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Globalization and Its Challenges for Business Ethics in the 21st Century

PATRICIA H. WERHANE, PHD

Wicklander Chair of
Business Ethics and
Managing Director of the
Institute for Business and
Professional Ethics at
DePaul University

BENTLEY
UNIVERSITY

Center for Business Ethics
175 Forest Street
Waltham, Massachusetts 02452 USA
Tel: 781.891.2981
Fax: 781.891.2988
Email: cbeinfo@bentley.edu
Web: www.bentley.edu/cbe

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THE CENTER FOR BUSINESS ETHICS at Bentley University 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 the application of expertise, research, education and 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.

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Executive Director
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Bentley University



W. Michael Hoffman, PhD

If one surveyed the history of business for the last half century, the changes have been nothing short of epochal. If there has been anything that constitutes a paradigm shift in the nature of business, it has been the rise of globalization. There have been global companies at least as far back as the British East India Company in the seventeenth century, but it wasn't until the latter part of the twentieth century that the phenomenon went mainstream. As a result, business, economics, politics, and the world of ideas have been affected in every corner of the globe.

What has given globalization its significance? Most informed people will tell you that through globalization, companies dramatically expanded their markets. That's true, just like it is true to say that the development of the automobile industry led to a boom in tire production. However, that misses the deeper social implications. As one of the leading business ethicists in the field, Dr. Werhane challenges many of the assumptions associated with globalization by engaging in fresh, deep, and provocative thinking. She doesn't merely question the profit maximization business model — she challenges the adequacy of the stakeholder model that has been a mainstay of business ethics thinking for decades.

From Dr. Werhane's perspective, to understand the significance of globalization, we need to see it as more than simply setting up branch offices and focus on the nature of the company in the social context. We also need to recognize and be ready to challenge the mental frameworks within which globalization can be molded in multitudinous ways.

And just as the purpose of business ethics has never been simply to point out ethical failings, but to also point to positive ethical opportunities, Dr. Werhane sees in globalization the possibility for companies to open doors to partnerships based on new business models that are both enduring and beneficial for all involved. This seems to echo what Bill Gates called "profitable partnerships" between companies and the communities with which they do business.

As this year's Verizon Professor in Business Ethics, Dr. Werhane has done us a great service by permitting us to gain new insights into a phenomenon that is so pervasive that we fail to see its ethical complexity and its potential for good or ill.

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Professor Werhane giving the Verizon Visiting Professorship Lecture in Business Ethics to students, faculty, staff and friends at Bentley University.

Wicklender Chair of Business Ethics,
Managing Director of the Institute
for Business and Professional Ethics
at DePaul University and
Professor Emeritus at the University of Virginia

Patricia H. Werhane



Patricia H. Werhane is the Wicklander Chair of Business Ethics, Managing Director of the Institute for Business and Professional Ethics at DePaul University and Professor Emeritus at the University of Virginia. She has been a Rockefeller Fellow at Dartmouth College and visiting professor at Cambridge University. Professor Werhane has published numerous articles and is the author or editor of more than twenty books, including *Adam Smith and His Legacy for Modern Capitalism*, *Moral Imagination and Management Decision-Making*, both published by Oxford University Press, and *Profitable Partnerships for Poverty Alleviation* with L. Hartman, D. Moberg and S. Kelley. She is the founder and former editor-in-chief of *Business Ethics Quarterly*, the *Journal of the Society for Business Ethics*, and she is an academic adviser to the Business Roundtable Institute for Corporate Ethics.

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WITH PROFESSOR WERHANE AT HER FEBRUARY 6, 2012 PRESENTATION: (from left) Paul McGovern, manager of affirmative action and equal opportunity employment at Verizon Communications; Patricia H. Werhane; W. Michael Hoffman, PhD, founding executive director of the Center for Business Ethics and Hieken Professor of Business and Professional Ethics at Bentley; and Robert E. McNulty, PhD, director of programs at the Center for Business Ethics at Bentley.

It is an honor and a pleasure to be back at Bentley University and to be the 2012 Verizon Professor of Business Ethics. Bentley University, under the leadership of Michael Hoffman and later with Robert Frederick, was one of the first universities to take business ethics seriously. Beginning in the 1970s they organized a series of conferences linking business leaders, academics, government and non-government organizations. Today that series, now the Bentley Global Business Ethics Symposium, has been reinvigorated under the leadership of Anthony Buono, and Bentley continues as a global leader in business ethics.

The global expansion of free enterprise has been in process for some time, and the challenges for global companies as well as for small and medium-sized enterprises are well known. Companies often operate in economically blighted communities and in corrupt environments without the rule of law. Western-based global corporations are also under increasing public pressure to take on responsibilities to these communities that

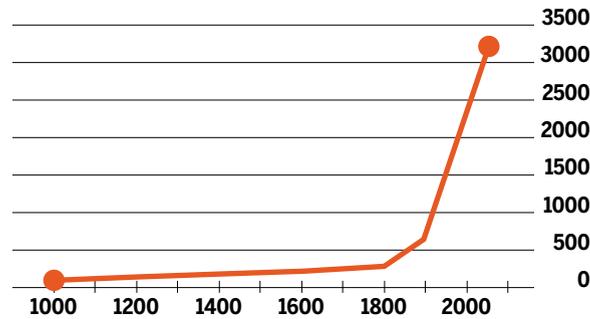
are often beyond their expertise or economic purview. For example, at the 2008 World Economic Forum in Davos, Switzerland, Bill Gates proposed the idea of “creative capitalism,” challenging business to “meet the needs of the poor in ways that generate profits...” (Gates, 2008). Today I will discuss globalization, global poverty, and the expansion of global capitalism. I shall argue that while there have been many successful global ventures, the Gates challenge requires academics, entrepreneurs and managerial leaders to rethink their mind-sets and expand their thinking about what we mean by globalization, poverty and the multiple dimensions of free enterprise.

Every person comes at a topic with his or her presuppositions, and these are important to understanding that point of view and the arguments justifying that position or positions. Let me begin with a few of my presuppositions that ground my thinking. First, “Our conceptual scheme(s) and forms of language mediate even our most basic perceptual experiences” (Railton, 1986, 172).

