Visions and Nightmares

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Opening Dinner, Copthorne Tara Hotel

After a warm welcome from **Win Wallin**, Chairman of the Caux Round Table and Chairman Emeritus of Medtronic, Inc., there was a moment of silence in memory of **Ryuzaburo Kaku.** Mr. Toshiaki Ogasawara reminded the group of the founding role played by Mr. Ryuzaburo Kaku, who died two months ago. He then shared a video memorial of Mr. Kaku's life, including special emphasis on his vision of *kyosei*, living and working together for the common good.

Monday Morning, September 10, 2001

Session I – A Vision for the Caux Round Table

Welcome from Rt. Hon. Michael Portillo, MP. The group was given a warm welcome by Mr. Portillo, who shared an amusing story about Sherlock Holmes and Dr. Watson on a camping trip. Holmes asked Watson in the middle of the night what he deduced from looking up in the sky. After an exhaustive astronomical analysis, Holmes rebuked Watson. "You blithering idiot, Watson! I deduce that our tent has been stolen!" Portillo reminded the group that emphasis during the last two decades on individual freedoms and property rights carried with it a corresponding need to exercise social responsibilities. In the corporate context, and in the wake of Seattle and Genoa protests against globalization and the WTO, the question we must all face is: Where does accountability lie for the broader needs of less advantaged people? We are living in a new era – a post-communist, market-based era -- that is in need of the values represented by the Caux Round Table.

Charles M. Denny, Former CEO of ADC Telecommunications, offered a brief history of the Caux Round Table, indicating that it originated in 1986 out of a desire to reduce trade tensions between Japan and the West, including Europe and North America. In the early 90s, the Caux Round Table became aware of the *Minnesota Principles*, a set of ethical guidelines developed by leaders of

global business enterprises who were members of the Minnesota Center for Corporate Responsibility. Mr. Kaku and others members of CRT saw in these principles the spirit of *kyosei*, and encouraged the Round Table to enrich, embrace, and share them as the Caux Principles for Business. Facilitated by Kenneth Goodpaster, the Caux Principles in their present form were drafted at the University of St. Thomas in Minneapolis with input from Japan, Europe, and the U.S. The CRT at its annual meeting in 1994 officially accepted them. Denny pointed out
that the Caux Principles were in many ways principles of servant leadership, "converting sinners by showing that saints have more fun!" (He also mentioned that Steve Young had done an essay illustrating the compatibility of the Caux Principles with the great world religions and ethical traditions.)

By the mid-to-late 90s, said Denny, it was clear that the CRT Principles represented a widely-known commitment to business responsibility – responsibility not only for (1) the creation of wealth, but also (2) the equitable distribution of wealth, and (3) the support of social sector organizations that are dedicated to the common good.

"Might we not hope," Denny asked, "that eventually the spirit of the Caux Principles could help ameliorate some of the violent protest against globalization witnessed in Seattle, Washington and Genoa, Italy?"

Denny then suggested that the Caux Principles were in need of *building* – further development – in two significant directions. One direction includes the work of Harry Halloran's working group on a Self-Assessment and Improvement Process (*SAIP*). A second direction includes the vision of Win Wallin as articulated in the opening paper of this Global Dialogue on world poverty.

Win Wallin. At this point, Win Wallin presented in an informal way the more formal position paper that had been shared with the group in advance. The paper is entitled "The Greatest Challenge for the World Business Community – Making it Possible for the Poor Nations to Share in Global Prosperity." Wallin read aloud the preamble of his paper:

> *If we are to have a world where all peoples have decent living conditions – where the critical global environment is protected – where all people can live in peace and harmony with the freedom to enjoy their lives – if we are to achieve this then we must face up to the issue that half of the world's population is living in poverty. We must find a way to change their predicament. Governments alone cannot solve this problem. Poor nations without resources cannot solve their problems. Only the private sector, where the money is, can with the collaboration of governments, effect the changes that are necessary to make this happen. Only the investment community that has almost all of the transferable wealth – 35 trillion dollars*

> *invested in the stock markets – has the means to significantly begin correcting this inequity. Only if the conditions can be created that will encourage investment of this money in poor nations – to create employment and generate trade -- can this greatest of all world problems be solved.*

"Has the time come for serious effort to bring poor nations out of poverty?" asked Wallin. "If so, what is the role of the business community – and specifically, what is the role of the Caux Round Table?" Foreign aid from developed nations is insufficient, both in terms of percentages (.1% to .5%) and in terms of absolute dollar amounts. "There is a moral imperative to take action," Wallin said, "and there is an imperative based on self-interest as well. The consequences of inaction are grim: overpopulation, environmental degradation, crime and violence, unwanted immigration, and disease."

What are the conditions necessary to encourage foreign direct private sector investment in poorer nations? "Jobs will not be created," Wallin noted, "without (1) political stability, (2) personal safety for expatriate employees, (3) controlled corruption, (4) the rule of law and contracts, (5) basic transportation and communications infrastructure, (6) improved education levels, and (7) improved financial systems. If the conditions are right, investment *will* occur – but business *cannot* do this alone."

Global developments offer some hope, including the spread of market economies after the fall of the Soviet Union, information and transportation technologies, and the acceleration of worldwide business and financial trade. But in the end, the will of private sector, public sector, and independent sector (NGO) institutions will need to prevail over the inertia of the status quo. It is in this context that we must ask whether and how the Caux Round Table can make a difference.

Discussion. Frank Straub commented on the sheer scale of the problem identified by Win Wallin and asked whether this was an impossible dream. Bernard Lietaer pointed out that one contributing factor to the poverty problem lay in currency instability, which has significantly eroded direct foreign investment since the Bretton Woods standard was dropped three decades ago. Alice Tepper Marlin suggested that (quantitatively speaking) job creation was not enough. The *quality* of the jobs is also critical.

George Cox was struck by the boldness of the idea: "Most people believe that senior business leaders who are concerned about globalization are concerned solely from the profit motive. We must try to get public support for this kind of initiative." Professor G. Edward Schuh agreed with Win Wallin that foreign aid from government sources was trivial in relation to the magnitude of the need he was identifying. Ed Spencer pointed out that the stakeholder perspective was a powerful one, adding that nevertheless, the ultimate drive will or will not come from shareholders, specifically institutional investors.

