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W. Michael Hoffman
Center for Business Ethics



Raytheon Lectureship in Business Ethics

The Ethical Challenges of Operating in Difficult Countries

Sir Mark Moody-Stuart

Chairman of the UN Global Compact Foundation and
Former Chairman of Royal Dutch Shell/Shell Group

March 27, 2017

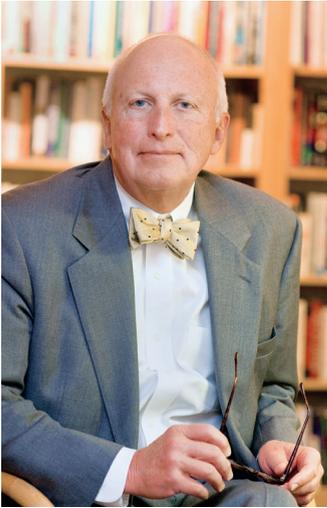


BENTLEY UNIVERSITY is a leader in business education. Centered on education and research in business and related professions, Bentley blends the breadth and technological strength of a university with the values and student focus of a small college. Our undergraduate curriculum combines business study with a strong foundation in the arts and sciences. A broad array of offerings at the Graduate School of Business emphasize the impact of technology on business practice. They include MBA and Master of Science programs, PhD programs in accountancy and business and selected executive programs. The university is located in Waltham, Mass., minutes west of Boston. It enrolls approximately 4,247 full-time and 140 part-time undergraduate students and 1,411 graduate and 43 doctoral students.

On July 25th, 2016, the CENTER FOR BUSINESS ETHICS at Bentley University was renamed the W. MICHAEL HOFFMAN CENTER FOR BUSINESS ETHICS in honor of the pioneering work and four decades of accomplishments of the center's founder and current executive director, W. Michael Hoffman. The center is a nonprofit educational and consulting organization whose vision is a world in which all businesses contribute positively to society through their ethically sound and responsible operations. The center's mission is to provide leadership in the creation of organizational cultures that align effective business performance with ethical business conduct. It endeavors to do so by applying expertise, research, and education and taking a collaborative approach to disseminating best practices. With a vast network of practitioners

and scholars and an extensive multimedia library, the center offers an international forum for benchmarking and research in business ethics.

Through educational programs such as the Raytheon Lectureship in Business Ethics, the center is helping to educate a new generation of business leaders who understand from the start of their careers the importance of ethics in developing strong business and organizational cultures.



W. Michael Hoffman, PhD

Founder and Executive Director
Hoffman Center for Business Ethics and
Heiken Professor of Business
and Professional Ethics
Bentley University

How secure does the world seem to you these days? We have been spared a Third World War and, from what I heard, the Cold War is over. And yet, according to the 2016 Global Peace Index, 13.3% of the global gross domestic product is spent on costs relating to violence. With a problem of this magnitude, it seems unwise to me to sit back and hope that governments will come to the rescue.

What might be the solution? I am not qualified to say, but the speaker for the talk in this monograph, Sir Mark Moody-Stuart, has unrivaled qualifications. Not only was Sir Mark the chairman of one of the world's largest companies, Royal Dutch Shell, he has lived in and done business with countries in every corner of the earth. Moreover, he is also the vice chairman of the United Nations Global Compact, the world's largest corporate sustainability initiative to which over 13,000 businesses and organizations are signatories. The Global Compact is mobilizing business everywhere to embrace principles of responsible business, and among these, Sir Mark is leading the organization's Business for Peace initiative. He isn't looking at the world through rose-colored glasses – he has lived and worked in a number of very difficult environments – but with his experience, he sees more deeply than most the powerful impact business can have in contributing to stability and advancing human rights in places where the need is great.

From my perspective, having worked in the area of business ethics for over four decades, I have also come to believe that in responding to significant social challenges, we would do well to consider the role that business may play in providing innovative solutions — and the problem of war and peace is no exception. By sharing his insights in this regard, Sir Mark has opened my eyes to another dimension of the business ethics field to which I have dedicated my career. Not only was I enriched by his talk, but also I can't help but feel some optimism that the arsenal of peace supported through business ethics may be stronger than I had previously imagined.

The **Raytheon Lectureship in Business Ethics** at Bentley University is made possible through the generous support of the Raytheon Company.

Raytheon is a technology and innovation leader specializing in defense, homeland security and other government markets throughout the world. With a history of innovation since its founding in 1922, Raytheon provides state-of-the-art electronics, mission systems integration, capabilities in C5I (command, control, communications, computing, cyber, and intelligence), sensing, effects and mission support services. The company reported sales of \$24 billion in 2016 and employs 63,000 people worldwide. It has built a reputation for adhering to the highest ethical standards in the industry. The Raytheon Lectureship in Business Ethics series aims to illuminate and promote ethical values and conduct in business, highlighting best practices in corporations throughout the United States. Learn more about Raytheon online at raytheon.com.



(From left) Tim Schultz, Vice President, Ethics and Business Conduct, the Raytheon Company; Sir Mark Moody-Stuart, Chairman of the UN Global Compact Foundation, and Former Chairman of Royal Dutch Shell/Shell Group; W. Michael Hoffman, Founding Executive Director of the Hoffman Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley University; and Robert E. McNulty, Director of Programs, Hoffman Center for Business Ethics.