Figure 1.
Economic Growth
after Industrialization

Taking off

World GDP per person, 1000 = 100



Sources: Angus Maddison; J.P. Morgan

What this implies is that our minds are not merely blank tablets absorbing the data of whatever experiences we encounter. Rather, part of being educated, even as small children, is learning to sort out, order and frame our experiences. No one can simply absorb all of what is presented in experience — there is too much — so we learn socially constructed mental models or mind-sets with which we filter events, friendships, religion, cultural mores, family or tribal customs, education, and so on. We all do this; we cannot *not* do this; and indeed we could not function with any success if we did not engage in these processes. As a result, however, the resulting mind-sets are incomplete, thus we always learn from others, particularly in new cultural environments.

Sometimes these incomplete mind-sets create biases or blind spots that can get us into trouble. In the 1990s Motorola was one of the first American companies to venture into China, building several factories and engaging

in business with the Chinese. One of its factories was a semi-conductor factory. Motorola’s factory manager brought the mind-set of an absolutely clean, sterile plant for this operation. They hired very skilled workers and even had a cafeteria that catered to the Chinese palate. What they discovered soon after the opening, though, was that most of their employees bicycled to get to the plant, sometimes for more than two hours, and then changed their clothes. They then laundered the bicycle clothes at the plant. Despite the cafeteria, most brought their own woks and cooked in the hallways. And worse (or better, depending on one’s perspective), every afternoon most of the workers took 20-minute naps! All of this behavior would not have been tolerated in the American plant. But what Motorola also discovered was they had superior quality and productivity from this operation. So despite their American-trained mind-sets, they revamped their thinking and the laundry, cooking and naps persisted (Motorola, 1998).

Language too plays a role in framing our mind-sets. In the 1970s Chevrolet produced a very successful small car, the Nova. It was so successful that General Motors marketed it in Spain. But “no va” means “no go” in Spanish and for obvious reasons many were worried that Spanish car buyers could not separate out the qualities of the Nova from its linguistic implications, although in the end the good qualities of the auto won out (Erichsen, 2012). The example also demonstrates how “Elements of what we call ‘language’ or ‘mind’ penetrate so deeply into what we call ‘reality’ that the very project of representing ourselves as being mappers of something ‘language-independent’ is fatally compromised from the start” (Putnam, 1990, p. 28). That is, we frame thinking only linguistically; we cannot think without language. And that activity and the kinds of grammar we use (and this differs in different languages) frames what we call perception, experience and reality so that we cannot get at the data of our experiences, even in science, independent of these linguistic framing processes.

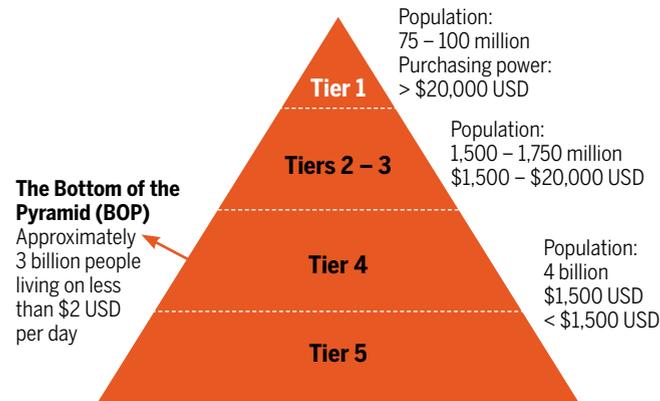
A second presupposition that is obvious is that “what distinguishes modern capitalism is not merely private ownership and trade. It is also the development of free markets for exchange, the capacity to organize labor efficiently for the production of goods and services [industrialization], the ability to accumulate private capital, and the formation and legitimacy of corporations to do these things” (Appleby, 2010, 25). Indeed, according to Deirdre McCloskey, until the industrial revolution there were centuries with little in the way of economic growth. Only with industrialization and the formation of free markets do we see this enormous spike in economic growth and with it the expansion of the middle class (Figure 1). This is good

news but, I will suggest later, there are other viable forms of free enterprise that might be more suitable in non-industrialized contexts.

Third, another obvious presupposition, as Tom Friedman succinctly argued in his famous book, *The World is Flat*, “globalization has slipped into warp drive” (Wright, 2005). For example, according to Friedman, the Dell computer I own consists of parts made in more than 20 countries, it is assembled in yet another country, and sold in the United States (Friedman, 2005, 2007, 580-583). The reference here is to the globalization of industrialized capitalism. The “so what” of this obvious statement, is that this form of globalization, industrialized capitalism, does not reach at least half of the countries of the world! So, as I shall argue later, one must take care with that concept and the mind-set it calls up.

Keeping these presuppositions in mind, let us turn to Gate’s challenge of “creative capitalism.” Gates argues, “The challenge here is to design a system where market incentives, including profits and recognition, partnering with governments and NGOs, drive those principles to do more for the poor. And reduce world poverty” (Gates, 2008). That is a twist on our capitalistic mind-set — it appeals to our philanthropic nature and to our spirit of innovation to see just how that challenge could be actualized. What Gates has in mind is for global companies to improve economies, particularly directing his remarks to those companies operating in developing countries, while at the same time engaging in profitable ventures. This sounds terrific, but let’s step back and see how difficult this idea is to realize, particularly in developing markets where the customs and culture are quite different.

Figure 2.
The Economic
Pyramid



Adapted from: C.K. Prahalad and Stewart L. Hall, 2002.
The Fortune of the Bottom of the Pyramid. Updated statistics, 2006.

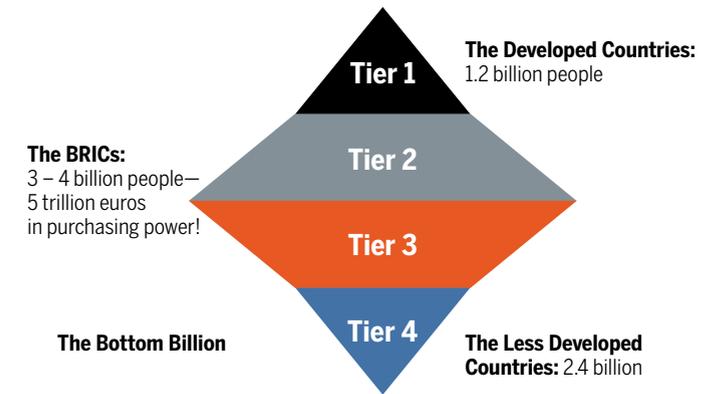
I would argue that there are at least six challenges to globalization in developing communities. This includes poverty, pandemics (disease), pollution (environmental challenges), population, Ponzi schemes (corruption), and peace (security), the six “P”s. I shall focus on only the first, poverty.

