HOW A SOCIAL CAPITAL APPROACH CAN HELP MULTINATIONALS SHOW ETHICAL LEADERSHIP

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Abstract
In this paper we explore how social capital concepts can guide multinational firms' decision making in developing countries. From a survey of recent research, we identify four types of social capital: institutional, relational, moral and spiritual. Because these capitals overlap and yet are distinctive, they are individually and collectively useful in assessing how firms contribute to society beyond the generation and accumulation of financial capital. In each case we discuss examples of how particular multinationals have sought to build the different elements of social capital. Our examples include Intel, Anglo American, Merck and ServiceMaster. We suggest that a consideration of the impact of decisions on each of these elements of social capital provides an important 'moral compass' for these firms. We also suggest further work that needs to be done in understanding the impact that multinationals have on the social capital of the countries in which they operate.

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Introduction

In his much quoted paper on corporate social responsibility (CSR), Carroll (1979) outlined four social responsibilities of business in diminishing order of significance: economic (to be profitable), legal (to obey the law), ethical (to foster good practice) and discretionary (to give to the community). In this paper we outline a similar hierarchy for guiding (and judging) multinational behaviour by unpacking the concept of social capital into four distinguishable elements.

By multinational companies we refer to the over seventy thousand firms that have foreign affiliates operating outside their home country (UNCTAD, 2005). Multinationals are therefore an obvious set of firms to look at in the search for 'Global Leadership' and 'Global Ethics'. Clearly companies of all sizes play a key role in economic development, including small indigenous firms, whether in the formal or informal sector. But large multinational firms based in the developed world are also important, though this is often overlooked or denied. Indeed, there is much hostility across the world to multinationals, whether open or tacit, and a number of global studies show them to be at or near the bottom of the list of the most trusted institutions (below large national companies).[1] Litvin (2003) suggests that this lack of trust can be traced back to the activities of early multinationals, such as the British East India Company and the British South Africa Company, which helped enforce colonial rule through economic and political repression. There is, however, a positive correlation between higher levels of foreign direct investment (FDI) and higher rates of growth in gross domestic product (GDP) – a dollar of FDI contributes more to GDP than a dollar of domestic investment (Borenztein et al., 1998). Mark Casson has recently suggested that the social impact of such FDI has been largely positive for host countries.[2] While there is evidence that countries can only maximise the benefit from FDI if they have adequate levels of human capital (Borensztein et al., 1998), multinationals, by importing state of the art business practices, international standards of corporate governance and commitments to human rights, can have a transformative impact on their host societies.

In looking at social capital we take the World Bank definition as our starting point: 'Social capital refers to the institutions, relationships and norms that shape the quality and quantity of a society's social interactions.'[3] In searching for guidance for multinationals' decision making we distinguish four types of social capital to which multinationals can contribute: institutional, relational, moral and spiritual. Although each of these types of capital can be found in the literature, albeit often in implicit form, they are rarely given focus and brought in relation to each other. As with Carroll (1979), we suggest that each of these four elements can have a role and can provide a hierarchy to guide decision making by the firm. According to our understanding, behind each 'capital' lies an economically and socially productive asset. Not all capital is 'good', however. Just as a machine to produce bread is generally more beneficial than one that produces guns, some forms of institutional, relational, moral and spiritual capital are more desirable than others. Fanaticist terror cells are bad, even though they may represent well organised institutions, embody strong relationships, a clear morality and high levels of spiritual commitment. Nevertheless, business is capable of building good social capital and it is that sort in which we are interested. We challenge, therefore, the widespread assumption that economic activity consumes social capital in much the same way as it depletes manufacturing capital as tools and machines are worn down. Although influential writers such as Hirsch (1976), have argued strongly that capitalism necessarily undermines morality and spirituality, there is compelling evidence, such as that provided by Benjamin Friedman (2005), that capitalism can contribute to moral and spiritual development. And indeed it is our premise that firms 'should' contribute to social capital in the positive ways that we suggest in this paper.

The paper proceeds by taking each of the four types of social capital in turn. It examines how multinationals can contribute to them in the societies – often developing countries - in which they operate while turning a profit and respecting local cultures, thereby furthering economic and human development. In each case we discuss examples which illustrate how the core concept can be put into practice and make suggestions for further research. In our conclusion we draw the concepts together and suggest how they can provide a helpful 'moral compass'.

Institutional Capital

Nobel prize-winning economist Douglas North has highlighted the importance of institutions in the economic development of nations. He has defined institutions as 'humanly devised constraints that structure human interaction. They are made up of formal constraints (rules, laws, constitutions), informal constraints (norms of behavior, conventions, and self imposed codes of conduct), and their enforcement characteristics.' (1993, Nobel Lecture). This broad definition, including as it does both the formal (such as property rights) and the informal (such as voluntary codes of conduct), suggests that institutional capital is a social asset that consists of the quantity and quality of the institutions that restrain individual behaviour but facilitate the economy.

