Trust: What Business Needs to Operate and Grow at Speed and Scale

"With Public sentiment, nothing can fail; without it, nothing can succeed. Consequently, he who molds public sentiment goes deeper than he who enacts statutes or pronounces decisions."

- Abraham Lincoln, First Debate with Senator Stephen Douglas, Ottawa, Illinois, 1858

I. The Argument for Building Government Trust

Every global corporation and those aspiring to become global enterprises[1] face challenges in constructing a new organization that matches the speed and scale demanded by an increasingly complex business environment, especially in their dealings with government and civil society. How a firm organizes and manages these issues will determine the success and trajectory of the enterprise.[2]

Every Chief Executive Officer (CEO) should care about, and focus on, how their firm relates to key governments and those who materially influence them, considering:

1. The size, scope and effect of a dramatically increased regulatory state in virtually every region and almost all governments.

2. There are significant opportunities for securing competitive advantage in the market from effective public policy engagement.

3. The integration of the strategic goals of the firm, coupled with ethics and values, will assure trust from government and civil society. This can best occur at the top of an organization to remain authentic and to assure measured and measurable implementation.

4. Virtually every industry – and not just those like financial services, telecommunications or health care that are highly regulated – has faced a major direction-changing challenge or crisis from private sector interactions with government in the past 5 to 10 years and more are likely in the future. Proactive and preemptive engagement before a crisis is an essential component of building trust.

Speed & Scale in Building Government Trust

- **Speed:** Plan and execute with nimbleness. Get to policy debates before they start, and use the size and scale of others in the debate to leverage your decisiveness

- **Scale:** Engage deeply, plan to prevail, build capacity for home country, key markets, and over allocate attention to risky markets

Gulliver's Travels. Regulation has increased dramatically in the past decade.

While exploring the value of building trust with governments and across stakeholder groups, it helps to consider examples of corporate engagement in the same. Towards this end, several examples of specific companies and their approaches to building trust and facing challenges in

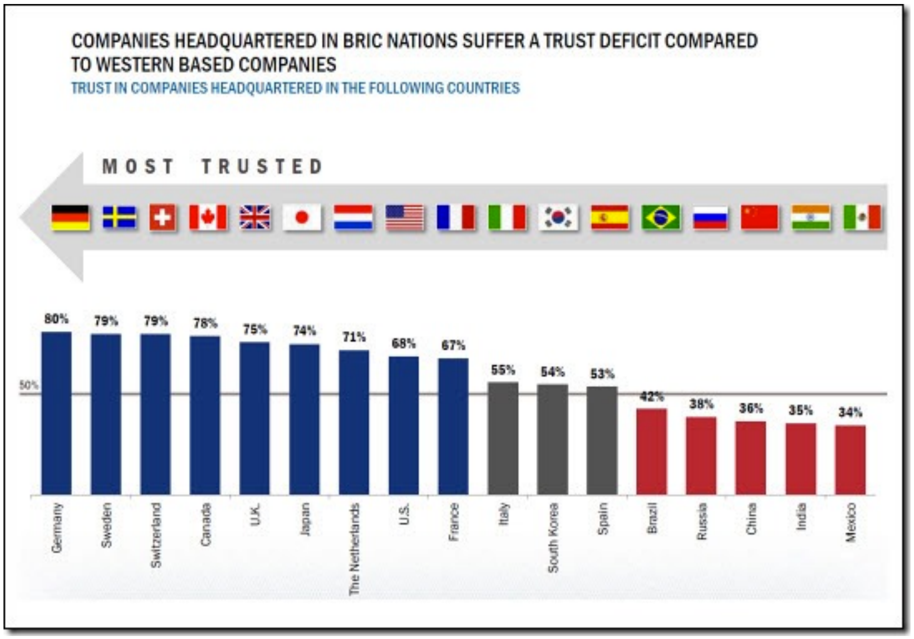
[1] For a brief discussion of the word 'firm' in this paper, and implications for family businesses and state-owned enterprises, please see Appendix A.

[2] The exact form or organizational structure for a firm to enter an emerging market can differ. In some cases a partnership or joint venture is appropriate. Also the exact nature of the product, service, distribution, manufacturing system, or method of finance may be different for some firms between a developing market and an emerging market. This paper does not seek to describe these organizational differences, nor does it address the implications of those different structures in building government trust.

the process are offered throughout this discussion (featured as *Building Trust* cases), with more examples in Appendix B – Additional Case Studies.

Securing trust: response to stakeholders

Every viable business must generate profits to be sustainable. However, it must also create value for its customers, suppliers, employees, and society, as well as for the groups who finance the business. Successful businesses create value for their stakeholders, defined as those groups and individuals who can affect or be affected by the business. The more engaged these stakeholders are in the business, the more likely there will be continued success in creating value for them (Freeman, 2010). Marketers have long known the necessity of engaging with customers. Advances in recent years in "supply chain management" have led to greater efficiency and effectiveness in relationships with suppliers. The evidence that engaged employees are more productive is simply overwhelming and unarguable. One of the most important lessons of the Global Financial Crisis is that even the most ardent defender of free market capitalism must take into account the societal context in which business operates, especially in consideration of the role of government.



Trust in business by country. Firms headquartered in BRIC economies face a trust deficit (Edelman, 2014).

In the 21st Century, business does not exist in a vacuum. In order to operate effectively and to grow with speed and scale, business must have a "societal license to operate" (Wicks, Freeman, Werhane, & Martin, 2009). It must be seen as a value-creating institution for society, capable of earning the public trust. Trust in the marketplace is central to all businesses. Customers, suppliers, employees, society, and shareowners all demand a high degree of trust as a precondition to active and meaningful engagement. Market economies depend on trust to operate effectively: without it, there is more regulation and more litigation. The cost of contracting with parties that don't trust is higher, and the speed of operations can be slowed, sometimes to a crawl, as bureaucratic and legal processes replace the trust that has been lost.

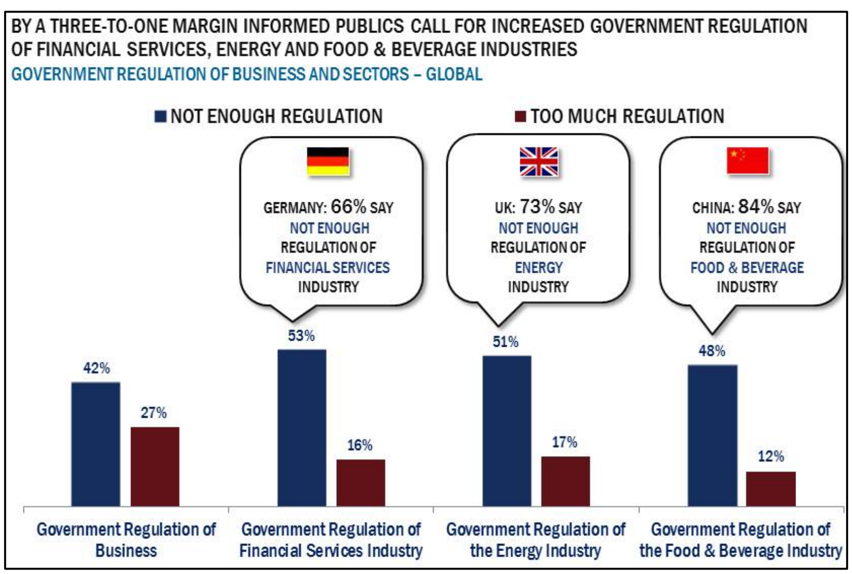
Unfortunately, there is a problem here. Around the globe, business as an institution is experiencing record low levels of public trust (Harris, Moriarty, & Wicks, 2014). Therefore individual companies must undertake explicit strategies and programs to rebuild trust in their businesses.