Endemic poverty exists in much of the world. While the numbers are fuzzy, at least 1.3 billion people live on incomes under \$1.25 per day. The vast majority live below the poverty line as defined in their community, while approximately only 1.2 billion live in economically developed countries. This wealth distribution has been described as an economic pyramid (Figure 2) about which much has been written (Prahalad and Hart, 2002, Prahalad, 2005). A better graphic is the World Bank’s “diamond” (Figure 3) that shows the current economic growth of what they call the BRIC countries, Brazil, Russia, India and China (and there are others — Indonesia, Malaysia, and of course Chile,

which is now considered a developed country). Tiers 2-4 represent more than 5 trillion euros of purchasing power and still make up approximately 70 percent of the world population. An overwhelming majority of the population lives in the so-called developing countries of Africa, Asia, Eastern Europe, and Latin America and the Caribbean. At the base of this graphic is the “bottom billion.” Paul Collier aptly names this population as inhabitants of counties where development has been and appears to be caught in an almost inescapable poverty trap due to rampant corruption, lack of natural resources, landlocked geography, bad neighbors, a plethora of natural disasters, political instability, and/or uncontrolled disease such as malaria or HIV (Collier, 2007, 3-16).

So how should multinational enterprises operate in such environments and try to meet Gates’ mandate? One option is, of course, philanthropy, and we in this country are very good at that. For example, according to the

Figure 3.
The Changing
Map of Poverty



The World Bank, “Population 2006,”
<http://web.worldbank.org/WBSITE/EXTERNAL/DATASTATISTICS/0,,contentMDK:20399244~menuPK:1504474~pagePK:64133150~piPK:64133175~theSitePK:239419,00.html>

latest data, since the Haiti earthquake two years ago the United States alone (in the public and private sectors and through foundations) has committed \$3.3 billion of the total of approximately \$8.4 billion pledged globally, for recovery and development, although only less than half has been spent due to extraordinary governmental red tape and corruption. There are more than 100,000 NGOs on the ground there, but more than 500,000 people still live in tent cities and progress is discouraging (Bello, 2012, 1). As William Easterly has reminded us, since the 1950s the developed world has spent more than \$13 trillion in aid to reducing poverty, often with some paltry results, particularly in Sub-Saharan Africa, Haiti, and in countries such as Bangladesh (Figure 4, page 10). So perhaps that approach is not the most propitious (Easterly, 2006, 11).

Let us look at another approach. Novartis, the third largest pharmaceutical in the world, has offices in more than 35 countries and

markets to dozens more, many in developing countries. They think about their operations, their corporate responsibilities, and their philanthropy in three sectors. They envision their essential responsibilities to “be successful in the core competencies of their company with integrity and comply with applicable laws and regulations.” They see their corporate responsibilities beyond this, as what they *ought* to do as corporate citizens in the global community. They sort out their philanthropic ventures as what is desirable, when they have fulfilled other obligations. The latter are always concentrated in healthcare initiatives, their core competency.

Novartis and other global companies who operate in difficult environments also see themselves as taking what I call “moral risks.” Moral risk is the likelihood of doing *moral* injury to oneself or to others where there is also the possibility of eliminating some moral evil and/or creating some positive outcomes. Moral risk involves

Figure 4.
Novartis: What are companies competing with integrity responsible for?



making choices when one is unsure whether the outcome will create more harm than good, or result in a more positive or more negative outcome. Moral risk also involves a choice which will likely be morally questionable or cause some harm. At the same time, not engaging is a missed opportunity to do something positive, alleviate some evil, provide needed jobs, create a new market, and more (Werhane, Velamuri, and Boyd, 2006, 246). For instance, companies who do business in and with China engage in moral risk. They are not sure whether they are conspiring with a government that seems consistently to violate human rights, or whether they are creating a model for free markets and sustainable business enterprises, models that are often copied by Chinese enterprises (Werhane, 2004, 110-113).

But, some of you will respond, there are now ways to measure moral risk that ameliorate corporate thinking and set guidelines for global operations. Since the 1990s various nongovernment organizations such as the

Caux roundtable, the United Nations, Transparency International, the Organization for Economic Cooperative Development and others have formulated various international voluntary codes of ethics to which companies can adhere. Each of these codes advocates protecting human rights, avoiding child or compulsory labor, safeguarding the environment, and avoiding bribery and corruption. The Global Reporting Initiative even has benchmarks by which companies can grade themselves on their performance, measuring their contributions with a “triple bottom-line matrix,” quantifying their outcomes socially and environmentally as well as economically. And this is wonderful, but how does it work in practice?

In the late 1990s a huge oil field was discovered in Chad, a very poor landlocked country in central Africa. Environmentalists were worried about the extraction and placement of the pipeline, so the World Bank conducted a study resulting in a 2,000-page report as to how oil could be extracted in the least harm-

ful manner. Partnering with the World Bank and two other oil companies, ExxonMobil began drilling for oil in 2000. To get the oil out of landlocked Chad they had to build a pipeline through Cameroon to the west coast of Africa. The pipeline was to go through Pygmy and Bantu territories, tribes that had been there forever, pretty much living the way they had for centuries. So ExxonMobil and the World Bank created alliances with a number of nongovernment organizations to protect the rights of these indigenous people. They brought in social workers to deal with land transfers for the pipeline, and promised jobs to the local populations.

By 2010 ExxonMobil and its contractors had employed approximately 6,500 Chad and Cameroon nationals, about 85 percent of the total workforce. Nearly half of the Chadians and Cameroonians working for the project hold skilled or supervisory positions. The project’s purchases of goods and services from local suppliers totaled more than \$231 million for the last 12 months, and total local business spending since the project began has exceeded approaching \$2.4 billion. Healthcare clinics are provided for all employees. Extensive workplace malaria prevention programs have helped to maintain the project’s low rate of infection, and the StopAIDS program, begun by the ExxonMobil Foundation, provides prevention education for all workers. The Initiative for Economic Empowerment of Women Entrepreneurs (a microlending initiative) has so far helped 83 cooperatives representing more than 1,600 women members, funded by a grant of \$1.7 million from the ExxonMobil Foundation.