Michael Johnston was struck by the common themes of “accountability and trust” in the remarks of Michael Portillo, Chuck Denny and Win Wallin. He asked whether the CRT could play a role in trying to quantify the performance not only of business, but also governments and NGOs in actually measuring institutional accountability.

Wallin replied that he thought the CRT could play such a role, and that it would be included as a future investment recommendation. William Ogden observed that the “teach a person to fish” philosophy was clearly part of the proposed vision for the CRT – and that (for that reason) we should be aware that “wealth” was not the same as “riches.” “Poverty solutions in developing countries need to come from the ground up,” he said, “so the role of business lies ultimately in educating countries on ‘how to fish’ – a *very* big ticket item.”

Harry Halloran thanked Messrs. Johnston and Ogden for the challenges, commenting that “they would enliven the Caux Round Table.” Mr. Toshiaki Ogasawara, urged realism in the context of this most idealistic of proposals. “We must understand the differences among such very different countries as Nicaragua and Vietnam and China, and we need to study the corporate pioneers who have made development investments rather than starting from scratch.”

Brief Reflection on Session I. Our first session centered on a bold vision for the Caux Round Table, a direction not entertained before in its history. More than avoiding trade friction, more even than promotion of principled business leadership, we were being invited to contribute to a new economic climate. Global business must seek prosperity, yes, but prosperity anchored in justice and the common good.

Session II – A Proposed Action Plan for the Caux Round Table

After the morning break, **Win Wallin** presented the outline of an action plan to the group. He drew attention to two key elements of his proposal: (i) sponsoring dialogues in developing nations twice a year – model forums – involving 7 or 8 CRT members, usually recently retired CEOs or senior executives, each time. These “executive counselors” would reach out to a maximum of three countries in a pilot program aimed at explaining the conditions of foreign direct investment to influential parties from all sectors in these countries; and (ii) assessing the progress of these countries, publishing the results and urging private sector investment when the results warranted it. To do this, Wallin noted, the annual budget of the Caux Round Table would have to expand from its current $300,000 level to $500,000, and eventually $1,000,000. The CRT Global Governing Committee would be asked on Wednesday morning to decide on an action plan.

Ron Baukol, Executive Vice President of International Operations for 3M Company, spoke with enthusiasm about Mr. Wallin’s challenge to the CRT regarding world poverty. He indicated that Pope John Paul II, in his recent remarks to President George W. Bush, mentioned the *opportunity* that globalization presents to the world community – so long as *responsibility* goes hand in hand with globalization. Baukol added that the business community alone cannot provide the social conditions necessary for its own direct investment in developing nations – governments have to shoulder that responsibility.

Baukol then drew the group's attention to the eight-point *Action Outline* that Wallin had distributed around the table (see attachment to these proceedings). The *Basic Purpose* articulated in the *Action Outline* was "to create awareness in developing countries and in the global community as to what needs to happen in order to get increased equity investments in the developing world and to offer assistance to these nations to accomplish this." Baukol indicated that his own corporation, 3M, engages in job creation in developing nations and complies carefully with all applicable laws and standards in its international business operations. "CRT has been acting for years on action items III, V, and VI," said Baukol, "promoting the Caux Principles, bringing the CRT members together annually to formulate and implement policy, and recruiting senior business leaders who are willing to commit time and resources to help achieve the goals of the CRT." As to item I, the cornerstone of the *Action Outline*, Baukol agreed with it strongly, adding that item VII (financial support) would follow naturally if the CRT truly added value. Items II and IV, said Baukol, since they are about the visibility of the CRT, could wait until progress was made on the more substantial items. "The genius of 'and' is critical in our thinking about the proposals under consideration," Baukol concluded.

Discussion. Frank Straub urged the importance of executive recruitment, as mentioned in action item VI. Charles Denny commented that in addition to efforts on behalf of *developing* nations, parallel efforts were needed in the *developed* nations as well to help advance the spirit of the Caux Principles. Alice Tepper Marlin agreed with Denny's comment, adding that resistance to change was a significant barrier, requiring clarity about who to bring to the table in the developing nations. John Stout agreed with Denny and Marlin, pointing out that the *credibility* of business leaders did not go without saying, given the controversies surrounding executive compensation and merger & acquisition activity. Kenneth Goodpaster suggested that the key to such credibility lay with the self-assessment and improvement benchmarks currently being articulated for the CRT Principles.

Morihisa Kaneko reminded the group that the CRT needed to be clear on what its "merchandise" was, lest it seek to achieve results without clear resources.

Roger Parkinson said that the *Action Outline* was "really onto something," but "we must learn what others have done on these matters, so as not to re-invent wheels." Parkinson added that as financial resources are sought, *endowment* funding was the most efficient long-term strategy.

Raymond Baker said that the choice of countries for CRT involvement was critical: some, like Brazil, were already on their way, while others, like Congo, were likely to be fruitless at this time.

Jacqueline Cambata suggested that we needed to look at the shadow side, how poverty is perpetuated, and that no less than a revolution in thinking was called for. Thomas Holloran reminded the group that patience was needed given the magnitude of the challenge presented here. "Quick results are not likely and we need to accept this," he said.

Ed Spencer urged the group to appreciate that growing developing economies, such as South Africa, was preferable to redistribution schemes. He then suggested that (1) local government support was essential to any CRT initiatives; (2) specific goals and targets were also essential; (3) World Bank and IMF partnership was important; and (4) NGO participation and funding would be forthcoming.

Stephen Cross affirmed the value of recruiting recently retired executives, recommending linkage to the organization Executives Overseas International, as well as to his own Canadian Center for Ethics. "Also," he said, "the Caux Principles need to be promoted below the CEO level just as much as at or above that level. And we should each commit to bringing new active members next year." Michael Bates of Oxford said that "the key word in the context of the *Action Outline* is *equity investment*, and the involvement of investment banks is crucial." Professor Ed Schuh found the "Model Forums" mentioned in the *Action Outline* to be very appealing, and urged that the participation of the academy be encouraged since science and technology were critical to realizing the vision being expressed. Philippa Foster-Back reaffirmed the importance of CRT "being *invited* into these countries" if we were to avoid both the reality and the perception of paternalistic interference.

Brief Reflection on Session II. Our second session centered on the practical implications of the vision articulated in Session I. Business leaders do understand the importance of foreign capital investment – both direct and portfolio – for reducing poverty in the world by creating new wealth, but they simultaneously are aware that capital investment is forthcoming only when conditions are right, and that governments, not businesses, are responsible for putting those conditions in place. Can the strategically focused sharing of this knowledge, one country at a time, make a difference?