What is trust? According to scholar Russell Hardin, trust is a three-part relationship where one party trusts another party to complete a particular behavior (Hardin, 2004). It is multidimensional, containing at least two component parts that are equally important. The first is competence, and the second is intention. We rarely trust others whom we don't believe are competent to do what they say, even though they may have good intentions. Similarly, we rarely trust others who are competent but who may not have good intentions towards us.

At the highest level, trust is an expression of the values and ethics of the firm, but is much more than a solemn recitation of a corporate mission statement or pledge. It represents a consistent, day-to-day method for how a firm engages with civil society. Key components to securing trust include:

1. Transparency
2. Honesty
3. Consistency
4. Respect for others
5. Commitment to the larger community

Firms that aim to create a global enterprise will regard those values as material to the execution at a global scale, while smaller firms operating in a single geopolitical jurisdiction can literally reach out and touch many or most of their customers, suppliers, employees and shareowners. Such firms can easily engage in a genuine manner with governments and non-governmental organizations. Once the scale of the enterprise begins to exceed a limited geography and a certain size, communicating these values consistently becomes substantially more difficult.



Informed publics call for regulation to increase in a diverse range of industries (Edelman, 2014).

For any company, trust starts with an acute understanding of the firm's product and its role in the economy and the lives of its customers. Obvious examples of trust building can come from companies whose missions involve improving the lives of people around basic needs such as food, housing or health. For many firms, though, their product is a tool for intermediate users to develop the customer's product or it will be used in securing some other economically or socially useful outcome. Commitment to quality products and positioning the product as an important addition to society are vital first steps towards securing trust from stakeholders. This same point is applicable to engagements with the government or those who interact with, and influence, the government. Making sure that governments understand the firm's role in the larger ecosystem – economic and social – is often the most difficult communication challenge. If policy makers do not think of the global enterprise as important for the economy or as a tool that advances some larger goal, it becomes more difficult to sustain the kind of deep engagement that will permit trust to be established and for appropriate influence over policy to occur.

Meaningful engagement with governments is a crucial element of the trust equation. Governments who view global enterprises as partners in policy development or problem solving can advance their interests from such engagement. Consider the example of Tranlin's introduction of a new sustainable manufacturing process from China to the agricultural sector in Virginia and the success of engagement at all levels of government towards establishing trust:

Building Trust Case 1: Tranlin – From China to Virginia, USA

In June 2014, China-based Shandong Tranlin Paper Co., Ltd., announced an historic $2 billion investment over five years to build and operate the company's first advanced manufacturing facility in the United States. This state-of-the-art facility would be located on an 850-acre campus at the James River Industrial Center in Chesterfield County, Virginia. The company's investment in this facility represented the largest green field foreign direct investment in the US ever led by a China-based company and was expected to generate more than 2,000 jobs in Virginia by 2020.

Tranlin's operations in China, with 16,000 employees and $1.3 billion in revenues, dwarfed the company's investment and presence in the United States. In 2014, Tranlin had a handful of US-based employees and generated approximately $10 million in revenue through export paper sales from China. Expanding its manufacturing practice to the US would be a bold but necessary experiment for Tranlin, since the company hoped eventually to be a global leader in the paper and fertilizer industries.

With its success in China, Tranlin began seeking opportunities to expand abroad. The search team quickly settled on expansion to the United States, which was both the largest consumer paper market in the world as well as the largest agricultural producer. In selecting a US production site, Tranlin contacted authorities in multiple states to discuss the project requirements. Virginia was ultimately chosen based on its strong agricultural industry and availability of straw, its central location amid the East Coast consumer markets, and its enthusiastic welcome from state officials seeking economic development opportunities from Asia, notably the Virginia Economic Development Partnership.

Despite the many positive elements of Tranlin's expansion to the US, the company anticipated certain difficulties and obstacles to establishing its presence and reputation in the US market. The company needed to identify and consider each set of stakeholders that would be impacted by Tranlin's US operations. What were their individual goals and agendas, and how might their goals and agenda differ from those of Tranlin? How could Tranlin successfully build mutually beneficial relationships with these stakeholders?
(Woo & Mead, in press).

Benefits of trust

Most governments in democracies rely on the consent of the governed to operate, standing with permission for rule-keeping for the general public. In these cases securing trust is a condition precedent to obtaining the "freedom to operate". Similarly, governments demand compliance with many regulations as a function of protecting the general public from potential harm. For those governments not democratically elected, the underlying rationale is similar to others insofar as those governments operate for the people. In each case, trust is a prerequisite to securing any permission to operate in a country.

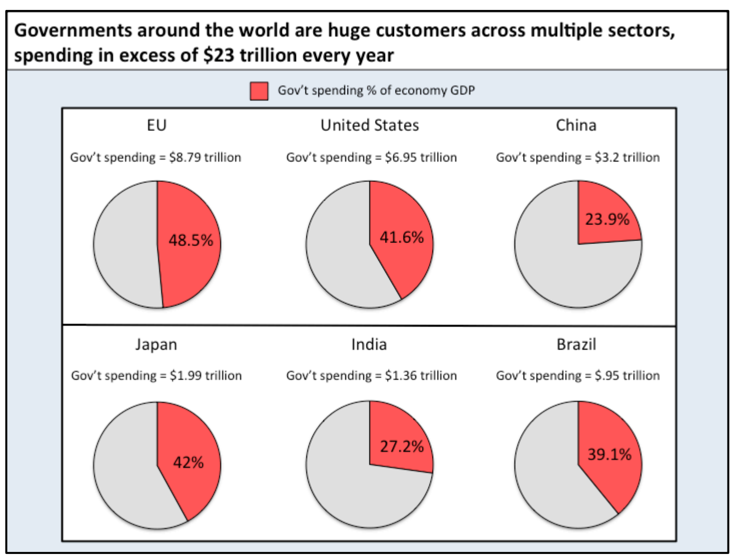
The most concrete benefit of building trust with governments, and those who align with them, is the opportunity to open new markets. Governments are important customers, and, as with any customer, need to trust the firms that are selling products or services (Doney & Canon, 1997). The same key components to securing trust (e.g. transparency, honesty, consistency, respect and commitment to the larger community) are qualities governments are looking for in suppliers or business partners.

Government Roles in Government – Business Interaction

- Regulator
- Promoter / Constrainer
- Standards setter
- Purchaser / Customer
- Corporate governance standards setter
- Revenue collector and finance regulator
- Adjudicator
- Provider of infrastructure
- Manager of international relations

Similarly, when the government is acting as a regulator, standard setter, or enforcer it will implicitly make decisions about how much trust it will extend to a firm. While sometimes an industry sector will be the target of a regulation or enforcement paradigm, it is often the case that distinctions will be made between firms in a given sector based on the nature and degree of trust of the global firm (Llanna & Palepu, 2010).