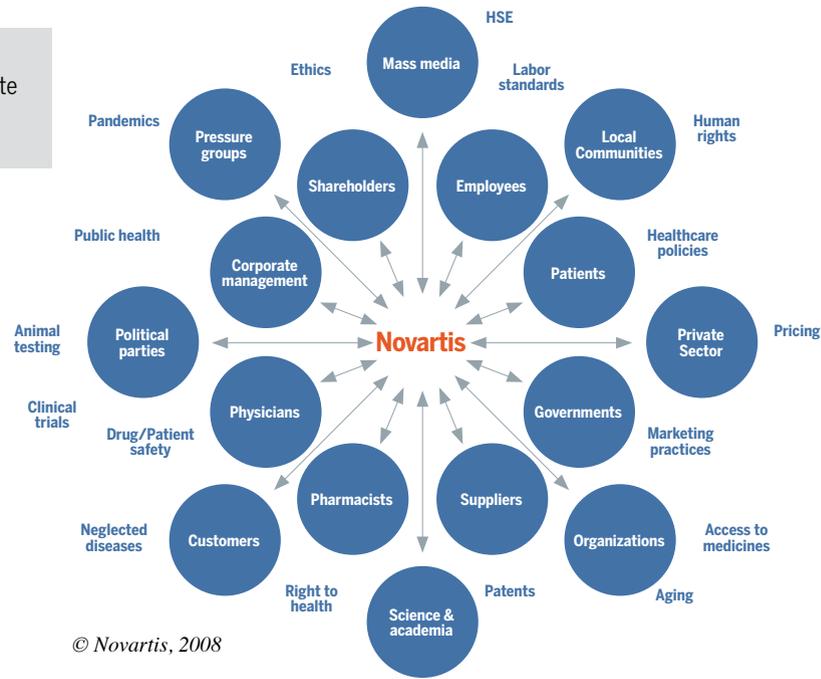
At the beginning of the project Chad signed an agreement with the World Bank that its revenues from this project would go to improving its infrastructure, education and

health care. To date Chad’s total revenue from royalties from the project has reached \$6.3 billion (www.exxonmobil.com/Corporate/files/news_pub_poc_chad.pdf; mead, et. al., 2002; 2008).

That is the good news. The bad news, and thus the moral risk, is at least twofold. Dealing with the indigenous tribes in Cameroon, despite what seem to be good intentions, has not been perfect, simply because the mind-sets of these tribes are entirely different from their Western counterparts. While their land has been purchased at what would appear to be a fair market value, most of these tribes have seldom dealt with currency and often do not realize what they have sold nor what the implications are, for example, pipelines and roads, strangers in their territories, some of which are sacred grounds. Worse, Chad has been and is still run by a ruthless dictator, Idriss Déby, who has taken most of the oil royalties and invested in a stronger army to protect his borders and attack his neighbors. The World Bank has pulled out of this venture, citing the hopelessness of dealing with Deby, but ExxonMobil is still there.

One of the ways ExxonMobil evaluates its operations is by appealing to international codes for global operations to which ExxonMobil tries to comply in its Chad-Cameroon operations. Still, that is an extraordinarily morally risky set of operations because of the endemic corruption in Chad, and to a lesser extent in Cameroon, the cultural disconnects between the U.S.-based company and the local Pygmy and Bantu tribal customs, as well as the environmental difficulties inherent in building and maintaining an oil pipeline in a difficult terrain. Still, the ExxonMobil project sets forth a model for future exploration that is much more comprehensive than previous

Figure 5. Companies operate in a challenging environment



© Novartis, 2008

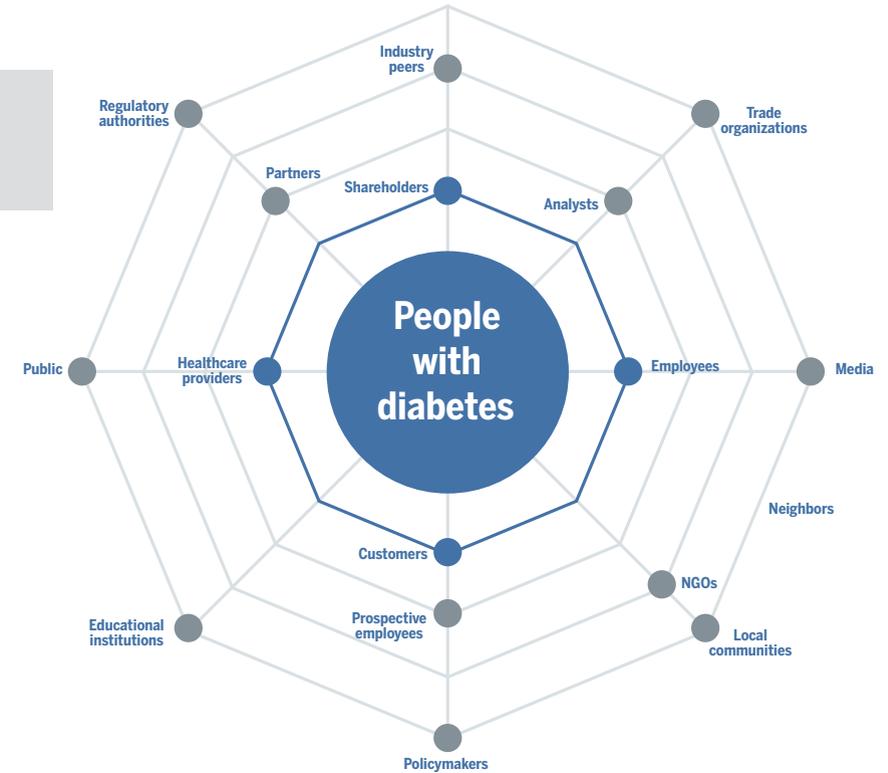
models. It illustrates both the positive and negative aspects of global operations in developing, poverty-ridden and corrupt contexts, and its attempt to adopt some of the measures Gates suggests are part of a creative capitalism approach.