Such institutions can be created and maintained by the state, or they can be private. The system of property rights protecting investments made by foreign nationals is an example of the former, while a trade association with a formal code of ethics for its members is an example of the latter. Corporate governance systems can, therefore, be regarded as examples of institutions. This resonates with the definition of corporate governance provided in the Cadbury Report (1992, para.2.5, p.15): ‘the system by which companies are directed and controlled’. Good governance and high quality institutions are thus closely related. The UK government’s Department for International Development (DFID) captures this in its discussion of the role of good governance in improving the quality of life for the poor in developing countries: ‘Good governance is not just about government. It is also about political parties, parliament, the judiciary, the media and civil society.’(2006, para 2.3).

The econometric evidence on what makes for institutions that contribute to macroeconomic development is growing. Particular attention has been given to the role of property rights, well-developed financial systems, well-paid civil servants and an absence of red tape on doing business.[4] Studies have shown that while countries disadvantaged by geography, climate and ethnic tensions struggle to develop, good institutions can more than compensate for the negative impact of these poor initial endowments (Easterly and Levine, 2003) and that when developing countries reach a certain level of GDP per head, institutional development is unlikely to be reversed (Przeworski and Limongi, 2000).

This body of evidence lacks econometric sophistication, however, as certain variables, that may account for the relative economic performance of the nations concerned have been excluded from the analysis (Durlauf, 2002). It also lacks legal sophistication; the idea that the operation of a legal system can be adequately represented by a crude set of macro legal variables has been strongly disputed in the sociology of law literature (Deakin, 2008). Although the work by La Porta et al. (1999) is groundbreaking, detailed work now needs to be done on the legal determinants of poor economic performance in particular countries.

The empirical findings on the importance of institutions in economic development resonate with recent policy reports that highlight the need for institutional change in developing countries, particularly in sub-Saharan Africa (House of Commons, 2006, and Commission for Africa, 2005). The Commission for Africa report highlights the failure of many African countries to make progress in catching up with advanced countries. It also highlights the need for the elimination of corruption in government procurement contracts through stronger institutions and better governance; of the US$4 trillion spent on contracts worldwide each year, ten per cent is lost to bribery.

Multinationals have an important role to play in improving the institutions and governance systems of the countries in which they operate. They are important players within these countries, bringing investment, jobs and expertise. Most also bring experience of high quality institutional environments and operate within a set of institutional constraints. They must adhere to international accounting standards and national standards of corporate governance, such as the Combined Code if they are listed on the UK stock exchange. If they are from an OECD country they will be subject to anti-bribery legislation in their home countries, even where the alleged bribery involves non-OECD government officials.

Many multinationals are also participants in, or initiators of, private institutional arrangements, such as trade associations that restrict their actions in developing countries. A good example of this is the Extractive Industries Transparency Initiative, under which oil, gas and mining companies publicly disclose all payments they make to governments. Governments in turn publish what they receive from the companies.[5]

Where multinationals are large, relative to their host country, their impact on the institutions of that country can be significant. A good example of this is Intel's establishment of a chip fabrication plant in Costa Rica in 1996. In addition to its investment in the plant itself, the company also invested in the science education of Costa Rican schools and universities in order to improve the prospects of future technology workers (Hilb and Rotstein, 2005, World Bank Group, 2006). Clearly multinationals can choose to support and strengthen the institutions of a country and hence contribute significantly to its development *or* they can exploit (or indeed merely collude with) weak institutional arrangements which keep developing nations (or at least the mass of their citizenry) in poverty. The negative role of multinationals in developing countries has been well illustrated in a series of recent films such as 'The Constant Gardner' and 'Blood Diamond', which portray the perceived complicity of multinationals in the underdevelopment of Africa.

Relational Capital

While institutional capital has to do with 'constraints', the essence of relational capital is human interaction. This interaction lies at the heart of social capital, according to the social capital literature. Robert Putnam, for instance, defines social capital as: 'features of social organization such as trust, norms and networks that can improve efficiency by facilitating coordinated action' (Putnam, 1993, p.167). His emphasis is on the quality and quantity of social relations in society (see also Woolcock, 2002). More interaction is better, he insists, especially when it gives rise to the possibility of economically advantageous outcomes, such as improved education, collective action or a wider radius of trust (see also Jones et al., 2007).

The social capital literature has many variants but overall it emphasises the importance both of trust in society and of social networks. Trust can involve ‘competence trust’ whereby social actors are willing to trust the ability of both sides of the transaction to deliver, or ‘goodwill trust’ where social actors are willing to take social or commercial risks in the expectation a positive outcome (Sato and Helper, 1996). Social networks help facilitate information flows, collective action for the common good and weak ties. Weak ties are relationships that benefit wider society, rather than simply the parties involved, such as those within sports clubs, rather than those within a cartel (Granovetter, 1973). Forms of social capital that bridge gaps between social groups are particularly important (Burt, 2001), particularly the gap between the well-connected and the poorly-connected (Lin, 2001). A distinctive feature of multinationals is their potential to connect local communities with governments, international organizations and similar communities in other countries.