Moreover, in certain cases engaging with governments to build trust can create new markets for firm products and services. Examples abound in just the last decade: think of spectrum allocations in telecommunications, intellectual property rules in multilateral trade agreements and their value to pharmaceutical firms, the new rules for disruptive technologies like Uber, AirBNB, and Tesla, and countless other instances where public policy has created new market opportunities for firms. These instances have something in common – speed. Firms who get into a legislative or regulatory game early with facts and a point of view can prevail. Or to put it another way, the early bird gets the worm.



Heritage Foundation, 2015

Advantages of industry or sector leadership on public policy issues

Leadership by global enterprises on public policy issues provides an opening into building government trust that can be both material and unique. Global firms experience advances in revenue and profits when they have taken the time and effort to develop a coherent approach to major (and some minor) public policy issues. In these cases, leadership means more than the mere articulation of a firm's policy preferences or those of their industry: it means taking a step back before an issue is on the front burner and conceptualizing the problem from a broader or other perspectives, such as those of government officials and members of civil society whom influence government. Using this larger framework, global industry leaders can position themselves as experts on the relevant facts that will enter into making policy choices, and also can provide a framework for decision makers. Done with skill – and subtlety – leaders can guide the discussion and debate in a way that preferences their goods or services for solutions to pending problems.

There are myriad examples of industry leadership on policy issues. Any time a new industry emerges, there are inevitable tensions between government officials and those who influence them about the nature, extent, and placement of government regulation. Often incumbent firms and industries will offer a seemingly plausible defense of the status quo of regulatory scrutiny. At times, these incumbents are merely defending their own entrenched interests. Often the new entrants – including established firms entering new markets – want or need a much different and frequently less regulatory approach. Firms which preemptively and persuasively offer a compelling vision of the future state of affairs can prevail. Examples of this kind of debate from recent times include the nature and extent of Internet regulation in the 1990's, the terms and conditions of "net neutrality", or how best to manage privacy rules for data transmission or interception. In each case, there have been firms and industries pitted against each other in regulatory or legislative disputes. What is not always evident to the general public is that long before these debates emerge in the media, smart firms have already been engaging with government and its influencers. Such firms have worked with the relevant government officials, offered a set of facts, a context or framework for decision-making, and enlisted experts to aid government in making choices. Firms with this type of leadership often prevail.

In the United States it has often been global firms like IBM who understood how to be a public policy leader. They had the skill and insight to anticipate where a sector was going – be it the need for a smart energy grid, private sector driven Internet governance, educational reform, or advancing a life sciences agenda -- and they showed up early in the debate. Unlike many of their sector colleagues and competitors, they entered the arena with the goal of becoming trusted partners in the public policy development process. They provided facts, faster and within a coherent structure for government and other stakeholders to contemplate:

Building Trust Case 2: IBM and the case for a globally integrated government affairs function

The initial integration of IBM government affairs from a multinational model (where funding, HR and reporting ownership resided at the country level) to a globally integrated model (where those responsibilities reside at the corporate level) began in 1998, with the integration of Canada's government affairs function to that of the United States. This decision was made because IBM wanted to rationalize functional skills and budgets between the two countries, as they regularly worked together after the forced economic integration provoked by the North American Free Trade Agreement (NAFTA).

Integration brought immediate benefits. To IBM Canada, expense budgets were lowered because they no longer needed to account for government affairs. To IBM Corporate, efficiencies were created around program spending, issue management skills development and performance accountability with respect to both Canadian and US policy objectives.

Experiencing these benefits, over the next 5 years IBM government affairs continued to integrate its national government affairs functions into its global corporate function. The rest of the Americas followed Canada in 1999. With this integration, IBM Corporate gained the ability to more efficiently align its government affairs resources with business and public policy agendas at the NAFTA level. IBM government affairs offices in Asia-Pacific followed in 2001. Europe and Africa completed the process in 2003, giving IBM government affairs the ability to set and execute on transnational issues in a globally consistent and locally relevant manner.

Globally integrating IBM's government affairs function solved the problem of '*what does excellence look like in the execution of government affairs?*' In the multinational model, IBM corporate government affairs struggled to maintain consistent performance standards and align priorities in dozens of countries on all continents. But when responsibility for HR, budgets, and planning moved to the corporate level, IBM government affairs no longer faced these problems. Instead, it gained the ability to create performance standards around excellence. Furthermore, as a result of having a globally integrated function, IBM government affairs is now able to act in more forward leaning ways, more quickly rebalancing resources to meet new challenges and capitalize on new opportunities.

Finally, it should be noted that IBM government affairs transition to a globally integrated model predated the same transition in IBM as a whole. The government affairs function was given permission to embark on this path early on because they were smaller, and thus more nimble than larger support functions.

In becoming a global enterprise, it can be the first phone call or email with a government official striving to do the right thing on a public policy issue which can help sway the debate. The net benefit to such leaders starts with advanced competitive, political and policy knowledge, and can lead to creating regulatory or legislative decisions that offer greater freedom to operate for the firms which emerge first as credible partners with established government trust.

II. Methods for Building Government Trust

Since the audience for the Center for Global Enterprise (CGE) CEOs spans many borders, business sectors and models – as well as stages of development – there can be no single model for the tactical execution of building government trust. Determining how to organize to build government trust is not just a function of the size and scale of the government or the business seeking to secure trust and understanding: it requires respect for the local set of cultural norms, laws and practices, as well as a match between the tactical idea and its effectiveness in the context of the business issue or problem. Overkill in advocacy can be as ineffective as a plan too weak in resources to succeed.

Most importantly, there are few strong reasons to pursue any interaction with any government if there is a risk to a core asset of the firm: the reputation of the firm. While it might be possible to secure substantial short term wins in individual lobbying disputes, any tactic must be consistent with the values and ethics of the firm. Consider the discussion and specifics of the Tata example below as a menu to be evaluated and not a prescription for action in every case by every firm:

Building Trust Case 3: Tata

Tata Group companies are renowned in India and globally for the quality of their reputation. In 2012, three Tata companies – Tata Steel, Tata Consulting Services and Tata Motors – were ranked in the top six of *Fortune India's* Most Admired Firms.

Tata's reputation isn't an accident. Tata companies have earned it through a deep commitment to the wellbeing of the communities in which they operate, through initiatives ranging from providing housing to steel workers to securing fresh water for local villages. These initiatives aren't isolated outreach, and they go beyond simply donating funds to good causes. Rather, reputation and trust is maintained in a very careful, proactive way through the use of an advanced stakeholder mapping strategy.

Mapping a company's entire stakeholder ecosystem and identifying all relationships therein allows Tata management to formulate the right strategies for engagement at every point where their business touches society. The dividends such an approach pays out in terms of trust can be seen in the case of Tata Motors' Nano factory.

The Tata Nano – the world's first $1,000 car (the price has since risen to about $2,400) – is perhaps the achievement for which Tata is most known outside of India. The Nano was originally intended to be built in West Bengal. However, in 2008 local farmers groups were agitated by government land seizures around the factory, and as the situation grew dire Tata Motors' management announced that they would seek a new home for the Nano.

Such a decision might have meant years of delays, but Tata Motors didn't have to wait even a week. The very same day it announced the closure of the West Bengal factory, Tata Motors received no less than five invitations from Indian state governments, asking them to relocate to their jurisdictions. Famously, Gujarat State Minister Narendra Modi sent Tata Group chief Ratan Tata an SMS – 'Welcome to Gujarat'. Within three days, Gujarat state procured land for Tata outside of Ahmedabad. Tata Motors' new factory was producing Nanos in just 14 months.