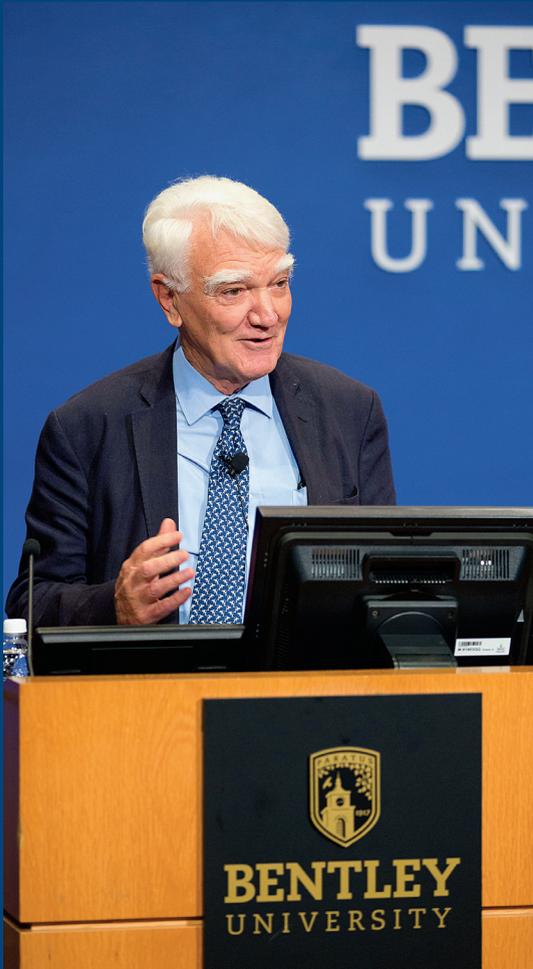
Thomas A. Kennedy, PhD

Chairman of the Board and
Chief Executive Officer
Raytheon Company

Raytheon believes in a values-based ethics program, and we believe in the value of ethics education. We invest in ethics and provide employees with robust, award-winning ethics education to reinforce how important doing the right thing in business is to our success. We talk about ethics so our employees know it is okay to ask questions and raise concerns, to take an “ethics check,” if you will. By supporting this process, we build upon a strong ethical foundation and reinforce a culture of integrity at the company. A strong ethical culture requires work. We believe that working at ethics pays dividends, and that it gives us a competitive advantage.

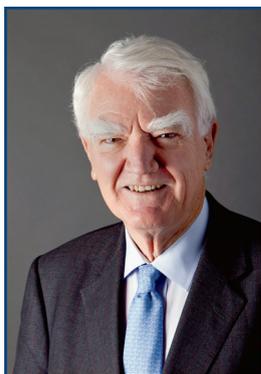
Raytheon’s support for the Hoffman Center for Business Ethics at Bentley University has a long history. The center has provided leadership in this important field for the academic and business communities extending now for two generations. Bentley is increasingly recognized for promoting ethical business practices and cultures not just in the United States, but internationally as well. This is especially significant as our world is increasingly interdependent, and having ethical business partners is a global imperative.

The Raytheon Lectureship in Business Ethics at Bentley has added relevance in this environment. Having respected corporate leaders share their insights and commitment to business ethics helps show the way for all of us. Promoting further dialogue and discussion about ethical business practices enlightens and inspires us to redouble our own commitment. Raytheon is proud to partner with Bentley and the Hoffman Center for Business Ethics to give voice to ethical excellence in business.



Sir Mark Moody-Stuart delivers the Raytheon Lectureship in Business Ethics to students, faculty, staff and friends at Bentley University.

The United Nations Global Compact (UNGC) is a voluntary initiative based on CEO commitments to implement universal sustainability principles and to take steps to support UN goals. With a membership of almost 9,500 companies and over 4,000 organizations, the UNGC is the world's largest corporate sustainability initiative. It calls on companies to align strategies and operations in accordance with ten universal principles pertaining to human rights, labor, environment, and anti-corruption. Royal Dutch Shell is one of the world's leading corporations. It was formed in 1907 and, today, comprises a global group of energy and petrochemical companies. In 2016, the company had some 92,000 employees in more than 70 countries, with revenues of \$233.6 billion. It draws on advanced technologies and innovation to help build a sustainable energy future. Shell affirms that safety and environmental and social responsibility are at the heart of its activities.



Sir Mark Moody-Stuart

Chairman of the UN Global Compact Foundation and
Former Chairman of Royal Dutch Shell/Shell Group

Sir Mark Moody-Stuart is Chairman of the UN Global Compact Foundation and the Innovative Vector Control Consortium. He was Chair of the Royal Dutch/Shell Group (1998-2001), Anglo American plc (2002-09), and Hermes Equity Ownership Services (2009-16). He was Chair of the Global Business Coalition for HIV/AIDS (2002-11). After receiving a doctorate in geology in 1966 from Cambridge, he began working at Shell as an exploration geologist, living in Holland, Spain, Oman, Brunei, Australia, Nigeria, Turkey, the UK, and Malaysia. He is the author of “Responsible Leadership – Lessons from the Front Line of Sustainability and Ethics.”

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I

In this talk, I will draw on my experiences of living and working in many countries for a global company and discuss some of the challenges faced by responsible businesses in contributing to building more peaceful societies, especially where conditions can be difficult.

My talk will try to respond to a number of questions, which include the following: What are the responsibilities of companies working in countries with governments that have poor human rights records or are very corrupt? What are the options for a company—are they simply withdrawal or engagement? And if a company remains, what are legitimate means of trying to improve the situation? What might cause a company to withdraw? And what are the options for home country governments? United Nations (UN) sanctions are difficult to achieve, but do economic sanctions work? Is there a positive role for businesses to work across fractious political boundaries? Are there ways in which companies can work to contribute to more peaceful and socially stable societies? These are the types of questions that will guide this talk. They are questions I have been asking myself for decades as I have often found myself working in difficult environments.

