Tomorrow's Global Company
the challenges and choices

Report of the conference held at Wilton Park, UK
September 2005

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Background: A two-day international consultation, organised by Wilton Park and business-led think tank Tomorrow's Company, to capture the ideas and share experiences of leading practitioners on the nature of the global company of the future. The discussions were designed to shape a new and forward-looking agenda for leaders and managers of companies and organisations, operating in an increasingly global market place and increasingly interdependent world. This agenda will be explored further as part of a proposed inquiry into 'Tomorrow's Global Company – the challenges and choices', being developed by Tomorrow's Company.

Speakers included: Dr Paul Brown, organisational psychologist; Will Day, Special Adviser, UN Development Programme; General Sir John Deverell, former Commander in Chief, NATO Allied Forces Northern Region; John Evans, General Secretary, Trade Union Advisory Committee to the OECD; Mark Goyder, Director, Tomorrow's Company; Mervyn King, Chairman, Brait Société Anonyme and Senior Counsel, Supreme Court of South Africa; John Manzoni, Chief Executive, Refining & Marketing, BP; Bishop Michael Nazir Ali, Bishop of Rochester; Tim O'Brien, Vice President Corporate Relations, Ford Motor Company; Jean-Francois Rischard, consultant, author and former Vice President, World Bank; Peter Hill, Head of Policy, Directorate of Strategy and Information, Foreign and Commonwealth Office.

The following report is not a comprehensive report of all the proceedings. It captures some of the main points made by some of the speakers and some of the key conclusions that emerged from the discussions.

NB The points recorded from the discussions are those which were reported as commanding a broad consensus in the groups. However, it should not be inferred that any particular point was endorsed by every attendee.

MARK GOYDER, DIRECTOR, TOMORROW'S COMPANY

Mark Goyder opened proceedings by surveying the future environment for business, noting the rapid growth of the trans-national business entity as a powerful force in world affairs. He pointed out that whereas in 1990, there were 3000 trans-national companies, today there are over 40,000. For some of these, globalisation had come to mean much more than operating across national boundaries. While they still had home bases and were quoted on one or other of the world's leading exchanges, the removal of barriers to the free flow of capital, labour and services meant they were emerging as truly global companies, characterised for example, by an international management cadre and a distinctive company culture which drew on the mix of backgrounds represented by staff and stakeholders. These global companies operated in countries with varying levels of wealth, infrastructure and government experience and their actions could have a dramatic effect on their hosts' fortunes. The pace of development, the emergence of new markets and their own growing power provided them with unprecedented opportunities as well as new burdens of expectation about their potential to influence issues such as human rights, poverty, health and climate change. In this situation, a global company needs a clear vision of its purpose as well as clarity in the messages it communicates about the approach it takes in addressing major issues at national and global levels. At the same time it was important for the global company to see itself as others see it – and understand the criticisms that are made of the unfairness of the global trading environment, and the growing inequalities and other negative impacts that were felt to accompany globalisation. The Tomorrow's Global Company inquiry is a chance for global business leaders to set out their beliefs, visions, values and approaches.

BACKGROUND BRIEFING ON GLOBALTRENDS

In an initial session on major global trends and the links between them, the main areas covered were Asia, climate change, poverty, governance, terrorism and the challenges faced by nation states. In terms of **Asia**, China was seen as being in a league of its own in growth and scale. India, whose population is forecast to overtake China's within 20-30 years, is also very significant as a future economic power and other Asian countries such as Vietnam are developing fast. Asian development was generally seen as positive, with millions being lifted out of poverty and foreign investment growing. The problems being faced are the unevenness of growth, creating inequalities, rising expectations and the environmental impact. The impact of increasing energy consumption in fast-growing economies was a major factor in **climate change**, where the evidential data was becoming firmer every time it was examined. The projected impacts of climate change would fall on those least able to cope. Intolerable temperatures, crop failures, water shortages and coastal erosion were likely to hit equatorial and other developing populations hardest, for example the 25m people in coastal areas of Bangladesh. Technologies exist to combat climate change but there is a need for government to give business the necessary impetus to transform the potential into reality. Globalisation was an opportunity for most states but a significant minority lacked the basic means to attract investment or profit from trade liberalisation. Supporting development was not only a moral imperative. Poor **governance and poverty** were drivers of instability, conflict, migration and crime and could combine with other factors to create the conditions from which global **terrorist** networks could profit – whether through recruitment or by finding sanctuary. These networks offered a new and compelling narrative to potential adherents and took advantage of globalisation, using the internet and banking systems to organise and finance their activities. The EU was facing challenges as an organisation, wrestling with questions of identity and the balance between deepening and widening the scope of a supra-national body. The nation state too was facing a range of challenges to the way it traditionally worked due to globalisation and changing public expectations.