Social relations are difficult to measure, especially the quality of them. Putnam (2000) uses fourteen different measures – including whether someone has given a speech (in public) in the last year – in his measurement of social capital in the United States. Applying his measure to a sample of US states, he finds that social capital is correlated negatively with crime and positively with membership of voluntary associations. Similarly, in a developing country context, Narayan and Pritchett (1999) have used the membership of voluntary associations, and the diversity of the make up of these groups, as a measure, finding that income levels were generally higher for individuals who were members of a greater number of more diverse organizations.

To assess the social relations of multinationals, Jones et al. (2007) examined the number and depth of the corporate citizenship projects in which such companies are involved. They tested hypotheses about what drove the companies’ choice of relationships with outside groups such as national and local governments and NGOs. They also showed that the most successful projects were those in which care had been taken to build relations outside the company. A good example of this was the Anglo Zimele project run by Anglo American in South Africa.[6] This project involved the setting up of a venture capital fund to support local black entrepreneurs with start up capital, and it helped provide training and introductions to Anglo American procurers. The scheme has been very successful, creating around 4000 jobs by 2005. It has also helped the company to meet its legal requirements on Black Economic Empowerment and improved its relationship with the South African government, which has used Anglo Zimele to manage one of its own venture capital funds for supporting new businesses. All this has helped improve relations between big business, previously seen as part of the Apartheid system, and the black community, both locally and nationally.

Relational capital is based on trust. Knack and Keefer (1997) find that societal trust, as measured by the classic 'In general, do you trust other people?' survey question, are correlated with GDP per head across countries. Trust is therefore good for business, and a 'good' company that treats its workers, suppliers and local communities well generally enjoys high levels of trust from stakeholders such as government and employees. The alcoholic drinks firm Diageo, for example, has used its commitment to community projects to improve its relations with governments concerned about alcoholism, and its commitment to environmental projects to motivate its staff (Jones et al., 2007). Likewise, the highly successful global coffee shop chain Starbucks has been persistent in developing good relations with its key constituencies, including producers (Gulati et al, 2002).

The importance of good quality relationships within firms is also increasingly recognized. Cohen and Prusak (2001) report examples such as Federal Express, where drivers met informally to rearrange deliveries, and Alcoa, whose new head office facilitated informal interaction. *Management Today* for the UK and *Fortune* for the US use relational criteria as part of its assessment of the most admired companies.[7] A McKinsey study of 231 global companies identified three management practices as essential for business performance, all of which have important relational implications: clear roles, an inspiring vision, and an open trusting culture (Leslie et al., 2006).

Another key reason why it is important for firms to invest in relational capital is because of the peace, stability and security dividends it brings. These dividends are most easily apparent in developing contexts; of the 34 poorest countries in the world, 22 were in armed conflict or had just emerged from it in 2006. The causes of conflict, war, violence and terrorism are generally complex and poorly understood – it is still unclear what direct role poverty plays. But relational breakdown is inevitably part of the prelude, just as the thwarting of economic growth is an inevitable consequence. This partly explains why conflict represents the greatest deterrent for a multinational deciding to begin or expand operations in a particular country. The fact that most markets depend on peace to survive has been famously captured by Thomas Friedman's Golden Arches Theory of conflict prevention, according to which, no two countries with at least one McDonalds restaurant have ever gone to war with each other

(Friedman, 2000, pp. 252–53). While this observation no longer holds true and in any case oversimplifies the role of business in peace building, the contribution multinationals are able to make to the relational capital that promotes peace and security has to be part of any serious investigation into their role in building social capital.

Space allows mention of only one more reason why firms should include the building of relational capital as a central part of its commercial strategy. In a post-materialist world, customers (and hence employees and governments) are increasingly concerned about the way goods are produced (Inglehart, 1997). Companies are vulnerable to negative information and to mistakes made by employees. They therefore need to invest in their relations to reduce their exposure to reputational risk. For multinationals, such risk is global, as their actions in one country can easily impact its reputation in another. Examples include Shell's problems with protestors in Nigeria in 1995 (Moody-Stuart, 2002) and, more recently, the toy maker Mattel's use of potentially poisonous paint on some of its products supplied from China.[8] Several large companies, such as GSK (Jones and Pollitt, 1999), Anglo American and Diageo (Jones et al., 2007) have worked hard to improve their internal and external relations in order to reduce their reputational risk. GSK has worked on its vulnerability to mis-selling government contracts, Anglo American has been managing the difficult adjustment to political change in South Africa and Diageo has responded to government pressure for responsible drinking. An essential component of any 'moral compass' for firms has therefore got to be meaningful relationships with a range of well connected stakeholders. These relationships enhance the 'ethical radar' of any large company and provide important forewarning of emerging ethical issues as well as assistance in 'ethical disaster' management when things do go wrong (see Moody-Stuart, 2002).

