"Creating Public Value: Everybody's Business"

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The globalization mantra in corporate circles, until very recently, was the TINA hypothesis. No, TINA is not a corporate road warrior stuck on a Star Alliance flight around the world. It is the acronym for "there is no alternative." But how quickly Tina's fate seems to have changed. As UN Secretary-General Kofi Annan said in Davos this past January: "In just a few short years, the prevailing atmosphere has shifted from belief in the near-inevitability of globalization to deep uncertainty about the very survival of our tenuous global order."

The reasons for uncertainty are many. They include terrorism, coupled with the danger that our responses to it could impede the steady march toward greater international openness; the transatlantic rift exposed by the military campaign against Iraq and its aftermath, revealing two very different approaches to building a global political order; and a complex combination of economic factors that has yielded a largely jobless recovery in the US, potentially diminishing the American consumer's appetite for imports and placing outsourcing and trade issues more broadly at the center of this year's presidential campaign.

But there is a deeper reason for the uncertainty, directly related to globalization itself: business has created a single global economic space; but we lack adequate social or political means to govern that space. The 19th century German sociologist, Ferdinand Tönnies, might have put it this way: uncertainty and economic insecurity have grown in direct proportion to the widening gap between an emerging global *Gesellschaft,* and the sense of national *Gemeinschaft* it leaves behind.

What I want to address tonight is the business contribution to bridging this gap – and, thereby, helping to sustain the world of globalization itself. But first, let me define the challenge better.

The Challenge

Reflecting, for a moment, on our own history, we in the industrialized world were slow to learn the lesson that markets must be embedded in broader frameworks of social values and shared objectives if they are to survive and thrive. Before we finally got the point, we had struggled through the collapse of the Victorian era of globalization, a world war, the rise of left wing revolutionary forces in Russia, right wing revolutionary forces in Germany and Italy as well as the Great Depression.

When at long last the lesson did sink in, we called the new understanding by different names: the New Deal, the social market economy and social democracy. But the underlying premise was the same: a grand social bargain whereby all sectors of society agreed to open markets, which in many places had become almost autarchic, but *also* to share the social adjustment costs that open markets inevitably produce.

Governments played a key role: moderating the volatility of transaction flows across borders and providing social investments, safety nets and adjustment assistance – but all the while pushing liberalization. In the industrialized world, this grand bargain gave us the longest period of sustained and equitable economic expansion in human history.

So what's the problem today? That twentieth-century grand bargain presupposed an *international* world; but we have come to live in a *global* world. It presupposed the existence of *national* economies, engaged in *external* transactions, which governments could mediate at the *border* by tariffs and exchange rates, among other instruments. But markets have gone global, diminishing the effectiveness of border measures and putting enormous pressure on merely national grand social bargains.

International governmental institutions, like the UN, have been kept too weak and fragmented to compensate. And with a few notable exceptions, most developing countries have lacked the institutional capacity to fully exploit the opportunities offered by international openness or to manage its adverse domestic effects.

Now, I am not suggesting that globalization today will end as badly as its 19th century predecessor did; some of the fundamentals are very different. But I would venture two predictions.

One is that the present state of affairs is not sustainable. The gap between market and community *will* be closed; the only issue is how and in what direction. I believe that the world needs open markets: business to maximize its opportunities, the industrialized world to sustain prosperity, and the developing countries because an open world economy provides the best hope of pulling billions of poor people out of abject poverty.

But my second prediction is that rollback, a shift away from globalization, is the more likely outcome unless we manage to strengthen the fabric of global community. Ironically, nobody is better positioned or has greater capacity to play the lead role today than business itself.

The Business Role

Not surprisingly, the expansion in the global rights and reach of firms over the past generation has generated escalating social demands that private enterprise also should create greater public value, beyond traditional forms of compliance and philanthropy. Corporate social responsibility has emerged as the private sector's response to those demands, intended to establish the firm's social license to operate in the new global economic space. How far has it come, and how far can it take us?