WILL DAY, SPECIAL ADVISER, UN DEVELOPMENT PROGRAMME:
Will Day focused on some specific challenges and opportunities that the next 50 years would create for global businesses. In terms of population, the current world population of 6bn is likely to grow to about around 9 bn (median estimates) in 2050, with all the projected growth occurring in developing nations. And while the numbers living in rural areas worldwide and in the towns and cities of the developed world was reaching a plateau, the urban population of the developing world was expanding fast. Indian cities are expected to grow by 300 million in 20 years. 24,000 Chinese villages have been abandoned in the last decade. For primarily environmental reasons, development and the arrival of jobs was critical but on their own did not necessarily mean a route out of poverty. Inequality was also increasing both between and within economies, with around half a billion people working for under a dollar a day. Inequality was more than just about money; women and girls represented 80% of refugees and 60% of unschooled children, but just 11% of Fortune 500 officers. Environmental challenges included the depletion of natural resources far faster than they could be sustained – from fish stocks to oil - and climate change. The world is currently consuming the resources needed to support 1.2 planets. By 2050, consumption will be that needed for 2 planets if nothing is done. The overall picture was one of “human-caused un-sustainability”, including altered biogeochemistry, threats to the biological base, swelling population, persistent deprivation, social disintegration, and declining renewable resources.

JOHN MANZONI, CHIEF EXECUTIVE, REFINING & MARKETING, BP:
John Manzoni’s key message was that for business to succeed, it needed to be engaged with the society that surrounded it. “Part of the bargain, the social contract which allows companies to be as large as they are, is that they become engaged in the challenges the world faces, rather than dismissing them as someone else’s problem.” He said the inquiry into ‘Tomorrow’s Global Company – the challenges and choices’, being developed by Tomorrow’s Company, was valuable to BP because although the company had experience as a global operator and had taken many initiatives in engaging with society, the company still had a lot to learn. Arguing that the most dramatic change of the last two decades had been globalisation, he noted that the market capitalisation of the companies listed on the New York Stock Exchange had risen five-fold since 1980 as world trade had tripled. However Manzoni also observed that many people – perhaps two billion - still lived and worked outside the international economic structure. Asia was accounting for a large share of growth. Twenty five years ago, only one barrel of oil in every seven was consumed in Asia. Now the figure is one in three. Manzoni then examined challenges raised for companies by these trends. First among these was the absence of a framework of global rules. He said there was no overall global legal or regulatory framework to match the global nature of business. International institutions were rudimentary, built for a different age. Trade issues are partly subject to global agreement but environmental issues, investment protection and questions of intellectual property are not fully agreed. Companies therefore needed the capacity to deal with multiple systems of regulation. They also needed to adopt a new kind of organisational model because the approach of ‘command and control’ would not work effectively at the global scale with operations in hundreds of jurisdictions and the need for local management to respond to unexpected events. This required a “new combination of corporate culture, values, and standards – all of which establish an aligned intent within which people can make the day to day decisions and judgements which are required.” While alignment of values was needed, a ‘mono-cultural’ management was an anachronism. “The colonial approach to business is now a relic of history. It is impossible to do business in China, or India, or Russia, or indeed anywhere without employing local staff in senior roles.” Manzoni argued that businesses needed to be meritocracies in which good people could progress without needing to conform to a western, Anglo-Saxon set of values.

