X
Hummer versus Hybrid

The global economy cries out for American business to respond to a series of daunting challenges. Domestically, the business sector is responsible for maintaining high levels of productivity, employment, capital investment, and stimulation of consumer spending. Internationally, the business community has the great responsibility—and privilege—of helping to lift the majority of the world's population out of poverty, poor health, and deprivation. Today's multinational corporations, with their powerful integrations of capital, technology, and managerial skills, constitute just about the only force capable of transforming billions of people subsisting on meager incomes of one or two dollars a day into active participants in thriving market economies.

But our corporations cannot perform these outstanding deeds without enlightened policies and public goodwill. Scandals eat away at that goodwill like maggots. Instead of basking in the warmth of public approval and respect, the leaders of our corporations are seen as greedy opportunists seeking to enrich themselves at the expense of their employees, customers, and the general public.

In the previous chapter I described some of the reforms needed in the role of gatekeepers. Gatekeepers are important. But in the final analysis, it is the CEOs and boards of individual corporations who hold the key to stopping the scandals. Only they can restore the climate of confidence and trust that business needs if it is to move onto a new stage of market capitalism. As the American Academy's Corporate Responsibility Committee acknowledges, if scandals are to be limited to a few rogue companies, the major responsibility for reform depends on the actions of individual companies—the focus of this book.[1] At the level of individual companies, there are as yet few signs of dramatic change and reform. In my view, reform will come gradually and undramatically. It may even be imperceptible, but it will surely come.

Reforms will probably begin in the boardrooms of companies whose stock has fallen from favor because of the scandals. In corporate retreats, thoughtful directors and company executives will begin to design new incentive programs that align the company's interests not only with those of shareholders and with short-term goals but also with its long-term strategic goals, as well as with the interests of customers, employees, and the community. This is a first step toward stewardship ethics.

Companies tainted by scandal must accept the reality that restoring their reputation is a priority that they cannot shirk. Their boards cannot responsibly let them do otherwise. At the same time, companies untainted by scandal are starting to recognize the great competitive advantage they can reap by strengthening their reputations for integrity and good stewardship.

In other words, the lessons learned from recent experience with the scandals are just beginning to be applied. Their effects are not yet robust or positive enough to dispel the cli-

mate of mistrust and stop further scandals. More fundamental rethinking is called for. But by giving business a positive incentive to move to a higher standard of ethical performance—the level of stewardship ethics—the scandals give businesses an opportunity to transform a liability into an asset.

Before discussing the tactics to achieve this goal—the subject of this final chapter—it may be useful to recap the core meanings of stewardship ethics in relationship to our democratic form of government.

Core Meanings

In earlier chapters I identified these key attributes:

- ✓ Stewardship ethics always involves selectivity and caring—selecting those whom the company cares for and how it expresses that caring.
- ✓ Stewardship ethics emphasizes the community side of the corporation—the need to develop communal values.
- ✓ Stewardship ethics always seeks to leave the institution better off than it was when the CEO's stewardship began.
- ✓ Stewardship ethics responds positively to the society's insistence that more is expected of those with substantial resources and economic power.
- ✓ Stewardship ethics emphasizes the conscious effort required to reconcile profitability with social good.

A number of companies are moving in this direction. Starbucks gives special care to its suppliers, its coffee growers. Southwest Airlines is clear about its selectivity: its president

has been quoted as saying, "We have the pyramid upside down. Employees are first. Passengers are second. Shareholders are third."[2] Procter and Gamble regards the community side of the business as an essential part of its core values. The former CEO John Pepper writes: "I believe being a community is Procter and Gamble's greatest competitive advantage."[3] High among Hewlett-Packard's core values is the belief that the company exists to make technical contributions that will benefit society and not just make money. G.E. is making a conscious effort to reconcile profitability with using new technology to meet pressing environmental needs. As Dell became a leader in the computer industry, it faced ever-greater pressures to take the lead in recycling, and now Dell treats recycling as a profit center.

