also demonstrates an inability to understand their own market.

The devastating consequences for many shareholders are well known. But many of Enron's own employees, too, have lost their life savings, because they were encouraged by that same management to invest their 401(k) savings in Enron stock instead of diversifying their pension portfolio.

While many employees and shareholders have been ruined by Enron's collapse, most of its senior executives are still wealthy, having cashed in their chips well before the collapse. Perhaps then Messieurs Lay, Skilling, Fastow and their friends need to experience one of the most important lessons business offers us. Failure, caused by their own greed, incompetence, and mismanagement. It is only fitting and just that they pay the penalty and lose their savings too. As should the company auditors and Wall Street analysts who hyped Enron to the very last moment.

An efficient market combined with a just regulatory system would expropriate criminally earned gains for redistribution to Enron's employees and shareholders. The goal should be that those without fault should suffer the least for the failures of those who are culpable. Then maybe it won't happen again.

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FEATURE COLUMNS

Bringing Ethics, Efficiency, Communications and Participation into Global Decision-Making

Comment, By Steve Waddell

Mention the issue of "global change" and everyone will have something to talk about, such as globalization of the market or climate change. We all know it is happening, but how can we direct what is happening? Is it even possible? Aren't processes too complicated by differences, or when led by the United Nations and Bretton Woods institutions too slow, ineffectual and tilted too much in the interests of government corporations or other parties, rather than people? Where are accountability, disclosure and principles in the process?

Emerging network organizations, called global public policy networks (GPPNs), hold promise for new approaches to global decision making. Examples of GPPNs include the World Business Council for Sustainable Development (WBCSD), the Climate Action Network (CAN), the Forest Stewardship Council (FSC), and the Global Reporting Initiative (GRI). *Such networks play important roles in the three tasks of public policy development: problem/opportunity definition, solution design and implementation.* These multinational networks have a critical "boundary spanning" function: they bridge problematic traditional divides such as sectoral (business-government-civil society), cultural, disciplinary, North-South, developed-developing and rich-poor.

Traditionally, government has been delegated leadership for public policy development. At the national level, government can undertake all the tasks on its own, although consultation is a prominent part of the process. This tradition has been ineffectually parroted internationally to produce numerous international accords, conventions and agreements. Most often they have little impact, because in the international arena there is no government with enforcement powers and because the international process has neglected some important dynamics. The GPPN Research Group has identified four such "gaps" in traditional global processes, as displayed on Figure 1.

In the emerging model, to overcome these gaps, government can no longer play an exclusive role. It may provide a critical initiating or convening and participative role, but even its role of leader is becoming subsumed by a much more collaborative approach working with GPPNs.

GPPNs are new, emerging resources that were not present when traditional international public policy approaches were developed. Their emergence is in reaction to the failure of traditional approaches, and the way they can co-create global public policy is still poorly defined. However, their contributions to overcoming the gaps are already substantial.

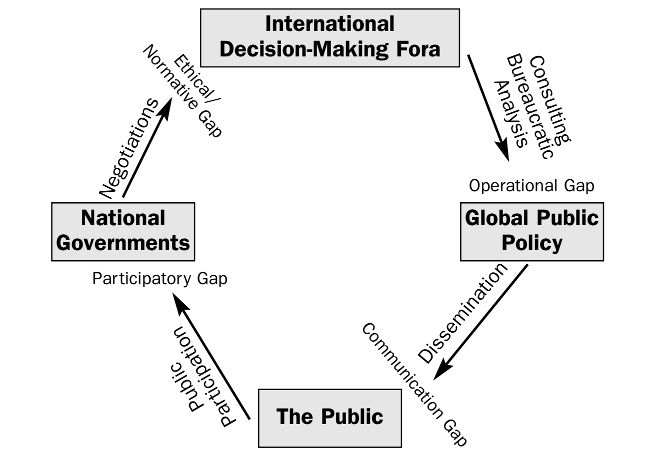
Consider the Climate Action Network (CAN). It plays an important boundary-spanning role within the global civil society network by having as members environmental activist and research organizations engaging in the global climate change convention process (The Kyoto Protocol). CAN members include three major global environmental organizations (WWF, Greenpeace, and Friends of the Earth) and many small and large organizations around the world with diverse ideologies and interests. They have been amazingly successful at presenting a unified position over the 10-year process of climate change negotiations. Such unity is critical in order to be influential in contrast to a thousand different positions of different organizations.