They needed people from all backgrounds who could work across cultures and bridge the divides – a "skill which doesn't appear on the curriculum of many business schools". Global companies also needed to form a view on their responsibility for "externalities associated with business activity", for example the impact of energy companies on the environment or on local economies. Businesses needed to have a view on the limits of their legitimacy and make clear when they were approaching the boundary line. But in defining the limits of their role they had to recognise the reality of their impact and apply skills and technology to make the impact a positive one. The definition of business legitimacy also needed to recognise the long term interest of business in the development of the places where they work, so for example, investing in education in Africa or Asia might help enhance a company's long-term position. Countries had differing approaches to relations between private and public sectors and companies needed to be willing to work in partnerships with states or state companies to achieve progress. Manzoni concluded by rejecting the attitude that businesses working in poor countries could address poverty by dealing only with the rich minority in the hope that wealth would 'trickle down' to the rest. He said he did not think companies would be comfortable operating in the midst of deep poverty and doing nothing about it. They needed to find business models that worked at the bottom of the economic pyramid. He gave the example of BP providing solar energy in India and Africa and looking to improve retail distribution of energy in developing countries. He concluded by saying that the global challenges were matched by opportunities, with business experiencing "the largest ever shift in scope and scale for a huge number of business enterprises."

KEY CHALLENGES - CONCLUSIONS FROM DISCUSSION GROUPS:

* **Moving the debate on**: Trends such as conflict, technology; poverty; the environment; and population growth were identified as a 'first tier' of challenges. However, while these still need to be monitored and understood, the debate should be moving on from analysis of now-familiar trends to focus more on how companies can respond to them.
* **The complex energy challenge**: The challenge of energy and the environment is multi-faceted. The long term environmental imperative is to reduce fossil fuel consumption while the short term imperative is to increase energy consumption to meet basic needs, increase life expectancy and lift people out poverty. Technology has huge potential to help square the circle.
* **Changing patterns of shareholding**: In some cases the ownership of business is becoming more opaque, for example through increasing hedge fund involvement. This makes the shareholders' interests harder to define. In other cases shareholder activism is growing, focusing attention on specific issues. Institutional shareholders are becoming more active and vocal. Equity holders such as pensions funds are conduits for the public's money and this link should be more explicit.
* **Poor framework conditions**: Many countries have poor frameworks of law, regulation, intellectual property rights and infrastructure. This can make it hard to operate or allow lack of principle to become competitive edge. These occur when policy frameworks are undeveloped or after regime changes such as in the aftermath of the fall of the Iron Curtain.
* **Global policy vacuums**: The groups echoed John Manzoni's observations on the problems caused by the lack of global policy frameworks in areas ranging from the environment to intellectual property rights.
* **Short-termism**: Companies face pressure from shareholders, customers and others to deliver high value, new products and competitive prices in the short-term which may impair chances of investments that address social and environmental issues for the long-term.

* **Relationships**: Roles of governments, private sector companies and civil society organisations are changing. Businesses need to increase consensus on issues such as the extent to which they are prepared to share roles with governments. Countries vary in the sharpness of the distinction between private and public sector roles. The combination of private sector efficiency and drive with public sector capacity and focus can be powerful. It was also noted that global companies can be small or medium sized niche players which have specialised expertise and these may have a role to play in helping the 'giants' deal with specific issues.
* **Culture clashes**: Working in unfamiliar cultures can cause a number of business-threatening problems including excessive caution, misunderstanding of motives and failure to discern the priorities of customers or partners. An example given was of a European and a US company who both wished to operate in China at a time when there was an impending change in regulation. The US Company started operating immediately, while the European Company cautiously waited to see what the outcome of the regulatory change would be. The US Company was the more successful.