Stewardship ethics is a contemporary form of enlightened self-interest. The question all corporate management must answer is: "What is the best way for our company to pursue its enlightened self-interest at this particular time and under the changing conditions under which we operate?"

The focus on enlightened self-interest makes this a very traditional question. The focus on changing conditions makes it a contemporary question. Posing the question as one requiring a thoughtful, serious empirical answer presupposes a pragmatic approach rather than an ideological one.

The question makes these assumptions about a company's enlightened self-interest:

1. It will differ from company to company and industry to industry
2. It is likely to change as circumstances change
3. It will require a special effort on behalf of the company to align its interests with those of the larger society.

It is this third assumption that will cause controversy. Unlike classic laissez-faire doctrine, stewardship ethics does not presuppose that all reasonably honest ways of making profit somehow serve the public good. There are simply too many instances of "market failure" in which the pursuit of profit comes at the expense of the public interest rather than advancing it.

Pragmatists will recognize that the traditional what's-good-for-business-is-good-for-the-country ideology is sometimes correct and sometimes incorrect. As corporations take a closer look at the link between their profit-making strategies and their obligations to take care of a variety of constituencies, they will see that some profit-making strategies do not benefit stakeholders they care about—or should care about.

Wal-Mart's lower prices, for instance, may well come at the expense of its one million employees. Detroit's love affair with SUV profits may come at the expense of the nation's energy independence. By remaining in denial about the nation's need for greater fuel efficiency, Detroit's automobile manufacturers have defined their self-interest in ways that pit it against the common interest. Big pharma's habit of demanding huge price hikes for marginal improvements in existing drugs comes at the expense of hard-pressed consumers and the public at large. In all these instances, self-interest is *un*enlightened because it is not aligned with the interests of the society.

The most creative challenge of stewardship ethics is to learn how to make profitability and society's interests more compatible. A company can, for example, pursue environmental policies in ways that undermine either its own profits or the environment, or it can develop strategies toward the environment that make profits and sustainability compatible. A number of the world's largest oil companies are finding new ways

to reconcile the search for sustainability with profitability. A billionaire real estate developer in Syracuse, New York, Robert Congel, has found imaginative new ways to rescue the city's most blighted areas to everyone's benefit. G.E. has organized a program that it calls Ecomagination to apply new technologies to solve environmental problems. Under Ecomagination, G.E. plans to more than double its research and development from $700 million a year in 2004 to $1.5 billion in the coming years. Upon launching the new program, G.E. CEO Jeff Immelt said: "Ecomagination is G.E.'s commitment to address challenges such as the need for cleaner, more efficient sources of energy, reduced emissions and abundant sources of clean water. And we plan to make money doing it. Increasingly for business, 'green is green.'" It is just as blind to assume that companies cannot pursue profit making while also seeking to do good as it is to assume that all forms of profit seeking automatically result in social good.[4]

The Link to Democracy

Consider a controversial example of the search for enlightened self-interest. Many observers believe that by flooding the housing market with risky new interest-only and adjustable-rate mortgages, the nation's banks may be creating a housing bubble, thereby undermining the public interest. If true, the banks would be guilty of *un*enlightened self-interest.

The banks argue strenuously against this widespread assumption. They cite Alan Greenspan's statement that "the traditional mortgage may be an expensive method of financing a home." They argue that the new mortgages do not contribute to a housing bubble, that on the contrary, they advance the American Dream of home ownership while adding to bank profits.[5]

Time will prove who is right and wrong in this debate. The point is that identifying true enlightened self-interest is often difficult and controversial.

It is this difficulty that makes the link between stewardship ethics and democracy compelling. The search always involves a jumble of competing interests and judgments. Having all of the varied interests compete in a democratic fashion, with all participants having a voice, is probably the only practical way the system can work. Expert advice may be needed for technical input, but the most important decisions always involve values and interests, and there is no satisfactory alternative to democracy to settle the clash of values and interests.

