

Responsible Business Conduct in an Emerging Market Economy

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*T*his chapter explains what it means to be a responsible business enterprise (RBE) in an emerging market economy. It describes the role of responsible business conduct as owners and managers strive to improve business performance, make profits, and contribute to economic progress in their communities.

It lays a foundation for the chapters that follow by examining the legacies of a command economy and the challenges those legacies present to businesses. The chapter concludes that a responsible business can contribute to a successful evolution to a market economy by improving its business performance; by helping build social capital in its economy; and by working with leaders in business, government, and civil society to develop essential market-oriented institutions.

Evolution to a Market Economy

Where a society wants to evolve from a command to a market economy, the challenges presented to individual enterprises can be daunting. All economies face the same fundamental issues of responsible business conduct—product quality, transparency in financial matters, workplace health and safety, protection of the environment, protection of workers, and compliance with laws and industry standards. However, they are magnified in both degree and kind when an entire society is making a rapid evolution toward a market economy.

- **Evolution to a Market Economy**
- **Transition to a Market Economy**
- **The Individual Business in an Emerging Market Economy**

Enterprise Purpose and Profit

Yes, profit is a cornerstone of what we do—it is a measure of our contribution and a means of self-financed growth—but it has never been the point in and of itself. The point is, in fact, to win, and winning is judged in the eyes of the customer and by doing something you can be proud of. There is symmetry of logic in this. If we provide real satisfaction to real customers—we will be profitable.

David Packard, Founder
Hewlett-Packard

RESPONSIBLE BUSINESS CONDUCT IN A MARKET ECONOMY

Whereas the market economy has proved to be an essential condition for meeting the needs of the most people, valuable lessons have been learned along the way, often at great social cost. Societies and individual business enterprises have learned that it matters *how* profits are made, *how* wealth is distributed, and *whether* business can be sustained.

Business enterprises today are expected to meet standards of responsible business conduct that go beyond what had been expected traditionally. Although people more often than not still speak of business in terms of products, jobs, and profits, it is understood and accepted across the globe that a business enterprise remains a member of its community. The pursuit of profits and economic progress is not a license to ignore community norms, values, and standards of respect, integrity, and quality.

Improved business performance, profits, and economic progress come to those who effectively and efficiently foster and meet the reasonable expectations of their primary stakeholders—customers, employees, suppliers, investors, and the environment, as well as the owners and managers themselves (see Box 1.1). Success for any business is ultimately measured in profits and losses, and the socially responsible business generates the capital and revenues required to operate and stay in business over the long haul. The socially responsible business must generate enough revenue to cover the real cost of capital, the risks and uncertainties of future economic activity, and the needs of its workers and pensioners. The socially irresponsible enterprise,

BUSINESS ENTERPRISE STAKEHOLDERS

Stakeholders are all those involved in, affected by, or able to influence the business enterprise, including:

- Customers and consumers
- Owners, shareholders, and creditors
- Employees and agents
- Suppliers
- Competitors
- Media and advocacy groups
- Government
- Families
- Communities
- Society
- Environment

however, fails to cover these costs because it is unable to meet the reasonable expectations of its stakeholders.¹

For example, an effective, efficient, and responsible enterprise generates revenue by satisfying customers. It attracts capital by meeting investor expectations for return on investment. It increases effectiveness by attracting the best employees. It reduces costs by reducing mistakes, misconduct, and misunderstandings.

An RBE holds some enduring purpose beyond profit to define the enterprise and inspire and guide its employees and agents, because a purpose beyond profit sustains business enterprises.² Enterprise purpose, moreover, helps employees and agents have a deeper understanding of the intent

Reflecting Purpose

The specific goals that guide decisions throughout an organization have their genesis in corporate purpose. In essence, goals internalize the preferences of the markets the company has chosen to serve. A principal task of management is to embed corporate purpose in a set of ever more precise goals and performance measures as they cascade down the organization.

Richard F. Ellsworth
Leading with Purpose

behind specific goals, measures, and actions. “With this understanding,” one author notes, “comes a greater acceptance of and, if they are consistent with the person’s values, commitment to the individual goals.”³

THE BUSINESS ETHICS PROGRAM

An RBE is characterized by responsible business conduct at all four levels of its identity⁴ as an enterprise:

1. Compliance with the law
2. Risk management
3. Reputation enhancement
4. Value added to the community

Responsible business conduct includes the choices and actions of owners, managers, employees, and agents that are (a) within their authority, (b) well informed, (c) intended to pursue the enterprise purpose and meet reasonable stakeholder expectations, and (d) sustainable over time. Responsible business conduct allows an enterprise to improve its business performance, make profits, and contribute to the economic progress of its community.