Session III – Challenges of Corruption and Capitalism

John Whitehead, Former Chairman of Goldman Sachs, Inc. and Former U.S. Deputy Secretary of State, opened Session III with the observation that the Action Outline sounded like a two thousand year old "Implementation Plan for the Ten Commandments." He urged the group to remember the need for specifics – and that the span of control even of global business is seldom wide enough to influence developing country governments. "This broad action plan needs narrowing," he said, "to a single country, to our specific companies in relation to that country. Direct foreign investment in China has been an awesome $30 billion per year for the past three years – as was investment in Korea 30 years ago." Whitehead then turned to the presenters for the theme "Challenges of Corruption and Capitalism."

Raymond Baker, Senior Fellow at the Center for International Policy in Washington, D.C., emphasized the value of the global free flow of capital, but warned that the illegal outflow of capital ("dirty money") is a serious obstacle to the developing nations. For every $1 dollar invested or given to many of the most impoverished countries, $10 leaves those countries for investment in wealthy countries Baker estimates. "The criminal practice of money laundering, the corrupt theft by government officials, and commercial forms of tax evasion total about $1 trillion per year, half of which is related in one way or another to developing countries," Baker said. "This is the biggest loophole in the capitalistic system and weighs most heavily on the poor. The ratio between the top quintile and the bottom quintile of countries in terms of exchange rates is 120 to 1, and in terms of purchasing power 32 to 1. This is *not* counting the dirty money problem," Baker added. "How can we curtail the problem? We need to put all three "Cs" on the table (criminal, corrupt, and commercial dirty money), broaden the definition of money laundering to include offshore sites, and pass depositor legislation to minimize commercial tax evasion."

Marek Markuš, Executive Director of Integra in Bratislava, Slovakia, shared with the group the findings of his organization's research on corruption using small business as the primary input. "Corruption is widespread in Eastern Europe, involving percentages of businesses in excess of 50%. The assumption that this corruption is essentially temporary and transitional from the fall of the Soviet Union is mistaken," Markuš said. "To be sure, the perception of or attitude toward corruption is negative, but it is largely passive, as if to say 'Get used to it!' There is widespread cronyism, especially in the privatization of enterprises. And efforts at deterrence through the action of the police and the judiciary are both limited and mistrusted by the people."

Small companies, according to Markuš, are typically the objects of extortion by larger companies, and the economic costs of this corruption to the society, while hard to estimate, add at least 5% to goods and services. “What can be done?” Markuš asked. “Three steps must be taken: (a) to decrease the number of ‘points of opportunity’ for corruption, (b) to improve police and court systems, and (c) to increase public awareness. We should continue to promote ethical business cultures in our companies – and we should consider funding a private initiative to promote anti-corruption.”

Discussion. Charles Denny expressed appreciation to the presenters and shared a story with the group about a visit he once took to China. His Chinese host took many notes regarding the ethical principles of business, but when asked about how and when he might apply them, he was told that this would happen “when China was as wealthy as the West!”

Michael Johnston asked Mr. Baker how much of the “dirty money” to which he referred was drug money. Mr. Baker replied that drug money was not, in his opinion, the bulk of it. Nevertheless, Baker said, the laundering channels through which drug money passes are channels well established.

Alice Tepper Marlin commented that Transparency International expanded its analytical list of corrupt countries by adding a list of developed countries that actually supported the corruption by questionable payments. Mr. Baker’s and Mr. Markuš’s observations draw our attention to the “enabling” role that the more developed countries often play.

Roger Parkinson asked what the implications of the Caux Principles were for the corruption discussion. It was pointed out that the Caux Principles already included reference to preventing corruption and that the key lay in taking up the implications of the Caux Principles in the *Action Outline* presented by Win Wallin.

William Ogden suggested that the word “corruption” could be misleading. “Usually it is a symptom of a systemic underlying problem set,” he said, “and success in fighting corruption depends on getting at the underlying issues through education and the creation of a civil society. So we should not be distracted from the Model Forums mentioned in item I of the *Action Outline* even though we do need to get at the developed countries’ enabling role.”

Mr. Baker observed that the U.S. has had the *Foreign Corrupt Practices Act* since 1977, but there has been no law directed at the proceeds of corruption. “Much more needs to be done on this front,” he said.

Mr. Whitehead asked whether the companies represented at the Global Dialogue had any useful experience to share. Mr. Baukol said that his company, 3M, simply walked away from corruption wherever it was encountered. Mr. Spencer, who headed up Honeywell for many years, agreed that this was the best policy – but he added that a lot of European companies had taken his lost business in many cases! An analogue of the U.S. *Foreign Corrupt Practices Act* is much needed for other countries (apparently forthcoming through the efforts of the OECD).

Finally, Mr. Straub remarked that there was a key role for the press in spreading awareness of the issues identified in this discussion.

Brief Reflection on Session III. Our third session addressed a significant environmental factor that can undermine the economies of developing nations: the laundering of "dirty money" and the spread of corruption, which is its source. Bribery, drug money, and tax evasion all depend on weaknesses in the regulation of capital flows. Supporting international initiatives to improve regulation in these financial arenas is, in the end, supporting poorer nations in significant ways.

Session IV – Rt. Hon. Clare Short, MP on Globalization

(Clare Short's full remarks are included as Appendix 2)

Clare Short, UK Secretary of State for International Development, addressed the group with reflections on the phenomenon of globalization and the forces of catastrophe that are at work. Globalization is not new – it has been part of world history for thousands of years from the time of trade between ancient China and Egypt. Today, of course, the end of the cold war and the catalyst of information technology have resulted in an enormous speeding up of globalization. The fact that we all *see* one another regularly accelerates the "shrinkage" of the world. And population growth has also been a factor: 1 billion people in 1900, 3 billion in 1960, and 9 billion anticipated in 2050.

The demonstrators against the World Trade Organization (WTO) claim that they know the causes of poverty and exploitation – but they do not. Indeed, the WTO is more democratic than they realize – one-country, one-vote. It is not true that modern economic forces have disempowered the nation-state, but it is true that "sovereignty needs to be pooled to be exercised effectively today." We need strong, effective, modern states and strong, effective, modern commercial markets. And we need to re-read the U.N. Universal Declaration of Human Rights, because it is more realizable today than ever before.