CAN members have attached themselves to a very traditional global public policy development process where government representatives are the "parties" who vote on all issues and have exclusive decision-making power. However, CAN has played an important role in addressing the gaps: it has maintained a spotlight on issues such as equity between poor and rich nations and upon the pre-eminent responsibility of industrialized countries who are the source of the climate change problem. CAN has, through its members' publications and information services, greatly increased the quality and quantity of information available to the public. Through the individual members of organizations belonging to CAN and activities organized by them, there is much greater public participation than ever before in global public policy making. Of course there are still notable weaknesses, such as the inability to adequately engage Americans.

While CAN is working on the problem definition and solution design process – and may become active in implementation later – the Forest Stewardship Council (FSC) has moved relatively quickly through these phases to focus upon implementation. This speed probably is partly because government did not have a leadership role, because a manageable number of parties were engaged, and because there was early agreement among the parties

FIGURE 1: THE GPPN MODEL

- **The Ethical/Normative Gap:** Principles such as accountability, transparency and equity often become lost in the outcomes, although they are often present in the start.
- **The Operational Gap:** There are lots of good ideas produced, but their implementation is usually very weak.
- **The Communications Gap:** Information about both an issue and activity responding to it is often hard to obtain, incomplete, in difficult-to-understand language, and not available in most languages.
- **The Participatory Gap:** Processes are elitist and exclusionary, and usually do not meaningfully engage the global public.



about the problem definition (management of the world's forests) and a solution (certification of properly managed lumber).

The FSC plays an important boundary-spanning function since its members include representatives from environmental and social groups, the timber trade and the forestry profession, indigenous people's organizations, community forestry groups, and forest product certification organizations from around the world. In contrast to traditional government processes, the FSC combines all the stakeholders in the issue who actually can implement the solution that they have designed. Through its multi-stakeholder structure, FSC ensures high participation and broad communications. Since the stakeholders have diverse interests – environmentalist's focus upon the [ecological] well-being of forests whereas timber trade companies focus upon the need for [load-carrying] profitability – successful solutions must address the diverse interests, including ethical ones. And by bringing together the parties who operationalize the strategies, operational issues can be worked out relatively expeditiously.

Such global networks aren't panaceas. The support infrastructure is still weak. Funding them is extremely problematic even though they are extremely cost-effective, particularly when compared to traditional international government secretariats that manage international agreements. And gaining and maintaining engagement of all the necessary parties is a hard job. FSC faces a challenge from lumber companies creating an alternative certification process, and some market-oriented NGOs involved in climate change are not active in CAN.

Measuring the effectiveness of such networks is problematic. The interactive contexts and actions of other parties make correlation between GPNN activities and outcomes a complex question. Moreover, the problem definition often changes as networks evolve. Effectiveness measurement needs to consider how GPNNs address the four gaps, which is somewhat easier to measure since it deals with outcomes in terms of internal actions rather than external impacts. This solution suggests, of course, that process indicators as well as outcome indicators are important.

The emergence of GPPNs suggest something quite different from a democratically-based global government as "the" solution for global governance. Global governance suggests a huge bureaucracy facing the almost impossible task of coordinating and enforcing global action in highly diverse issues, contexts and cultures. In contrast, GPPNs are diverse networks that form in response to issues, collaboratively address them, and coordinate action. Such networks are highly decentralized – that is, members in general cannot be "forced" to do something other than by persuasion. This decentralized "social practices" approach focuses upon changing behaviours, in contrast to the traditional centralized "collective action" approach that focuses upon creating rules and enforcing them.

Rather than emphasizing "democracy" as one-person-one-vote and political parties, GPPNs suggest that the ruling dynamics are driven by "participation" and organizations working within networks. The multi-stakeholder model suggests that those who want to participate should be able to do so, but through organizations and networks that are coalitions of organizations. These are necessary to aggregate interests and values in sufficient quantity that they actually can represent a sizeable enough stakeholder group to actually bring about change. Often the networks and organizations take the form of associations of businesses (WBCSD), civil society organizations (CAN), and intergovernmental organizations (The UN, The World Bank).