Among the lessons learned by both business and government is that responsible business conduct can be encouraged by the structures and systems, procedures, and practices of responsible business conduct, often called

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TRIPLE BOTTOM LINE

There is a new phrase appearing in business language or “business speak.” It is the concept of Triple Bottom Line, a concept that recognises that there are three legs to the measurement of a company’s performance—these being financial, social, and environmental. Put in a more friendly way Triple Bottom Line is about “People, Planet and Profits.” This concept recognises that a company cannot be judged by financial performance alone. Furthermore, it also recognises that the three legs are linked. It is not sufficient, however, just to talk about Triple Bottom Line as a “nice, warm, fuzzy” concept. For those of us who see this concept as the way of the future it is also necessary to “walk the talk.” So this is it—the Hubbard Foods Ltd. Triple Bottom

Line Report—a first attempt to translate this concept into the reality of running a business such as ours.

This report has also taken some soul searching on our behalf and also, I believe, some bravery. In business, we have traditionally been taught to only present the Company in the best possible light, particularly to that important group of stakeholders—the customer. It’s hard to be honest and self critical in a public way. It’s easy to highlight your successes but hard to highlight your failures and your areas for improvement. In the case of a private company it is also hard to publicly disclose our financial information.

Hubbard Foods Ltd. (New Zealand)
“CEO’s Statement”

good corporate governance or *best practices*. Moreover, many businesses now account for the impact they have on all their stakeholders, including their social impact—how they deal with employees, suppliers, and the community—and their environmental impact—how they treat the environment.⁵

A management tool owners and managers use to encourage responsible business conduct is commonly called a *business ethics program*. A business ethics program also helps owners and managers address the *triple bottom line*: the financial, social, and environmental results or impacts of the business's operations (see Box 1.2).

Business owners and managers have learned that a business ethics program helps owners and managers improve their business performance, make profits, and contribute to economic progress by better

- Recognizing political, economic, social, and technological pressures
- Understanding organizational culture: core beliefs, participation, responsibility, knowledge sharing, and methods of dealing with conflict
- Fostering reasonable stakeholder expectations
- Developing responsible management practices to meet stakeholder expectations
- Learning from enterprise decisions and activities

THE GLOBAL MARKETPLACE

The market economy has become increasingly global. Leaders in business, government, and nongovernmental organizations (NGOs) now see global economic development as “the best way to increase prosperity within and among countries, and to create opportunities for millions of people, especially in the developing world, to secure a decent life for themselves and their children.”⁶ The challenge is to find the right balance between emerging global norms, values, and standards and local cultures, business practices, and community needs.⁷

Businesses in emerging market economies face many challenges, as discussed in more detail later in this chapter. For example, although no society *approves* of paying or accepting bribes, in societies where workers receive lower than subsistence-level pay, “expediting fees” (also known as “bribes”) often become unapproved but *accepted* behavior under local custom. In such societies, bribery is so common that even law enforcement officials pay bribes to gain their positions.

While this manual describes processes reflecting emerging global standards, the design and implementation of a business ethics program requires extreme sensitivity to local norms, values, and standards. The program must

Cultural Differences

Given the country and industry differences found, from a managerial perspective, it appears to be a mistake to expect all corporate ethics policies to look alike. Careful thought should be given to tailoring the policy to the particular firm, industry, and country. Large multinational firms operating in a number of countries need to consider the general applicability of a code of ethics or ethics training that was developed in the country in which the firm's headquarters is located. If ethical concerns differ by country, then imposing a set of standards developed for one country on another country may be counterproductive. Similarly, expatriates working for multinational firms need to be aware that their own perception of ethical issues may not match that of their native fellow employees.