TIM O'BRIEN, VICE PRESIDENT CORPORATE RELATIONS, FORD

Tim O'Brien reviewed the relationships of his company with its various stakeholder groups, observing that they were all in a dynamic state. **Shareholders** were becoming more active. Despite Ford's traditionally stable shareholder structure, with 40% of the voting shares in the hands of the Ford family and a high proportion of long-term shareowners, there was growing pressure from particular shareholder groups on major issues such as climate change and fuel prices. However, these are issues that have high priority in the company not just because of this external pressure but because they are important business issues that need to be addressed. Institutional shareholders have also been relinquishing their traditional passivity and expressing views on a variety of issues. Among **staff**, there was less expectation of a job for life and a relationship of mutual dependency with the company. While it had been common for multiple generations of a family to work for Ford, it was becoming recognised that levels of health benefits and pensions were under pressure from the ageing population and many employees now sought the chance to acquire skills and experience rather than a job for life. Social and environmental challenges are becoming more of a motivating factor for employees. **NGO** strategies varied between the confrontational and collaborative. The two keys to managing relationships were being transparent and asking that people deal with each other in a respectful manner. Relations with **customers** were changing in two ways. First, the traditionally loyal "Ford family" was disappearing. With many excellent products available, competition on price is fierce. Second, on social issues, companies were increasingly being expected to take on the leadership role traditionally occupied by governments. Historically, companies' involvement in this area had taken the form of philanthropy but they were now being expected to take the initiative. O'Brien concluded by saying that 'society' was not a monolith. It contained a rich diversity of views and therefore dealing with society was not like a technical problem that could be 'solved'. Changing relationships were being reflected in changes in how companies sought to distinguish themselves from one another. Price, quality and service are no longer sufficient differentiators. Distinctiveness is now much more relationship-oriented, with features such as family values, sustainability, innovation and involvement in policy being valued. Engagement was the key. It always improved relationships and never diminished them.

LEADERSHIP – KEY CONCLUSIONS FROM DISCUSSION GROUPS:

* **Delegation**: 'Command and control' is obsolete. Leadership must be distributed geographically and hierarchically. This involves clear delegation to establish responsibilities. Strong values provide the compass in situations where there is no chance to 'refer up' or when there are no external constraints because of poor framework conditions or policy vacuums.
* **Purpose and values**: The leader's role is to set direction and articulate purpose and values. This does not simply mean 'mission statements' but a clearly communicated sense of what the company stands for that can be applied to specific situations and guide decision-making.
* **'Beyond shareholder value'**: Purpose goes beyond shareholder value. It includes moral leadership as seen in 'The HP Way' or Johnson & Johnson's 'Credo'. Such classic definitions of purpose often focus on creating products or services that improve customers' quality of life and contribute to human progress.
* **Global business models**: Companies can choose between various business models to manage increasingly far-flung global operations. The 'exporter' model where a company uses expatriate managers to replicate the approach taken at 'home' is increasingly out-dated. Other options are the 'multi-local' model in which companies tailor their operations to local markets and accept wide diversity of culture and process; and the integrated global approach in which authority is decentralised but there are obligations to observe common values, processes and codes. It was doubted whether there are any companies which did not still retain some preferences towards their original home country – in locations, choice of management and directors, and culture.
* **Diversity and inclusion.** The ability to operate successfully across cultures and to attract and advance a range of talented people from different backgrounds were seen as strong factors in competitiveness. Leaders should ideally be 'citizens of the world', with experience in different cultural contexts and the ability to see issues from different perspectives. Whatever they might lack in this respect could be offset by promoting diversity at local level and delegating decisions to local leaders.
* **Identifying interest groups**: 'Society' can be a confusing term. Often, it is more productive to think in terms of the specific interests of particular groups. Key stakeholders are usually shareholders, customers, suppliers, local communities and employees. Countries can be stakeholders when the company's operations are a major factor in the economy. Future generations can also be seen as stakeholders.
* **Adaptation**: Companies have to be sensitive to changing expectations, being prepared to revisit their purpose and values and modify their priorities. However it is better to anticipate change than react to it.
* **Enlightened self-interest**: It is important for companies to understand and articulate their own interests in promoting progress. Treating staff badly or acting irresponsibly creates a financial cost. Therefore treating staff well and acting responsibly is a form of cost avoidance as well as being positive for business and society. Global companies can often take a longer-term view than governments and therefore devise responses to long-term challenges without the distraction of a political agenda. An example was the research supported by private sector companies into solutions to climate change.