Why must companies such as mortgage lending banks actively seek to align their interests with the common interest? Why shouldn't privately owned companies go about their business of maximizing their profits without regard to responsibilities that are properly those of government? The general public elects public officials; they do not elect CEOs, who are not accountable to them.

Fortunately, our democracy encourages enlightened self-interest by creating checks and balances that make the system self-corrective. If the banks are proven correct, their reputation will be enhanced. If they are proven wrong, not only will their reputation suffer, but the voting public will demand regulation that imposes new constraints on them, some punitive in character.

In a democracy, reputation is all-important. The reputation of a company and its associated brand names may be a company's most valuable asset—and all thoughtful business executives realize this. The care and feeding of the company's reputation is a vital aspect of the CEO's responsibilities. Operationally, reputation reflects how well the company meets the

expectations of various stakeholders (including the voting public). If and when a company is able to gain a superior reputation by meeting or exceeding these expectations, it enjoys a sizable edge over its competitors. For fallen angels like Merck and Shell, a loss of reputation is a serious blow, and these companies' efforts to regain their good name must be unremitting.

Tactics

Implementing stewardship ethics confronts companies with a number of vital tactical issues:

- If a company adopts a longer time perspective, how can it avoid a huge hit to the short-term price of its stock?
- How should the company deal with the demands of employees, customers, environmentalists, and the larger community if and when these conflict with shareholder interests?
- How can the company upgrade the ethical tone of its corporate culture when the culture of the larger society appears to be working against it?
- How can the company systematically reconcile its profitability goals with a commitment to advance overall social welfare?
- What is the best way for the company to effect a transition from shareholder value to stewardship ethics?

I will discuss these questions individually; however, one general answer applies to all of them. In each case the nexus between the CEO and the board of directors is the key to success.

Every company that enjoys a healthy, mutually trusting relationship between CEO and board follows a process that constantly reinforces the bond of trust. The CEO submits proposals for policy changes to the board (some offered by board members), and the board deliberates by engaging the CEO in the kind of dialogue that leads to the company's most important decisions.

CEOs must accept the responsibility not only for executing policy but also for originating it. A typical board of directors meets four to ten times a year for a half-day or a day, occasionally supplemented with a board retreat when considering exceptional policy shifts. The board is therefore directly engaged in the company's business no more than a dozen full days a year, hardly enough time to learn how to manage the company. If the CEO does not perform to expectations, the board has only one recourse, which is to find itself a new CEO. But until replaced, the CEO runs the company, makes the hard calls, and frames key decisions for board deliberation.

What CEOs need most from their boards is thoughtful collective judgment. The board must serve as a genuine "sounding board" for testing the CEO's best ideas (the worst ones should be killed off before the board meets). What boards require of their CEOs is greater openness. All too often in recent years the board's trust in its CEO has been misplaced.

Consider the first question above—how to avoid getting your stock pummeled if your company wants to shift to a longer time horizon. Sometimes taking the longer view puts the profits of the next few quarters or even the next couple of years at risk. This question holds particular urgency for a board of directors in its role as representative of the company's shareholders.

Let us imagine that a CEO proposes changes in company policy that he realizes may hurt the price of the stock in the short run, even though the changes promise to improve long-term profitability. He prepares himself to review these changes at the next board meeting. He knows that he has a lot of homework to do. He realizes that the board will not consider confronting—and disappointing—Wall Street with a negative surprise about short-term earnings unless he can demonstrate significant long-term benefits for the company. If the board agrees that his proposals are sound, its questions will then shift to tactics of implementation. Boards, more than company executives, are predisposed to favor decisions that strengthen the long-term health of the company—because that is where the true interests of stakeholders lie. If the CEO is not convincing, he risks failure in winning the board's approval and, in extreme cases, losing his job. (Carly Fiorina at Hewlett-Packard is not the only one to have lived out this scenario.)