Bodo B. Schlegelmilch and Diana G. Robertson
 "The Influence of Country and Industry on Ethical
 Perceptions of Senior Executives in the U.S. and Europe"

recognize that management policies, standards, and procedures will be open to interpretation at all levels of the enterprise. For example, a superficial approach to responsible business conduct condemns bribes and threatens to punish those who pay or accept them. However, a business ethics program takes a comprehensive approach. It recognizes such accepted behavior as part of the challenges facing the enterprise and addresses such issues systematically. In other words, it addresses them at their roots by examining hiring processes, compensation schemes, and training and education; by instituting monitoring, auditing, and reporting mechanisms; and by influencing the legislative or regulatory processes.⁸

A business ethics program does not set up either the enterprise or its employees and agents for failure. Rather, it strives to place the right people in the right positions in the enterprise to foster and meet reasonable stakeholder expectations as the surest means to improved business performance, profits, and economic progress. It scans the relevant context of the enterprise and its organizational culture to identify challenges and to develop responsible ways to meet them. It starts from the assumption that enterprises are integral parts of their communities. It encourages them to work within the community to overcome the challenges of emerging market economies and contribute to community-driven development.

Moreover, a business ethics program takes care not to mistake cultural, legal, or religious differences for a lack of ethics. In Islamic countries, for example, *mudaraba* (reflecting a *Sharia* law requirement that a lender charge

no interest) may result in forms of payment that could be mistaken by those unfamiliar with the culture as inappropriate or unethical (that is, as “kick-backs”).⁹ A common cultural difference is the attitude toward hiring relatives. In some cultures, it is expected that owners and managers will hire relatives as a matter of course. In others, hiring relatives, which is known as *nepotism*, is discouraged or, in some circumstances, prohibited.

RESPONSIBLE BUSINESS AS PART OF THE SOLUTION

As long as businesses concentrate their attention and efforts on dealing with everyday challenges rather than striving to rise above them, they may be part of the problem. For example, although paying a small bribe to get a permit or to evade taxes may be “just the way things are done” or something that “everyone does,” businesses that do so may perpetuate business practices and conduct that make the evolution to a market economy more difficult.

The ultimate issue for an RBE in an emerging market economy is whether it sees itself as part of the current problem or part of the solution. We hope this manual inspires all enterprises to see themselves as part of the solution and provides them with a process and a toolkit to develop a road map to guide their employees and agents, improve their business performance, make profits, and increase the prosperity of their communities.

THE SMALL TO MEDIUM-SIZED ENTERPRISE

The “place business should occupy in society”¹⁰ is a particularly challenging issue for the small to medium-sized enterprise (SME).¹¹ Each SME is unique, often taking on the character of its owners and managers. There is surpris-

Role of Business

At issue is the place that business should occupy in society, an issue that raises a host of questions about how companies can or should—in their own sphere of influence—contribute to progress in areas such as the environment, labour conditions, and human rights.

Maria Livanos Cattai, Secretary General
International Chamber of Commerce

ingly little research into the social responsibility of the SME.¹² Moreover, it is difficult, at best, to generalize the SME experience from country to country or even between regions within a particular country.¹³

SMEs in emerging markets are pioneers; they are plowing new ground as they contribute to developing a market economy. In most economies, they provide the bulk of jobs, especially new jobs, and contribute significantly to the welfare of their communities because they are so closely connected. However, SMEs often lack the capital, staff, or time of large, complex enterprises (LCEs) to address many business issues. For example, tracking and complying with changing laws and regulations are relatively more costly for SMEs. SMEs seldom have the close relationships with government that LCEs have, especially those recently privatized. They are often unable to defend themselves against unreasonable decrees, laws, or regulations or to advocate for changes that would facilitate the transition to a market economy.

Though many of the best practices developed over the past two decades reflect the experiences of LCEs, there are a number of reasons why an SME might profit by adapting what the LCEs have learned:

- The SME of today is more apt to become the LCE of tomorrow by adopting emerging global standards and adapting the best practices of successful LCEs.
- By adopting global standards and adapting best practices where they make sense, owners and managers are able to distinguish their SME from the competition.
- By understanding the basic principles and practices of the emerging global marketplace, owners and managers will be better able to recognize responsible business conduct issues earlier and to work with others to find solutions.
- Especially in a business environment that some perceive as high risk, first impressions count. Developing a business ethics program will help owners and managers present a core set of beliefs and standards more clearly, thus demonstrating to investors and customers their enterprise's commitment to being an RBE in the global marketplace.
- If an SME's people are conversant in the language of emerging global standards and best practices, they will be better able to speak the language of the global markets—and the opportunities to be found there.

Whereas the process of developing standards, procedures, and expectations is the same for all enterprises, the answers for each enterprise will depend on the size and complexity of the enterprise itself. The goal for the SME is not to duplicate the standards, procedures, infrastructure, practices, and expectations of LCEs, but to learn from them—and to improve them.