"If we can embrace the challenges that we face with hope," she said, "and communicate to poorer countries the conditions for hope, we will have done well." And this includes both government communications and communications by business leaders such as those represented on the Caux Round Table.

Discussion. Roger Parkinson asked "Who should be doing what in this effort?" Ms. Short replied that governments are the traditional tools for world regulation, but whoever has the ideas should come forward with them. John Whitehead observed that in the U.S., the anti-globalization forces are often unionists and environmentalists united against free trade. Ms. Short agreed, noting that fundamentalist environmentalists (unlike the people of developing countries) want to “pull the ladder of their own development up behind them. The fact is that we need a sustainable planet and we can’t leave the developing countries behind. We simply can’t cut off the poor of the world because they have child labor and low wages.”

Norman Hunter asked Ms. Short directly if she supported globalization. Ms. Short replied that in her view it was not a matter of supporting or not supporting globalization. “Globalization just *is*,” she said. “We need to manage it properly – and in 30 years we could do it. All nations need to take on this challenge – otherwise the result will be protectionism, depression, and ultimately conflict. We must stop listening to the voices of chaos.”

Brief Reflection on Session IV. Our fourth session drew attention to the positive implications of globalization for developing nations, so long as responsible practices are part of the equation. Can principled business leaders help moderate unenlightened protest while helping reduce abuses?

Monday Afternoon, September 10, 2001

Session V – The Shell Experience in Foreign Direct Investment

Toshiaki Ogasawara, Chairman and Publisher of the *Japan Times*, chaired the afternoon session on the Royal Dutch Shell (RDS) experience with overseas direct investment.

Jeroen van der Veer, President of the Royal Dutch Petroleum Company, indicated that RDS invests $12 billion per year in the developing world. Alongside its own corporate commitment to principled business leadership, RDS supports the U.N. Global Compact, the Global Sullivan Principles, and monitors the Dow Jones Sustainability Index.

These principles, of course, need practical implementation, and the Shell Business Principles are a working, living document which all employees, suppliers, and partners are expected to know. “Our worldwide company needs to earn a ‘license to grow’ from the customers and communities in which it does business. These days, companies are only a mouse-click away from NGO influence. All of this means that we are trying to ‘reduce our environmental footprint’ as we pursue our business objectives.” These objectives, formulated in 1998 as Shell’s “Profits and Principles” document, did not command immediate respect. There was genuine skepticism. To overcome this skepticism, Shell had to go back to the drawing board: “It meant taking another look at old ways of working, and challenging traditional priorities and assumptions.” Social and environmental measurement and reporting (in addition to economic measurement and reporting) was included in the management framework. "And this was not simply a matter of public relations or philanthropy for Shell," he said.

Discussion. Raymond Baker asked Mr. Van der Veer to share some of his experience with NGOs, especially in connection with some of RDS's more well known problems in Nigeria and with Brent Spar. "In general," Van der Veer said, the experience was valuable. We learned a lot about the values of communication and transparency, but there were times of frustration – as when the NGOs were "economical" with numbers. We're much more proactive than reactive in the NGO context today compared with years ago."

Charles Denny asked whether RDS perceived its own practices as having an influence on the energy industry generally. Van der Veer replied that the influence tended to be stronger in the European context and among vendors. Americans were more skeptical. William Ogden followed up on Mr. Denny's question, to which Mr. Van der Veer replied that Shell views its "licenses to operate" in various countries as badges of integrity. He added that attracting talented people to RDS depended heavily on its commitment to its principles.

Ron James asked Van der Veer to say more about the relation of profitability to responsibility and to expand also on the subject of using "metrics" for both of these success factors. Van der Veer replied that RDS looked at its investments in a totalistic way – and that Shell digging operations in Canada, for example, were profitable, job-creating, and reduced the company's "environmental footprint." As to "metrics," RDS "lets stakeholders identify the relevant measures as much as possible – though we are only getting started on the quantification of social impacts.

Mr. Straub wondered about the internal discipline associated with Shell's principled approach to business operations. Van der Veer replied that there have been times when RDS has had to separate from joint venture partners for principle-related matters – and that with employees, the challenge has been to create and maintain *awareness*.

Thomas Holloran commented on the behavior of Exxon's CEO in the wake of the *Valdez* disaster – more concerned, it appeared, with Wall Street than with Alaska. Van der Veer referred (in contrast to the Exxon approach) to a crisis he faced in November of 2000, which called for intense RDS media involvement alongside effective crisis centers in key locations.

Alice Tepper Marlin asked about RDS's policy on the public's demand for *verification* in relation to various measures of corporate responsibility. Van der Veer said he had engaged Arthur D. Little for verification in the past, but now there were new techniques being used for indicating the levels of verification available on any given company report. Symbols appear in these reports helping the reader to assess the level of reliability and verification associated with the data involved. "Basically, our approach is to be as transparent as we can," he said.

Michael Johnston asked Mr. Van der Veer whether he gathered information from employees about subjects like corruption. Van der Veer indicated that the nine Shell principles are managed by country chairpersons who must report in writing about them regularly in the form of a letter to the senior leadership of RDS. The letter is followed up with a face-to-face meeting with one of the company's five senior directors during which inquiries are made about the quality of the data provided and the systems used to monitor and correct problem behavior.

John Whitehead asked Mr. Van der Veer "What happens when oil and gas reserves run out?" Mr. Van der Veer replied that the best evidence we have indicates that the Stone Age did not come to an end for a lack of stones! In other words, technological energy alternatives are likely to provide the answer to Mr. Whitehead's question long before oil and gas reserves run out.

Michael Bates asked about the relationship between RDS and institutional investors as key stakeholders. Van der Veer observed that there has been a noticeable shift in shareholder attitudes, including emphasis on renewable energy sources and balanced approaches to profitability. "Our 'license to grow' from all of our stakeholders is good for institutional shareholders," he said.

Bernard Lietaer inquired about how a company the size of RDS keeps itself open to ideas from outside itself. Van der Veer said that a "scenario space" is created by its emphasis on stakeholder thinking. "It was part of the company's DNA in the past to be clumsy at communications, operating as it has in 139 countries. Regarding new ideas, the key is to manage openly and to keep the company from turning inward, which would be the natural tendency. Also, a strong R&D function adds fresh ideas from the outside."