None of this is new or very controversial. But now I want to challenge my own analyses of globalization, global poverty, and creative capitalism. So far I have made a series of generalizations about the spread of industrial capitalism backed by the voluntary codes that might govern or judge multinational enterprise behavior, some grandiose statistics about the poor and poverty, and identification of free enterprise with industrialized capitalism. However, the mind-sets created by these generalizations are flawed, flawed because they assume that “one size fits all”; that globalization can be identified with industrial capitalism; that vague codes of conduct can be applied in all contexts or at

the very least, to all exemplars of industrialized capitalism; that what it means to be poor can be generalized universally; and that capitalism is a limited term referring only to industrialization. I shall argue that these are flawed assumptions.

But first, let me raise some questions about another mind-set. The idea that companies have primary responsibilities to shareholders is an old myth that is pretty much out of date, both in corporate thinking and in the theoretical approaches to business ethics. Both have now invested thinking into stakeholder theory — the idea that companies have responsibilities to their primary stakeholders such as employees, customers, suppliers and communities as well as shareholders. So many companies depict their responsibilities in terms of complex graphics such as Novartis’s (Figure 5). That depiction is very much worthwhile in expanding one’s thinking beyond a focus on financial returns.

Figure 6. Stockholders at Novo Nordisk

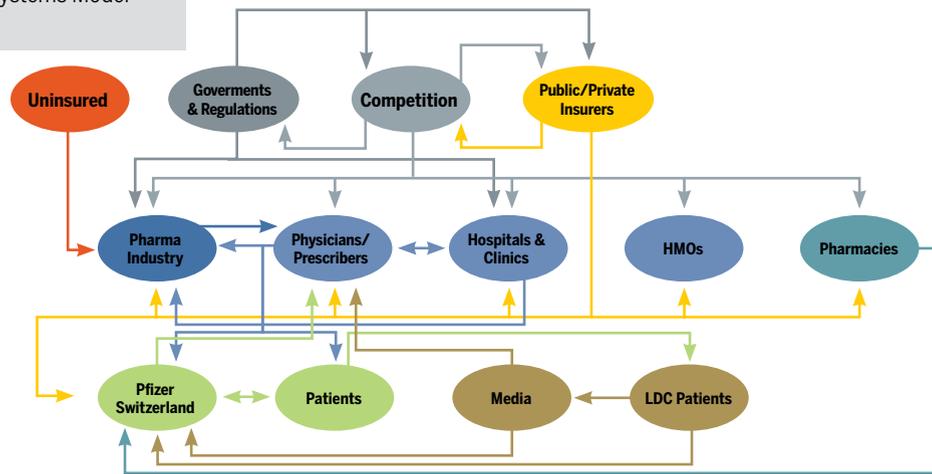


Yet there are some companies that challenge that mind-set because a firm-centric mental model can be problematic in focusing attention on the mission of the company. For example, Novo Nordisk, whose most successful drug is for diabetes, places “people with diabetes” at the center of their stakeholder mode, rather than the firm, to remind their employees and customers that this is what this company is about — ameliorating disease (Figure 6). The firm-centric model also may sometimes focus too much attention on the firm, which may be worrisome in operating across cultures. The rash assumption is that what works in one context will work everywhere, as the Chevy Nova example illustrates, or that the firm, which has expertise, can operate in every country as it does successfully in Western markets. This is a fallacy that a firm-centric focus can perpetuate. So companies like Pfizer Switzerland have refocused their attention to their stakeholders, emphasizing that Pfizer is

only one of many equal players in the global environment where they manufacture and market their drugs (Figure 7, page 14). This rethinking changes our focus, and it is important to achieve Gates’s mandate for creative capitalism, because it helps concentrate attention to the various differing contexts in which firm are operating, many of which are steeped in problems, the six “P”s, that are not present in developed communities (Werhane, 2007, 463-474; Werhane, 2010, 111-129).

Moving on to consider other generalizations about which I suggested need reformulating: If our definition of the term “globalization” is primarily preoccupied with the spread of industrialized capitalism, this leaves out many developing countries where industrialization is, at best, in embryonic stages. Yet, free enterprise is alive and well in many pre-industrialized nations. Let us consider some examples.

Figure 7.
A Systems Model



From Sybille Sachs, University of Switzerland

The most famous is of course the Grameen Bank of Bangladesh, a for-profit bank founded in the 1970s by Mohammed Yunus, recently awarded the Nobel Prize (for peace, not economics!). Bangladesh is one of the “bottom billion,” according to Paul Collier because it is overpopulated (it is the size of Iowa and has about 150 million inhabitants), at least a quarter of the country floods every year, and its government is well-known as one of the most corrupt in the world. Since its inception, the Grameen Bank has brought more than 6 million families, most of whom live in small villages, out of abject poverty primarily through lending small amounts of money to impoverished, property-less women. The rate of default is under 2 percent. Additionally, Grameen Industries has created many cottage industries, for example, animal husbandry, commercial fishing, weaving, silk factories and other ventures that go beyond micro-lending to create more jobs. And (since this is the Verizon lecture) through Grameen

Telecom (the largest communication network in Bangladesh) Yunus has empowered village women by lending them money to purchase cell phones. By the end of 2007, there were more than 295,000 village phone women who had together taken loans amounting to Tk. 2,563 million (about \$320 million dollars), and each of whose income is approximately \$400 to \$500 a month! In addition, the Bank has removed more than 75,000 people from the beggar rolls by encouraging them to sell small items rather than to merely beg for money (www. Grameen-info.org, 2011). Notice too these enterprises are often “under the radar screen” of governmental corruption. So for example, in Bangladesh, often ranked as one of the most corrupt governments by Transparency International, until Mohammad Yunus was considered for the country’s presidency, the Grameen Bank operated with little in the way of governmental intervention for more than 30 years.

Thus, we should remind ourselves that capitalism means free enterprise where micro-businesses as well as small and medium enterprises function and can function well in places where other forms of industrialization are impossible. About his enterprises, Yunus says, “The world has always visualized capitalism by saying that the driving force is greed. But Grameen is a capitalist institution. We are gung-ho about maximizing profits. Now you cannot say that greed is moving this bank, so your theory will have a shock coming” (Bornstein, 1996; 2005, 242).