Three dimensions of corporate social responsibility have attracted the greatest attention.

Accountability

The first is accountability: the idea that firms, having created the new global economic space that is transforming how people live and work the world over, ought to be held accountable not only to their shareholders, but to the broader community of stakeholders who are affected by their decisions and behavior.

To help establish such accountability, a new reporting industry is slowly developing, providing information on the social and environmental performance of firms. It consists of voluntary codes of conduct or statements of principles to guide firms; social and environmental reports issued by firms; third-party auditing of codes; a Global Reporting Initiative, which aspires to provide standardized social and environmental reporting systems, making this as routine a function as financial reporting; and certification institutions, verifying that an entire production and distribution cycle – be it of forest products, coffee beans or diamonds – meets prescribed conditions.

The number of these arrangements has grown rapidly – so much so that some companies have begun to complain of "code fatigue." And yet, coverage remains very partial. For example, of 118 companies an OECD survey identified as having individual codes of conduct, only 24 provide any public disclosure of their compliance. The most successful certification institution, the Forest Stewardship Council, at last count covered less than five percent of the total acreage controlled by timber companies, and most of that is in non-threatened temperate zones. Fewer than 200 firms of a possible of 1,500 participate in the US chemical industry's Responsible Care program. Nearly 1,200 companies subscribe to the UN's Global Compact principles, but fewer than half have seriously engaged. And so on.

Accountability needs to be taken to the next level. In my view, the investment community is best placed to push it there. Here is the rationale: as companies go global they assume new risks. But these are not merely the conventional financial and political risks that come along with operating in a new territorially defined market. They also include the far more unfamiliar social and environmental risks that attend operating in the transnational space of transaction flows, in which surprises can come at the firm from stakeholders located just about any place in the world.

So I would urge that a company's willingness and ability to manage those novel risks should become a routine part of how they are assessed by analysts, investors and the insurance industry.

Some European governments are beginning to encourage or require social and environmental reporting, but their doing so may simply add to the proliferation of incompatible metrics. Smarter regulations are more likely to result from business itself moving towards greater coverage and convergence – and for governments to level the playing field between leaders and laggards by codifying best practices.

Social Capacity Building

A second critical social challenge for the global corporate sector is the fact that globalization delivers such unequal benefits. You know the figures: half of the world's population is struggling on $2 a day; people living in sub-Saharan Africa are poorer today than 20 years ago; unsafe drinking water and inadequate sanitation account for 80 percent of all diseases in the developing world; in Africa, HIV/AIDS is ravaging entire countries and generations – the continent will be home to 26 million AIDS orphans by 2010 – and the pandemic is spreading rapidly in parts of Asia and the former Soviet Union.

Governance – or the poor quality of it – is the root cause in some cases. But even well governed countries face severe capacity gaps. In recent years, the domain of corporate social responsibility has been expanded to take on some of these challenges.

National firms in the industrialized countries are used to the idea of giving back to the communities in which they operate. Multinational firms have begun to do the same in developing countries, initially led by the extractive industry and consumer products companies. The past few years have witnessed a growing number of partnerships between firms, civil society organizations, governments and international organizations in support of broader development goals.

In some instances companies have little choice: if you are Anglo American Mining, you either provide HIV/AIDS treatment to your workers and families or you face the prospect of going out of business – because more than one quarter of your work force is infected and public sector capacity is not up to the job.

In other cases, corporate leaders look at the economics of global demography. They see 2 billion rich consumers who are getting older, 4 billion poor ones who are getting more numerous and younger, and they do the arithmetic much like Henry Ford did when he decided to pay his workers enough to buy his cars.