The CEO statement in Box 1.2, for example, is a part of the report to stakeholders of a 100-person New Zealand food-processing firm.¹⁴

Moreover, SMEs will find that they need not act alone in adopting the world-class standards, procedures, infrastructure, practices, and expectations described in these materials. Chambers of commerce, business associations, colleges and universities, NGOs, and other professional advisers can use the guide to help SMEs find their way.

Transition to a Market Economy

For the enterprise in an emerging market economy struggling to make payroll, not to mention a profit, global economic development is, at once, an opportunity, a risk, and a challenge. As an opportunity, it offers tantalizing prospects for new markets and access to international capital. The risk, however, is heightened competition and capital flow reversals from the slightest perceived political, economic, or social threat. The challenge is to learn from the experiences of successful businesses in market economies and to adapt them to overcome the legacies of the command economy. By learning from others' experiences (including the mistakes), enterprises in emerging markets can contribute to the development of their own market economies and can join the global marketplace.

A business can influence—but not control—the political, economic, and social contexts in which it operates (its *relevant context*). Business leaders

PRACTICE NOTE

Transition to a Market Economy

The transition from socialism is a unique historical process. Never before have countries attempted such a radical and simultaneous transformation of both their political and economic institutions. Underpinning these transformations has been a complex set of reforms that entail building the basic institutions of state, creating the foundations of a market economy and transferring wealth from the state to the private sector on a large scale.

World Bank
Anticorruption in Transition

must work with NGOs and government legislators and regulators to develop a political, economic, and social context in which responsible businesses can compete fairly—and succeed. Businesses and societies that do not meet or aspire to meet these global standards and expectations are unlikely to be ready to participate fully in the global marketplace.

LEGACIES OF CENTRAL PLANNING

Central planning and state-owned production characterized command economies.¹⁵ Resources were allocated by plan instead of by markets. Employment was generally full but effectively rationed through an internal passport system. Capital was allocated centrally through a single institution. Enterprises were responsible for production but not for marketing or pricing. Since planning was based on quantity, not quality, enterprises had little incentive for innovation; indeed, innovation or quality improvement was often punished with higher quotas or standards.¹⁶

The law restricted or abolished human and property rights and the sanctity of contract. It limited individual rights rather than state power. The legal system lacked procedural and institutional tools to protect individual property and human rights and support the sanctity of contract. The legislative framework was not oriented toward private enterprise, and regulators, judges, and lawyers had little knowledge of, or experience in, free market concepts.¹⁷

When governments abruptly halted central planning of an entire economy, they left a legacy of cultural, institutional, and economic hurdles for market-oriented reform. The networks of business relationships that form the core of a market economy were largely nonexistent, and enterprises had to develop them without the benefit of markets and supportive institutional and legal frameworks.

Economic Structure Precluded Competition, Entry, and Exit

The competition and innovation to meet the most important needs of customers and consumers, which characterize a market economy, were either unlawful or discouraged in command economies. For relative ease of control, state-owned enterprises tended to be large. New, competitive firms were few and were found more often in the unofficial or “shadow economy.” Even state-owned enterprises survived through an informal bartering system, which remains, in large part, to this day.¹⁸ Exit—that is, failure—was seldom feasible because the economy was expected to maintain full employment and because of the official embarrassment that would arise from a failure. There was little competition from foreign producers, since trade relations were governed and restricted by planners.

In many emerging market economies, it is still relatively difficult for a firm to enter the market. The number of procedures, time of entry, and cost of entry vary, but they often greatly exceed what is required to set up an enterprise in a market economy.¹⁹ Enterprises are still expected to provide work and housing to some extent. When the high costs of entry are combined with low levels of “latent entrepreneurship” (an individual preference for self-employment as opposed to employment),²⁰ domestic competitive forces develop slowly, and open markets become less an opportunity than a threat.