Kenneth Goodpaster asked what obstacles Mr. Van der Veer saw to foreign direct investment and how decisions were made by senior leadership in relation to it, given that the Caux Round Table is reflecting in this Global Dialogue on bringing poorer countries into the mainstream. Van der Veer replied that the keys to leadership decision making on this subject are the Shell business principles. "Sometimes, when the conditions in a country are or become impossible, we have to withdraw our operations," he said. Mr. Harry Halloran followed up Goodpaster's question by asking whether Shell's business philosophy included an explicit concern for enabling poorer nations to share in global prosperity. Mr. Van der Veer replied that this concern did not represent the company's primary goal, but it did come into decision making in various secondary ways, including decisions taken by the corporate foundation.

Brief Reflection on Session V. Our fifth session offered a window on a global corporation (Royal Dutch Shell) and its efforts to maintain its "license to grow" from customers and communities. Social and environmental reporting – in addition to economic reporting – represent important disciplines for large corporations. Might CRT's new Self-Assessment and Improvement Process (*SAIP*) play a role in the concrete application of the Caux Principles?

Monday Evening, September 10, 2001

Reception, Churchill Room at the Houses of Parliament with Prince Michael of Kent and the Rt. Hon. Lord Howe and Baroness Howe. The Caux Round Table group was taken by motor coach to the Churchill Room in the Houses of Parliament at the end of the afternoon. The reception included formal remarks by Win Wallin, Neville Cooper, and Lord Howe, who emphasized his strong interest in the work of the CRT with its influence on principled business behavior.

Dinner, Institute of Directors. Following the Reception at the Houses of Parliament, the group was taken to the magnificent Institute of Directors building several blocks away in downtown London for a dinner with scores of executive members of that organization. George Cox, Director of the IOD, welcomed members and friends of the CRT with a call to action, vigorously delivered, in support of CRT Chair Win Wallin's remarks of Monday morning. Cox affirmed that the level of development throughout the world must be an agenda item for business leaders in wealthy countries. There can be no turning back, Cox argued, from engagement in poor countries. The economies of wealthy nations are too dependent on a global market place for business leaders to ignore the challenges of poverty far beyond their homelands. The hospitality and appreciation for the CRT mission was warm, as Win Wallin presented in this new setting his vision for the future of the Caux Round Table.

Tuesday Morning, September 11, 2001

Session VI – Building Better Corporate Governance

Sir Anthony Cleaver, Chairman of AEA Technology and former Chairman of IBM (UK), presided over the first Tuesday morning session on the theme of corporate governance. He introduced the two primary presenters who co-authored a paper on this theme, Thomas E. Holloran and John H. Stout.

Thomas E. Holloran, Professor of Management in the Graduate School of Business, University of St. Thomas and former Chairman and CEO of Inter-Regional Finance Group, Inc., described the evolution of the role of the Board of Directors in corporate governance from a time when having several directorships was nothing short of a "warm bath" for those who enjoyed them. Nowadays, mission statements and board evaluation procedures make the responsibilities of board members rather more onerous. One of the most debated issues under the rubric of corporate governance is the independence of the board chairman from the CEO. While it is true that the idea of an independent "lead director" is growing in acceptance, it remains the case that less than 10% of the *Fortune 1000* companies have separated the roles of the Chairman of the Board and the CEO. The roles of the Audit Committee and the Compensation Committee of the Board have undergone considerable evolution in the U.S., influenced by the Securities and Exchange Commission. In the last analysis, the three criteria by which board members must be judged are: (1) being fully *informed*, (2) acting in *good faith*, and (3) acting *in the best interests of the corporation.*

"It is the third criterion," said Holloran, "that is most relevant to Win Wallin's proposal at this Global Dialogue. For it asks us to examine the risk profile of international corporations in relation to developing countries. And it invites reflection on the fit of direct foreign investment in these countries with strategy, mission, values, corporate culture, and financial criteria."

John H. Stout, Vice President of Fredrickson & Byron, PA, continued on the themes of his joint paper with Mr. Holloran, emphasizing that the Board of Directors is at the "apex of power" in the modern global corporation and that its structure matters less than its behavior. This meant, in Stout's view, that taking a position on Win Wallin's global poverty challenge was ultimately a matter for *boards* to decide, not just CEOs.

Mr. Stout insisted that boards need to understand their role in relation to the values of the organization, and the selection processes for the CEO and the board itself need to reflect this role. "While Codes of Conduct are often legally motivated in the U.S., because of the Federal Sentencing Guidelines of 1991, we need to go *beyond* legality to citizenship issues. And indeed, do the Caux Round Table companies themselves subscribe to the Caux Principles?"

Mr. Stout suggested that the CRT might well wish to align itself with other organizations on the topic of corporate governance, such as the *National Association of Corporate Directors* (NACD) in the U.S. and several other NGO organizations.

Guylaine Saucier, Chair of the Canadian Joint Committee on Corporate Governance, responded to the main paper by Holloran and Stout from her experience with the Canadian Committee on Corporate Governance, which is in the process of issuing a comprehensive report, entitled *Beyond Compliance*. The goal, Ms. Saucier said, was to create a culture of corporate governance that emphasized independence of judgment (from management) for the good of the corporation. One approach to this idea included "chartering" board members and encouraging them to dialogue regularly on the nature of their role. "Boards exist not as ends in themselves," said Saucier, "but to support and challenge upper management. Members must exercise leadership in this context and get beyond titles. Perhaps the most important function of the board is to appoint and evaluate the CEO and the CEO's values. To do this takes time – it cannot be done overnight or with a simple set of questions."

Roger Parkinson, President of the World Association of Newspapers and the *Globe and Mail*, said he would participate in the conversation, but had little to add by way of commentary to the presentations. He did say that, in his opinion, the relative proportion of outside to inside members of the board of directors made an enormous difference. (He added that it was important for the CRT to listen to discussions of corporate governance that extended beyond the North American experience.)

Discussion. Neville Cooper echoed the panel's remarks about the importance of independence of judgment on the part of directors. Because of its mission, the CRT needs to identify and encourage the kind of mind at the director level that we have seen in Mr. Kaku.

John Pickering said that shareholder access to the board is a key factor in responsible corporate governance – and he wondered whether some form of "ethical testing" might not be part of board member credentialing. Guylaine Saucier agreed, pointing out "the principles of good corporate governance applied to all companies, even though board structures and sizes may vary."

