Relationships: The real challenge of corporate global citizenship

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When powerful corporations transcend national boundaries, they exert their influence on local conditions in multiple sites around the world. Under these circumstances, it is time to expand the way we view corporations’ roles as global citizens. Too much of the time, when we think about corporate global citizenship or, for that matter, corporate responsibility, we think about it as a discretionary responsibility, outside of the context of daily business operations and undertaken only after the more “basic” economic, legal, and ethical responsibilities have been met. The actions of a company in society are thereby separated from its operating practices, divorcing an understanding of its citizenship from the nature and uses of its products and services, and separated from the impacts, primary and secondary, that the company has on stakeholders with whom it comes in contact.

A more recent view of corporate global citizenship has been assumed to encompass arenas of philanthropy, partnership work on “social issues” within communities where companies are located (e.g., education and environment), and “strategic business interest,” meaning involvement of corporations in social arenas purely for strategic business development reasons.

Corporations as citizens, in the traditional view, are expected to conform to existing laws and do whatever else is necessary to operate efficiently and maximize results for their primary stakeholder, the owner. But there is another approach, one that integrates
citizenship both locally and globally with day-to-day business practice and places a range of important social values on par with each other. This latter approach recognizes the mutuality of interests and practices between society and business, between community and community members and stakeholders of the firm.  

Such a broadened perspective, we argue, has great potential for helping businesses avoid some of the risks of operating in the global arena and may, in fact, help businesses to be more successful in the long term. For example, global businesses face operating risks associated with foreign sourcing or multinational operations, untoward ethical implications of local practices considered customary (such as bribery or “facilitating payments”), issues that arise from politics and governmental intrusion into business affairs, and problems of human rights in developing and even developed nations. The recent lawsuit against sweatshop practices of major companies like Wal-Mart and Tommy Hilfiger serves to illustrate the risks associated with global business activity that suggest more attention be paid to citizenship and responsible practice.

**RELATIONSHIPS: THE KEY TO CITIZENSHIP**

Becoming a good corporate global citizen is a process that inherently involves finding, articulating, and implementing positive core values; it is not about setting up the company as a paragon of virtue as some so-called socially responsible companies appear to have attempted. Although each company needs to develop its own core values—“what they stand for,” we believe that appropriate values will be what leadership scholar James McGregor Burns called “end values,” such as respect for human dignity, freedom, and rights, values about which many people would concur. Rather, the process of becoming a good corporate citizen involves engaging honestly in dialogues with stakeholders, that is, having conversations in which core values and assumptions are openly articulated, and where mutual concerns and issues can be discussed in a non-threatening (and not threatened) way. And, ultimately, where positive actions to treat stakeholders well are implemented. Citizenship, fundamentally, is about the relationships that a company develops with its stakeholders.
Awareness of the social and human implications of business operating practices makes clear the need to reframe what is meant by corporate global citizenship beyond philanthropic and voluntary activity boundaries, although these activities remain necessary and important to corporate community involvement. Generating an internal commitment to operate responsibly with respect to all stakeholders, wherever one does business and with whomever one is doing business is, arguably, a better approach to corporate citizenship. This whole business approach can be called a relational approach to corporate citizenship.

Being a good global citizen in a relational context means treating well the entire range of constituencies—stakeholders—who have invested their capital in the business. Citizenship thus has significantly more impact and importance for corporate operations than the so-called discretionary responsibilities implied in typical definitions of corporate “social” responsibility. Indeed, we use the term corporate responsibility deliberately omitting the “social” part to indicate that responsibility is inherent in all aspects of corporate operations.

In our view, companies’ relationships with stakeholders occur in and through the daily operating practices they develop that impact stakeholders, particularly the primary stakeholders who actually, in some important respects, constitute the company. This group, in our definition, consists of the owners, employees, customers, and suppliers. Companies also interact in critically important ways with secondary stakeholders, such as communities and governments, which supply infrastructure and other resources necessary for corporate survival. A positive—or constructive—relationship with these stakeholders involves developing policies, procedures, and processes—practices—that respect the dignity and worth of each of these stakeholders, provide for mutuality of interaction, and some fair basis for “voice” when needed. Corporate practices with respect to stakeholders can either be fair, open, engaging, and respectful or not.