Jack McAllister, a former US West CEO, writes, "During my tenure this issue came up frequently, as in the case of the introduction of cellular service. It required short-term losses with the promise of long-term profits. Installing fiber optics systems also carried with it short-term loss with long-term profits and service improvements."[6]

The same considerations apply to all of the tactical issues listed above. Every one of them falls within the sphere of the CEO's responsibilities and cannot be delegated to lower levels of the corporate hierarchy. Every one of them also involves active board participation and support. Success in implementing stewardship ethics in each individual company depends on the quality and strength of the CEO's relationship to the company's board of directors.

DISAPPOINTING WALL STREET EXPECTATIONS

Introducing policy changes that will cause a company to disappoint Wall Street's short-term profit expectations is a brutal ordeal for both the CEO and the board. If the company misses Wall Street's expectations for its quarterly earnings even by a penny or two per share, the stock will take a big hit. It may momentarily lose from 5 percent to 25 percent of its market value—adding up to billions of dollars for large corporations. Short-term traders—hedge funds, momentum players, many mutual funds—will immediately abandon the company's stock. Some will also build up short positions in the stock, putting it under further pressure.

In principle, there should be an ample supply of long-term investors ready to replace the short-term traders, but they too need to be convinced that the company is on the right path. That can take a lot of time and require companies to climb a wall of skepticism. Putative future profits are chancier than bird-in-the-hand existing profits. The shift to a longer time frame adds considerable risk for investors, especially for those who lack an intimate knowledge of the company and its industry.

The decision to favor the longer term and abandon the tyranny of having to produce smooth, steady, predictable, ever-increasing earnings quarter after quarter has large consequences. At the CEO/board level, the company needs to know what those consequences are and to feel confident that they can be successfully managed. There are a number of ways to do this. One is for the CEO and other key company executives to conduct "road shows" throughout the country that give analysts and investors well-documented briefings on the soundness of the business reasons for the company's decision to sacrifice short-term earnings.

The purpose of the road shows is to convert uncertainty to risk. Investors hate uncertainty but live daily with risk. If earnings falter without explanation, uncertainty—the bugaboo of Wall Street—prevails. Risk is another matter. Investors are comfortable with risk: it is the core of their work. Successful road shows replace unacceptable uncertainty with acceptable risk assessment. If the company's board of directors thinks the risk makes sense, the chances are that well-informed investors will as well. The stock will still take a short-term hit. Investors have the luxury that the board does not have of saying, "Well, I'll sell the stock and buy it back later, if they turn out to be right." In making their decision to sacrifice current profits for larger future profits, boards should assume that while the stock may momentarily go down, it will rise to far greater heights in the future—if the company's strategy is sound.

GIVING OTHER STAKEHOLDERS THEIR DUE

The doctrine that gives shareholders preference over employees, customers, the general public, and other stakeholders was not in vogue when I entered the business world in the 1950s and 1960s. On the contrary, at that time CEOs of major corporations went out of their way to state explicitly that their job was to balance the interests of all groups of important stakeholders, with shareholders counted as only one among four or five such constituencies. Giant companies like General Motors and Standard Oil of New Jersey (now Exxon-Mobil) included the national interest as one constituency, along with their customers, employees, shareholders, suppliers, and the local communities where they had business interests.

Achieving the best possible balance among all constituencies is, arguably, the CEO's most difficult assignment, far

more difficult than managing the day-to-day operations of the company. Experience shows that anytime one group of stakeholders can sweep aside the interests of the others, trouble follows. Some of the economic stagnation of countries like Sweden and Germany grew out of the disproportionate influence of the labor unions in those countries. They put their own interests ahead of the interests of the general public, customers, and national economies. Eventually they dragged their economies down to levels far below their true potential.