Charles Denny agreed that board structure alone was not enough to guarantee good judgment and board behavior. "How can we ensure," he asked, "that board members have the 'right stuff' to function well?" Sir Anthony Cleaver added to Mr. Denny's question: "How are we to understand 'the best interests of the corporation' in relation to the criteria for good board judgment?"

Thomas Holloran responded to Mr. Denny that regarding the strategy-setting role of the board, studies indicate 50% agreement and 50% disagreement. And to Sir Anthony Cleaver's question, Holloran said that in the U.S., nearly 40 states have enacted "constituency statutes" allowing boards of directors to take other stakeholders into account in their decision making about the "best interests of the corporation" besides shareholders. Guylaine Saucier said that the board must at least be prepared to *challenge* corporate strategy, if not to *formulate* it.

Philippa Foster Back pointed out that in the U.K., the "chartered director" designation is beginning to catch on, under the sponsorship of the Institute of Directors. Chartered directors receive 15 days of education, a three-hour examination, and an extended interview. There are about 100 chartered directors so far, after two years of the program.

Chris Moon, observer to the dialogue from the EBEN Ethics Practitioner Forum, said that the Institute of Directors chartering process mentions "integrity" explicitly as a key characteristic of directors. Harry Halloran suggested that CRT consider an affiliation with the Institute of Directors and other such organizations.

Michael Johnston pointed out that "chemistry" was critically important in the relationship between the CEO of a corporation and the Board. He wondered what the best practices were regarding the selection of non-executive chairs of the board.

Sir Anthony Cleaver remarked that board self-evaluation is a much-needed practice. Thomas Holloran agreed, adding that the avoidance of politics on the board in the self-evaluation process is very important.

Jannick Pedersen pointed out that the issue of corporate governance is particularly important in developing countries (e.g., many countries in Africa). The CRT must clarify the nature of its contribution, if it can make one, to promote understanding on this subject.

Frank Straub said that based on his experience, routine meetings without the presence of the CEO are important for boards of directors. He added that if the CRT sought to have an impact in developing countries on this broad subject, members of CRT should perhaps offer to participate on boards in these countries.

Toshiaki Ogasawara cautioned the group to be aware of the negative side of the role of the director – exposure to shareholder suits and the importance of Directors' and Officers' Insurance.

Charito Kruvant observed that there was pressure in the U.S. to bring more diversity to boards of directors in an effort to go beyond the "buddy system" to a more professional system. Further, she lamented that board preparation information was usually framed from a *legal* point of view rather than from a *moral* point of view. Steven Cross agreed with Ms. Kruvant's comments, adding that we needed to pay more attention to the skill set required for board membership: "Asking the right questions is very important for the director's role," he said, "if the best interest of the corporation is to be served – and if that interest is to be related to the interests of the various stakeholders of the firm."

William Ogden asked how best to relate this broad discussion of corporate governance to Win Wallin's opening challenge to the group regarding haves and have nots. Philippa Foster Back offered an example of a U.K. company whose lending policies in the developing world were influenced by its directors' values. John Stout reinforced this perspective, pointing out "boards of directors have *amazing* responsibilities, since the proverbial 'buck stops there.'" Roger Parkinson also agreed, suggesting that the procedures and rules by which boards made decisions was critical to justice in the outcomes of those decisions.

As the discussion came to a close, Sir Anthony Cleaver congratulated the group, while observing that there was one important topic – transparency – that did not get fully aired.

Brief Reflection on Session VI. The sixth session (like the fifth) continued our focus on factors internal to the corporation. Principles of effective corporate governance are critical for the economic development of poorer countries, leading to stakeholder confidence and direct investment. Could the sharing of information on the principles of good corporate governance be a CRT response to Win Wallin's challenge ("making it possible for poor nations to share in global prosperity")?

Session VII – Reducing Currency Risks

Michael J. Johnston, Executive Vice President and Director of the Capital Group Companies, chaired the second Tuesday morning session on the theme of reducing currency risks. He indicated that currency volatility was a relevant factor in addressing the plight of poorer nations, the focus of Win Wallin's challenge to the group. Because this subject is often difficult to understand, Johnston invited participants to think metaphorically of each currency as hanging from a parachute. The size of the parachute is proportional to the interest rates in the country of origin, while the weight suspended from the parachute is the inflation rate in the country of origin. Capital flows are the "winds" in the metaphor. This metaphor portrays some of the dynamic relationships among world currencies, and indicates some of the special problems faced by poorer nations with high inflation and shifting capital flows.

Edward G. Schuh, Professor in International Trade and Investment Policy at the University of Minnesota (USA), distinguished between short-term currency fluctuations ("wiggles") and long-term patterns of variability. "Distortions in currency values," he said, "are equivalent to distortions in trade. Overvalued currencies are taxes on their countries' exports and subsidies on their imports. Developing countries regularly overvalue their currencies. In contrast, undervalued currencies are subsidies on their countries' exports and tariffs on their imports." Schuh went on to remind the group that in 1973, the Bretton Woods gold standard broke down and financial markets became the drivers of currency values. He also pointed out that in the U.S. between 1860 and 1960, North determined the value of the dollar and the South lagged behind the North because the Southern economy was based on exports. Similar forces are at work today in Northeast Brazil and even in Europe.

Where do these observations point us? "Toward a reform of the International Monetary System," said Schuh. "We should convert the IMF into a central bank of the world, and 'SDRs' (special drawing rates) should increase at a constant rate. Let the market determine interest rates. Monetary stability is a *public good* without a world government."

Bernard Lietaer, Professor of International Finance at the University of Louvain, offered a PowerPoint presentation based on his paper. His proposal was that global corporations embrace a long-term parallel currency, the “Terra,” which would support their ecological, economic, and social bottom lines so frequently heard of today. “Monetary rewards today systematically discount the future,” he said, “and both regulation and moral suasion have a hard time of it when they are up against financial incentives.” The creation of a “Terra alliance” would allow companies to avoid currency fluctuations while encouraging longer-term thinking with a 3-4% *demurrage.*

Discussion. Neville Cooper commented that the “Terra” concept seeks to change costly inventories to liquid assets. But Marek Markuš was somewhat skeptical, pointing out that the USSR and Yugoslavia made use of elaborate barter mechanisms that eventually collapsed. Wouldn’t the “Terra” have the same fate?

Jannick Pedersen asked Professor Lietaer how surpluses would be priced in connection with the “Terra” and was told that “only standardizable things” would go into the basket that set the Terra’s underlying value.