Moral Capital

Moral capital is the economic benefit of moral norms and behaviours. Closely tied to the social relations that define them and the social institutions that nurture them, these norms and behaviours are central to social capital and, as Ratnapala (2002) contends, embody values such as justice, beneficence and temperance. The moral role of business is revealed in particular in the relationship between economic growth and moral development. Benjamin Friedman has recently provided a rigorous analysis of this relationship. A growing economy, he argues, has the potential to improve the environment, reduce poverty, and promote democracy, openness and tolerance (Friedman, 2005). The extent to which he considers this impact to be inevitable is, however, unclear. If the social capital framework for assessing the positive potential of multinationals proposed in this working paper is sound, economic growth can certainly be expected to foster growth in moral capital, but this is most likely to happen if there is a corresponding growth in relational, spiritual and institutional capital. Much more detailed research is needed in this area. In the meantime, Friedman's core thesis is plausible and indeed has precedents in the work of Young (2003), who suggests that capitalism promotes virtue, trust, individualism and mutual interdependence. Casson (1998) also stresses the compatibility between morality and the pursuit of profit. He argues that individuals make choices against the background of a moral code: 'ethical man, like economic man, still prefers more to less, but he or she prefers more 'good things' rather than just pleasurable things' (p.32). For Casson's ethical man, moral legitimacy and material pleasure are combined.

The capacity companies have to promote values which are good in themselves while pursuing its commercial objectives lies at the heart of the idea of moral capital. While these values are often reflected in the regulatory framework that surrounds business, moral capital encompasses virtuous actions that go beyond the requirements of the law. Such 'self-regulation' embodies a set of values and often finds expression in a host of voluntary agreements, including rules governing stock market listing and trade associations and company codes of ethics.

An example of how moral capital is embodied in a set of values and is translated into a set of rules of behaviour by an effective code of ethics is the US pharmaceutical company Merck.

Merck's values are reflected in the following statement on its website:

'Merck's vision of corporate responsibility (CR) is founded upon the Company's values and an approach to business articulated by our founder's son George W. Merck in 1950: *"We try never to forget that medicine is for the people. It is not for the profits. The profits follow, and if we have remembered that, they have never failed to appear. The better we have remembered it, the larger they have been."*

…How can we bring the best of medicine to each and every person?... We cannot step aside and say that we have achieved our goal by inventing a new drug or a new way by which to treat presently incurable diseases…We cannot rest till the way has been found, with our help, to bring our finest achievements to everyone."'[9]

Merck's values are translated into a thirty two page code of conduct, which lays out standards of behavior under twenty two subheadings including ‘invitations to conferences’ and ‘workplace harassment’. The code begins with a decision test with respect to employee behaviour:

‘The Decision Test is a set of criteria you can use to help determine the appropriate course of action. Simply ask yourself:

- Is the action legal?
- Does it comply with the letter of our standards and policies?
- Does it comply with the spirit of our standards and policies?
- How would it look in the newspaper? Would it appear to be improper or make you feel embarrassed?’ (Merck Code of Conduct, p.7) [10]

A celebrated example of how Merck’s values have translated into practice is their programme to eliminate river blindness, a disease that affects 20 million people in Africa and the Middle East (see Cuilla, 1999). The company decided to make its drug Mectizan freely available to affected countries unable to pay for it.

Merck’s commitment to a set of morals is similarly expressed in the values and codes of conduct statements of many top companies. Indeed, eighty five out of the FTSE100 companies had codes of ethics in 2007 (Ugoji et al., 2007). Webley and More (2003) showed that UK companies that had a code of ethics for five years did better financially than those that did not. However, the follow up research indicates that the key issue is how the code is implemented within the firm (Ugoji et al., 2007). It appears that training in ethical behaviour, relative to no training, makes as much difference to performance as introducing a code does relative to no code.

One of the challenges for multinationals is how to take adequate account of local cultures and traditions while adhering to universal standards of ethical behaviour. Significant initiatives have been undertaken to develop global guidelines for the ethical conduct of companies, including the UN Global Compact[11] and the Caux Rountable Principles for Business[12] but companies that subscribe to them need to find ways to communicate them sensitively and appropriately in local contexts that fall below the standards of behaviour upheld in such codes.[13]

Clear decision tests (as suggested by moral capital) are important because getting the institutions right and building good relationships with stakeholders (i.e. institutional and relational capital) are not always enough by themselves to guide correct behaviour. The best institutions must leave some discretion to managers and employees. And the best relationships are vulnerable to new information, collusion and changes of sentiment. By way of illustration, Fleming and Zyglidopoulos (2008) point out that major ethical disasters often involve people being drawn in to ethically questionable behaviour because of their good relationships with others more centrally involved in bad practice. They cite the financial scandal at the heart of former energy giant Enron and the safety scandal of Ford motor company continuing to sell its Pinto model, despite knowing that it had design fault that made its engine liable to catch fire spontaneously. In both cases, senior company officials failed to call a halt to the practices that whistle-blowers had identified to be at variance with the company's code of behaviour.