Tata Motors reputation made it possible for the Guajarati government to facilitate private sector goals. Moreover, the speed at which the firm was able to overcome a difficult

> nonmarket challenge is indicative of the value that the Indian government placed on Tata's reputation. In this instance, Tata Motors' diligent stakeholder mapping strategy, designed to build reputation and trust throughout Tata's entire ecosystem, has paid great dividends.

The basics: tools for establishing trust

The tools for establishing trust vary from sector to sector, firm to firm, country to country and context to context. In some cases, firms have chosen to use advertising, traditional, or new media to communicate who they are. Consumer product companies sometimes do this with brand-building that benefits the firm, but other times the ads are only about the product and not about the underlying creator, maker or distributor of the product. Sometimes firms which do not sell directly to consumers will still conduct ad campaigns (e.g. BASF) to create public brand awareness. Most commonly, however, firms do not choose to be very public in their outreach efforts outside the normal constituencies: direct customers, suppliers, employees and current or potential investors. Before reviewing, evaluating and deciding on the best approach for a globally-minded firm, it is necessary to know and understand the posture of the firm relative to the larger outside world. Those initial choices can inform how a 'build to suit' strategy can be developed for any individual firm.

CEOs need to evaluate and make decisions about how to coordinate or integrate the relationship between communication-oriented functions and those which entail engagement with government and civil society. Almost uniformly, matters relating to corporate or product communications, philanthropy and marketing are managed separately from government affairs or public affairs efforts. Successful global firms take various informal and formal steps to assure consistency of goals between these function with preliminary as well as follow-up questions.

Identifying the right target and approach for engagement

Before engaging with government, it is key to target the most important part of government that will need to be engaged to address the relevant issue (see Appendix C for a brief discussion of Regulatory Capture). In most countries, including those with fully or partially independent legislative branches, this will be the executive branch. In nations with a Parliamentary system, the legislative branch may need to be consulted and involved in enacting a measure into law, but most often it is the Prime Minister or President (or members of their government) who proposes new laws or interprets existing rules. In countries like the United States with an independent Congress, separate legislative and executive branch plans may be required. With governments which are more unitary in nature, the sole focal point will be officials appointed by the leader of a country or his/her party.

It is vital to determine the appropriate aspect of government to target for advocacy. Ascertaining the number and level of officials could determine who should engage in the advocacy, how to engage in building government trust and the scale of any undertaking. If the executive official is both a lawmaker and a part of political party apparatus, their interests and concerns could be different from officials whose sole job is administration of a law or policy. By knowing more about the target (or targets), it is possible to more easily identify potential allies and adversaries to the policy the affected firm seeks. In those cases where an issue can be seen as having larger economic, political, or environmental implications, it may be necessary to imagine the competing and conflicting claims that the public official will face. Anticipating those cross currents can help in building a stronger case for the firm's position.

Management Attributes relating to Building Government Trust

- ***Optimists beat pessimists***, *so be a rent maker, not a rent taker. This means rapid adaptation to change and spending less time defending existing regulatory legal preferences for incumbents and more attention to making and entering new markets.*
- ***Flexibility and Nimbleness***. *Rapid changes in market structure and government's role in parts of the economy will continue to be the norm. A willingness to match the firm's ability to engage in and act on insights from political and policy intelligence is as important and financial forecasting, albeit with a longer time horizon.*
- ***Focus and attention*** *at the top. Putting tension into the entire organization about a commitment to, and action on, building government trust increases accountability.*
- ***Building government trust is a competitive activity***. *At times, policy changes that dramatically affect the market can be more important than modest changes in business structure in a competitive situation.*

Where there is a political or legislative component involved in government decision making, it can also be important to identify and use assets such as local, state or regional economic growth in jobs or infrastructure as a set of facts that underlie or support the merits of a firm's position. Key examples of this kind of engagement are the work of defense contractors in the United States who spread their subcontractors across many states and Congressional districts. Even in more unitary governments, not all parts of a country have the same importance. In some countries, the expressed desire by a leader or the central government to improve the economy of disadvantaged areas could lead to greater benefit to firms offering new employment in those areas. In other nations, it is possible that the home territory of the country's leader or leadership could be a preferred area of focus for the government.

In-person meetings with key decision makers

A specific tactic for straightforward engagement is using one-on-one meetings. These meetings are sometimes possible to arrange simply by calling or writing to seek such a meeting. In some instances, it will be advisable to seek help from a local official, or a representative of a non-host country government (such as an Ambassador) or through the use of trusted intermediaries. Those who arrange such meetings are sometimes referred to as lobbyists. However, it can as easily be a mutual friendship between the person arranging the meeting and the official that creates such an opportunity for meeting. When lobbyists are employed, care should be taken to make sure that the nature and terms of such an engagement are fully understood and the relationship is compliant with both local law and customs and, where applicable, with international legal norms. Any use of lobbyists should be consistent with the values and ethics of the firm.

Suggestions for engagement with government at an in-person meeting:

1. Make sure the relevant official (and their office and staff) know in advance who will be representing the firm. An outline of data about the firm should be shared. It is often best to describe the purpose of the meeting with some specificity. Most data or foundational material for the meeting should not be shared in detail in advance, because to do so may obviate the need for an in-person meeting.

Finding the Right 'Government'

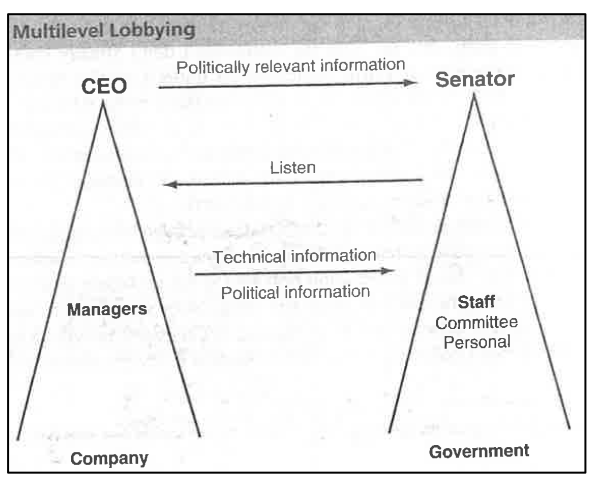
The term government as used in this paper is designed to be all inclusive of national and subnational governments. Depending on the country and its governance model, subnational governments may play a crucial role in the success or failure of a global enterprise. This is especially true where power has devolved to regions, or in federal systems that contemplate a strong role for states or provinces.

Two important markets merit special attention. First, the European Union was designed to allocate decision making between various pan-European institutions and individual member states. Understanding these divisions of authority – or competence in the legal or jurisdictional sense – is important for every global firm.

Second, understanding the size, shape and structure of governance in China is table stakes before one can plan for, or execute against a strategy of governmental engagement. Careful attention needs to be paid to the nuanced difference between a strong municipal or provincial relationship and access to or influence with the national government. A positive experience in making arrangements to locate a plant or R and D facility – or campus of a university – may not translate into a positive development in key national ministries.

2. Anticipate how the other party will view the meeting. Try to present a favorable conclusion for your firm that is: (1) clear and understandable as an outcome; and (2) takes into account the other interests of the government official. Be focused on how to make the relationship extend beyond any single issue no matter how important that issue appears to be at the time. Long-term relationships based on common interests are more fruitful.