Jeanne Liedtka has recently argued that many of the key practices and capabilities embedded in multiple popular management theories, such as learning, leadership, collaboration, quality management, re-engineering, and strategic thinking share a common set of practices and underlying values. Common to each of these are a set of corporate practices that, if implemented fully (which generally,
they are not), might constitute the essence of relationships that respect stakeholders. From the practices that Liedtka identifies, we abstract and elaborate several fundamental elements of positive stakeholder relationships. Positive stakeholder relationships allow companies and stakeholders to share common meaning and purpose, to understand the system and their places in that system. They encourage development of a meaning and purpose in the relationship and value stakeholders as ends rather than means. The processes in such relationships emphasize mutual engagement in dialogue, acceptance of (and ability to see) others’ perspectives, transparency of information and processes, as well as acceptance of responsibility for actions. Finally, positive stakeholder relationships provide for an appropriate responsiveness and return to the investment each stakeholder makes.

A good relationship, therefore develops under conditions of fairness, openness (transparency), and honest engagement in dialogical processes to assure that mutual interests are considered, even when not everyone’s needs or interests can in fact be met. When there are significant problems with the policies or the interactions (or when there is no interaction), the relationship diminishes the investment made by the stakeholder.

Stakeholder investment takes many forms other than financial resources. It might be the physical and intellectual capital put into the business by the employee. It could be the trust and loyalty invested by customers; it might be building and maintenance of local infrastructure by the community. Or it might be the raw materials made accessible by the ecological environment, the specialized resources dedicated to meeting a customer’s needs by suppliers, or the inputs of any other stakeholder, such as governments who may make tax and infrastructure accommodations to attract businesses. Such investments arguably should command as much attention and appropriate “returns” to the stakeholder as would the financial capital put into a business by the owner stakeholder.10

We propose this relational approach to global citizenship not just because it is good business (although we believe that it is), but also because there are things other than financial rewards that people value. Without such a relational approach and with the current and increasing dominance of multinational corporations in the world, we believe we are in danger of placing value only on economic matters, to the exclusion of other important values. When we think
about how we live our daily lives, as Etzioni pointed out several years ago in arguing for inclusion of a “moral dimension” in economics,\textsuperscript{11} we know that there are things we value at least as much as how much money we make. Other values include friendship, families, community, health, and even the aesthetics and health of the world around us, among other factors.

**RESPECT AND RELATIONSHIPS**

Taking a relational perspective on global citizenship offers a very different conception of the nature and purpose of the corporation than the economic model provides. According to the relational citizenship perspective, organizations are fundamentally about relationships as much as they are about efficiency, although this reality is seldom openly acknowledged. In the global arena, as well as domestically, the quality of the relationships with a variety of stakeholders is frequently problematic. So, the premise here is that an “organization” is at its roots no more and no less than a set of relationships among various primary stakeholders. Typically, secondary stakeholders (i.e., those outside of the scope of primary responsibility)\textsuperscript{12} bear the brunt of any externalized costs or benefits of the primary stakeholders’ activities.

This relational perspective on transnational corporations has significant implications for doing business in multi-domestic settings, particularly in light of the proliferation of codes of conduct and behavioral standards that are currently evolving in efforts to set standards of behavior for firms operating globally. In reality, the dominance of the economic model generally allows us to forget that organizations are and have always been constituted by their relationships. For instance, it takes relationships between capitalists or financiers and entrepreneurs to build a business. Workers create goods or deliver services and these workers have always existed in relationship to the entrepreneur, owners, and managers of the enterprise. Companies locate themselves somewhere and build necessary relationships, albeit sometimes adversarial, with communities, and governments, local, state, and national, to do so. Communities have always had to be willing to tolerate the negative, as well as the positive, impacts of the company. And the ecological environment, the source of all raw materials, has little choice in
the matter. The environment necessarily has given of its resources and taken back what was considered less useful in the production process in the form of waste and pollution. Customers purchase goods and services on a premise that these goods and services will meet certain expectations or needs, somehow adding value to their lives or purposes. Thus, customers trust a company to deliver on an implicit promise of quality that actually creates the value for money spent.