Developmental outcomes vary greatly among countries

I have had the privilege and pleasure of living and working in more than ten countries and visiting operations in many more. Most of these countries could be described as developing or emerging markets. As the companies in which I have been involved were in the oil, gas, and mining sector, I have followed the economic and social impacts of that industry, both positive and negative, over the last fifty years in countries where these industries operate and often the company for which I worked were very significant. You will all be familiar with the concept of the “resource curse” in countries where the extractive industries play a dominant economic role. The theory suggests that the dominance of the sector leads to crowding out of agriculture and other sectors, an overvalued exchange rate, and potentially lasting environmental damage. Furthermore,



Sir Mark at work in Oman

resource rents may free governments from the need to listen to the democratic wishes of the population at large, create strife over these rents between the areas of extraction and the urban and central elites, and encourage corruption.

Every one of these ills is a real possibility. I have seen each of them play out in different contexts. They are, however, not inevitable. Resource rents can provide a transformational stepping-stone for an economy. Consider the different outcomes in three countries in which I have lived and worked—Oman, Malaysia, and Nigeria. I have observed the social and economic evolution of these countries for forty years or more and the outcomes have been very different.

When I worked in Oman as a field geologist in the sixties, it was a very poor country with essentially no medical facilities and little education. Prison consisted of a ball and chain around the ankle. Oman's education and

medical development is now a poster child lauded by the United Nations Development Program. It has a bicameral parliament with women in both houses and free elections. Malaysia has been transformed from an economy dependent on primary products—tin, rubber, palm oil, and petroleum — into a light modern manufacturing economy. No longer can you deduce the occupation of a Malaysian by visible ethnic differences.

Neither Oman nor Malaysia is perfect; both face many challenges. There is no doubting, however, that resource income has been transformational. Nigeria, on the other hand, is a less happy story. Over fifty years of major oil and gas production has generated large amounts of revenue for both governments and the companies involved, and yet there is little to show for it. There is civil strife in both the oil producing areas and elsewhere. There is much unpremeditated environmental damage, and corruption is widespread and endemic. While Malaysia and to a lesser extent Oman have suffered from corruption scandals, neither nation is linked in the public mind with corruption to the extent associated with Nigeria. Nigeria was once a world-leading palm oil producer—a long retired colleague remembers having a party when the volume of mineral oil produced exceeded the volume of palm oil. Palm oil is now just a rounding error in the national accounts.

What is the determinant of the different outcomes?

What accounts for these highly variable outcomes? I think that we can discount culture and education. All three countries have strong civil societies with a foundation of family values and religion, which many in the West believe have to some extent been lost among developed economies. Some people lay the responsibility at the door of the companies involved. While not wishing to absolve companies of any responsibility, I would argue

that in the case of Shell, the operating principles and indeed the very people involved were the same in all three cases. There was considerable cross-fertilization of people from each of the three countries in each of the other two.

My own conclusion is that the difference in outcomes can be put down to the nature of governments and their leadership. Both Malaysia and Oman have had strong personal leadership over much of the last four decades—indeed almost the entire period in the case of Oman. This leadership has had a strong commitment to development. This is not to deny that these countries lacked, to varying degrees, some of the civil liberties that we in the West take for granted, but the direction of travel was clear. Nigeria on the other hand, after suffering a divisive and destructive civil war (to a lesser extent also true of Oman and Malaysia) was in the hands of military dictatorships for over half of the period. The leading clique in Nigeria, whether military or civilian, often has seemed to put personal or communal interests before that of the nation. Nigerian military governments have also often been repressive with little respect for human rights.

What should the ethical corporate response be to an incompetent and corrupt government, perhaps with a poor human rights record?

Some would argue that a company should simply withdraw or not become involved in the first place. The withdrawal argument ignores corporate responsibilities to committed nationals working in the company. Should they just be abandoned and left jobless? Clearly, before it enters a country, a company should consider not only issues of stability and disruption, but also whether it is possible to maintain its own ethical standards within its own operations and in its dealings with others. If it is truly not possible to operate without

conceding to corrupt demands or if the government demands actions that would clearly result in human rights abuses, then withdrawal is indeed the only option. In spite of great difficulties, including rejecting pressures from governments on employment and demands for corrupt payments, I have never actually found withdrawal to be necessary. The exception would be where UN sanctions make operations illegal, such as those recently implemented that affected oil companies in Syria. In Sudan and perhaps in South Africa, the withdrawal of some companies and their replacement by others did not improve the situation on the ground. In evaluating such situations, the human rights impact assessment process and framework promulgated by John Ruggie is very helpful. This framework clearly allocates responsibilities to companies and governments respectively. I would argue that even in very difficult countries, a responsible company has a contribution to make in areas such as employment, contracting practices, and other standards, quite apart from any contributions through employment and taxes. I will return to how we might define a “responsible” company. However, if a company’s own behavior and its relations with its people and those with whom it interacts are impeccable, yet after many years of operation the government has misapplied or even stolen the tax revenue, development has only benefitted a few elites, and there are stresses or conflict between different sectors of the population, the company will be criticized. These outcomes may not be the responsibility of the company, but they represent a major problem for it.

Options for the company

Historically, corporations have sometimes used their economic power to influence and even control governments. There are the familiar examples of United Fruit and the “banana republics,” or of ITT in Africa of which

the Nigerian Fela Kuti memorably sang. Human nature being what it is, the advice of a company or even a collective business approach is likely to err on the side of the individual company or business interests. Just look at the division in the response of US companies to proposals for a border adjustment tax and the different positions taken by importers and exporters. This can increase what is already a great lack of trust in business.