In the past two years micro-lending has come under intense scrutiny. It is often argued that while microloans get people out of abject poverty, they do not solve the long-term aspirations of economic development. Only industrialization can do that. And, it is further argued, with the massive outsourcing from the rich industrialized nations to less developed countries, jobs are created and economic growth begins to develop. I would agree with two provisos. First, it is not clear that small and medium sized enterprises cannot be the economic engines for growth. Secondly, while industrialization *can* create economic growth, one must take care. If, in moving into new markets living-wage jobs are created, then indeed, with money in hand from decent wages demand will increase and wealth will be created. That is Adam Smith 101. However, on the other hand, if, as is often the case, jobs are merely sweatshop jobs, under abhorrent conditions and paying under-minimum wages for that community, then goods are merely exported elsewhere and value is stagnant in that community.

There is another example of overgeneralization, that of grouping the approximately 1.3 billion people who live on less than \$1.25 a day as one homogeneous group.

Obviously, that is not true. Each poor person is a unique individual and each community has a distinct history, political structure, religion or religions, social customs, civil society, openness to outside influences, and level of economic development (Davidson, 2011). For example, there are approximately 1 million sweatshop workers in the garment industry in Bangladesh (National Labor Committee, 2004). But that is too many people to think about. So let us take one: 14-year-old Rizwana, who is employed to press metal buttons on jeans. With a machine, she is to attach one button every seven seconds. If she slows up, she will be moved to another task in the factory. And when she becomes even slower she will be fired. She works approximately 12 to 16 hours every day and has two days off each month. She is paid minimum wage by Bangladeshi standards, \$40 per month, but often she is not paid fully for her overtime hours (National Labor Committee, 2004). That story, about one particular person, brings home the tragedy of sweatshops that the statistics of 1 million cannot.

Let me relate another example: Most of us from a Western, educated background cannot imagine that young teenagers, except in extraordinary circumstances, can possibly handle money, and most American parents would not think to give financial responsibilities to their 14-year-olds. Yet this is not universally a viable model. Delhi, India attracts thousands of young boys from small villages, most of them half-literate, who come to Delhi to find jobs and excitement. These homeless young people find part-time work for a few rupees on the streets. The Children’s Development Bank (CDB), an Indian NGO, has organized shelters for many of these boys. More importantly, it runs one-day workshops on money manage-

ment, and in each shelter there is a bank kiosk managed by one of these boys, where the others in the shelter can deposit or withdraw their earnings and keep track of them with bank books. The collected money is then transferred to the offices of the CDB by the bank manager, who is often as young as 14. The manager has to balance the books and make sure he has an accurate count of everyone else's money. At age 18 the boys, now young men, are given all their savings and encouraged to deposit them in a regular bank (Sinha, 2008).

The point of these examples is to suggest that context is crucial in working across cultures, and even within our own, and to remind ourselves that generalizations are limited, and that they represent individual human beings who must be respected as that. Using concrete examples gives these unknown people faces and places (McVea and Freeman, 2005; Calton, et. al., 2011).

And that is the problem with the various international codes for organizational behavior. They are collections of vague generalizations or moral imperatives that, while correct in their ideals (one cannot morally defend violations of basic human rights, compulsory labor, corruption, or environmental degradation), how these play out “on the ground” in specific situations is both challenging and context-driven. For example, while child labor is abhorrent to all of us in America, in some communities children over 14 have to work to support their families. So companies like Nike have interpreted the anti-child labor moral imperative to mean children under 14 in some communities such as Vietnam, where children routinely work in the rice fields alongside their parents. Nike also provides part-time compulsory education

through many of their franchised factories (Hartman, Arnold and Wokutch, 2003, 145-189).

So if we are going to take up Gates's challenge to “meet the needs of the poor in ways that generate profits ...” I would conclude that we need to put some moral weight behind that challenge with a number of provisos. First, context: Examine the distinct history, political structure, religion or religions, social customs, civil society, openness to outside influences, and level of economic development in whatever community one is operating, either as a large global enterprise, as an NGO, or as an entrepreneur. That is, try to operate within local mind-sets. Secondly, give each person a face and a context. Third, be wary of philanthropy. If something is free, it is not always valued as much as something one has to work for or pay for, even if it is below market price. And Gates's mandate is to create markets in communities, not exploit and export. Adam Smith noted, more than 200 years ago, that if one pays a decent wage, workers will not only be better off, but they will buy things, thus creating markets. It is very simple economics, but sometimes that gets forgotten. Of course, free enterprise can be very simple micro-lending, cottage industries, and small entrepreneurial operations. All of this takes moral imagination — the ability to challenge operating mind-sets, to think “out of the box,” so to speak, and create possibilities that are context-driven, practical, and value creating.

Let me relate one example of a very large corporation that works with these provisos in mind: Unilever, the \$100 billion Dutch-British multinational. One of Unilever's largest operations is Hindustan Unilever,

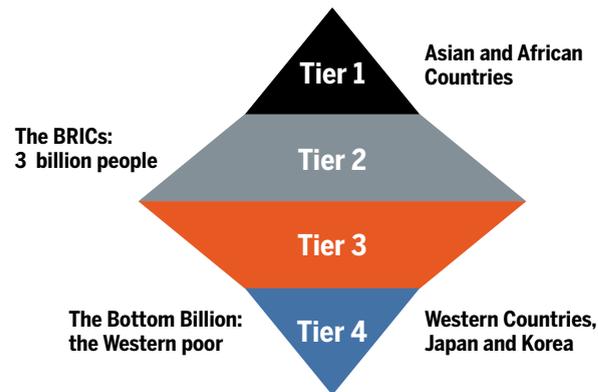
its Indian subsidiary. Hindustan Unilever has been operating in India for several decades, initially as the maker of soap and shampoo products for middle-class Indians. But it noticed that an Indian company was marketing products successfully to the very poor. So it reorganized its thinking, began making cheaper but functional soaps, and packaged them in small packets, affordable to most of the very poor. Then, when the products were not selling well despite their huge marketing campaign, they began selling through local sales people who went door to door with the products. Today they are in 100,000 villages and hire 45,000 sales people, mostly women. Through these salespeople they have developed a hygiene and safe water awareness program, they market packets to destroy bacteria in water, and in their own factories they have reduced greenhouse gasses and water usage by about 30 percent. They also are profitable, with an ROI of about 2 percent — not a great deal, but still a profit (Ahmad, et. al., 2004; Hindustan Lever 2012).