Morality and vision are closely related. Codes of conduct have power because they resonate at a deep level with people's innate sense of right and wrong and their aspirations for human progress. Visionary founders and leaders of many of today's large companies – such as George Merck, and Bill Hewlett and Dave Packard of Hewlett-Packard[14] – had a vision for a better and more positive way of doing business. While this vision was consistent with contemporary social and commercial trends, many leading companies had founders with a strong business morality and a commitment to developing their company's moral capital as a foundation for business success (Collins and Porras, 1994; Bradley, 2007). Indeed, the success of these companies suggests two lessons can be learned. First, codes of ethics need to be developed in ways that embody the highest hopes and aspirations of the current generation. Second, there is a lot of scope for ethical business leaders setting standards and trends for the rest of the business community. This is particularly true in developing countries, where the institutional and relational environment may be poor and the opportunities to learn from best practice elsewhere are limited. Even though explicit ethical decision making criteria for company employees and directors may be somewhat unfashionable and indeed challenging in a multi-cultural context, it is clear that they are required in order to guide decision making in complex circumstances or where the individual decision maker's personal judgement may be an unreliable guide.

Spiritual Capital

If moral capital is primarily about behaviour, spiritual capital is primarily about motivation - a sense of ultimate meaning and purpose that influences human choices. Its existence as a key ingredient of social capital is reflected in the following definition offered by the Metanexus Institute: 'spiritual capital builds on recent research on social capital, which shows that religion is a major factor in the formation of social networks and trust…spiritual capital may be construed to refer to that aspect of social capital linked with religion and/or spirituality.'[15] As this definition suggests, it is not restricted to the sphere of religion but is concerned with what human life is all about and how it can be infused with significance – it is about 'spirit' in the sense of the Latin *spiritus* meaning 'that which gives life or vitality to a system' (Zohar and Marshall, 2004, p.28-9). Increasingly, companies seek to convey and embody this sense by means of an inspiring vision about why the company exists and what drives it, other than the quest for profit. In fact, some writers have sought to articulate this in terms of the 'spirituality', 'spirit' or 'soul' of the company (e.g. Pollard, 1996, Lamont, 2002, Batstone, 2003, Ressler and Ressler, 2007, and Malloch, 2008).

While the reality can be very different from the vision, leading companies are increasingly aware that workers seek for meaning and purpose not only in their private lives but also at work, through opportunities for learning, growth and personal fulfillment. No doubt this reflects a workforce with higher skills and one in which many will have picked up a sense of vocation in their professional training. Rising incomes also allow workers to trade-off higher pay with job satisfaction. The importance of job satisfaction to staff retention is reflected in a recent survey of 2200 engineering students in India, which found that fifty six per cent thought that job satisfaction was the most influential factor in their decision to stay longer than a year in their first job.[16]

Some businesses have sought to respond to the rising desire for a sense of meaning at work by offering yoga, meditation, emotional intelligence and work-life balance classes. Corporate social responsibility programmes have also been used to inspire workers, such as Diageo's Earthwatch scheme (discussed in Jones et al., 2007). The aim of such initiatives has been to reach and develop employees at a deeper level and to engage more of workers' total selves.

Despite the importance of spiritual capital to social capital, it remains a poorly understood concept. Within the economics of happiness sphere, however, research is growing on the factors that contribute to individual satisfaction (Heslam, 2009). It suggests that, after a certain level of income has been achieved, non-material factors often have overriding importance to the experience of happiness. But as the economist Richard Layard, who has done much to popularize this research, points out, this is a field of inquiry in which much more work needs to be done (Layard, 2005), not least into what indicators are appropriate for the workplace.

Another currently unfolding area of research is 'spiritual intelligence' - that aspect of human intelligence which, since Frankl (1985), some have associated with the ‘God-spot’ area of the brain. This is often referred to as SQ, to correlate with IQ (the intelligence quotient) and EQ (the emotional quotient), following Goleman (1995). The findings of the emerging discipline of neuroeconomics, which seeks to correlate brain functions with economic decision-making, may also bring insights into the motivation and satisfaction of workers (Sanfey et al., 2003, Zak, 2004 and 2008). In the meantime, it appears safe to assume that SQ relates to a real and innate capacity of the brain to form meanings, values and beliefs that is open to scientific scrutiny.

The existence of this capacity suggests that businesses ought to take care not to sever the connection between spirituality and work, even though there are likely also to be dangers if individuals derive too much of their sense of meaning and purpose from their workplace. Mental health, particularly in terms of integrity, or ‘personal wholeness’, appears to demand that the values of the workplace should not contradict or undermine legitimate beliefs about the meaning and purpose of life. Spiritual values, along with a morality of right and wrong, underpin a business culture that works for the good of society. Indeed, in their influential histories of capitalism, Weber (1930)[17] and Tawney (1926)[18] revealed powerful connections between personal religious faith and motivation in socio-economic development, even though the specific links they made differed and remain controversial.

Whatever the outcome of this debate, spiritual capital, as already noted, is not necessarily associated with religion. Religion is, however, an important means by which individuals develop their beliefs and attitudes to meaning and value. Indeed, most spirituality takes religious form, especially in developing countries, where attendance at places of worship remains high and in many regions is growing. Religious teaching and inspiration can, in fact, play a key role in the contribution business people make to a company’s spiritual capital. A good example of this is William Pollard, the founder of the multinational cleaning service company ServiceMaster, which appeals explicitly to religious and spiritual values in its statement of the company’s four objectives: ‘Honor God in All We Do; Help People Develop; Excel with Customers; and Grow Profitably’. The first of these objectives is expanded thus:

> ‘• **Do the right thing.**
> Each of us knows the difference between right and wrong. Through the choices we make every day on the job, we show a heart-felt concern for the needs and expectations of others. We do an honest day’s work. We tell the truth. We obey the law. We don’t cut corners, even if it puts us at a competitive disadvantage.