I think the answer to this is for businesses to form coalitions with civil society organizations, including labor unions. The disparate members of such coalitions keep each other honest and focused on the benefits to society as a whole rather than on one sector. Almost any organization, whether for profit or not, is subject to the pitfalls of organizational self-interest. In coalitions, business leaders in particular can be encouraged to take off their individual business hat and don a broader societal hat, judging issues and policies by their societal benefit. A well-functioning society is a great benefit and stimulus to economic activity. When a societal framework has been established, each organization can work out its own strategy for working within this framework. Consider the issue of applying prices to things which potentially harm society, for example, the establishment of a price for emitted carbon. Most economists agree that it is only by applying a price to such carbon, whether by a carbon tax or a carbon cap and trade system, can the forces of the market be brought to bear on the development of a low carbon economy. Given that it is a tax on their own products, increasing cost, it is counterintuitive, but the oil and gas companies are among the strongest proponents of such an approach. Cynics say that they simply wish to kill coal, which would certainly be very negatively affected. However, I believe, in fact, that it is because such companies see it as providing a clear economic framework for low carbon energy development, in the absence of

which long-term economic decisions will be taken purely on the cost of the fuel without any market driver to consider the climate impact. The perverse impact of the absence of a significant carbon price is very evident in German energy development. Coal continues to be used for power generation while modern gas fired generating plants are closed. An appropriate price on carbon would tilt the economic balance rapidly.

Do coalitions work?

During the last twenty years or so, there are many examples of the establishment of multi-stakeholder coalitions formed to address very specific problems. These started in the area of traded goods such as the Forest Stewardship Council or the sustainable fisheries movement started by World Wide Fund for Nature (WWF) and Unilever or the Kimberly Process to eliminate trade in conflict diamonds. From trade, wider goals such as elimination of corruption led to the formation of the Extractive Industries Transparency Initiative. Most such initiatives started as a result of pressure from civil society organization, which were then joined by responsible companies to work out practical frameworks, which I believe have had a real impact in their various sectors while also providing a basis to inform national legislation. The development of such coalitions and their progressive impact is one of the most encouraging achievements of the last couple of decades.

The biggest coalition of them all

Perhaps the biggest multi-stakeholder coalition of them all is the UN Global Compact (UNGC). It was formed in 2001 in answer to a call from the then secretary general, Kofi Annan, to put “a human face on global business” by embedding principles based on the major conventions of the UN into their

day-to-day business practices. It now has over 13,000 business and civil society signatories in 162 countries. Roughly half of the signatories are in developing countries. Business signatories number over nine thousand and employ over sixty-five million people directly.

The UN Global Compact differentiates itself from many other excellent business and civil society organizations in a number of ways. First, its signatories commit to build the Ten Principles based on the major UN conventions on human rights, working conditions, the environment, and anti-corruption into their operations. These principles are universal in that every country has subscribed to the conventions that underlie them, although many countries fall far short of the ideals. Second, companies must report annually on the progress that they are making in implementing the Principles in their operations. These reports do not demand perfection or clearing a standard, but should cover progress and report on efforts made. Failure to report results in the delisting of the

organization. A third differentiating factor is that from the outset the organization has been determinedly multi-stakeholder, involving civil society and labor unions on its board and governance. Lastly, the UNGC is not elitist or exclusive, welcoming national companies and small- and medium-sized enterprises. It is clear that this can only be accomplished through the development of strong Local Networks in each and every country, each of which should be multi-stakeholder in nature. Each of these characteristics differentiates the UNGC from excellent business organizations such as the World Economic Forum and the World Business Council for Sustainable Development. The UNGC provides a very valuable platform to approach the issues and problems of society in any country and to embed the principles of the UN and the aims of the Sustainable Development Goals. However, having said that, we have a long way to go before the UNGC and its Local Networks achieve the scale and potential for change that the platform represents.



Sir Mark seated next to United Nations Secretary General Ban Ki-moon at a leadership meeting of the UN Global Compact.

Do the home governments of large businesses and others have a role to play?

In those instances where a government is clearly failing its people, disregarding their human rights, and perhaps plainly transferring national funds overseas corruptly, the most common reaction short of military “regime change” has become the application of economic sanctions. It is often difficult to get United Nations support for such sanctions, given the different views and perspectives in the UN Security Council, let alone the General Assembly of the UN. The result is that such sanctions are often unilaterally applied by a smaller group of nations such as the United States and members of the European Union. The sad truth is that universal economic sanctions on a nation are rarely effective and often seriously counterproductive.

The exception is perhaps South Africa. Economic sanctions had demonstrably little economic effect and perhaps even stimulated the development of national industrial champions in the energy and arms industries, with some positive economic spinoffs. However, sanctions on the sports sector did have an effect in that they impacted the self-esteem of the voters who were by law the minority white population. This created some change in attitude, which enabled President de Klerk to begin the process of releasing Nelson Mandela and commencing a move towards democracy. This was a special case, but it does suggest that very selective sanctions on those with the capacity to influence the rulers could have a positive impact, for instance when applied to President Putin and his relatively small circle of oligarchic business supporters.

By contrast, universal economic sanctions, such as those that have been applied to Iran, Sudan, and Saddam Hussein’s Iraq were less effective, although in the case of Iraq, this was in part due to the ill-designed “oil for food” arrangements.

Consider the case of Iran, which has been under some form of economic sanction for some thirty-five years. The result has been real damage to people and society at large as well as the destruction of the private sector. The sanctions gave the regime an easy external target to blame for any suffering of the population while concentrating such modest economic activity as there was in the hands of the government and its cronies. This has meant that the internal natural opposition from the private sector and a growing middle class has been emasculated. True, it can be argued that sanctions on Iran led to progress on the nuclear deal, but at the cost of decades of serious damage to a great civilization with considerable democratic characteristics. This provides the lesson that if universal sanctions are to be applied to a country with inevitable collateral damage to innocent parts of the population, it is important that there should be a well-defined and achievable condition to the lifting of sanctions, such as was the case in the nuclear deal. Sanctions should not just be based on a decades-long feeling that “we just do not like the regime.”