3. The representative of the firm should be carefully chosen to be at the correct level to show respect. Most often this will be either the CEO or President of the firm for the country involved. In the case of home country meetings it will likely need to be the CEO of the entire firm. This is also most likely the case for critical meetings in other nations of vital interest. Depending on the level of official and the context, the firm's representative could be a head of manufacturing, research or commercial operations.



(Baron, 2009)

4. Follow up on any meeting is a necessity. Thank you notes are mandatory. Suggesting next steps for engagement with the firm are also highly advisable. It is unlikely that a government official who conducts only one meeting with a firm will develop a deep and sustaining relationship of trust. Try to anticipate the risk of a "one and done" relationship by thinking through and planning for next engagement.

5. Any message delivered by the firm will have more impact if repeated, and especially if echoed by stakeholders close to, or influential with, the key decision maker. On this score support for a given proposition can come from academic experts, trade associations, non-governmental organizations, sometimes by other governments or international organizations. There is a smaller set of circumstances in which either direct consumers of a product or the owners of smaller businesses dependent on the firm can also be highly effective.

6. Assume that whatever is said or material that is shared will also be provided to others in the government. Assume that such materials will be shared – potentially without any context – to your adversaries, interested non-governmental organizations (NGOs), and to the press. Presume also that the fact that a meeting occurred, who attended the meeting, what written materials were provided and what was said will eventually become public in some way. Being prepared to respond when that happens starts with fashioning the firm's message with that reality in mind.

Building Trust Case 4: Uber

When Uber first came onto the national scene in the United States they were treated – like many disruptive technologies – by incumbents as an annoyance. Local governments across the world – unsure about how to regulate an app-based, consumer drive transportation system like Uber – impose new rules on a disruptive technology and business model. Uber at first determined how to unlock unrealized value by providing a new service that could use the "down time" for limo drivers. But very quickly the Uber model built a new business model that relied on some business insights. They knew that many people are completely connected to the outside world using mobile devices. They also knew that the use of "apps" permitted consumers to alter their behavior – including retail purchasing or social connections – in real time. As a result of these insights and a strong back office and software platform they quickly evolved into a viable competitor to locally regulated limo and cab services.

Not surprisingly, the incumbents reacted slowly to the risks posed by their disruptive challengers. But, soon after market entry when incumbents started to lose both drivers to Uber as well as customers they turned to their regulators as help. It is not uncommon for a regulator who has been supervising any given industrial sector to become complacent about and even too comfortable with those they regulate. This concept is called "regulatory capture".

Thus, both in the United States and in the 60 plus cities across the globe in which Uber operates there are now serious disputes where local governments have sought to impose virtually all the same rules on this new service as are applicable to cab services. This kind of incumbent protection can have the net effect of stifling competition and not materially helping or protecting or serving consumers. On the other hand a "regulation free" environment that was sought by Uber in the beginning was both naive and misguided.

After much adverse publicity (e.g. alleged crime including a rape in India of a customer by a Uber driver; accidents involving Uber), lack of insurance coverage, consumer concerns over surge pricing, alleged privacy violations, and supposed targeting of adversarial reporters, and other issues Uber decided to abandon a confrontational stance.

Recently Uber has undertaken a diplomatic offensive in some markets. They have begun to share their ride data with some local governments so that urban planning can be improved. They have worked with a third party group, Mothers Against Drug Driving (MADD) to demonstrate that the target audience for Uber benefits from the availability of Uber to avoid driving while under the influence. They have hired former Obama politico David Plouffe to help craft a company narrative about change, choice and freedom – 'Choice is a Powerful Thing'. They have touted the environmental benefits of their service (reducing reliance on private vehicles). They have partnered with a renowned Princeton economist to document the economic benefits to both their fleet of 'driver-partners' and under-served areas.

There are many issues yet to be resolved concerning the regulation of drivers and their conduct, but after an initial period of obstinacy the firm has become to intelligently engage with government.

Engaging third-party allies

The advocacy perspective of a firm can be advanced through the use of third party allies. A highly effective posture for most firms on most issues is the commanding heights of policy formulation. Being present at the creation of a new policy is often the best way to influence the policy debate. Setting the goals and terms of a policy debate can represent an effective method of engagement. Three major methods used by global firms to influence policy debate – even after the issues have been joined are:

1. Through **direct policy advocacy**
2. Through **trade associations**
3. Through **neutral third party groups** such as non-governmental organizations.

Direct policy advocacy can often be better perceived by working with thought and opinion leaders in civil society. Conversations can take place in an academic setting, with think or action tanks, or through conferences or commissioning of papers. Provided that the relationship with and/or sponsorship of such interactions is appropriate, noted engagement with civil society provides a less partisan or self- interested context for some policy debates.

For a case study concerning **direct policy advocacy**, please see **Building Trust Case 4: Uber**, page 13. Direct policy advocacy can involve:

- Direct research and publications
- Sponsored work by academic centers and think tanks
- Conferences, meetings and consensus development efforts

For a case study concerning the use of **trade associations**, please see **Appendix B: Trade Associations**, page 54. Trade association work should consider:

- The role the firm will play in the organization
    - Leadership or passive; top level or middle management
    - May be issue dependent
- Choice of association(s)
    - Global, regional or local
    - Number of associations to involve

For a case study concerning **neutral third party groups**, please see **Appendix B: Shell and Greenpeace**, page 47. Firms should approach NGOs with a comprehensive plan, including:

- Global NGOs
- Regional/country specific/local NGOs
- Segmentation by type, extent, and number

How third parties help global firms create trust with governments

Third parties can have a better result in reaching different government audiences than global firms. Global firms who have materially succeeded at establishing trust with multiple governments have made developing positive relationships with third parties a key tool in their advocacy and reputation management efforts. This flows from a broad and deep recognition that all governments – regardless of type, structure or ideology – are influenced by outside forces. Third parties – especially those not perceived as being aligned with the petitioning global firm – can echo, supplement or validate facts or conclusions made by such firms.

Third parties often use techniques different from global firms to communicate with either a narrower or broader portion of civil society. Commonly used methods include press releases and comments, testimony, studies, conferences, meetings, and direct lobbying. The depth and authenticity of such communications determine the strength of the messages these groups bring to the debate.

In some instances, engagements can be effective on the basis of an exchange of information or facts about the issue at hand. However, some groups appropriately guard their independence and autonomy: in those instances, maintaining a respectful distance from the third party can be effective.

Categories of Third Party Groups

- Academics and key opinion leaders on a particular topic in a country or region
- Consumers of the global firms product or service
    - Examples include the activism of trade associations representing certain professions like doctors, real estate agents or Uber drivers
- Vendors or suppliers of the global firm:
    - Harder to organizer, but once engaged are frequently effective
- Employees, retirees, and shareowners
    - Commonly used tactic. Requires a focused decision on engagement and sufficient resources to succeed.
- Public interest groups
    - Topical Examples: Environmental, public health, consumer
    - Identity based groups: those who identify themselves by geography, race, gender, sexual orientation, religion, ethnicity
    - Groups based on economic status or role: business groups, importers, exporters, national or multinational groups
    - Other: coalitions of different stakeholders on a given issue, groups created spontaneously by citizens over a specific issue

While there are no guarantees that any group which might be influential with government will agree with the position of the global firm, their position is more likely to be at least nuanced and balanced than if no interaction at all had taken place.