Labor unions lost influence in the United States for similar reasons. American labor unions are organized for adversarial battle. They fight to put the interests of their members ahead of everyone else's, including the general public's. There may have been sound historical reasons for having adopting this adversarial practice, but the ill will unions now generate because of it has undermined their influence. (This is not the only reason unions have lost influence, but it is one whose importance has been underestimated.)

In our era of growing inequality, labor unions can do a lot to improve their members' lives and serve the interests of the larger society as well. (Our society functions best when inequality is kept within the limits of social justice.) But their chances for success will be much better if they abandon their deeply ingrained practice of zero-sum unenlightened self-interest in favor of searching for ways to reconcile their members' interests with those of others. Southwest Airlines, a heavily unionized company, has found ways to keep their customers happy by keeping their employees content and highly motivated. It can be done, but it will require cooperation rather than the militant tactics of the past.

Those who insist that the interests of shareholders take preference over all other stakeholders also invite a loss of influence. The day-to-day practice of this doctrine is stirring up a backlash among the general public. Fewer than three out of ten Americans believe that companies are being fair to their workers and customers.[7]

It is not necessary for business to revert to the "balance of interests" doctrine that dominated business before shareholder value came into fashion. Our world has changed beyond recognition since then, and new viewpoints are called for. Stewardship ethics dictates that a company give appropriate levels of caring to each of its important constituencies, and predicts that the caring will pay off in competitive advantage. For example, airlines like JetBlue and Southwest are taking business away from traditional carriers like United and Delta not only because their fares are lower but also because their courtesy and efficiency appeal to passengers. These new airlines have learned how to motivate employees to be friendly, courteous, and helpful to their passengers, thereby reconciling the interests of shareholders, employees, and the flying public. The older airlines think that by setting up separate low-cost airlines with cute names like Ted and Song they can undercut their new competitors. But as long as Ted, Song, and the others are staffed by demoralized, surly, indifferent, unhappy employees, they will lose the competitive struggle for customers.

It is important for a company's success that neither its employees nor its customers feel that they are being treated as second-class citizens, with their interests subordinated to those of shareholders. The company should stress that caring for its customers and employees is the best way to care for its shareholders as well. Wall Street is indifferent to a company's rhetoric and theories but cares intensely about promised profits.

Procter and Gamble is a stock market favorite because its financial success is so closely tied to its care for its employees

and consumers. Procter and Gamble's dedication to employees and to consumer need is the bedrock of company policy. It is this uncompromising concern that makes Procter and Gamble a legend among marketers—and a key to their huge success. Only once did Procter and Gamble falter from this path (in the late 1990s), and the company quickly returned to what it rightly regards the core of its business. The former CEO John Pepper credits the company's ingrained principle of "preserv[ing] the core, be[ing] ready to change everything else." For Procter and Gamble serving the consumer and creating community among its employees is an essential part of that core. Procter and Gamble has learned that in the long run, this is the best way to serve shareholders.[8]

The kind of commitment that gives a company a competitive edge on employee and customer satisfaction does not happen by accident. It requires extraordinary special effort, ideally within the framework of stewardship ethics.

UPGRADING CORPORATE ETHICS

In earlier chapters, I described a "machine for scandal" created by mixing the culture of winning-for-myself with the business norms of shareholder value and deregulation. No improved set of business ethics can succeed if the larger culture does not support it. It is difficult to see how corporate endorsement of stewardship ethics can successfully take root as long as a fierce desire to win at all costs drives the mainstream of corporate executives. To the extent that the broader culture endorses this zealous preoccupation with winning at everyone else's expense, the chances are that stewardship ethics will fail. It will suffer the same fate as shareholder value—positive in promise, perverse in practice. For stewardship ethics to take hold firmly

in today's corporate culture without debasement or distortion, individual self-seeking must become less ferocious. Other, more communal civil society motivations must rise to the surface. Is such a goal feasible in today's general culture, and if so, how can CEOs achieve it in practical ways?