The case of Myanmar is also instructive. While the EU and the US applied sanctions, the ASEAN governments adopted a policy of commercial engagement. When visiting Myanmar I did not meet a single individual who thought that sanctions had played a role in prompting a change of policy by the regime. Engagement and example may have been important. The oil company, Total S. A., had remained active in the country in spite of severe criticism from human rights and civil society organizations. These were in part based on historical incidents of human rights abuses by government forces during the construction of a gas export pipeline to Thailand. However, when cyclone Nargis struck, relief organizations found that Total was one of the few organizations which had the organized infrastructure in place that could contribute to the relief effort. This example has convinced

many that responsible companies may play an exemplary and supportive role through their operations and infrastructure.

Contributions to societal goals by responsible companies in difficult countries

In the course of this talk, I have several times referred to “responsible” companies and the role that such companies can play in countries with weak institutions, corruption, and human rights challenges. How might we judge whether a company is likely to be responsible? I think a first step would be to see a clear commitment to principles, such as those of the UNGC or similar generally accepted norms. Second, it is important that the company report transparently on how its operations measure up to its principles, what progress has been made, and what plans it has to address the challenges that it faces in trying to implement its strategy. In this integrated thinking, it is important to link the company’s performance in all areas to its purpose in society in general and in the particular societies in which it works. It will increase the credibility of such reports if they are subject to some sort of independent evaluation. A responsible company will be open to influence and engagement with all of its stakeholders, consumers of its products, its shareholders, and people at all levels within the company, as well as with those outside the company who are perhaps critical of its operations or of the governments of countries in which it works. These characteristics are important for companies everywhere, but are particularly important for companies that operate in difficult social and political environments.

Contributions from companies in the course of their normal operations

In 2010, in collaboration with the Principles for Responsible Investment (PRI), itself an

organization of investors initiated by the UNGC and the United Nations Environment Program’s (UNEP) Finance Initiative, the Global Compact produced “Guidance on Responsible Business in Conflict-Affected and High-Risk Areas.” The approximately fifteen hundred PRI signatories have collectively some sixty trillion dollars of funds under management. A group of long-term investors including pension funds was anxious to establish these guidelines so that they had a basis for engaging with companies operating in difficult countries and evaluating their performance, in part, so that the funds could respond effectively to queries from their own clients.

In fact, one of the very earliest learning platform exchanges of the UNGC was between companies, civil society organizations, and labor unions on what would comprise good practices for companies operating in countries with social stress or in near conflict. The work on the Guidelines was carried out in cooperation with civil society organizations and included field visits to some countries including Sudan.

The Guidelines highlight the fact that care is needed because for every potential benefit there were downsides that could inadvertently develop. Perhaps understandably the representatives of companies tended to concentrate on the benefits while civil society organizations were more concerned with the potential downsides.

For example, where a company has sound non-discriminatory and balanced employment practices covering diverse ethnic, regional, or religious groups, people of different backgrounds working on common corporate issues tend to forget their differences and focus on the task at hand. If, however, employment is captured or dominated by a single group, or is merely perceived to be so, the result is a loss of trust and an increase in the potential for conflict.

Similarly, the development of a local supply chain is often of a greater contribution to the

economy and society than are taxes and royalties as it injects livelihoods and funds directly into communities without the potential leakages of tax revenue. However, as with direct employment, if the supply chain is captured by drug barons or warlords, the result can be doubly damaging. It is very easy for a company to assume that the visible hierarchy or governance structure as represented, for example, by traditional chiefs, represents reality on the ground, but that need not be the case. For this reason, it is very important that companies engage with civil society organizations who can build a different kind of connection with local communities.

A trusted local civil society organization is able to build relations with a local community to research the actual, rather than the merely apparent, hierarchy structure. Such activities, if conducted by a company could be seen as subversive or patronizing. Similarly, a trusted civil society organization can discuss with local communities their needs and help communities establish governance structures for the control of any compensatory or social development funds from companies in a way which would be intrusive if not actually a conflict of interest for a company.

Dining with the devil

Any company, such as an extractive company, which makes a significant contribution to the national economy, is likely to have cause to interact with the head of state or government of the country. This can present particular challenges when the individual or the government may be considered guilty of abuses, whether of human rights or of corruption. This is what I call “dining with the devil.” An essential basis for such an encounter is a clear statement of principles, such as those of the UNGC, and clear reporting on progress in embedding those values in operations in all countries, in particular in difficult ones. In such contexts, it is necessary to build some kind of

personal relationship with the individual concerned. Martin Luther King is reported to have said that you have no moral persuasive power with those for whom your contempt is absolute. Such encounters are aimed at supporting principled positions, but if some kind of human relationship is established there is always a risk that the direction of influence may be reversed. For this reason, trusted interactions with civil society organizations familiar with the country are valuable. Trust is required because if the civil society organization leaks details of a private meeting to the public, government relationships could be severely damaged.

In the late 1990s, I was approached by Amnesty International who, together with Pax Christi in the Netherlands, believed that the Shell marketing company in Sudan was supplying aviation fuel to government aircraft, which were accused of engaging in human rights abuses against civilian populations in the south of Sudan. While this appeared unlikely to me, on investigation it was found that there was an indirect supply route. A plan was put in place in conjunction with the Sudanese management of Shell in Sudan to eliminate this route. However, as all of the management of Shell Sudan were Sudanese, the involvement of international civil society organizations was clearly sensitive. Had they boasted of success in highlighting and eliminating this supply route, our Sudanese staff might have suffered. To the credit of Amnesty and Pax Christi, they honored the confidentiality agreement.