Choosing which groups to relate to, how to engage, and when to use each approach are usually local and not global decisions. In rare instances when the third party group has the potential to carry a stronger voice outside the on-the-ground country, or where the market size of the country is very large, the goals, strategy and an outline of the tactics are appropriate for higher-level management review. Respect, coupled with caution and attention to the reputational risks of poor engagement, should guide any engagement plan with third parties.

Use of lobbyists

What they are
The term "lobbyist" has various and often negative connotations. Originally, in the United States, it referenced 'influencers' who hung around the lobby of a leading Washington, D.C. hotel (beginning in the Civil War era) to seek a government appointment or contract. Currently, ‘lobbying’ references a multibillion-dollar industry in the United States that employs tens of thousands of advocates. In some countries, the magnitude and complexity of government dictates the use of intermediaries, such as lobbyists, to find the fulcrum point for decision-making. Often they are former government officials, or at least officials who have previously dealt with the same person or agency on similar matters. Using a guide through the maze of government regulations is often useful.

When governmental processes involve active consideration of legislation, the use of lobbyists becomes a logistical necessity for all but a handful of large corporations with their own professional lobbying or government affairs staff. The use of outside lobbyists can be a wise decision in the same way outsourcing a temporary business problem can be superior to building up a permanent in-house staff for what is an intermittent problem.

> Modern lobbying may be an art developed and refined in the United States, but it has spread to the rest of the world as well. The European lobbying industry has greatly increased in the last decade – Berlin, for instance, has reached the level of half the lobbyists present in DC (Economist, 2015). Still, some countries have resisted the practice of lobbying, since it has sometimes been associated with corruption and bribery versus lawful participation in democratic policy-making process.

When to use them
A lobbyist – like any other vendor of services – should be employed if they can:

1. Offer value for compensation
2. Advance the likelihood of, or advance the timing of, policy success
3. Ethically and honestly represent the firm in a manner that adds to or improves its reputation (or in the least does not deter or diminish its standing in the community)

Lobbyists should only be employed when they are acting under clear rules and supervision. This includes compliance with applicable disclosure rules, bars on bribery and corrupt influence, and a commitment to transparency and accountability with the client. Any lobbyist who is unwilling to tell you how or why something happened should be treated with suspicion.

How to manage them
A single point of contact needs to exist for each lobbyist. If there is more than one lobbyist used for a country they should be supervised as a group by a single leader. Failure to make sure that all of the firm's outside government representatives or lobbyists are pursuing the same agenda and using the same strategy and tactics is a common mistake in seeking to build government trust. Inconsistency between different voices purporting to represent the same firm can be a fatal blow for the reputation or credibility of the firm.

How to assure compliance
Be explicit about compliance from the first contact. Provide and adhere to written contracts. Provide rigorous legal and ethical training and require regular reporting of activities in sufficient detail that such conduct can be both evaluated and audited for compliance.

> *"You've got to know when to hold 'em, know when to fold 'em, Know when to walk away, know when to run."*
>
> *- Country and Western singer Kenny Rogers, 1978*

When not to engage, or to overtly oppose governments
This lyric captures the dilemma global firms face as an initial threshold for determining when and how to engage with government. Assuming that the global enterprise has identified a possible government policy as one that is key to the strategy of the firm, then it is necessary to determine whether one can trust the government.

Managers will want assurances that their counterparts in government can be trusted with their time, information, and agreements. There is no one-size-fits-all approach for determining if a government is trustworthy. Instead this determination, which should take place at a senior management level, must take into account several qualitative factors (and their quantitative approximations, where useful) including the following:

- **Closeness and success of existing firm-government relationships** (likely the best indicator of trustworthiness).
- **Accountability of the government to its citizens and businesses**. This can be approximated through indices gauging levels of democracy like the Polity IV series, but it is important to remember that accountability to citizens and democracy are not necessarily correlated.
- **Transparency of government decisions**. This can be approximated through the World Economic Forum Global Competitiveness Report (WEF GCR; see ‘transparency of government policymaking’)
- **Acceptance in the larger international community**, especially membership in economic communities like the G20, ASEAN, WTO, WIPO, IMF, etc. These memberships are important not only as avenues to dispute adjudication, but also as recognition of a government’s trustworthiness from its peers.
- **Understanding of corruption in the country**. This is can be approximated through the Transparency International’s Corruption Perception Index.

- **Ability to compete fairly in the market**. This can be approximated through the WEF GCR (see sections 'property rights', 'intellectual property rights', 'diversion of public funds', 'favoritism in decisions of government officials') and further augmented by country-specific research on local content requirements at the WTO and the US State Department Country Commercial Guides.
- **Stability of the governing system** (i.e., the trust that your work today will not be undone by radical change tomorrow). This can be approximated through the World Bank's Political Stability Worldwide Governance Indicators.

It is important to note that the role of the quantitative approximations listed above should not be a decisive one. Rather, these numbers can inform a decision to proceed or to do more investigation. It is likely that a decision to proceed with government engagement will be made with respect to both the size of a potential investment (in time and resources) and components of the overall business strategy – for instance, the need to compete with a rival in a market.

Should any red flags arise in the due diligence processes outlined above, then these findings should inform managers' country trust-building strategies. For instance, perhaps a government has very high levels of bribery – in which case country–specific bribery protocols should be developed and imparted to firm employees.

Assuming that an assessment like the one outlined above indicates that the government is legitimate and trustworthy, the global firm must decide how to engage. The most positive opportunities are when the government is open to collaborating or cooperating with the business on a policy issue. Much of this paper outlines how to engage with a positive outcome is possible.

The more difficult situation arises when the government is a competitor, or when the position the government has taken is implacably in opposition to the business model and strategy of the firm. Professor Ghemawat Pankaj (2000) offered a useful tool for making these assessments:

<table>
<tr><th colspan="2" rowspan="2">Firm-government relationships</th><th colspan="2">Concern for government objectives</th></tr>
<tr><th>Positive</th><th>Negative</th></tr>
<tr><td rowspan="2">Motivation level</td><td>Low</td><td>Accommodation
(cooperative, unassertive)</td><td>Avoidance
(uncooperative, unassertive)</td></tr>
<tr><td>High</td><td>Collaboration
(cooperative, assertive)</td><td>Competition
(uncooperative, assertive)</td></tr>
</table>

It is not possible to determine in advance any single set of rules about when and how to relate to any given government. Suffice it to say most of the time global firms will monitor public policy developments and once enacted or announced, implement them with integrity. There are good reasons to pick and chose issues to engage on. As noted above there are some circumstances where a firm has determined that overt advocacy ("assertive" in the chart) is important to a firm's strategy. Those instances are likely to be relatively rare outside the context of a headquarters country, or a major market.

Even rarer, however are those instances where a global firm determines that they need to openly and publicly oppose government action. The consequences of opposing government action vary according to the type or form of government and its relative trustworthiness. It is important – to the extent possible – to know the consequences of such opposition in advance, regardless of the outcome. Sometimes it is possible that the adverse consequences from the government could occur even if the global firm is successive.