Between outright necessity and longer-term opportunities lies what my Harvard Business School colleague Michael Porter calls "strategic philanthropy." This is social giving built on the firm's core competency: Cisco Systems partnering with local actors to establish "network academies" in the least developed countries; TPG, the former Dutch postal and telecom monopoly providing logistical support to the World Food Program; Ericcson supplying emergency telecommunications services to humanitarian and aid workers in Afghanistan; Merck partnering with the government of Botswana to make HIV/AIDS testing and treatment universally available; or ExxonMobil, the World Bank and NGOs collecting and disbursing the revenues generated by the Chad-Cameroon pipeline to make sure they fund genuine development needs.

Great care must be taken, however, to ensure that these efforts actually build indigenous social capacity for the long run, and are not simply one-off projects. Otherwise they will end in frustration and disappointment all around.

Achieving that goal will require far greater collaboration between different social sectors – private, public and nonprofit – than we yet fully realize or know how to orchestrate. New hybrid organizations and networks of knowledge and practitioner communities are needed to identify and scale up good practices, and interface effectively with the public sector at all levels, thereby making it better equipped to deliver on its responsibilities. Above all, this will require patience, an attribute in scarce supply in today's ferociously competitive business environment.

Imbalanced Rule Making

A third major challenge – and by far the trickiest – is the fact that the system of global rule making has become increasingly imbalanced: privileging capital and global market expansion over social concerns like labor standards, human rights, environmental quality or poverty reduction.

The 1999 Battle of Seattle was all about imbalances in global rule making, and so were the subsequent clashes, in the streets and in the courts, over the price of drugs to treat HIV/AIDS patients in Africa. Environmental and labor side agreements to trade pacts may be inefficient and ineffective, but they, too, reflect social demands for a rebalancing of the power to make global rules.

My stylized rendition of the collapse of the Victorian version of globalization and its consequences makes clear that extreme imbalances are not sustainable. Similarly, how do you explain to 40 million people living with HIV today that the protection of patents should trump saving their lives? It just can't be done.

What makes this issue so tricky is that the imbalances in global rule making reflect asymmetries of power, and no government exists at the global level to compensate, as is the case within democratic societies. Asking the corporate sector to impose self-restraint in exercising its own power seems naive. But you *can* help by adopting practices that make the imbalances less relevant.

The pharmaceutical industry, for example, has come a long way towards accepting the principle that poor people in poor countries must be treated differently when life or death are at stake.

Through the Equator principles financial institutions are beginning to compensate for the relative weakness of global environmental and social policies.

By utilizing the UN Global Compact, a number of firms, including Norway's Statoil and Anglo American, have negotiated framework agreements with international labor federations to raise labor rights and health and safety standards in their worldwide operations towards uniform global levels – something the Global Compact aspires to do through its promotion of good practices not only in labor standards but also human rights and environmental practices.

Beyond that, the Global Compact is a prototype of a new generation of voluntary governance models, linking companies, whose actions it seeks to shape; labor, in whose hands the process of global production takes place; NGOs, representing the wider community of stakeholders; national governments, who support the initiative and increasingly make good use of it to help resolve domestic dilemmas in their own societies; and the United Nations, the world's only truly global political entity.

I am grateful to Deutsche Bank for having been an early supporter of the Global Compact, and look forward to continued collaboration as we move beyond the June summit to make it an even more important instrument for combining, in Kofi Annan's words, the efficiency of global markets with the legitimacy of universal principles.

Conclusion

Let me draw my remarks to a close. My point tonight is this. If globalization cannot be made to work for all, in the end it will work for no one because it will be socially unsustainable. You, the business community, have it within your hands to promote a more inclusive globalization because you have the scope and capacity to act globally far more than the highly fragmented system of global governance.

Thus, corporate social responsibility is not merely a matter of metrics, and not only a business challenge. Far more important, it concerns the changing relationship between business and society, and the recalibration of the respective rights and obligations of different social sectors and actors for meeting social needs. Most fundamentally, it is an issue of governance.

Therefore, get CSR out of its corporate ghetto and into your core business strategies, into your boardrooms, into the speeches of your CEOs – indeed, onto the agendas of your lobbyists. It is *your* future – along with the rest of ours – that is at stake.

Thank you.