Business for Peace

One of the UNGC initiative that has been strongly supported — and, indeed, was proposed by a Global Compact Local Networks in conflict sensitive countries — is Business for Peace. The initiative was strongly promoted by Local Networks such as Colombia and Sri Lanka in countries facing the challenge of reabsorbing

The Gaeseong Industrial Park was the only example of constructive engagement between North and South Korea. An article of clothing produced there had a label that aptly stated, “Made in Peace.”

former militia members into society. In many countries, militias are encouraged to disarm by paying members to lay down their arms. While this has a very beneficial short to medium term effect, unless a sustainable livelihood is found for those former members, they may resort to their former activity or to criminal violence to support themselves.

This is a major problem. It is certainly not wise simply to employ such people as security guards for example. Furthermore, many were removed from their families by force at an early age and are cut off or disowned by their original communities. These circumstances and their time engaged in conflict often leave them deeply psychologically affected. In such cases, close cooperation between the government and the private sector is important for while the government can perhaps fund some rehabilitation, employment in the private sector is likely to be more attractive to a former opposition rebel than any government position.

Apart from direct actions related to returning to peace, business has a great contribution to building sound relationships across fractious political and national boundaries. The language of business is universal with lasting relationships always built on mutually beneficial relationships with balanced benefits. A contract or relationship that is exploitative or one-sided will inevitably collapse or be revoked at the earliest opportunity. Constructive business relationships across borders create

understanding and pave the way for better political relationships. At a Business for Peace meeting in Khartoum, Sudan, I was much encouraged to see the welcome presence of business people from the newly separate South Sudan as well as the presence of some diplomats. All agreed that sound business relationships and cross-boundary trade were essential for economic development.

A prime example of such business activity across a fractious border is the Gaeseong Industrial Area where some two hundred companies from the Republic of Korea (i.e., South Korea) established modern manufacturing facilities in a special zone in North Korea. These companies employed some fifty-five thousand citizens of North Korea, both men and women, in excellent working conditions with modern support facilities. The workers commuted each day by bus from their homes in North Korea. Through these workers and their families, this enclave thus provided insights to people in North Korea into conditions and work that would otherwise not be available. The project was not without controversy as the wages of the workers were paid to them through union representatives organized by the North Korean government. This clearly had the potential for leakage or other misapplication of wages. The complex is, of course, also a source of revenue to a rogue government. The project is currently closed due to UN Sanctions, but I believe it has the

potential to make a great contribution.

Perhaps one of the most unusual contributions to Business for Peace is that led by Yaya W. Junardy who leads the Indonesian Global Compact Local Network. While not directly connected to business, this has involved organizing mass weddings in Indonesia. This might seem to have a tenuous link to peace, but in fact, many couples in Indonesia are married by traditional or religious rites and do not have their marriages documented. An outcome of this is that the children of such marriages are often undocumented and without an official birth registration, they have no access to services or education. The mass weddings provided a venue with attendance by officials and high-level representatives of the various religions and communities and provided a celebration, while at the same time facilitating the process through which children could be registered. Mr. Junardy has overseen the marriage of tens of thousands of couples. As there are said to be over thirty million undocumented children and others in Indonesia scattered across the republic's thousands of islands, this is an imaginative solution to a major problem, paving the way for a healthier and better-educated society in the future. This benefits business by reducing inequalities in society, and hence potential friction, but also by removing barriers to education.

Conclusion

Businesses operating in countries with underdeveloped capacities and weak governance systems can encounter many challenges and the risk of various types of abuse. These issues can be addressed by embedding sound principles in operations everywhere and reporting very openly on progress in applying these principles. In such situations, it is also even more vital than usual that companies be open to engagement with all stakeholders, not just shareholders and

consumers, and that they are especially prepared to work with civil society organizations and labor unions. By using frameworks and guidelines developed by multi-stakeholder approaches, businesses can increase the probability that their engagement in such countries and across fractious political borders contribute to increased social stability and peace as well as economic activity. Not long ago, I receive a gift that was emblematic of the role business can play in advancing peace. It was an article of clothing made in the Gaeseong Industrial Zone, and what was written on its label was not "Made in the Republic of Korea" or "North Korea," but "Made in Peace." That is an excellent business concept.

Q&A

Below are highlights of Sir Mark Moody-Stuart's question-and-answer session with Bentley University students, faculty, staff, and guests.

QUESTION: *I have many questions but will limit it to two. One is regarding Shell's operations in Nigeria, which you referred to at the beginning of your talk. I'm familiar with a lot of relevant information and documentaries, such as "The Curse of Oil," and "Shell Oil: The Awful Truth." In terms of polluting the Delta region and so forth, these documentaries put much of the responsibility for problems in Nigeria squarely on the shoulders of Shell. I'm curious about your take on that. My second question pertains to the responsibility of the United States in connection with a lot of the violence around the world. Violence takes place in developing countries, but the U.S. arms industry supplies many of the arms that end up in the hands of these malicious and corrupt governments. I wonder from a business ethics perspective, when you have arms companies constantly lobbying our government to sell arms to places like Saudi Arabia, which is a very repressive society, then at the end of the day, you are selling arms for a repressive government.*

SIR MARK MOODY-STUART: I'll start with Shell because in a way that's an easier question for me. Shell's operations in Nigeria have certainly not been perfect. There has been pollution, but it's an extremely complicated situation. It seems strange, but much of the pollution was caused by sabotaged pipelines. Back in the '70s people used to cut the flow-lines from oil wells simply to steal the line, never mind that it was full of oil. When they did this, the company had a responsibility to clean up the mess, whether or not the company was responsible for the damage. They employed people to clean up the mess and that became a source of employment. It seems quite appalling and almost incomprehensible to many of us, but nonetheless, it happened. More recently, something that is much more volumetrically damaging has been the stealing of oil from major trunk lines. It is then refined in primitive bush refineries. Nigerian oil is very light and you can distill it quite easily. Sometimes you can almost put it in a diesel

engine straight away. However, these refineries use the oil to heat the distillation process and the residue is thrown away. So, there is massive pollution, but currently, much of that pollution is only directly connected to Shell because it is Shell's pipeline system.