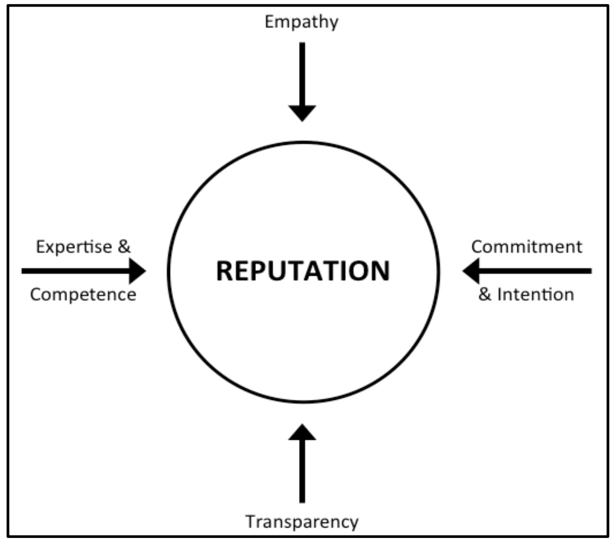
Perhaps two examples of situations that are current today relate to corruption rules. As outlined elsewhere in this report there has been a dramatic increase in the application of laws such as the United States' Foreign Corrupt Practices Act (FCPA). One of the pending investigations under this law sees the US government taking the view that offering a job to a relative of a government official as a potentially corrupt and criminal act. Major US and international financial institutions have taken a decision to aggressively oppose this position of the United States government. On the same subject some business organizations now believe that the costs associated with, and the risks from, FCPA investigations (and the parallel sometimes redundant inquiries by other governments) are too uncertain and have begun insisting that the laws be amended to provide that there should be complete defense to a criminal prosecution if the firm knew nothing about the underlying bad conduct and had in place a sophisticated set of policies, procedures, monitoring and accountability to prevent such bad conduct.

The examples above illustrate cases in which a substantive difference with a democratic government could be played out with minimal risk of retaliatory actions. But there are other contexts with authoritarian regimes where the differences are more visceral. Suppose the government controls air transport or mail delivery systems, and the global firm wants to enter the market to compete and – in effect – take away market share and revenue from the government. In those cases the government may not play the policy game under a Marquis of Queensberry set of rules. Global firms need to be careful and deliberate in deciding when and how to directly confront government when a vital government policy is at risk. This does not mean that Federal Express should not have challenged Deutsche Post or that private low cost airlines should not compete with government monopolies. Rather it means that before a global firm undertakes such an effort it is essential to think through the possible consequences. Finally, any direct confrontation with government should be a deliberate choice and informed by a strategic and tactical plan that have a reasonable chance of securing a well-defined metric of success.

III. Reputation

A firm's reputation can have critical implications for its ability to operate at speed and scale. Five basic foundational principles of reputation that must be understood at the top levels of organizations (Diermeier, 2011) are:

1. **Reputation exists in the public realm**. Reputation is not limited to customer and direct stakeholder relationships. It can and often does have a direct connection with public perceptions and behavior, and valuations in the market place. Reputation is a key variable in the eyes of government officials and the media. As such, reputation must be said to come from not only the firm, but also from media and other third parties.



2. **Reputation exists in context (time, scope, and environment)**. Small things can blow up, and big things can get bigger. Today, reputation risks are global, faster and involve more players. In a time where the international news cycle is eight hours or fewer, action may be necessary before all facts are known.

3. **Good reputation is not an accident.** Reputation requires dutiful stewardship and strategic planning and preparation. Firms with strong reputations integrate their values into their strategy, organization and culture. One major negative can wipe out years of positives, so careful management is critical.
    - Identify threats to reputation, evaluate them and monitor the environment and risks.
    - Success comes from principled leadership and sophisticated management processes and organization. It is not ad hoc.

4. **Reputation is a CEO task**. CEOs must be architects of reputation, but they may not need to be the day-to-day spokesperson and sometimes can delegate responsibility to assure distance, perspective and general business continuity.

Reputation Influencers

- **NGOs.** They have their own agenda. Best to be prepared for their involvement in advance.
- **Media.** Good stories thrive on heroes, villains and victims. Choose your role and a plan on how to get there.
- **General public**. Public responses can be based on fear. Fear of change is real, and needs to be taken into account especially with new or disruptive technologies.
- **Allies.** In situations where the firm has little public trust, it can be effective to align with fellow travelers who have more trust. It is useful to develop allies in advance of needing them.

5. **Corporate Social Responsibility (CSR) can protect reputation.** CSR can be a modest risk mitigation plan, but only if it is authentic. CSR can also create reputational value that creates market opportunity.

Crises

When crises arise, it is important to remember:

> **Sources of Reputation Problems**
>
> - **External**. Disasters, true accidents.
> - **Business Decisions**. This is the most common source.

- Crises are often opportunities in disguise.
- Be decisive, not defensive.
- Every action will be scrutinized.
- Focus on trust, not on guilt. Make sure you fully understand the business issue (e.g. value, brand proposition, relationship with customers, government, stakeholders, media and others). If necessary, government officials will preserve themselves first at the expense of any firm.
- Success in a crisis situation occurs when the final impression made is a positive one. There are four factors that lead to such success: **transparency, expertise, commitment** and **empathy.**
- Top management is responsible for handling crises – not PR, and not lawyers.
- Competence trumps good intentions.

IV. Structural Attributes of Firms: Link to Establishing Government Trust

Global enterprises must organize themselves around a set of structures that facilitate strong, fact-based, coherent decision-making and execution that matches the speed and scale of their operations and future ambitions. This is true in human resources, supply chain management, information technology, data services and analytics. In the context of government affairs, some common questions need to be addressed regarding how to organize and structure the relevant decision making processes:

1. **How big are you?** What is the current and likely future size and scale of global operations? Associated questions include: (a) in how many countries will you operate; (b) what type of presence (subsidiary or distributor) will you hold; (c) what percentage of global revenue for key countries will the firm represent; (d) how many employees will you have; and (e) how many facilities and what scale will they represent relative to others in each nation?

2. **What do you do?** What is the nature of the key product, products or services? How much diversity exists across product lines and allocation of revenue or profit allocation for the top products? In part, how much is the firm a diverse firm with multiple, and disparate product lines?

3. **Where do you do it?** Which countries or regions are the home territory, key profit source, and which are the most important for future corporate growth?

4. **How do you do it?** What kind of business model is used to operate the business outside the headquarters country? Is the model centralized, decentralized, or a mix?

5. **What are the expectations for regional or country managers?** Do regional or country managers have direct profit and loss accountability? How many core corporate functions do they manage?

Because each firm has already chosen an organizational structure for its core business/businesses, it is unrealistic to expect that finding an optimal government affairs structure can drive a significant overall corporate reorganization. On the other hand, as firms seek to reform themselves at scale and speed to enable them to become Global Enterprises, the needs and interests of government affairs should be fully taken on board.

Depending on the existing structure and state of readiness, there are several different approaches that could work to optimize the effectiveness of a government affairs organization. Some irreducible minimum standards that need to be met before a reasonable chance can exist for success include: (a) the person responsible for the function should report to either the CEO or a CEO-direct report, (b) final approval and buy-in for the goals of the function must be actively approved by the CEO, (c) the CEO has to be an active player in the implementation of the program and tactical execution of the government affairs goals and (d) the corporate structure for government affairs must be configured so that there is an awareness of, buy-in from, and accountability for, results by a broad and deep group of senior executives.

The number of full time equivalents, budget size and accountability will depend on the situations of individual firms. Recent industry benchmarking surveys suggest that large, global firms with a record of success in this activity have an average staff of less than 100, place 30%-40% of staff in the US, with 10-20% in the EU, about 10% in China and another 15% in European capitals. The budget authority for these large firms ranges from $10 million to more than $40 million with the biggest cluster between $20 million and $30 million.