Producers Had Little Contact with Stakeholders

In a command economy, individual enterprises rarely had direct contact with suppliers, customers, or consumers—some of the stakeholders in a business enterprise. For many owners and managers, the concept of a stakeholder is novel, even strange. Entrepreneurs now have to develop these essential relationships, and many others, where none existed before:

- **Customers and consumers.** Recently privatized enterprises had to shift their attention and efforts from satisfying the express preferences of planners—especially in heavy industry—to identifying and satisfying the preferences of customers and consumers.
- **Employees and agents.** In a centrally planned economy, where the quantity of goods produced is more important than their quality or fitness for customer purpose, managers could afford to look at employees as “hands.” Independent judgment was often discouraged, and objectivity was seldom valued. People were not expected to bring unique qualities to their jobs. Indeed, until relatively recently, industrial economies saw employees much the same way. In today’s market economies, however, a business enterprise needs to tap all the human potential available to it to compete effectively. Enterprises now recognize that they must invest in their employees and agents and “create a work environment that respects the dignity and contribution of each individual.”²¹
- **Suppliers and service providers.** With the abolition of central planning, an enterprise needs to develop a chain of suppliers, since it can now choose what suppliers and service providers it wants to work with—and vice versa.
- **Shareholders and owners.** Often, the privatization methods used by many transitioning economies failed to ensure the presence of a *strategic owner*: a single shareholder with sufficient stake to provide motivation for monitoring management effectively. Conversely, some voucher privatization schemes resulted in abusive corporate takeovers whereby an individual was able to purchase small shares of a major state asset at a low cost and to take control of that asset through abuse of the legal process and through corrupt practices. In either event, privatization schemes often failed to require effective corporate governance systems.

Where there is separation of ownership and management without accountability, there is little incentive for managers to make decisions to the benefit of shareholders who have no voice. Managers are, in such cases, able to use the assets of the enterprise to their own purposes.

- **Lenders and investors.** Since in a command economy success for an enterprise was measured by meeting production quotas, businesses had little or no experience with the risk management aspects of lending and investing. Corporate governance encouraging financial transparency is developing slowly, but a continuing barter system makes financial analysis for capital and credit difficult.
- **Government officials and agencies.** Under a command economy, the political system fundamentally favored incumbent firms. At the local level, relationships were very close between politicians or bureaucrats and senior management. Though most state enterprises have by now been privatized, many of these close relationships between politicians and business managers remain in place. In some societies, many large enterprises strive to “capture” the state by securing the passage of laws or by obtaining licenses that benefit them over other enterprises.²² In others, the state has effectively captured the economy by controlling a dominant crop or natural resource, for example, even though economic resources are nominally owned by the private sector.

Market-Oriented Legislative, Procedural, and Institutional Tools Did Not Exist

A market economy requires a high degree of confidence in the rule of law for business to meet its economic, social, and environmental responsibilities. In many emerging market economies, the vast majority of people do not trust one another. The distrust surrounding the enforceability of contracts, for example, leads to large portions of the population believing that negotiations are not over even after a contract is signed. Transaction costs to protect one party from the other in such circumstances are much higher as a result.

A legal framework oriented toward free markets and reliable judicial institutions is essential for this confidence to develop over time. Such a framework will need

- Contract laws
- Laws regarding the formation, operation, management, and dissolution of corporations
- Laws on privatization
- Real estate laws
- Laws against unfair competition

You Decide

International Labor Organization standards protect the right of workers to bargain collectively. In at least one country in East Asia, employee unions are forbidden by statute. If the employees want to bargain as a group, how should the RBE relate to its workers? Should it bargain with the group of employees?



- Labor–management laws
- Tax laws
- Accounting and auditing standards
- Laws protecting intellectual property rights
- Bankruptcy laws
- Environmental protection legislation and regulation
- Laws ensuring fiduciary responsibilities of managers and directors
- Rules governing the rights and obligations of shareholders, managers, and boards of directors
- Laws permitting class-action suits

You Decide

An electric power distributor is the sole provider in a capital city. It requires customers to sign a contract that binds them, but it sets forth no obligations on the part of the distributor. Are there circumstances under which such a contract should not be enforced?

A confusing, burdensome, or even unfair legislative and regulatory framework drives up the cost of setting up a business, dissuades investors, and provides a fertile ground for corruption. As one researcher observes, “Some critics even believe that regulations are intentionally drafted in a confusing manner to provide officials with more discretion.”²³ Such a framework is particularly damaging to the SME. Under such circumstances, responsible business conduct is frequently discarded in favor of survival, or the law is bent or interpreted to fit the circumstances.