Did we make mistakes? Yes, we clearly made mistakes. I lived in Nigeria in the late 1970s and early 1980s. At that time, we thought that so long as we ran our operations to reasonable and international standards, and that we paid our taxes honestly, it was regrettable if the country took the money and misspent it — or in the worst cases, stole it — but, that was not our responsibility as a foreign company. I'm still not sure who is responsible, but unless we as companies work with others to do something about it, our operations become untenable. They did become almost untenable in Nigeria. Many of the companies retreated offshore where they believed life would be more peaceful, but it wasn't.

The second mistake we made was that we assumed that the visible authority structure in local communities run by local chiefs reflected the actual authority structure. We would negotiate local supply chain contracts with the chief who appeared to represent the community, but in actuality, did not. Had we worked more closely with civil society interlocutors who could talk to those communities, we would have considered doing something subversive, which was to check if the apparent authority structure reflected reality. I think that if we had done so, we could have avoided many problems.

The last problem where we got it wrong was that very often we ran community programs that we thought people needed, like hospitals and schools. Once again, if you talk to the communities, you find that what seem to be obvious priorities, might not have been the first priority of those communities. However, to find that out, you need independent engagement with the community.

In reference to the arms industry, you raise a difficult issue. One runs into the temptation of saying it is the responsibility of the government to decide to whom companies are allowed to sell arms. I do not have a close connection to the arms industry. I do have a close connection with Saudi Arabia. I would agree with you that the regime is an extremely conservative society. Saudi Aramco, a national oil company on whose board I sit, is an extremely enlightened company. I am proud of their operations and it is potentially a transformative force in Saudi Arabia. Saudi Arabia's new deputy crown prince [who has since been designated as the crown prince] has plans to change things, which I hope will succeed, but since he is also the author of the war on Yemen, we have to view the chances with some doubt. Let's hope he succeeds in reforming society.

QUESTION: *You touched on Syria, and I learned that the bulk of the revenues ISIS uses to fund its terrorist operations is through the sale of oil that undercuts market prices. Do you think oil producers have an ethical obligation to undercut those prices to take away that revenue stream?*

SIR MARK MOODY-STUART: I have spent quite a lot of time in Syria and the oil to which you are referring probably comes from wells that used to be run by Shell. I went in and out of Syria around 20 times before the present troubles. I never met the present President Assad, but I met his father several times. That is one example of what I call "dining with the devil." In expressing one's opposition to the current Assad regime, I personally think it was a major mistake to say, "Assad must go." It is not a good negotiating position to have with someone who is running the place to say that condition number one is for him to go, which could result in his going to prison. It does not induce cooperation and it encouraged some of Assad's subsequent misbehavior.

ISIS certainly used the oil; they used enforced participation by people who had previously been operating these wells to steal the oil and truck it across the border into Turkey. There isn't any question about that. I don't think the price was critical, although the price at which it was being sold was \$30 a barrel and you did not have to pay taxes. This was a challenge because the United States and its partners could see it being trucked. The U.S. considered bombing the trucks, but they realized that the truck drivers were not likely willing participants or enthusiastic terrorists so they refrained from that. The trade has now basically been eliminated by blocking the Turkish border as well as getting ISIS out of the oil producing areas.

QUESTION: *How do you convince companies that have not yet signed up for the UN Global Compact, such as Walmart, for example, to become signatories and still stay true to all their stakeholder needs?*

SIR MARK MOODY-STUART: Let me give an example. For a long time, we had made almost no progress in getting companies in the IT industry and Silicon Valley to join the United Nations Global Compact. Around a decade ago, Yahoo got in trouble with civil society because of the information they were giving to the Chinese government on their users. Around that time, with the support of the Chinese government, we at the Global Compact had a regional meeting in China where we had



Sir Mark meets China's Premier Wen Jiabao.

Amnesty International present as well. People in the IT industry realized the very difficult challenges they were facing associated with the internet, issues of openness, and Chinese attitude toward control, surveillance, availability of information, etc. It is a minefield, but those companies realized that by working through a multi-stakeholder organization like the Global Compact, which had supportive consultations from civil society, some of these problems did not get any easier, but they did get a little clearer. That is one selling point.

The second selling point is that if you run operations around the world, which Wal-Mart does to an extent, there are local networks where you bring together national companies, many of which are highly responsible. In Sudan, for example, there are highly reasonable Sudanese companies. I once told a Sudanese company I would be proud to work for them and they got very excited. It had very high standards. By being a signatory to the UN Global Compact, a company has

the opportunity to learn how international companies have adapted and become culturally more sensitive to certain universal norms. Even though we have universal values, the application and the expression of those values are different in various countries. The Global Compact can help companies navigate these differences and that is another big selling point.

QUESTION: *How does an ethically responsible company, in a difficult environment, remain competitive against their peers who are not ethically responsible where one could argue that being ethically responsible could hinder the company's ability to be competitive?*

SIR MARK MOODY-STUART: This is an argument that most often comes up in relation to corruption. For example, people say that if their company doesn't pay a bribe, then they won't get the business. In the short term, that may be true. I've always said even in the most corrupt environment, there is a market niche for the uncorrupt. Shell did not make corrupt payments to the Nigerian government. A corrupt government likes to have a clean contract to show the auditors. Yet, it goes beyond that. Even the people who are paying bribes do not really want to pay them because it is a distortion of the market, which they may be able to play to their advantage. However, people change jobs, there are investigations, and eventually, it will catch up with them.

