

**Panel Remarks of Bennett Freeman  
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**What are the emerging corporate citizenship challenges businesses can expect to face in 2003 and beyond?**

I believe that businesses enter 2003 facing an economic and geopolitical world of uncertainty and risk which, combined with diminished trust in private sector institutions, will largely define the major corporate citizenship challenges over the next year and beyond.

American companies can count on intensifying pressures for greater transparency and disclosure on the corporate social responsibility front, fed partly by the corporate governance crisis of the last year. The drive for disclosure will gain traction beyond the financial and governance issues of concern to shareowners, and extend across the range of social and environmental issues of concern to wider stakeholders. Companies will be challenged to address specific developments such as:

- the growing reach of the Global Reporting Initiative and the further extension of the CERES environmental principles;
- the attention if not yet action that the Publish What You Pay campaign is gaining;
- the launch of the International Right to Know campaign calling on large companies to disclose the effects of their operations on the communities where they operate.

Both at home and abroad, American companies certainly face an environment not only of lesser trust but also of greater fear. Less certain is the impact that a likely war against Iraq and a continuing war against terrorism will have on American multinationals in particular.

At home, we will see a growing obligation of the private sector to contribute to homeland security, an obligation which should be appropriately recognized as a necessary dimension of corporate citizenship. Abroad, we will likely see greater exposure of American flag companies, however local their globalization strategies may be, to criticism and even attack as lightning rods for discontent with American-led globalization and with U.S. foreign policy. This exposure may run the gamut from

threats to American company facilities and personnel, to non-violent but nonetheless serious resistance to American corporate interests. These threats may not be confined to the Muslim world, but extend to countries where the recent unilateral pattern of U.S. foreign policy has aggravated governments and publics alike beyond the ranks of anti-globalization protestors.

American multinationals should at least expect to operate in a world in which their relations with global stakeholders will be affected to an unusual extent by U.S. foreign policy and other geopolitical forces beyond their control. For American companies operating abroad, this high risk environment presents issues with significant corporate citizenship implications. For example:

- How do companies safeguard privacy and non-discrimination as they step up cooperation with government agencies at home, and how do they ensure respect of civil rights and human rights if they rely more on public or private security forces abroad?
- How do companies demonstrate sensitivity to local cultures and communities while remaining resolutely global in their reach and American in their identity?

These tensions will force companies to balance security with accountability, and their American citizenship with global citizenship, with no easy answers at their disposal.

#### **How can business best play a role in addressing these challenges?**

Most fundamentally, business can address these challenges most credibly and effectively by recognizing them, and not by wishing them away or fighting them off.

To take the first challenge, the reality is that the accountability revolution is permanent; the pressures are legitimate and irreversible. Companies, in my view, would do well to follow General George C. Marshall's dictum: "don't fight the problem; decide it." Companies will lose the war if they fight the transparency and disclosure agenda; they will win if they decide where to take their stand and which specific standards to embrace. Particular companies and industries can debate reasonably which set of social and environmental principles or reporting standards work best for them. Social investors and mainstream stakeholders will accept reasonable decisions, but they won't take no for an answer.

So for most large companies, that should mean seeing the Global Reporting Initiative as a tool and not a threat, and embracing its consolidated set of standards. That should mean examining the International Right to Know and benchmarking current practice against it, and finding ways to meet its goals

over time. That should mean, for extractive sector companies, taking a hard look at Publish What You Pay and recognizing the industry's interest in making it work without it becoming a competitive disadvantage for any one company or set of companies.

Just as the certainty of greater pressure on transparency and disclosure leads to some fairly straightforward answers, so does the uncertainty of the geopolitical environment lead to less clear-cut answers for how companies (especially American multinationals) should adjust their corporate citizenship and responsibility strategies.

The easier part of the answer is to approach a world of lesser trust and greater fear with a willingness to take on both: to engage more seriously with local communities, from the most remote and indigenous to the most advanced and metropolitan, wherever they operate; to communicate more consistently with stakeholders, whoever they may be; for American companies to become both more resolutely local everywhere without becoming less American anywhere. That can be achieved, for example, by respecting diversity and by giving diversity a local face through promotions and professional opportunities; that can also be achieved by raising environmental standards and labor practices abroad to the same levels that are required at home.

In an era of global terrorism, security will be enhanced when every potential threat is not necessarily met first with a security response. Building trust with local communities will be the best security, for the American companies ranging from oil and mining companies to bottling plants and consumer brand franchises. Security will be also be enhanced if it does not sacrifice accountability, or become a pretext for violating privacy, civil rights or human rights.

The harder part of my answer sounds like passing the buck, but it really isn't: governments should take more responsibility for governing, and for making corporate responsibility more legitimate and practical for the business community in ways that will benefit both sectors and most segments of society. I believe that corporate social responsibility is too often the default key that is pushed when governments, international institutions and civil society lack the willingness or the capacity to tackle problems directly themselves. As a result, some in the business community may be tempted to do nothing when they are asked to do everything. Corporate responsibility should be a complement to, not a substitute for, the responsibility of these other actors to do what they can and should do best.

I mentioned earlier the unusual extent to which U.S. foreign policy will be the backdrop against which American multinationals see their corporate citizenship challenges this year and next. American foreign policy need not be an acute risk

factor for American companies; it can also of course provide opportunities to promote certain interests of global benefit, including to companies and the communities where they operate. Companies must recognize their responsibilities, but the U.S. and other governments should also meet theirs. For example:

- Companies can and should do more to use their distribution and communications networks (as well as their community development and philanthropic budgets) to help fight the HIV/AIDs crisis in Africa and elsewhere. But governments must do their part, too. And President Bush is to be commended for proposing that the U.S. commit \$15 billion (including \$10 billion in new money) over the next five years to do so.
- Companies and entire industries are now making and beginning to deliver on solid commitments to curb emissions of greenhouse gases, and more should so. But the U.S. Government should join the Canadian government and others around the world in accepting the science of climate change and engaging constructively in the Kyoto process at the same time.
- A few extractive companies are quietly encouraging and many others are warily eyeing the Publish What You Pay Campaign. But the U.S. Government should join the UK and other governments as they promote the goal, try to ensure a level playing field so that companies that do publish what they pay will not be put at competitive disadvantage, and persuade home country governments that rely heavily on extractive industry revenue that they should also publish what they receive.
- Some of the largest oil and mining companies in the world are now adhering to the Voluntary Principles on Security and Human Rights, so that they do not become complicit in human rights abuses as they rely on state security forces in countries such as Columbia, Indonesia and Nigeria. But the U.S., UK and other governments should press host countries to ensure accountability of security forces for human rights abuses that are committed, and promote security sector reform in countries outside the Persian Gulf that we are relying on more for oil.

If 2002 was the year that brought the corporate governance agenda to Wall Street and Main Street, and joined it to the corporate social responsibility agenda at the same time, then what will 2003 be? It will be the year that the transparency and disclosure revolution seized the commanding heights of the debate. And it may well be the year that corporate citizenship and social responsibility became bound up with the largest issues of war and peace, security and accountability, or at least with U.S. foreign policy, as never before.