• **Treat each person with dignity and respect.**
No one has to earn the right to be greeted warmly or to be listened to sincerely. We are each born with a basic dignity – and we affirm that fundamental goodness in ourselves by honoring it in others. We value and recognize the contribution that each person makes to the success of our team.

• **Respect each person's spirituality.**
We have a deep respect for the many different ways people experience the divine in their lives. We show our respect by demonstrating our willingness to accept others' belief systems as basically sincere, without compromising our own beliefs.

• **Protect and maintain our world.**
Our world is a marvelous creation. Through our work, we enhance that beauty, and make the world a more enjoyable place for all. We use our talents and technologies in a responsible way – so that future generations will have the opportunity to experience the world's beauty, too' (ServiceMaster, 2007, p. 3).[19]

We will briefly return to ServiceMaster below. Here it is important to stress that to highlight the role of religion in business is not to suggest that business should seek to build religious capital. This is primarily the responsibility of religious believers and institutions, as borne out by preliminary research on religious capital (Furbey (2006) and William Temple Foundation (2006)).[20] Companies that are explicitly faith-based companies can and do exist and there are many examples in history, most notably the companies led by Nonconformists (primarily Quakers) of the eighteenth and nineteenth centuries such as Barclays, Lloyds, Cadbury, Rowntree, Clarks, Boots, John Lewis, Lever and Price-Waterhouse. But faith-based companies today are generally privately-owned SMEs. Typically, only one religious tradition is dominant within such a company, which means that the kind of religiously distinctive practices of the earlier generation of faith-based companies are unlikely to meet the current requirements of the law on diversity in the workplace.

This does not necessarily mean that companies should be neutral about faith. Some company managers have taken this path, discouraging the creation of faith-based employee groups and networks and refusing requests for prayer rooms, religious services, the display of religious symbols or office decorations to mark religious festivals. In a highly publicized case, an employee of British Airways was dismissed on unpaid leave when she refused to comply with a request from management that she conceal or remove the cross on her necklace.[21] As colleagues of other religions were allowed to wear religious symbols at work, such as turbans, she claimed religious discrimination. Outspoken protests against BA followed from senior political and ecclesiastical leaders, the Archbishop of Canterbury threatening to sell the Church of England's £6.6m worth of BA shares. Eventually the company recanted, ruling that employees were entitled, after all, to wear symbols of their faith.

But voluntarily adopting an accommodating attitude towards faith at work – a stance BA accepted only reluctantly – is being embraced by increasing numbers of companies, often in response to growing concerns about diversity in the workplace. In a recent major study of spirituality in the workplace, David Miller describes these as 'faith-friendly' companies, and contrasts them to the kind of faith-based or faith-neutral approaches outlined above. Faith-friendly companies demonstrate equal respect for the spiritual identities and religious traditions represented by their employees, including those of an agnostic, atheist or humanist persuasion. As the religious and spiritual diversity of workforces increases, partly under the impact of globalization, it looks likely that the development of faith-friendly policies that honour, respect and dignify the spiritual dimensions of workers' lives is set to become a key best-practice for multinationals (Miller, 2007, pp. 112, 150).

Returning to the case of ServiceMaster, while its values sprang from the Christian convictions of its founders, its two hundred thousand employees belong to all faiths and none. This is reflected in the fact that the definition of 'God' in the first of the company's four key objectives, noted above, is deliberately left open, in order to be as inclusive as possible. From a number of case studies conducted and taught by Harvard Business School, it is clear that the company went to great lengths to put its inclusivity principle into practice and this is likely to have contributed to the fact that the company's first objective engendered few objections. Lord Brian Griffiths, a ServiceMaster board member for fifteen years, writes that these objections, which could be counted on the fingers of one hand, were typically a letter to the Chairman at the time of the annual meeting, arguing that religion and business were entirely separate enterprises (Griffiths, 2007, p. 7).[22]

How much of ServiceMaster's success is attributable to specific core objectives is, of course, almost impossible to quantify. But analysis of World Values Survey data suggests that there are positive linkages between certain elements of religious faith and national and personal economic performance (see, for example, Barro and McCleary, 2006). And for multinationals in developing countries, fostering spiritual capital is likely to be particularly important where new norms of behaviour – such as the shunning of corruption - are required for successful participation in the global market place. In this effort, the values that lie behind a company's norms of behaviour need to be articulated and translated appropriately into local contexts. Morishima (1987) shows how the Japanese state was extremely good at doing this during the modernization of the Japanese economy following the Meiji revolution, when it successfully drew out parallels between modern work practices and ancient Japanese cultural values. By contrast, development aid has often undermined the dignity of indigenous people and their sense of purpose, to the detriment of beliefs in the value of hard work, ingenuity, initiative, creativity and entrepreneurial risk taking (Commission for Africa, 2005). Pope John Paul II makes the explicit connection between the underlying values – both secular and religious – and solving the world's problems:

> 'Solving serious national and international problems is not just a matter of economic production or of juridical or social organization, but also calls for specific ethical and religious values, as well as changes of mentality, behaviour and structures. The Church feels a particular responsibility to offer this contribution and here is a reasonable hope that the many people who profess no religion will also contribute to providing the social question with the necessary ethical foundation. I am convinced that the various religions, now and in the future, will have a preeminent role in preserving peace and in building a society worthy of humanity. Indeed, openness to dialogue and to cooperation is required of all people of good will.' (Centesimus Annus, p.60)

Companies who seek to exhibit 'Global Leadership' and 'Global Ethics' need to be appropriately sensitive to the range of issues suggested by the concept of 'spiritual capital'. Providing a working environment where individuals desire for meaning and to be part of building a better world may seem idealistic but it will resonate with those of us – such as academics - who take this for granted in our professional lives.

Conclusion

Carroll (1979) suggested that his four responsibilities of business could be ranked in a hierarchy of diminishing importance (see Carroll, 1979, Figure 1, p.499). With this in mind we attempt to bring the four social capital inspired elements of our 'moral compass' together. We think there are two ways this 'compass' can be construed. The first is perhaps the most obvious. A firm's primary commitment is arguably to the building of institutional capital within its host community. This starts with adherence to the laws of the country and supporting legitimate authority. From such institutional foundations, a company can build strong relationships internally and externally. But building and sustaining relationships will lead to an increase in moral capital because relationships, as we have seen, have inherent moral dimensions. The moral capital of a company grows when ethics are embedded in core business operations and when accountability structures are put in place that will keep the moral dimensions of the company's core operations under review and in development as new ethical challenges emerge. Rigorous and imaginative approaches to training in business ethics for all employees and partner firms should therefore be adopted. A company with a strong ethical culture is likely to find at least some of this culture embodied and expressed, finally, in spiritual capital. Companies who pay attention to their 'soul', articulate and develop their sense of ultimate purpose and have strategies to ensure that this is shared throughout the company. We therefore think we can represent the full social capital moral compass hierarchy of multinational firms in developing countries as in Figure 1.

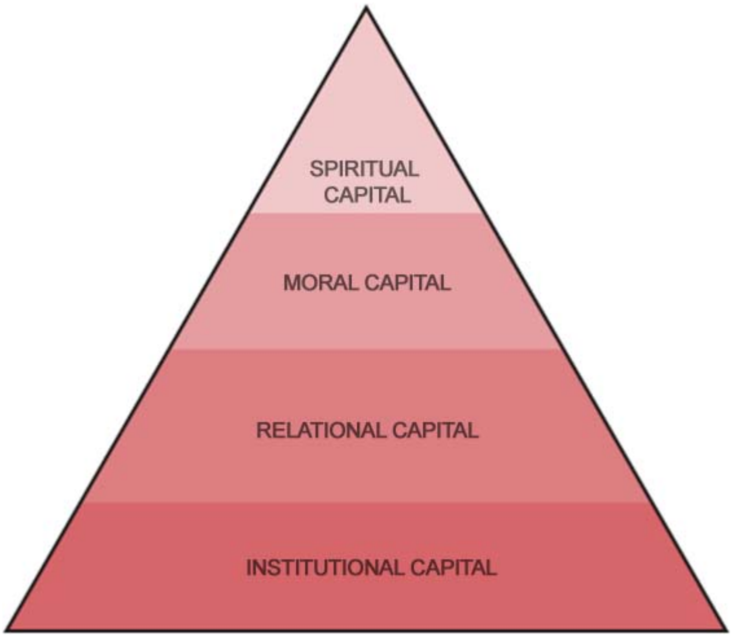

Figure 1 – Social Capital Moral Compass Hierarchy (Version 1)

It is equally consonant with our findings, however, to invert the layers of the pyramid as in Figure 2 below. Indeed, we find this to have at least as much theoretical, practical and analytical credibility as the model in Figure 1. It allows spiritual capital, firstly, to be seen as the economic value of a sense of meaning and purpose. This sense is so basic to human existence that it can be observed in the vast majority of human beings, including children, and can therefore be seen as foundational. But it is often from an individual or corporate sense of ultimate meaning and purpose that moral codes are derived. In other words, the question 'what is the purpose of my/our existence?' is the basis on which the question ‘how then should I/we live?’ arises. In turn, however, decisions about individual or corporate behaviour impinge most directly on relationships. This is reflected in the world’s great moral codes, such as the Ten Commandments, which are strongly relational. Ethical decisions impact relationships but most relationships in society take institutional form. Families, schools, clubs, hospitals, companies, trade unions, courts and governments are just some examples of the ways in which institutions are formed around relationships. Although a company may find it time consuming to build, relational capital is so closely associated with institutional capital that the latter is impossible to build without it.