Even where laws and regulations are well drafted, they are often enforced unevenly—or ignored by the population—in practice. The failure to enforce the legislative and regulatory framework, *or to comply with it*, contributes to confusion, places the law-abiding enterprise at a competitive disadvantage, discourages investors, and extends a climate of corruption.²⁴

Although this manual urges building an RBE from an ethical perspective, it is often the case that the state itself must actively support enterprises that are trying to be responsible but that find themselves at a competitive disadvantage. A key to introducing ethics in an emerging market economy, then, is to build a market-oriented legal framework and reliable judicial institutions. Prescriptive rules, which would be undue government interference in a developed economy, may be necessary to ensure that responsible business conduct becomes a norm, a value, and a standard. The RBE works with other leaders to influence government regulation to that end.

No less important than new laws, one researcher notes, is a judiciary proficient at interpreting and enforcing the law with integrity.²⁵ The creation of effective dispute resolution mechanisms that can offer businesses transparent, predictable, and cost-effective results is one of the most important steps a government can take to support market processes in an emerging market economy.²⁶ Finally, government agencies must exercise their authority and responsibility to execute the judgments reached.

Climate of Illegal Activity Persists

A final legacy of central planning is a climate of illegal activity. This legacy stems from the autocratic nature of the state and the unaccountability of its officials in a command economy, the remaining close ties between government and business, the incomplete legal and institutional reforms, the political and economic instability, and the ineffective implementation of market-oriented reforms.²⁷

Among the consequences of a command economy was the emergence of an unofficial or “shadow economy,” which was, by definition, unlawful. Current entry barriers increase the potential for administrative corruption, where entrepreneurs are tempted to pay bribes to overcome administrative barriers.²⁸ Higher entry costs are associated with higher corruption and larger unofficial sectors of the economy.

With the collapse of central planning and the lack of external constraints, insiders and managers during the transition to a market economy often took the opportunity to appropriate state-owned enterprises for their benefit, leading to asset stripping and rent diversion. Often, important natural resources or whole industrial sectors were converted by insiders and managers.²⁹

DEVELOPMENT OF MARKET-ORIENTED INSTITUTIONS

To raise the living standards of its people, a society must provide the conditions for a functioning market. In a free market, the role of government in the marketplace is limited to protecting it from those who would attack or abuse it. “The state creates and preserves the environment in which the market can safely operate.”³⁰ A free market minimizes the role of command and maximizes the scope for exchange of goods and service to meet important needs through transactions free of duress and not otherwise unconscionable.³¹ A suitable institutional framework for a market economy would typically contain at least the following seven components:³²

1. A transparent regulatory system, including securities regulation
2. A sophisticated accounting and banking profession
3. A stock exchange with meaningful listing standards
4. Labor–management regulations
5. A system of protection for intellectual property
6. Effective legal and judiciary systems
7. A broad-based tax system

Emerging market economies are struggling to provide these conditions to overcome the legacies of central planning, but institutional development

takes time to design and implement. How successful an emerging economy is at developing an institutional framework depends, at least in part, on whether (and how long) it had been a sovereign state, how well developed its institutions of public administration were, and how many valuable natural resources it can privatize.³³

In the meantime, many owners and managers struggle with the question, “What does it mean to be a responsible business?” It is a sign of a healthy dialogue that leaders in businesses, governments, and civil society are asking the same question, not just in emerging market economies, but also across the globe.

The Individual Business in an Emerging Market Economy

The RBE recognizes its many roles and responsibilities in the community—and engages its stakeholders—adding as much value as possible. Through creativity, flexibility, and responsiveness in its day-to-day operations, it can add value to the community in many ways:

- Serving the most important needs of its customers and consumers
- Providing gainful employment for its employees and agents, so that they can provide for their families and be responsible citizens
- Providing an adequate return to investors
- Purchasing goods and services from its suppliers and service providers
- Competing intensely, but fairly
- Forming strategic partnerships and alliances to create new business opportunities
- Supporting community infrastructure through taxes and fees
- Participating in the political process to improve market conditions
- Respecting the environment³⁴

The trust-engendering manner in which an RBE engages its stakeholders is a substantial contribution to the community in and of itself. Such enterprises help lay a foundation for a functioning market economy for all.

In an emerging market economy, an RBE must confront and rise above the legacies of a command economy. As a part of the solution to its economy’s problems, it can participate in three essential ways: improving its business performance; helping build social capital in its economy; and working with leaders in business, government, and civil society to develop the essential market-oriented legal framework and reliable judicial institutions.