Raymond Baker reflected on the presentations of both Schuh and Lietaer, suggesting that both seemed to be moving toward global monetary exchanges, one with “SDRs” and the other with “Terras.” He pointed out that there are other broad “currencies” developing as well, including the barter underwritten by frequent flier miles, and that conventional currencies were (in effect) gradually losing their monopolies as exchange media.

Brief Reflection on Session VII. The seventh session, like the third session, focused on factor in the economic environment that weighs more heavily on poorer countries than on wealthier ones: currency distortions and instabilities. Here, however, the remedies seem less a matter of government intervention than of market forces supported by private sector initiatives. Can poorer countries do better if richer countries help stabilize monetary exchange?

Tuesday Afternoon, September 11, 2001

Session VIII – The Growing NGO Challenge to Global Capitalism

Neville J. Cooper chaired the third Tuesday session on the theme of NGO challenges to global capitalism. He introduced **Sir Sigmund Sternberg** with warmth and affection as a leader who practiced what he preached in the pursuit of interfaith dialogue and understanding.

Sternberg, Chairman of Martin Slowe Estates, 1999 winner of the Templeton Prize for Progress in Religion, and President of the Sternberg Centre, said that questions of morality eventually led to questions of spirituality and religion – the source of great motivational energy. But faith is “sidelined” when it is seen as something that divides us rather than as something that unites us. Interfaith activity makes for peace, which is not unrelated to business prosperity. Business leaders need to be more active in promoting interfaith dialogue. Indeed, the Caux Round Table should take its proper place in catalyzing such dialogue in the business world. Ultimately, "principled business leadership" calls for ethics, ethics calls for morality, and morality calls for spirituality.

Edson W. Spencer, former CEO of Honeywell and former Chairman of the Ford Foundation, spoke of the significance of the role of NGOs, especially in the context of developing countries. "Since Henry Ford's challenge to the governance of the Ford Foundation, it has been about 40% invested in developing countries," he said, "and other NGOs are forces that CEOs dare not try to sidestep in their leadership efforts. Historically, from war protesters of defense contractors to environmentalists to advocates of justice in South Africa, we can see the growing influence of the NGO, empowered more recently by the Internet. [Spencer mentioned in passing an article in the most recent *Foreign Affairs* quarterly on "corporate ethics crusades" and NGOs.]

John M. Maresca, President of the Business Humanitarian Forum, commented on the need for dialogue between the business world and the rest of society – frequently represented by NGOs. "The anti-globalization groups are well-funded and often able to move faster than both governments and businesses," he said. He added that the CRT itself is an NGO "which recognizes that business investment is needed wherever aid is needed in the world economy, because only business investment provides long-term *solutions* to poverty. The CRT needs to work with those who do not have a vested interest in perpetuating conflict."

Discussion. William Ogden opened the discussion period by asking Sir Sigmund Sternberg "What is the role of religion in government today, in view of the Arab/Israeli conflict among others around the world?" Sir Sigmund replied that religious dialogue leads to *knowledge*, each of the other, and that government and business both need, for their own sakes, to be more involved in such dialogues.

John Pickering pointed out that businesses, churches, and governments each had "power conflict" problems of their own and that *virtue* needs to come *before* power if we are to ever hope for resolutions. He gave the example of the Ulster mother who brought up her toddler with the slogan "Kill the cops."

Raymond Baker observed that NGO relationships are clearly shifting. "The former director of Greenpeace now talks regularly with logging companies. This kind of engagement is good for everyone. Perhaps we can hope for more constructive dialogue among the WTO, the IMF, the World Bank, and the various protest groups." Sir Sigmund agreed, "There needs to be a meeting with the peaceful protesters, at least, a meeting with genuine dialogue." John Maresca also agreed, pointing out that this would isolate the "warlord" types, but businesses must then indicate enough humility to reform certain practices.

Alice Tepper Marlin commented that her organization, Social Accountability International, has over the past four years made an effort to follow the advice of the panel members in this session – because conflict resolution approaches do in fact work.

Brief Reflection on Session VIII. We continued in the eighth session to explore as we had in previous sessions, the factors that might contribute to successfully "making it possible for poor nations to share in global prosperity." In Session III, the factor was reducing corruption; in Session IV, it was globalization; in Sessions V and VI, effective corporate governance; and in Session VII, currency stability. Now the focus was business's responsiveness to and cooperation with NGOs. Increasingly, NGOs are willing to partner with global businesses in pursuit of shared purposes. Can such partnerships advance both prosperity and justice?

Session IX – Contributions by Individual Business Leaders

> *As the group began to re-assemble after the break at about 2:00 pm, news began to trickle into the room about an airliner crashing into the World Trade Center in New York. There was some confusion and one or two members of the group used international mobile phones to try to get more information. The true magnitude of the events in New York, Washington, D.C., and Pennsylvania would not fully be known by the participants until later in the afternoon, at the conclusion of the meeting. Uncertain of the details but aware a great tragedy was occurring, participants stood for a moment of silence and prayer to reflect on the violent harm that had been done by unknown hands.*

Charito Kruvant, Founder and President of Creative Associates International, Inc., introduced **Harry R. Halloran, Jr.**, Chairman and CEO of Energy Unlimited, Inc. and American Refining Group, Inc. and **Kenneth E. Goodpaster**, Professor and Endowed Chair in Business Ethics at the University of St. Thomas.

Charles M. Denny, Jr. was also re-introduced as a commentator for the presentation.

Mr. Halloran described the two-year history of the Self-Assessment and Improvement Process (*SAIP*) under the auspices of the Caux Principles Oversight Committee and ultimately the Caux Global Governing Board. He also mentioned the key role played in the *SAIP* working group by Dean Maines. Professor Goodpaster then addressed the group, reminding everyone that in many ways, the *SAIP* represented the fulfillment of the promise in Mr. Kaku's vision of *kyosei*. The *SAIP* was, for corporations, what a spiritual examination of conscience was for individuals – an inquiry, using focused questions, about how aspirational principles manifested themselves in daily behavior.

Goodpaster reminded the group that John Stout had said in the morning session that a company's values were expressed through a myriad of actions. "The *SAIP*, modeled on the very successful Malcolm Baldrige Quality Award process, is comprised of several hundred self-assessment questions," Goodpaster said, "the answers to which help a company 'walk its talk' by identifying gaps between espoused values and values-in-action." It is a tool that "equips senior executives to address the growing expectation of responsible business conduct through a confidential, systematic self-appraisal."