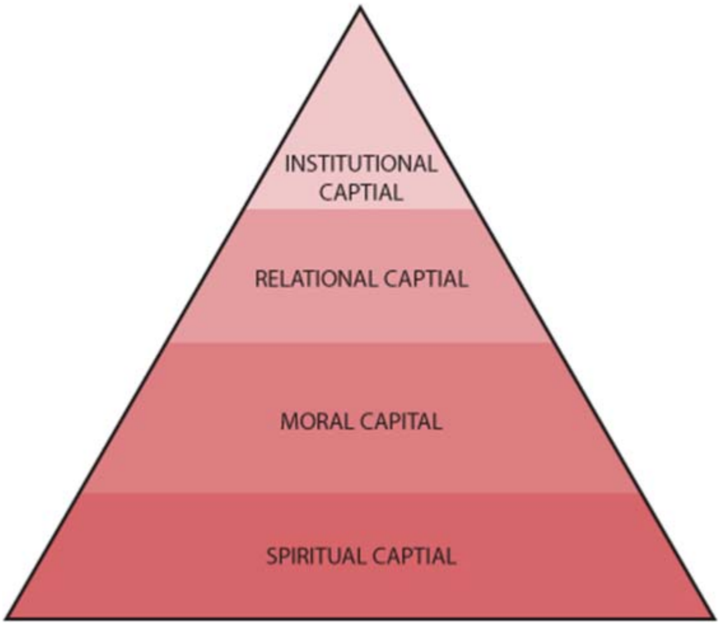

Figure 2- Social Capital Hierarchy Moral Compass (Version 2)

We feel we can only properly represent the ‘moral compass’ suggested by a social capital approach to decision making by multinational firms in developing countries by using both pyramid models. All firms – large and small - need to pay attention to these four elements of the social capital they create, but their importance is all the sharper for multinationals in developing countries, where institutions may be weak, relations difficult, business ethics lacking and the entrepreneurial spirit underdeveloped.

Our four capitals overlap but each one is distinct and has been developed to some extent in the literature. The literature is much stronger, however, on the general contribution of these four capitals to economic development than it is on how they explicitly relate to business. Much work needs to be done on examples of best practice social capital building by multinationals and the transferability of that best practice between firms, industries and nations. It is already clear, however, that an intention to build each type of capital can provide multinationals with important guidance for decision making.

Notes

[1] See World Economic Forum (2002) and Globescan Inc. (2005).

[2] Mark Casson at the book launch of *Multinationals in Their Communities*, Anglo American House, June 12, 2007.

[3] See http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTTSOCIALCAPITAL/0,,contentMDK:20185164~menuPK:418217~pagePK:148956~piPK:216618~theSitePK:401015,00.html

[4] See La Porta et al. (1999) and World Bank (2002).

[5] See http://eitransparency.org/

[6] See http://www.anglozimele.co.za/

[7] For *Management Today* see http://www.managementtoday.co.uk/search/article/866267/diageo-hailed-britains-admired-company/

For *Fortune* see *http://money.cnn.com/magazines/fortune/mostadmired/2009/index.html* Accessed on 2 June 2009.

[8] See http://news.bbc.co.uk/1/hi/business/6991804.stm Accessed 2 June 2009.

[9] http://www.merck.com/corporate-responsibility/approach/home.html Accessed on 2 June 2009.

[10] Our Values and Standards: The Basis of Our Success, Edition II: Code of Conduct, http://www.merck.com/about/code_of_conduct.pdf Accessed on 2 June 2009.

[11] See http://www.unglobalcompact.org/AboutTheGC/TheTenPrinciples/index.html Accessed on 2 June 2009.

[12] See http://www.cauxroundtable.org/index.cfm?&menuid=8 Accessed on 2 June 2009.

[13] See Moody-Stuart (2002) for reflections based on oil company Shell's experiences in Africa and Cadbury (1998) for reflections based on confectionary and drinks business Cadbury's experiences in Asia.

[14] David Packard wrote the HP's first code of ethics in 1957 entitled 'The HP Way' – see Packard (1995).

[15] 'What is Spiritual Capital?', Metanexus Institute. Available at http://www.spiritualcapitalresearchprogram.com/What_is.asp

Accessed 2 June 2009. See also the papers produced for the Spiritual Capital Planning Meeting in 2003. Available at http://www.spiritualcapitalresearchprogram.com/research_articles.asp

Accessed 2 June 2009.

[16] See http://bprao.wordpress.com/2008/05/18/what-do-your-fresh-engineers-look-for/

Accessed 2 June 2009.

[17] First published as a two-part article in 1904-05.

[18] First delivered as lectures in 1922.

[19] Also available at http://corporate.servicemaster.com/overview_objectives.asp Accessed 2 June 2009.

[20] The William Temple Foundation has also produced a detailed literature review of religious and spiritual capital (http://www.wtf.org.uk/documents/litreviewfinalversion211107.doc Accessed 2 June 2009).

[21] See Steve Dougherty, 'BA backs down over cross ban after storm of criticism', *Daily Mail*, 25 November 2006, http://www.dailymail.co.uk/news/article-418498/BA-backs-cross-ban-storm-criticism.html. Accessed 2 June 2009.

[22] Griffiths notes, however, that although ServiceMaster was traded on the New York Stock Exchange, it is now privately owned (Griffiths, 2007, p. 7).

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