Understanding the nature of the firm as relational yet retaining dominant values of efficiency and power-aggrandizing (as Frederick has argued\textsuperscript{13}) might help many firms avoid outright abuses or thoughtless actions that get them into trouble, such as the sweatshop and child labor problems facing Wal-Mart and others. At the root of being a good corporate global citizen, thinking relationally, is respect for the “other.” If respect exists among the stakeholders involved any of a firm’s activities, then arguably because one does not mistreat others whom one respects, stakeholders will be treated well. Respect for others implies, by its nature, that a corporate citizen would not tolerate conditions in which workers are treated badly, the environment is polluted, or communities suffer unnecessarily because companies suddenly pull out to move to lower wage countries.

Let us take a simple example to illustrate the importance of building respectful relationships. When you are a guest in someone’s home, do you act as you would at home? Or, do you accommodate to the needs, lifestyle, and the day-to-day practice of the individual whose house you are in? Most of us would probably change our normal behavior to accommodate the fact that we are guests in someone else’s domain, trying to be sensitive to our host’s interests, needs, and lifestyle so that we don’t impinge too much on them. Why then, when multinational companies become “guests” in someone else’s country do they too frequently continue to act as if they were still domestically based, without consideration for the differences in culture, legal constraints, and economic situation that they face as multi-domestic or global citizens? Why do they assume that it is proper to treat citizens of other countries, which may be poorer or less developed than their home country, differently than they would people from their home country? Global corporate citizenship demands cultural, social, and political-regulatory accommodation, just as does guest status.
For example, consider suppliers in less developed countries and the people who work for them. Many companies, including Nike, Wal-Mart, Liz Claiborne, Kathy Lee Gifford, and Tommy Hilfiger, have gotten into serious reputational difficulties (not to mention the recent lawsuit) because of problems with working conditions and human rights abuses in their supplier factories.\textsuperscript{14} When they disclaim accountability for working conditions on the grounds that they are not directly responsible for such conditions, activists such as the International Labor Organization, and the media begin to pay attention—publishing negative stories and costing the company reputational capital.\textsuperscript{15} When these working conditions are publicized, not to mention the possibility that some of the legal actions now under way will succeed, these companies and others with similar problems risk significant loss of goodwill and reputation, as well as the potential loss of concerned customers.\textsuperscript{16}

Relational corporate citizenship, as we are defining it, would dictate that companies always take into consideration the real needs of stakeholders like employees, prior to making decisions about engaging in contracts with suppliers. Rather than making excuses for their suppliers, companies that truly believed in respect for “other,” whoever other was, would actually begin to \textit{behave} with respect for the other. For example, if companies really treated people with respect no matter which country they were operating in, even when the relationship is characterized by distance, as with a contracted supplier, they would be hard pressed to permit working conditions that they would not sanction domestically. Despite the difficulties of monitoring conditions in far-flung operations that are primarily controlled by others, respect for the “other,” that is, for workers in these operations, dictates finding out what the conditions are and assuring that company standards are met.