The good news is that the larger culture is ready for less-self-centered, more-communal-minded values. In fact, corporate America has lagged behind the nation's broader culture, which is rapidly moving away from the crasser forms of self-seeking and is instead eager to see civil society norms grow stronger.[9] This is especially true in the case of those norms that I think of as the Four Cs of Civil Society:

- Caring
- Community
- Civility
- Cooperation

My firm DYG's annual tracking studies of American values (SCAN) show that in today's United States, the search is on for these more-communal ethical values. In this quest, women are largely leading the way, seeking ways to strengthen family stability, to take better care of both their children and their aging parents, to be good stewards of the environment, and in general to pay greater heed to the communal values of civil society.[10] Men have similar concerns (although at somewhat lower levels of intensity), along with a special concern for making a contribution to the larger society.

Most executives pursue these broader goals in their private lives to a greater extent than in their corporate pursuits. But they would welcome the opportunity to integrate these values into their business careers, provided they could be con-

vinced that the two can be made compatible. Making them compatible is one of the main goals of stewardship ethics.

The CEO plays an indispensable role in setting the ethical tone of a company's corporate culture. *CEO* should stand for Chief Ethical Officer as well as Chief Executive Officer. Both inside the company and to the outside world, the CEO *is* the company. This reality sometimes creates painful dilemmas. Boeing was obliged to let its highly successful CEO Harry Stonecipher retire for a second time when it was revealed that he was having an affair with another Boeing executive. Boeing's ethical problems were unrelated to sexual mores, but the company felt it could not afford to appear hypocritical when its board had made raising the ethical tone of the company a top priority.

The main obstacle to raising ethical standards is the almost inevitable gap between rhetoric and reality. It is fatally easy to "talk the talk." Enron's CEO, Ken Lay, was a master at presenting Enron as the personification of an innovative, community-minded, highly ethical company, whereas the reality was grotesquely different. In practice, Enron's corporate culture was personified by the company's young techies hard at work at their computers, busily rigging California's energy market.

Sidney Harman, founder and executive chairman of Harman International, a manufacturer of high-end audio equipment, recounts an example of how his company demonstrated its ethical concern for its employees. After a production employee's former husband murdered her as she was leaving work, the company did more than help to care for the woman's surviving child. Recognizing that almost one-third of the country's female population suffers from domestic violence, the company organized a company-wide domestic violence program that provides professional training and security to its

employees. In this way, the company seeks to create a helping and constructive environment and a feeling of community.[11]

CEOs should assume that even the company's own employees (as well as the larger community) will be skeptical of its ethical claims until the company demonstrates that it really means what it says. Typically, a climate of skepticism will prevail until a conflict arises between the company's ethics and its short-term profits, comfort, convenience, or prideful self-image. Employees will watch carefully to see what the CEO does. If he or she does the usual thing (mouthing ethical principles while practicing expediency), the corporate culture will stay in its familiar old rut, resisting change. Only if the CEO chooses the ethical course over the expedient one will people take note and begin to take the company's ethical commitments seriously.

RECONCILING PROFITABILITY WITH STEWARDSHIP ETHICS

Consider the differences between the largest sport utility vehicles like General Motors' Escalade and Hummer compared with Toyota's Prius. They symbolize the contrast between short-term profit making and stewardship ethics. The Hummer is a gas-guzzling tank for drivers who want to control the road. It is ludicrously wasteful of energy. And it makes a lot of profit for General Motors, as do all of General Motors' SUVs that are built on a truck chassis. G.M.'s vice chairman Robert Lutz admits that the big SUVs are "where the company makes, frankly, high margins." The Hummer puts the company's short-term profitability ahead of everything and everyone else, including society's well-being.[12]

The Prius hybrid falls at the other extreme of the spectrum. It is a highly economical vehicle, getting many times bet-

ter mileage per gallon than the Hummer. It is moderately priced, giving good quality and value for the money. And it is a quiet, well-designed, nonbullying car. It represents a serious technological effort to alleviate our problem of energy dependence without demanding sacrifice on the part of the consumer. Toyota made no profit on its Prius in the first few years of its existence but expects to be profitable soon.