There are indeed some potential dangers with a GPPN strategy. Just as the big labor-big government-big business approaches grew into a new elite relatively detached from many people and with problems around transparency and accountability, so too GPPNs might develop in this direction. If that happens, we will require a new round of institutional innovation.

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abrupt share sales, CalPERS chose long ago to stick with its holdings and instead put pressure on laggard companies by publicizing their CSR records.

The trailblazing CSR activity of CalPERS has been a blessing for journalists and the many other constituencies for whom CSR is an urgent concern. Lately, though, CalPERS has raised questions about its own ethical standards by singling out 14 nations whose CSR standards it deems inferior, and in which it will no longer invest. CalPERS' new standards for international investing include the political stability of the countries that are home to the firms in which it invests, along with labour conditions and transparency – including rigorous accounting standards and a free press.

Problem One with this recent initiative is CalPERS' inconsistent selection process. China and Pakistan, with their nuclear-weapons capability, are blacklisted by CalPERS, whose size gives it influence among other fund managers that watch it closely. Yet CalPERS has not excluded other nations that are accumulating weapons of mass destruction, such as Iraq and Iran. Rampant civil-rights abuses make Indonesia a no-go zone for CalPERS, yet it has not red-lined African nations such as Sudan and Congo, where decades-long civil wars have claimed millions of lives. And while it rules out investments in Venezuela on grounds of corruption, CalPERS appears to be sanguine about corruption in the likes of Mexico and Nigeria.

Problem Two is that CalPERS will continue to invest in multinational companies that are active in many if not most of its proscribed 14 nations. It could hardly do otherwise, unless it was prepared to dump its stock in IBM, Microsoft, Coca-Cola, Gillette, Deere & Co., Nortel Networks, Walt Disney, Procter & Gamble, the 10 largest world automakers and every major pharmaceutical house.

Problem Three is that CalPERS has been outrageously lax in adhering to its own ethical guidelines in the case of a firm in its homeland, namely Houston-based Enron Corp., the now disgraced energy trading firm that collapsed last December. Against the advice of its own consultants, called in to vet Enron, CalPERS invested in some of the notorious "outside" Enron partnerships that turned out not to be operating at arms' length from Enron, and which figured prominently in Enron's demise.

Having taken the trouble to employ a consulting firm that warned about a conflict of interest in which Enron's chief financial officer was also heading up these partnerships, CalPERS plunged into its potentially lucrative deals with Enron despite the consultants' ominous observation that, "As a champion of activist corporate governance, CalPERS should be prepared to address its participation in a fund that utilizes such dual fiduciary duality."

That duality was an outrage, of course, requiring Enron's board to secretly suspend its own ethics code to let the partnerships go forward – a dereliction of probity for which the Enron directors are now being justly vilified. That CalPERS would similarly fail to uphold its own CSR guidelines in this episode is bizarre and obviously troubling. Sadly, CalPERS has adopted some of the same stonewalling tactics of ex-Enron officials who refuse to testify about their conduct by being less than candid about its own rationale for putting its moral compass in storage.

Until CalPERS is far more forthcoming about the why it chose not to adhere to the same standards it applies to firms – and countries – in which it invests, its credibility as a CSR champion will remain greatly diminished. And that's a loss not only for CalPERS, but also for a wider CSR community that has long looked to it as an ally in upgrading the standards of governance in the corporate arena.

David Olive is Business Columnist at The Toronto Star.

Enron's Governance

continued from page 1

culture had been different? Was this deception in the board's and other stakeholders' interest?

Unfortunately, few boards of directors directly examine their company's ethical culture even though that culture underpins the integrity of employee and agent guidance systems, operations and financial reports; the ability to garner and satisfy the best and the brightest employees and consumers; and ultimately the ability to reach the company's strategic objectives. Leaving ethical culture to the oversight by all board members is a foolish recipe for neglect. The time has come for corporate governance to assign specific responsibility for the oversight of the organization's ethical culture.

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