Given the pressures for profitability and performance, how do companies begin to implement relational corporate citizenship? One approach that seems to be gaining in popularity is adherence to a set of external standards, of which many have evolved in recent years. As will be seen below, however, externally developed, imposed, or even mandated standards are insufficient to provide the motivation for respectful treatment of stakeholders that is truly needed for companies to undergo a transition to values-based, stakeholder-oriented global citizenship.
STANDARDS

Many codes of conduct and standards have begun to command public and corporate attention in recent years. These standards and principles typically ask companies to treat a range of constituencies with respect along a variety of dimensions. For example, the International Labor Organization’s recent “Declaration on Fundamental Principles and Rights at Work” fundamentally asks that people—employees—be treated with respect and dignity, that discrimination and abusive practices be abolished, and that workers be allowed rights of free association. The 1994 draft of United Nations Declaration of Human Rights and the Environment was guided by previous declarations of human rights (particularly the 1948 UN “Universal Declaration of Human Rights”). This document emphasizes the interdependence and indivisibility of human rights, an ecologically sound environment, sustainable development, and peace, noting that all persons have a right to these things. This declaration attempts to promote a balance among the needs of societies for economic development, environmental protection, and human dignity in a fair and equitable way that provides for present as well as future generations. Such statements of principles are reasonably consistent with other ecologically oriented standards, including the CERES (Coalition for Environmentally Responsible Economies) principles, those of The Natural Step emanating from Sweden, and the ISO standards on environment (ISO 14001 certification, for example).

Businesses, too, have developed sets of principles to help them operate in sustainable ways that respect human rights, and enable them to function as good corporate citizens. Among these are the Caux Principles, based on the Minnesota Principles developed by the Minnesota Center for Corporate Responsibility. The Caux Principles specifically take note of the globalization of the economy, pointing out that law and market forces are insufficient guides for conduct. These principles call for responsibility for policies and actions by companies, wherever they operate, and for “respect for the dignity and interests of [. . .] stakeholders.” The Caux Principles emphasize the importance of multiple stakeholders, of working toward economic justice, while understanding the impacts of business, of working in the spirit as well as the letter of the law, respecting rules supporting multilateral trade, and respecting the
environment, while avoiding illegal and unethical behavior. Central concepts in the Caux Principles are dignity and respect, which are to be accorded to customers, employees, owners/investors, suppliers, competitors, and communities.\textsuperscript{21}

More recently and directly related to corporate responsibility issues, a group of retailers has developed a set of principles called SA 8000, modeled on the ISO standards for quality and environment. These standards impose a social auditing process on companies wishing to be certified as being socially accountable, particularly regarding their suppliers' standards and procedures on health and safety, child labor, forced labor, trade union rights, remuneration and working conditions.\textsuperscript{22} Taking these ideas even further, the Clarkson Principles suggest a process and dialogue-based approach to treating stakeholders with respect by consistently monitoring their interests and status and taking those into account in corporate decision making, communicating openly and behaving transparently with them, and avoiding unacceptable risks to stakeholders.\textsuperscript{23} These principles come out of the Sloan Project on "Redefining the Corporation," which was until his recent death spearheaded by Max Clarkson with others. The relational process, however, goes beyond simply developing standards. Such dialogic processes must be integrated directly into the operational practices of the firm with respect to stakeholders, as we shall see in the next section.

**DIALOGUE AND RELATIONSHIPS**

Citizenship, in the relational sense we have been describing, encompasses all of the operating practices and relationships emerging from a company’s core values. Core values, whether articulated openly or not, drive the business and its operating practices. Indeed, the heart of what we are proposing as good corporate citizenship gets right to the definition of corporate purpose and strategy. Companies’ operations affect all of their stakeholders on an ongoing basis. This mutual interaction is what relationship is all about, after all. Interactions with stakeholders include respectful treatment of the employees of suppliers from whom products are sourced, as well as the governments and communities of countries where facilities are located. Transnational firms, even more than domestic firms, which can be held accountable to local community
standards more readily, need to operate responsibly with respect to multiple communities if they hope to be considered good corporate citizens. Operational policies that relate to stakeholders in different nations need to be derived from the fundamental combination of core values and purpose that form what Collins and Porras termed core ideology. Core ideology, in their research on visionary companies, provided a foundation for long-term company success for their visionary or “built to last” companies. More recent evidence suggests that the “built to last” companies of the Collins and Porras study also exhibit better stakeholder relations along with their long-term financial and market-based success.