The Hummer and the Prius represent two different mindsets. One says, "Push the cars with the high margins irrespective of long-term consequences, even the future well-being of the company." The other says, "Let's use our resources to solve an important societal problem and make a profit on it."

The pharmaceutical industry is traveling the same self-defeating road as G.M. Leading drug companies complain bitterly about being lumped together with cigarette companies on the grounds that cigarette companies threaten people's health while drug companies do everything in their power to improve it. Opinion polls show that pharmaceutical company executives have a much higher opinion of their own business ethics than the public does. Almost two-thirds of the industry's executives give themselves high marks on "ethical business practices," while more than two-thirds of the public believes that the industry puts its own profits ahead of people. A majority does not trust the leadership of major pharmaceutical companies to "engage in ethical business practices."[13]

Not only are the drug companies a target for growing consumer mistrust, their stocks have steadily lost favor, losing billions of dollars in market value in recent years. And yet drug company executives have scant insight into the role they play in causing so much damage to themselves. They blame everyone but themselves. They do not grasp the reality that putting their short-term profitability goals ahead of consumer inter-

ests is a major cause of their troubles. They find it impossible to escape the prison of this limited mindset.

It never seems to occur to the pharmaceutical industry to search for ways to give consumers some relief from relentless price increases for products that are not discretionary from the consumer's point of view. They do not understand the fundamental lesson that more is expected of companies that enjoy immense privileges of power and influence. Because consumers of prescription drugs do not have a wide range of pharmaceutical choices, these companies exemplify the flaws in traditional laissez-faire ideology much more than does General Motors: consumers have plenty of choices besides Hummers and other SUVs. Many of the drug companies are blind or indifferent to their own role as exploiters of the public.

A glance at Figure 5 shows how vast a gap can exist between the stewardship expectations of the society and the company's perceived performances. The long bars measure the expectations of members of Congress and other leaders; the short bars atop them measure how well these leaders think the company—a major pipeline company—is meeting their expectations.

The chart presents a vivid statistical image of a company in deep trouble with major constituencies because of its failure to recognize and respond to heightened stewardship obligations.

HOW TO MAKE THE TRANSITION

Tactics for making the transition to stewardship ethics will vary from company to company. One way to do the hard work involved in stewardship ethics is for the company's CEO to organize a special task force inside the company that reports di-

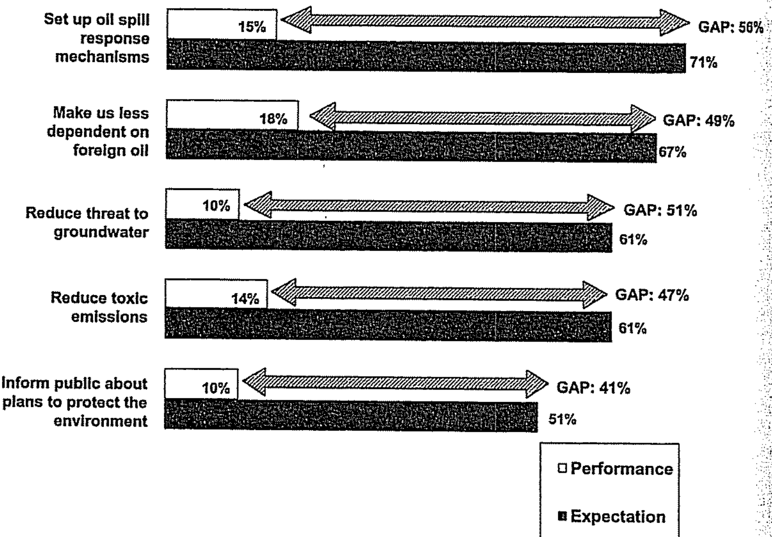

Figure 5. An example of the stewardship gap:
A pipeline company (mid-1990s)

rectly to the CEO. Companies that are serious about implementing stewardship ethics will quickly learn that they need to form special work groups that cut across traditional lines of organization if they are to achieve the task of reconciling the pursuit of profitability with an expanded orbit of care for the company's many stakeholders.