Now we need to ask the difficult question, “So what?” Hindustan Unilever is just one of a few large global enterprises engaged in poverty-alleviating initiatives through their products and services. For many large companies this sort of enterprise is too difficult. They do not know how to deal with corruption, nor are all companies equipped to use their core competencies in these communities. Most of these countries are very corrupt, with little in the way of rule of law. Philanthropy is easier. And for those teaching, why should I teach this in my classroom? Lots of our students are going to Wall Street or to big companies who don't engage in this or only engage where there are good returns. Why rethink stakeholder theory? It works just fine.

So let me end with an economic argument for the “whys.” I have argued that sometimes our definition of globalization has a blind spot, since it usually refers only to industrialization of free enterprise. There is another blind spot, at least in an assumption implicit in this presentation. Examining one's operative mind-sets, or what is called “retrospective sense-making” (Weick, et. al. 2005, 409-421) can consist of reevaluating operationalized mind-sets as a learning experience to consider and initiate new thinking, or it can be a rationalization for continuing to operate under the same mental models. What is implicit in most of our thinking is that industrialized economic policies, corporate procedures, and Western-framed free enterprise are the best, or minimally, the least worst, economic models for every country on the globe. That has become the dominant script in the West for some time, and is perpetuated at the Davos global forum, the G-8 meetings, and elsewhere. This is not altogether bad because until recently industrialized free enterprise has been a successful economic model in many parts of the world.

But, Javier Santiso, formerly a researcher at the Organization for Economic Co-Operation and Development (OECD), has suggested another futuristic, data-driven, and not improbable mind-set, a mental model that is a result of the current global economic crisis. Santiso suggests that the 2008-2010 global economic and financial crises illustrate the questionable nature of recommendations given by the developed countries to the so-called developing countries. While we in the developed countries have prescribed lowering debt, financial stimuli, and eliminating unemployment, in 2010 most of the developed countries experienced massive debt, large unemployment and economic stagnation.

Figure 8.
2050: A new
global perspective?



In 2010 the BRIC countries (Brazil, Russia, India and China) accounted for one-third of consumer demand worldwide. And Chile surpassed all the other “developed” countries in the lowest debt, least unemployment, and greatest economic growth. Santiso cites massive trade between the BRIC countries and between these countries and less-developed communities that is not dependent on the developed nations at all. Thus, Santiso concludes, the dependence on the so-called developed nations for advice, expertise, and trade is decreasing rapidly (Santiso, 2010a, 2010b). Yet many industrialized countries still imagine that their advice (“do what we say, not what we do”) should be taken seriously. Firm-centric thinking reinforces this perspective, even though the economic conditions that supported their positive mind-sets about Western versions of capitalism and the egocentricism of companies in developed countries are in question.

Although his data are virtually ignored by developed nations such as the United States and by most multinational global corporations, Santiso suggests that this data brings into question traditional Western economic sense-making. To acknowledge this data would require developed nations such as the United States and global companies to change their belief that their forms of free enterprise will work successfully everywhere, in every economic circumstance, and acknowledge that developing countries and their small enterprises could succeed without interventions. But that would require rethinking and proactively regenerating our models about development, dependency, and our place in the global economy (Santiso 2010 and 2010b). Such reinvention would take innovative, proactive sense-making that may revise a traditional Western economic mind-set that imagines that the so-called developed nations and large multinational corporations have the answers to development. It might even entail turning upside down the poverty distribution map (Figure 8).

In conclusion, I suggest that our agenda in the next 20 years is to change our mind-sets concerning globalization, capitalism, and what we have traditionally outlined as developed versus developing nations. In other words we must all, practitioners, students and professors, examine our own mind-sets, reengage our thinking to reformulate them for the future, and come up with solutions for the future of our enterprises and our communities in what may be a new age and changing economic realities. This will hopefully entail an evolving income distribution map that will not place us at the bottom of the diamond. I am not sure how to do that exactly — that is an agenda for another presentation.

For those of you who are students and are wondering how all of this involves you and your future, I will end with another story, a true one, about some MBA students from the University of Virginia and how they thought through these challenges in practice.

Husk Power Systems was started by two MBA students, Chip Ransler (an American) and Manoy Sinha, partnering with two engineers, Ratnesh Yadav and Gyanesh Pandey, who invented what they call the gasifier. Three of the four students came from small villages in the state of Bihar in eastern India, two from a village that had no electricity. That village and others in the surrounding area grow rice. The husks from the rice are virtually inedible and thought to be useless. So the engineering students, Ratnesh Yadav and Gyanesh Pandey, developed what they called a “gasifier,” a structure that produces electricity by using rice husks as fuel, and is less polluting and cheaper than kerosene, the traditional fuel used in these communities. Ransler and Sinha raised money to start

the venture. Beginning in their home village, the men experimented with the gasifier and discovered that it was cheap to run, and that one plant could serve two villages in the region. By starting with a single village and a problem familiar to these men — the lack of electricity — these social entrepreneurs gave faces and context to this issue and thus they were able to convince investors of the importance and viability of this project. Today, Husk Power is a public-private partnership supported by foundations and profits from its 60 plants. It serves more than 250 villages in Bihar. It sells the electricity to villagers at a price below the cost of kerosene and has hired 300 local people to manage the plants. Its aim is to provide electricity sustainably to all the villages in Bihar who have never had power. Their goal is to install 2,000 plants and serve 6,500 villages by 2014. Through its mother organization and CSR arm, Samta Samriddhi Foundation, HPS supports and bears the cost of education of more than 250 village children (Husk Power Systems, 2011).

Will Husk Power electrify all of the thousands of village in India without power? Certainly not. Will Chip, Manoy, Ratnesh and Gyanesh become very rich? No. But they will profit from this venture and they exemplify the enormous opportunities for entrepreneurial ventures such as these, each of which one can contribute as a form of creative capitalism that is in every sense worthwhile.