Relational corporate citizenship fundamentally implies that values other than economic ones really are important for business, values such as mutual respect, human dignity, and ecological sustainability. Economic values are deeply (and almost irresistibly) embedded in the rationale for corporate involvement in the three strategies for corporate citizenship noted by Logan and colleagues: strategic business interests (using corporate resources in communities to gain strategic or competitive advantage), business/community partnerships (joining forces to benefit both business and community strategically), and corporate philanthropy and giving programs (based in noblesse oblige). Such values are, of course, important for building corporate reputation and even profitability. But other values are equally important to people living in communities and societies, people who are the stakeholders in the network of relationships that constitute the company. And those people, as former Labor Secretary Robert Reich recently noted, want to live in communities and in societies, not merely in economies. Other values, that is, are important in and of themselves, even when they may have negative short-term economic consequences. These other values might, for example, include respect for human dignity and basic human rights, for the ecological environment (or what Frederick terms ecologizing), and for the feelings generated by family and community that cannot be replaced by commercialization.

One example of a company that is already deeply engaged in establishing dialogue with its stakeholders is Royal Dutch/Shell Group, which Phil Mirvis discusses at length from an insider’s perspective elsewhere in this volume. Despite Shell’s well-publicized problems with Brent Spar and in Nigeria (or possibly in part because of such problems), the company appears to be making a sincere
effort to play a leadership role in forwarding the perspective that there need not necessarily be a trade-off between principles and profits. Shell is a huge global company employing more than 100,000 people in 132 countries. As part of a long-term transformation effort, the company has developed and promulgated its “statement of general principles,” translating it into 34 languages and disseminating it throughout the group’s companies. The company has also engaged in dialogue about their expectations of multinational companies and Shell’s reputation with more than 7,500 members of the general public in 10 countries, 1300 opinion leaders in 25 countries, and 600 Shell employees in 55 countries.28

Shell’s transformation, which is still very much an ongoing process as Phil Mirvis notes, involves making the principles articulated real in the company’s daily operations, and providing ongoing monitoring to ensure that standards are continually met. The company has articulated nine principles, including objectives to operate “efficiently, responsibly, and profitably,” and an economic principle that rightly indicates that profitability is essential to treating stakeholders well.

The company’s stakeholder responsibilities, as articulated by the firm, include those to shareholders, customers, employees, those with whom they do business (i.e., contractors, suppliers, joint ventures), and society. Other principles emphasize operating with business integrity (with a clear statement that no bribes are to be accepted or offered, with dismissal as the consequence for engaging in such activity) and appropriate engagement in political activities (acting legally within each country where there are operations, making no political contributions). Additionally, principles focus on health and safety of workers and the sustainability of the environment, community contribution, and competition in support of the free enterprise system.

The final principle makes a commitment to communication about all of Shell’s activities (subject to overriding confidentiality and cost considerations) to interested stakeholders. In attempting to live up to this latter principle, Shell regularly meets with stakeholders in roundtables, researches background data on the stakeholder arenas it has identified in other principles, and engages in numerous other activities to publicize its positions and open itself to feedback from internal and external audiences. Management performance on these principles is assessed annually as part of the performance review process.
Assuring that standards are met, as can be seen from the Shell example, involves a number of important processes and is a highly complex and difficult proposition, as Shell’s ongoing transformational struggles and its reputational difficulties suggest. One clear step toward a relational perspective on global citizenship is to work hard on developing a set of constructive and positive core values from within the company core values that the company is willing to live by. As we argued earlier, such values are likely what Burns termed “end values.” End values describe desirable “end states,” or collective goals or explicit purposes, establishing standards for making choices among a set of alternatives. Thus end values combine two meanings: goals and the standards by which those goals will be met.\textsuperscript{29} Collins and Porras’ visionary companies embody end values, such as absolute integrity (3M), individual responsibility and opportunity (GE), decentralization=creativity=productivity (J&J), and treat each employee with dignity, as an individual (Motorola), among many others.\textsuperscript{30}

But that is only one of many iterative steps. Engaging in dialogue —conversations, if you will—with relevant stakeholders is another important process. And monitoring the effectiveness of all of these efforts, including changing the reward system to reflect the articulated principles, is another.