The CEO might select a small group of no more than a dozen of the company's most thoughtful executives, from a variety of functions and divisions. They might, for example, bring marketing executives together with engineers, scientists, finance, and human resource executives from across the spectrum of the company's activities. The CEO might invite former CEOs (and directors) to serve in these groups.

This diverse group of people—who may never have worked together before—will be charged with the task of conducting *strategic dialogue* on how best to take advantage of changes occurring in the markets in which the company operates.[14] The "strategic" aspect of strategic dialogue relates to formulating ways the company can create new opportunities for itself through repositioning existing products or creating new products and services. The "dialogue" aspect refers to the mode of discourse that the task force adopts.

Why the stress on dialogue? The main reason is that ordinary communication methods don't work well for this purpose. The conventional meeting format works well enough for executives who happen to share the same framework—engineers talking to engineers, marketers meeting with other marketers, American executives meeting with other Americans. But when you mix people who don't share the same framework you encounter unimaginable obstacles to effective communication, especially if you want people to work together as a team to generate new strategies for the company. Try knitting together Japanese financial executives with American marketers, German engineers, and British designers as a creative team to do strategic planning for the company, and you will quickly learn that you need the special communication techniques associated with dialogue to transcend the lack of a shared framework. Yet in spite of the challenge, bringing such diverse perspectives together creates the opportunity for new insights that cannot be reached when people communicate only within a particular narrow shared framework.

Both domestically and in foreign markets, these work groups should engage the issues that are strategically vital to the company's future. How can the company strengthen its brand franchise in its home market? How can it take advantage of change to introduce new products, packaging, pricing, and

service? How can it package, distribute, and price a company's products and services abroad in new low-income markets? How can it help change long-standing financial practices (like redlining or restrictive lending practices) that both make poverty more entrenched and limit the company's opportunities? How can it provide management with the right incentives to take a long-term perspective when Wall Street is focused on short-term results and when the primary rewards for a long-term approach will be reaped not by the CEO but by his or her successors?

These are questions that require serious deliberation and a high level of strategic thinking. The company's strategic work teams become the CEO's instrument for shaping decisions for board consideration about how to make profits while at the same time advancing the well-being of employees, consumers, and the larger society.

All of the tactics for implementing stewardship ethics point in the same direction: CEO leadership with strong board support. The ethical renewal of the nation's business sector will not, in my view, come about as a result of throwing a few executive con men in jail or passing a slew of new punitive laws. Nor will it come from moral exhortations to business from social movements with roots outside the business community.

I am not arguing against these efforts. They are important, and may be necessary. But they are surely not sufficient. The major initiative must come from within the business sector itself. And it must come company by company, led by individual CEOs who become convinced that stewardship ethics will give them a strategic competitive advantage in the marketplace and who know how to use their boards for the judgment, support, and validation they need to implement their

policies. And it will provide success models for other companies to emulate.

This is an optimistic conclusion. It is a bet on stewardship ethics to become the legitimate successor to shareholder value, along with the more thoughtful forms of CSR. Within any one company, making the shift depends on the mindset, determination, and leadership of a tiny number of people—no more than fifteen to twenty. If they decide it will be in the best interests of the company to make the change, they have the power, the influence, the knowledge, and the skill to bring it about. If they do so, others will follow. In our culture, where events move so quickly, the transformation to stewardship ethics may take place without even being widely noticed. But its effects will register in enhanced trust in the business sector, in improved long-term profitability, and in significant advances in global well-being.