Questions & Answers

Below are the highlights of Patricia Werhane's question-and-answer session with Bentley students, faculty, and guests.

QUESTION: You mentioned that there was a micro-lending program in which the loans were only being given to women. Why is that the case?

DR. WERHANE: The company to which I was referring is Grameen Bank, in Bangladesh. Its founder is Muhammad Yunus. He started out giving loans to men and women. Most of these people lived in villages and were married. But the women turned out to be more reliable because of their commitment to their children. They lost a lot of money lending to men because they would spend their money on things like beer and new clothes. When you get this kind of loan, you are not supposed to buy anything for yourself. You are supposed to invest it in something and when that makes money, then you can invest in yourself. And it turns out to be true that wherever there is micro-lending, be it in Africa, South America, or the United States, lending to women is more propitious than lending to men.

The other thing Yunus does is to get the women to form groups to lend to. The borrowers better pay back because they are in the same village and it is not good when you don't pay back. There is a lot of peer pressure here.

A third element of micro-lending is that the loans have to be micro-managed. Every two weeks, he has 45,000 bank managers who go into every village to check. [They ask questions, such as] is your goat producing milk? How is your little plot? Are your vegetables growing? How's your soil this year? Are you selling your produce? Is your phone working? How many calls have you made? Everybody has to report in and everybody has to pay back some of their loan. You'll see groups of 20 to 30 women, sitting on their haunches. They all have their money; they count it, and they all turn it in. And then they have to sign their name, which means that they have to learn to sign their name even though many of these people are illiterate. They also have to save a little bit of their loan, which goes into their saving account. In this way, they become shareholders in the Grameen Bank. It is very fascinating to watch and it is very successful.

In the United States, Yunus's approach is quite different, and the size of the loans is much bigger, but they still lend mostly to women.

QUESTION: This is not so much of a question, but a comment to add to what you are saying. There are a lot of data from international studies that suggest that by lending to women, child mortality in the village drops, but this doesn't happen when you lend to men. So lending to women is also extremely important for health reasons within the villages.

DR. WERHANE: Birth rates usually go down as women become educated and the children are better educated. Dr. Yunus also funds many of these children; he called them "Grameen Children." If they go to high school, after graduation, Grameen helps to pay their way to university.

QUESTION: What do you see as a role of government in facilitating creative capitalism?

DR. WERHANE: I am a little worried about that. Although the World Bank and the IMF are doing micro-lending, which is interesting, I think it would be better for the government to stay out. There's a lot of micro-lending in Haiti. It is under the radar screen because the government doesn't go into the villages and want the payoffs. It is very effective and in this case, I think less is more.

QUESTION: Could you speak a little on why the C-suite and the boards of American companies are still obsessed with the short-term view? How would you anticipate that that kind of ingrained focused mind-set on the short term can change?

DR. WERHANE: The short answer is, I don't know. But the longer answer is I am on this soapbox and every once in a while I see a company saying "ah-ha!" In particular, some global companies are trying to think out of their boxes in some other way, so you see some "ah-has!" We perpetuate this model by what we teach in business schools. I have done it, I did it for 20 years until I had an "ah-ha" a couple years ago. And I thought, "No, I am not going to teach this anymore." For example, [what was described earlier in this lecture] is how we teach stakeholder theory. We, as academics, had perpetuated this model since it came out in 1984. I think we are doing damage. I think we have to think differently, particularly if we are going into the global market, and I would argue if companies do not go into the global market, in 30 years, the companies are going to be gone because they are not going to have enough market share. If you don't create new market, and give people money to buy stuff you are just perpetuating [what exists]. But there are only so many T-shirts we [in the U.S.] can buy, right?

QUESTION: I've read about micro-lending in India and Brazil. I was wondering what have been the effects on the micro lending following the 2008 global financial crisis in terms of default rates and things like that.

DR. WERHANE: It didn't really have much effect. Frankly, the amount of money in micro-lending is not very much. So there's still money around for micro-lending. The default rate didn't change much. One year Bangladesh had a terrible flood. It flooded a third of the country. That affected the rate; it was down to 96 percent return that year. If there is a terrible natural disaster, that often would affect it. But the [financial] downturn affected those of us in the industrialized countries much more than those in the developing world because those people are already poor. Where micro-lending has failed is where banks imagine they are going to make a lot of money and they simply lend the money and don't check up on it. So they don't make sure you have gotten a goat instead of a beer or invested in something that will make money for you. If I just give you money, and you go buy a new dress then the loan will fail. So when you hear about micro-lending failing it is because they didn't follow the model.

QUESTION: We are taught that in a corporation the officers have a strong responsibility to do what is in the very best interest of the shareholders of the company. Where would you draw the line where our ethical responsibilities take precedent over our responsibility to the shareholders?

DR. WERHANE: Well, let's just be cold blooded; let's just say my only responsibility is to my shareholders. But my responsibility is a long-term responsibility. If I think of my responsibility as only short term, my company is not going to survive. I have to think about think long term. Think about Verizon. Verizon thought long-term and got into the cell phone business. If they hadn't got into the cell phone business, they would still be in the landline business only, and you know what is happening to the landline business. It is going away. Some of you don't even have a landline. Some people don't even know what a landline is. So, if you are thinking long term, you need to develop markets. You've got to have new customers all the time. And to have new customers, you've got to move into other markets. Is there anyone in here who doesn't have a cell phone? No, everyone here has a cell phone. Pretty soon, virtually everyone in the country is going to have a cell phone. So how do we move more cell phones out? We've got to move into other markets where people don't have cell phones.

I am just picking on cell phones, but you have got to do this in other areas as well if you are going to grow. You have to act in this way to have long-term return for your shareholders. I think it is the right thing to do because you are giving people jobs, independence and money. You have to operate in ways that are not necessarily the same as back in your home country, like cell phones. Cell phones are sold in a much lower price all over Africa, for example, where there are no landlines. Think of the market, it's huge. It's fantastic! So, even if you are just cold-bloodedly in it for the money, you have to do this. If you don't, you are going to be toast just like Verizon would have been toast if they stuck to landlines. It's like the time of horse and buggies — that's really the old days. And yet, someone in my little town used to make buggy whips. Well, guess what? Now they are toast. One hundred years ago they were already gone. So you have to pay attention to these ideas. It's critical.

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