MERVYN KING, CHAIRMAN, BRAIT SOUTH AFRICA LIMITED

Mervyn King spoke from the experience of chairing a major investment group, serving as director of several companies, sitting as a judge and chairing the committee that produced the influential King Report on corporate governance. King said that a director's duty was to act in the interests of the company but also as a decent citizen, mindful of the public interest. The public had greater stakes in governance than many of them realised, as their pension and medical funds were used to finance companies and the institutional holders of equity were conduits for money belonging to the person in the street. Good governance sprang from integrity and intellectual honesty rather than from compliance with external standards. Legislation tended to focus on quantitative factors – how many non-executive directors a company had, how many board meetings they attended, the existence of audit and remuneration committees. Good governance consisted of more than 'mindless compliance' with such criteria – Enron had scored highly on such factors. The Sarbanes-Oxley legislation focused on the minutiae of governance in an effort to root out corruption, but King argued that it was in fact impossible to legislate against dishonesty. Good governance was founded on intellectual honesty and developing the right culture in a company – 'how we behave when no-one is watching'. He said that directors should focus on fundamentals rather than details, for example having a clear view of the purpose of their business – and understanding that the purpose should not be making money, as this was an outcome rather than a purpose. They needed to understand that they were the decision-makers and source of company values. The company itself was like an 'incapacitated friend' without the ability to express its own views or values. The directors are the heart, mind and soul of this incapacitated company. Boards needed to ensure companies had a balance between conformance and performance, while remembering that performance is the ultimate responsibility. Directors needed to ensure they devoted sufficient time to their roles and fully understood the issues at stake. Rather than keeping quiet on difficult technical or financial topics they needed to ask the 'dumb questions' that gave them insight and which challenged executives and colleagues.

GOVERNANCE - KEY CONCLUSIONS FROM DISCUSSION GROUPS:

* **Unchanging principles**: Principles of good governance are timeless – defining purpose and values; developing the culture to deliver them; identifying those who should benefit from company activity; developing business plans; monitoring and reporting.
* **Accountability**: The directors' responsibility is to the company. Board members should not represent any particular stakeholder group, as such a representational mandate conflicts with responsibility to the company itself. Interests of stakeholders should be addressed through applying values rather than formal board representation.
* **'Capital providers'**: A company is a sovereign entity. Shareholders can only be seen as 'capital providers' rather than 'owners'.
* **Measuring success**: The ultimate 'social responsibility' is the company's performance in fulfilling its purpose, rather than returns to shareholders. Returns are an outcome, not a purpose.
* **Competing principles between EU, US and others**: It was noted that the US was a rule-bound environment with many constraints on business, whereas the EU was more based on principles with a number of different systems competing within the region.

MOVING FORWARD: The conference was characterised by the recurrence of a number of key themes, suggesting that some consensus is emerging on the major challenges faced by business and some of the necessary responses. The challenges include the lack of global regulation or frameworks in many areas, the spectre of climate change as the dominating environmental factor and the question of how far businesses should go in combating poverty and promoting development. In terms of general responses, recurring themes included the need for a values-driven, decentralised approach overseen by directors of integrity and implemented by diverse and inclusive workforces. In terms of specific initiatives, companies currently display different levels of engagement in social and environmental issues. These range from defensive action to protect reputation, through to advocacy for favoured solutions and a degree of pro-active work to define global standards and solve global problems. For example, some companies were researching solutions to climate change while others were creating voluntary codes and frameworks, such as the Sustainable Forestry Alliance and the Kimberley Process (which seeks to prevent diamonds being used to fund conflict). One optimistic conclusion discussed during the conference was the potential for a virtuous circle whereby better global companies prospered, helping to create a better society which then became a better operating environment with a better informed customer base.

In moving forward the inquiry into 'Tomorrow's Global Company – the challenges and choices', being developed by Tomorrows' Company, will seek to engage more global business leaders and representatives from civil society, creating an ever more focused view on challenges and responses, and drawing out some of the types of action which appear to command respect and can stand as role models for the way tomorrow's global company will need to operate.