Associating with each of the seven *CRT General Principles* behavioral manifestations from the *CRT Stakeholder Principles*, the *SAIP* is organized into a 49-cell matrix of self-assessment questions, with about five questions per cell. A company applying the *SAIP* to all or part of its operations arrives confidentially at an overall score, which can then be used for self-improvement initiatives. The two-phase beta-testing schedule and plans to adapt the *SAIP* for use outside the U.S. were then described.

Mr. Denny observed that the *SAIP* represented an important step in carrying the CRT Principles into action, complementing the vision behind Win Wallin's proposed initiative for involvement in developing countries. He also shared with the group a recent scandal faced by Allina Health Systems in Minneapolis to illustrate the practical potential of the *SAIP.* Allina's Board of Directors was made up of illustrious and responsible business leaders, but was somehow unaware of significant spending improprieties by management – a circumstance that led Minnesota's Attorney General to disband the Board and appoint a new one. An institutional "early warning system" like the *SAIP* might well have headed off this unfortunate set of events well before it became so serious.

Discussion. The group had an abbreviated discussion of the *SAIP* presentation, given the continuing emergence of news from the U.S., but members voiced appreciation to the working group for the progress that had been made – and interest in using it widely.

Brief Reflection on Session IX. In the ninth session, the focus was on accountability in the form of the CRT Self-Assessment and Improvement Process (*SAIP*). The *SAIP* represents the opposite shore of a bridge (the CRT Principles) from aspiration (*kyosei* and human dignity) to action (concrete behavioral benchmarks). As the CRT pursues not only corporate responsibility in the creation of wealth, but also justice in the sharing of wealth globally, can the *SAIP* help translate ideals into measurable results?

Concluding Session – Thoughts on the Future of the Caux Round Table

Win Wallin chaired the concluding session, mindful of the tragic events being reported with more and more shocking detail from New York and Washington, D.C. He noted the relevance of the proposed CRT action plan on world poverty to the conditions breeding violence on a global scale. Would this new idea, in addition to the good work already underway in relation to the CRT Principles and the *SAIP*, sustain the organization into the future?

Wallin asked the counsel of the group on a range of three options: (a) do nothing, (b) investigate the prospects of being helpful in one or two developing countries and then make a decision, or (c) go ahead with a pilot program immediately.

Discussion. Michael Johnston offered the services of his company for analytical work on the relevant countries identified by the CRT. Roger Parkinson also offered media analysis support in the same spirit.

Ed Spencer reminded the group that CRT needed to be very clear about its agenda in any visits that might be made to poorer countries – and that invitations should be sought from private organizations in the relevant countries, not just government organizations. Neville Cooper agreed, adding that ambassadorial linkage was also critical.

John Maresca mentioned his recent experience in Kosovo, aimed at attracting business investment there at the behest of the U.N. Government reform in this region is essential to attract foreign investment, but it is a good location for CRT to consider.

Thomas Holloran said that Win Wallin's option (b) above, investigating the prospects of being helpful in one or two developing countries and then making a decision, was the wisest course. CRT resource assessments, both human and financial, were needed before undertaking the proposed country visits. Roger Parkinson agreed, noting that options (b) and (c) were not so different from a practical point of view.

Jannick Pedersen asked whether the CRT could leverage its efforts by teaming with other NGO organizations such as the World Bank. Guylaine Saucier agreed.

William Ogden said it was obvious that something needed to be done – CRT needed to reach out. But CRT is only one organization, and to make an impact, many more parallel efforts are needed.

Raymond Baker reiterated Ed Spencer's caution that "product clarity" was important and that any mission should be undertaken with knowledge. Win Wallin agreed that CRT needed a coherent and informed plan, and that cooperation with others outside and inside the relevant countries was essential.

Kenneth Goodpaster commented that the inspiration of the contemplated plan was rooted deeply in our moral tradition, as deeply as the question “Am I my brother’s keeper?” John Stout remarked that the best answer to that question was “I am my brother’s brother.”

Brief Reflection on Concluding Session. In the tenth and concluding session, we returned to the themes of Sessions I and II. Would the Caux Round Table, through its members, be willing to take up the challenge presented to it by its president, Win Wallin? It was time to be counted – and the consensus was clearly affirmative. Specific directions for the CRT’s effort would be developed during the next several months (October through December).

Tuesday Evening, September 11, 2001

Closing Dinner, Copthorne Tara Hotel. The closing dinner was full of strong emotions, enthusiasm about the success of the Global Dialogue, gratitude to our London host, Neville Cooper, and shock over the terrorist attacks in the United States just hours before. Several members of the group were invited to share their parting sentiments, including Win Wallin, Neville Cooper, Charito Kruvant, Ed Spencer, Lorri Kopischke, Ken Goodpaster, and Steve Young. Each spoke briefly, but with sincerity and hope.

General Reflection and Conclusion: Three Visions and a Nightmare…

The 2001 Global Dialogue had been successful by many measures: the quality of the participants, the hospitality of the London venue, and the energy and intelligence of the discussion. Ken Goodpaster pointed out in his remarks at the closing dinner that we all had experienced “three visions and a nightmare.” The first vision had given birth to the Caux Round Table, and was inspired in a special way by Ryuzaburo Kaku, whose memorial opened our dialogue on Sunday evening. It was a vision of reduced trade friction between East and West. The second vision grew from the creativity of Charles Denny, whose communication of the Minnesota Principles in the early 1990s led to the adoption and widespread positive reception of the Caux Principles for Business. The third vision was articulated in the keynote paper and action outline offered by Win Wallin over the previous two days: *making it possible for poor nations to share in global prosperity***.**

The nightmare of terrorism in the United States shocked the civilized world on 11 September 2001. Our lives changed as the CRT completed its meeting in London, and our lives would never be the same. Indeed, global business – symbolized by the twin towers of New York’s World Trade Center – would never be the same. Perhaps we could hope that a new

outpouring of unity and solidarity among nations would draw some common good from this terrible atrocity. And perhaps we could hope that the new global vision for the Caux Round Table -- born at this meeting -- would be part of that common good.

***Subsequent to the London Meeting the Action Plan as presented by Win Wallin has been modified. For current information on Caux Round Table activities, please see the website at www.cauxroundtable.org**