One large agri-producer has also recently begun this process of internal transformation to become recognized as a good global citizen.\textsuperscript{31} On past occasions, this company has run into serious problems regarding its citizenship, difficulties in gaining the respect and trust of its employees, as well as governmental officials where the company operates. To cope with these problems, the company has begun a process of determining what its core values are. Management then intends to disseminate these values, through a series of in-person meetings and conversations, throughout the company’s far-flung locations. Only time will tell whether this company (like the tanker driving full-steam ahead that needs several miles to change direction) can achieve this transformation into good global citizen. One element in its favor, however, is that management has recognized the need to make the change (and experienced the pain of not having changed sooner). Hence, the motivation appears to be present to engage in what is recognized as a long-term and arduous process toward better relationships with all of the parties who contribute to the success of the firm.
We take a fundamental values-based position here, which states that good corporate global citizenship involves building good relationships with stakeholders and that such citizenship is the very same thing as doing business well. By building successful relationships, based on dialogue and good conversation, all stakeholders will be mutually engaged in a respectful relationship where needs on both sides can be met. Ultimately, we believe, business will also be far more successful than it could otherwise have been. For example, treat employees well and not only will morale and job satisfaction improve, but so will productivity along with reduced turnover, tardiness, and sick days. Use environmental resources with care on the intake side, reduce usage, and treat resources well on the output side, and not only will local communities experience a better, cleaner environment, but you will also eliminate unnecessary fines, and may even, as some companies like 3M and VeryFine with their pollution reduction programs have done, save on production and (long-term) clean-up costs as well. Help build strong communities, wherever you are located, meeting local needs that are locally-determined in a “good conversation,” and productivity is likely to increase, healthcare and associated costs go down, and loyalty improve.

Global citizenship activities thus go well beyond what is traditionally considered to be “socially responsible” behavior, especially when those activities are restricted to philanthropic and voluntary duties that are discretionary. Citizenship involves the day-to-day practices of the firm as they impact (and are impacted by) stakeholders. It is in these operating practices (policies, processes, and procedures) and in the ways that companies approach them that company “social” performance is articulated.

By extending the definition of corporate global citizenship to encompass multiple stakeholders whose well-being affects the longevity and ultimate success of both business and society, we can, we hope, gain additional balance that is now missing in our understanding of the role of the corporation as global citizen. Such a transition begins to place companies in their proper context in the overall ecology of societies, rather than at the center of society, as free market economists would have it. Companies then become responsible, as global citizens, to the societies where they do...
business, rather than assuming that those societies merely serve the economic demands of the firm.

NOTES


2. David Logan, Delwin Roy, and Laurie Regelbrugge, Global Corporate Citizenship—Rationale and Strategies (Washington, DC: The Hitachi Foundation, 1997) provide the definition above, but then proceed to use a more narrowly constrained operationalization of citizenship as noted. See also Carroll, 1979, above.


6. E.g., as noted in the pyramid of corporate responsibilities popularized by Carroll, 1979, cited above.


9. Liedtka, 1998, cited above. We have taken some liberties to translate Liedtka’s “convergent themes” into the language of relationship and brought them into stakeholder theory.


14. See e.g., http://www.sweatshopwatch.org/.


17. The ILO Declaration on Fundamental Principals and Rights at Work can be found at the following website: http://www.ilo.org/public/english/10iic/ilc86/com-dtxt.htm.


21. The complete Caux Principles can be found at the following website: http://www.cauxroundtable.org/ENGLISH.HTM.


23. See http://www.mgmt.utoronto.ca/~stake/ for a description of this project and the complete set of Clarkson Principles in the “Consensus Statement on the Stakeholder Model of the Corporation.”


31. This company wishes to remain anonymous.

32. The term “good conversation” was used by Jim Waters when he was dean of the graduate program at Boston College to mean engaging in dialogues around ethical practices to improve behavior.