about five members in each employee’s family that is almost a million people directly dependent on our operations. In Africa our direct payroll is some \$3 billion a year. We spend some \$8 billion a year on suppliers in developing countries, including some \$1.6 billion a year to Black Economic Empowerment companies in South Africa, of whom almost half are small and medium sized businesses. We pay some \$1.6 billion in taxes in developing countries. A large amount of the payment to employees goes again into housing, education and local businesses and service employment. So simply in the normal line of business, without any consideration of corporate responsibility spending, this represents a significant injection of funds towards the MDGs. This is replicated by many other businesses in the developing world. In addition we have some 5000 people on bursaries, scholarships, apprentices and graduate trainees. And some 3000 people on antiretroviral treatment for HIV/AIDS. Business makes by its very activity a serious contribution to the eradication of poverty and the building of capacity.

We have a strong interest in sound governance, but no mandate to impose it. We have to work with others – we need a collective approach. To work together to do that we need to build trust.

The Global Compact – bringing business, labour and civil society together

One of the biggest challenges for business in developing countries with weak governance is that we have a strong interest in the development of sound governance, but not mandate to deliver it outside our own

business. We have to work with others in a collective approach, so that the influence of business is applied in conjunction with others, moderated by their views, and not applied in an unconstrained way.

At the World Economic Forum in Davos in 1999, Kofi Annan called for businesses to commit themselves to a Global Compact based on nine principles reflecting the major UN conventions on human rights, the environment and labour standards. A tenth principle on corruption was added later. Some two and a half thousand companies in around fifty countries have committed themselves publicly to these principles. Part of the genius of Kofi Annan was that he involved civil society and labour organisations in the process.

The Compact provides a forum where businesses, civil society and labour organisations can develop practical approaches to the delivery of the high level principles. A second contribution is the development of local and regional networks where different sectors of society can work together on issues critical to that country. I recently attended a Global Compact Local Networks Forum in Barcelona –very lively participation from round the world.

Initially the Compact was criticised by some as being just talk, or “blue wash”. Indeed for some it may be so, but I was struck at a recent regional Global Compact Summit in Shanghai how sessions with government representatives addressed practical specifics on corruption and working conditions in local manufacturing plants and mines. International labour organisations and human rights Non Governmental Organisations (NGOs), whose presence was facilitated by the Global Compact, actively joined in and could see hard benefits from their involvement.

If business is to work with others in societies around the world to address issues critical to that society – be they issues of employment, of governance, of corruption, of the environment or whatever – it is essential to build trust, for trust in business, particularly big business is generally low.

How can trust be built between companies, NGOs and the public at large? One way is through very open reporting on standardised indicators such as those developed by the Global Reporting Initiative (GRI). These indicators are developed by a very transparent public process involving representatives from NGO’s, UN agencies, labour organisations, and companies. Reporting should cover the whole scope of a company’s activities. Inevitable shortfalls in performance can be put in the context of overall performance. Clearly it is best if these indicators are independently verified. The GRI also develops guidelines for specific industry sectors, NGOs, governments and local governments. The GRI itself, some local governments and some NGOs are beginning to issue GRI compatible reports on their own activities, joining companies from all around the world in building a global standard. The third generation guidelines were launched at the beginning of October in Amsterdam.

A second method of building trust is for groups of NGOs and companies to work together on particular issues. There are some excellent examples of this. Arising from the “Publish what you pay” campaign by Global Witness and the Soros Open Society Foundation, the Extractive Industries Transparency Initiative was launched by the UK government. It involves oil, gas and mining companies publishing what they pay to host governments and the host government declaring what they have received, both being independently audited. It may be possible to extend this transparency to the vitally important ultimate use of the government revenue.

Similarly the Kimberley Process, which grew out of concerns over the use of diamonds as a source of funding for conflict, now covers 99 percent of diamond production and prevents the fuelling of conflict. In another example, the Voluntary Principles on Security and Human Rights were developed through co-operation between the UK Foreign Office and the US State Department, with involvement of major companies and human rights NGOs. The Voluntary Principles provide agreed guidelines for the use of armed security, the evaluation of risk and the steps to be taken if government forces are used. Proper application of these principles helps protect companies from accusations of complicity in human rights abuses. There are similar efforts in Sustainable Fisheries and in the Forest Stewardship Council.

Supranational or national legislation?

There is a third and somewhat more contentious area where the building of mutual trust between companies and NGOs is needed. Many NGOs believe that international, legally binding, regulation is needed to govern the behaviour of multinational corporations – indeed that view is probably shared by several of you here. NGOs view the strong opposition from companies with deep suspicion. On the other hand multinational companies fear an extension of – mainly US – judicial activity, believing that this is just going to result in a plethora of frivolous cases brought in New York courts by ambulance chasing lawyers, facing companies with an unattractive choice of making large out of court settlements, much of which goes to the said lawyers, or proceeding with lengthy and expensive litigation ending before an unpredictable jury relatively unaware of the background and conditions against which actions take place.

There is no doubt that there are many offences against human rights and the environment carried out by companies, but the vast majority of these occur not in major transnational businesses but in poorly regulated national businesses, in manufacturing as well as artisanal mining, and underground coal mining in many countries.

But despite clear and universally acknowledged agreements such as the Universal Declaration of Human Rights, the ILO declaration on rights at work, the Rio Declaration on Environment and Development and the UN Convention against corruption, offences are daily committed against these in very many countries. At the heart of the problem is an understandable lack of trust in national governance in many states, but superimposing international legislation applicable only to international companies does not address this. Business is prepared to work with governments and other sections of society to ensure that in each and every country national legislation is enacted, and then enforced, to ensure that the principles of these major UN Declarations and conventions on which the Global Compact is based are honoured. This is a major job. It could not be progressed in every country simultaneously or evenly. But this, not grandstanding in New York or Geneva, is what is needed if we are to make real progress across the world. Having said that there are clearly areas such as climate and trade where supranational regulation is required, but these areas are limited to the truly international issues.

In this process, the practical learning and dialogue activities of the UN Global Compact are very important. In their work, companies need the experience and expertise which civil society organisations and others can bring to bear. Groups of companies and NGOs, both national and international, need to continue to come together to make practical progress in the complexities of real world situations in various countries, and to back that up with well thought out and properly enforced national laws and regulations.

Application across all sectors of business

You may think that because I have spoken mainly about the extractive industries that these issues are only really applicable to them. In my experience this is not so. Whether one speaks of a bank, of a beverage company, a media company, a communications company, transportation, manufacturing, healthcare or construction, the business has as its key role the provision of goods or services to its customers, who form a larger or smaller segment of society at large. That is the real aim of a business. Different people have different skills and enjoy working in different industries, but unless they focus on the essential objective of the business they will almost certainly fail. Of course it is necessary to make profits, but I would argue that profit is an essential enabler, not a pure end in itself. Profit is also a very useful indicator of the efficiency with which the business is using resources and capital. This may seem to be just a question of semantics, but I believe it to be fundamental to the way in which we set about doing business.

Some years ago I was talking to Barbara Hayes, who was with ECCR, the Ecumenical Council for Corporate Responsibility. I was drawing a diagram with the corporation in the centre and our different stakeholders surrounding us. Barbara said to me that this was typical of the corporate view of the world. I should redraw the diagram with Society in the Centre and others around as Stakeholders in Society. In this diagram, business was just one stakeholder in Society. I have never forgotten this and it chimes very well

with something that the Bjorn Stigson of the World Business Council for Sustainable Development often says, which is that business cannot flourish in a society that is not flourishing. All of us, including everyone in business, have a strong stake in the sound working of society. Thank you.