It is possible then to have a collective approach. Transparency International has done some great work in getting groups of companies in a sector to work together, such as in the construction industry, for example. They agreed on clean bidding processes where they all agreed not to bribe people. I have had the luxury of working with major companies that would not pay bribes, and given patience, we found that we would get there. Patience, however, may cost money.

In my book *Responsible Leadership: Lessons from the Front Line of Sustainability and Ethics*, I give the example pertaining to Shell when our goods were being held up at the port. I did not understand why the head of the port authority was holding up the goods. It was not doing him any good. We could have paid him a duty, which is what he wanted, but we had an agreement with the government to get the duty back, so it would not cost us anything. Eventually, I realized that what was motivating him. He was the biggest duty collector in Nigeria and even got a gold medal from the minister of finance. This provided him with the cover that gave him a free hand to extract bribes out of everyone else because when he was investigated he could say "Who me? I collect more than anyone else does. Go look somewhere else." So, I believe collective action is important, but it takes a bit of patience. Sooner or later, corruption is going to catch up with you.

I keep a list of people who I think should be in jail and a slightly shorter list of people who have gone to jail. In Nigeria, some of our competitors used to pay bribes to get work permits, and some of my troops came to me and asked why I sit here and put up with all this hassle rather than just giving them the money. I said because eventually the costs of paying bribes will go up and then even those who pay them will find that the price is too high. Then, they will be in the same situation as us where they do not get the permit because they do not want to pay more. We are then in a better situation because we can complain about it, but those guys can't.

QUESTION: *Let me use the example of South Africa in the 70's when apartheid was raging. Mandela was still in jail, and there was a great outcry particularly in the U.S. about doing business with a country that practiced apartheid. There was raging debate and some corporations felt the only way to live up to their values was to leave, while others said the only way to make a difference*

and get rid of apartheid was to stay. Do you think businesses should stay in difficult countries and try to make them better or is there a point where they cannot do business in that country anymore and need to leave? How does Business for Peace handle the kind of dilemma that we saw in South Africa and in other countries today?

SIR MARK MOODY-STUART: Most of us live in countries where we do not necessarily support everything the government does. Here is the question: is what the government doing putting you in a position where you cannot maintain your own personal values? The closest I have come to that in my own career is in relation to something akin to the situation in South Africa, but it was in a Southeast Asian country. Most governments run programs that benefit their nationals. The problem in this case was that there were long-term residents who did not have citizenship and the government pressed companies to discriminate against these individuals in terms of promotions. It kept me up at night because I knew there were people who deserved promotions, and yet the government was pressuring us, to help the indigenous part of the country by discriminating against another group.

The work of John Ruggie has contributed enormously to this in relation to human rights. It is the government's responsibility to protect the human rights of their citizens. It is not the company's job to protect everyone; it is the company's job to respect human rights. If the government is carrying out human rights abuses not in relation to you, I do not think that is the responsibility of the company. It may be a problem for the company, but not a responsibility. On the other hand, it becomes problematic when it starts to impinge on you. For example, I have had experiences when a head of state came to me and said, "Fire the following people because they have been campaigning against me." In cases like this,

the answer is to say, "That is not reasonable," and then you go through a long argument. In that particular case, the outcome was for us to agree that we would not grant our employees additional holiday, which they had not earned, to simply campaign against him. He huffed and puffed a bit, but he was happy enough.

On something like corruption, I used to say to my people in operations, "If someone says to you that if you don't pay us this money we're going to kick you out of the country, do two things. Number one, say, 'No' firmly, and two, tell us (i.e., senior management) about it." We knew that if a major company says we are withdrawing from country X because they are making demands for corrupt payments, even the most corrupt countries don't like it. I had a case in Venezuela where the minister of environment's office threatened to make us pay \$35 million or they were going to cancel our mining permits. We resisted and tried to get the message back to President Hugo Chavez. I was confident that sooner or later, someone would tell President Chavez. The pressure eased for a while, but we don't have the mine now.

QUESTION: You had set out a vision for business that is very different from what business schools teach. In addition to the normal skills of accountancy, finance, and management, you have called for skills such as diplomacy, the ability to understand civil society organizations, and social sensitivity. I have two questions: First, even though you have set this talk in the context of so-called difficult countries, given the rise of resentment against globalization, isn't every country today a difficult country, and aren't these skills that are actually really important to businesses almost everywhere? Secondly, isn't this a big challenge for our business schools because these are not skills that are typically taught?

SIR MARK MOODY-STUART: I think it is a challenge for business people. As I grew up

through an organization, one of the challenges that I faced was talking to the press. Most of us had backgrounds in disciplines like geology and engineering, and we would read about the company in the newspaper. We didn't ever think we would be the one to speak to the press. Corporations now train people on how to interact with the press.

People often ask me, what is the most important thing that business schools could teach but are not doing. I say, teach people to listen and to listen to people who they think are wrong, who they may think are stupid, and who they think don't understand their business. All that may or may not be true, but you have to talk to them to understand why they think the way they do. You need to understand where they got their ideas, because they weren't born with them. They developed them because of some input. If you talk to them, you will begin to understand what it is in your behavior or your corporation's behavior that is giving them this impression, and then you may be able to do something about it. Therefore, I recommend reaching out to people from civil society organizations, even the ones that you may think are not responsible. I sometimes give an example of a woman who was a severe critic of Shell, Barbara Hayes. She came to visit, and I was talking to her about Shell's stakeholders. I drew the classic diagram with Shell in the center and its stakeholders around it. After looking at it, she said to me, "You got the diagram wrong. You should put society in the middle and Shell is just another stakeholder. You're one of the circles. You're not the center of the universe." I think that is absolutely true, and it has stuck with me ever since she said it.



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