IMPROVING BUSINESS PERFORMANCE

An essential contribution of any business enterprise in the evolution to a market economy is to improve its own business performance.³⁵ For all business enterprises, this is the first step toward making profits and contributing to economic progress. Performance can be improved by expanding and better engaging stakeholders as follows:

- Establishing clear standards and procedures to guide employees and agents
- Focusing on anticipating and meeting the needs and desires of customers and consumers more effectively and efficiently
- Attracting, hiring, and bringing out the best in employees, suppliers, and service providers
- Establishing internal control mechanisms to build confidence among dispersed owners and investors
- Developing and maintaining strategic alliances with enterprises sharing the same values

These best practices are at the heart of a business ethics program. They can significantly improve an enterprise's prospects for success, as described in more detail in Chapter 2. They can help an enterprise improve its reputation, manage its risk, protect itself from its own employees and agents, strengthen its competitive position, expand its access to capital and credit, increase profits, sustain long-term growth, and gain international respect.

HELPING BUILD SOCIAL CAPITAL

Respect, shared values, and mutual trust among individuals, businesses, NGOs, and government officials are the foundation of a market economy. To compete effectively and sustain economic growth, enterprises need social capital as well as financial capital. To contribute to this social capital, an RBE can

- Make the case in its community for a market economy and the role of responsible business.
- Develop a reputation for meeting the reasonable expectations of its stakeholders.
- Agree to voluntary forms of alternative dispute resolution, such as mediation and arbitration, while domestic courts are formed.
- Take responsibility for its mistakes and misconduct.
- Be willing to be held accountable for its mistakes and misconduct.

- Correct misunderstandings about its decisions and activities.
- Compete fairly with competition, both foreign and domestic.

How effectively, efficiently, and responsibly an enterprise is able to add value to its community depends, in large part, on how much its stakeholders trust one another. As described further in Chapter 2, where market participants and community members cannot trust one another, transaction costs soar. It may be that in markets and communities, especially in emerging market economies, the value an RBE most profitably adds is to be worthy of trust—and to encourage other market participants and community members to be trustworthy as well.

WORKING WITH LEADERS IN BUSINESS, GOVERNMENT, AND CIVIL SOCIETY

An RBE helps government create the conditions for a market economy by promoting responsible business conduct—through self-regulation or by conducting a public dialogue with government officials and NGOs. Even where the legal framework of decrees, laws, and regulations is unfair, supporting the rule of law is an important practice for an RBE. Faced with an unfair legal framework, for example, businesses can work with other businesses and NGOs to point out the ethical dimensions of the decree, law, or regulation and to work for change.

Responsible businesses can serve as a voice for the community. They can work with leaders in government, business, and NGOs to do the following:

- Help develop the necessary institutional and legal frameworks for a market economy.
- Support initiatives to develop good public governance on the part of government itself.
- Strengthen NGOs to provide community-building services that business and government are unable to provide.³⁶

In economies where the government is unable to provide the social services a community requires, an RBE can work with other businesses and NGOs to identify community needs and can work with community-based organizations to provide such services. For example, the RBE can contribute supplies or services as a part of community-driven development, or it can contribute funds to community foundations. Some enterprises create their own charity programs or foundations or support volunteer work by employees.

SUMMARY

Across the globe, businesses are expected to be responsible—to improve their performance, to make profits, and to contribute to the economic progress of their communities by learning how to meet the reasonable expectations of their stakeholders: their customers, employees, suppliers, investors, and the environment, among others. Moreover, an enterprise does not cease being a member of its community simply by virtue of entering into business. It is still responsible for meeting community norms, values, and standards.

An RBE in an emerging market economy has many legacies of a command economy to overcome while the state develops a legal framework and institutions that are market-oriented. An RBE can participate in the transition to a market economy by improving its business performance; by helping build social capital in its economy; and by working with leaders in business, government, and civil society to develop the essential market-oriented legal framework and reliable judicial institutions.



RESPONSIBLE BUSINESS ENTERPRISE

Checklist

1. **List as quickly as possible your own heroes or heroines. Is this easy? If not, what does that imply about what it means to be the owner or manager of a responsible business enterprise?**³⁷
2. **What challenges does your enterprise face in the years ahead?**
3. **Who are the stakeholders of your enterprise?**
4. **What do you see as the role of business in your society? What, if anything, do you owe your stakeholders?**
5. **What standards and procedures have you established to guide your employees and agents?**
6. **What do your stakeholders expect of your enterprise, employees, and agents? Are they reasonable expectations? What do you do to foster reasonable expectations?**
7. **How do you know what your stakeholders expect? How do you know you are meeting their expectations?**