In general, the benchmarked firms focus their government affairs activities on the executive branch in the United States and its equivalent in other nations. Almost uniformly these government affairs operations do not directly make sales calls on the government, though they are often put in key roles in assisting or implementing government sales. Less focus on legislative matters is common, especially in countries outside the United States.

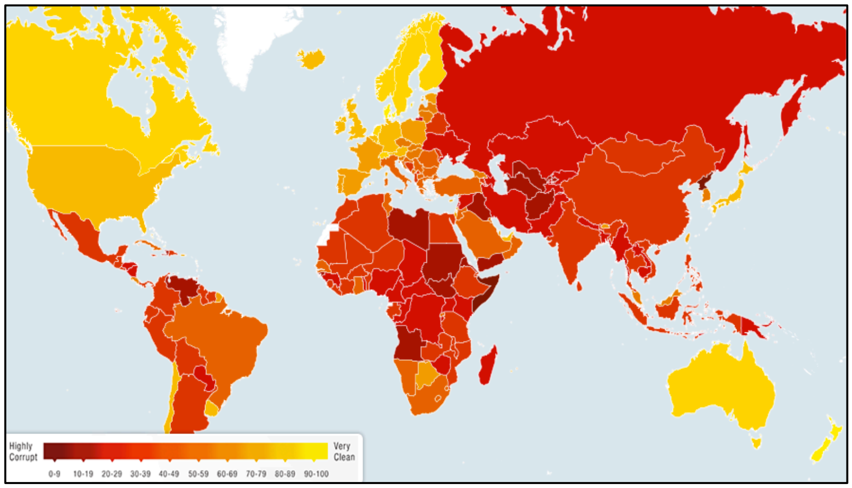
Staffing for government affairs generally comes from a combination of hiring former government officials and either company insiders or people from the same or similar industries. The most important, relevant and differentiating characteristics that global firms look for in hiring government affairs professionals are the abilities to:

1. Lead and drive an agenda
2. Adapt to change
3. Act as a trusted partner in multiple relationships
4. Leverage assets and act entrepreneurially
5. Problem-solve, with global capability
6. Deal with complexity and conflicting mandates; and a creative ability to get beyond conventional thinking into problem solving.
7. Fully understand the customer (as in the marketplace for the product, and the government as customer for policy ideas).

IV. Building Trust with Challenging Governments

Every global firm encounters corruption, and there exists a wide variety of circumstances in which global firms face this risk. Bribery, corruption and other unethical conduct occur in virtually every corner of the world. There are some indices that rank countries by their relative level of commitment to the rule of law, and corruption occurs far too often to ignore or dismiss as a problem isolated only to some countries or regions (Transparency International, 2014). The challenge for business leaders whose employees are faced with requests for payments, bribes, and other forms of corruption is how to respond.

The importance of this issue in global business has grown in recent years. Some observers have linked this to a desire by many global firms to enter into truly emerging markets. In some instances, these newer markets have a long, local history of corruption. Corruption is not just occurring in smaller, poorer or less sophisticated countries, but in major markets as well. Daily headlines from China point to an increased focus on the risks to the Chinese economy of corruption. This effort is being driven by unmistakable signals from President Xi Jinping. In India, Brazil and Turkey, there are also varying degrees of increased scrutiny of the corrosive effect of corruption.



Transparency International's 2014 Corruption Perception Index. While corruption is sometimes worse in developing markets, it is worth noting that no country received a perfect score.

Scores (out of 100, with 100 being zero corruption) for select countries are listed in the table to the right.

Germany	79
UK	78
Japan	76
United States	74
France	69
South Korea	55
Brazil	43
India	38
China	36
Russia	27

Most businesses instinctively respond in a manner consistent with their corporate culture. Companies that have major facilities in countries with strict and regularly enforced laws like the United States, Germany or the United Kingdom will often defer the setting of rules for potentially corrupt situations to the law function within the company. For key questions of policy and implementation, lawyers and risk managers will be central players. However, the reality of day-to-day business transactions suggests some additional steps beyond consultation with lawyers and accountants. These steps are necessary based on several key factors: 1) requests for corrupt acts are often made to employees physically and managerially far from headquarters; and 2) all global firms now recognize – in part, driven by the fines and penalties assessed against others – that not only are their employees a source of potential liability, but so too are their consultants, agents, investigators and joint-venture partners.

Frequently, the recipients of requests for bribes or other impermissible payments are located in a different country, time zone, culture and legal system. The most important first step is to offer these local company representatives practical day-to-day guidance.

Global firms need to be certain that they have a strong, practical, and usable set of values and statements about ethics and compliance. Corporate culture should be focused on requiring and rewarding ethical, legally compliant behavior: this is as important as a written code of conduct. The best chance to avoid a severe reputation loss isn't having the best policy, but rather the culture that best prevents or avoids temptations and knows how to respond when members are confronted with hard choices.

The US (via the Foreign Corrupt Practice Act) and India (via the Prevention of Corruption Act) take a fundamentally different approach to corruption prosecution:

	US FCPA	India PCA
Jurisdiction	Global	India
Corrupt Act Targeted	Paying of bribes	Receipt of bribes
Prosecution	Only the bribe payer	Typically the bribe receiver

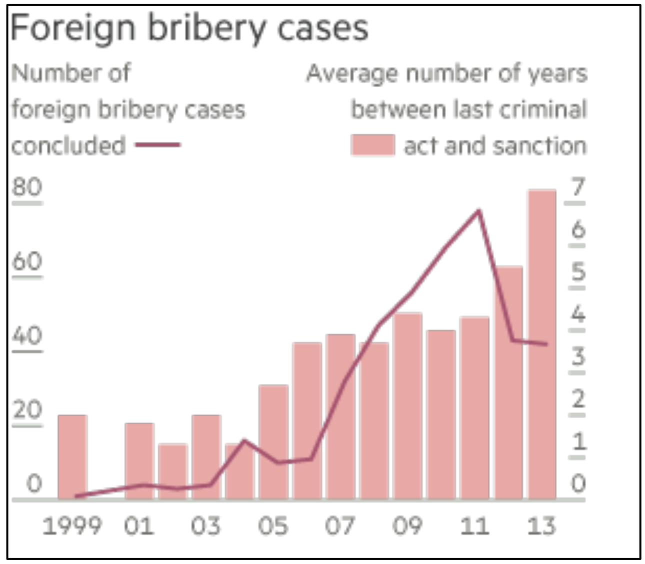
The presence of a strong culture of ethics is also essential in dealing with the other risk faced by global firms: the risk of fraud by their employees. The incessant pressure on some employees to deliver revenue or to smooth out earnings can be misunderstood as a command to engage in internal-only illegal behavior. Such behavior can include awarding contracts to vendors, stuffing the channel with sales in one quarter to avoid disclosing a downturn, and other measures that are clearly conflicts of interest, or worse. The best antidote for such behavior is a set of written and enforced procedures. If a firm has not disciplined or terminated employees for corruption on the giving or receiving end of the equation in recent times, it is unlikely the firm's reviews are focused or vigilant enough. Distance from headquarters is not a defense to a corruption charge. Equally important, the allocation of resources to compliance should be determined on the basis of risk, not as an allocation by country or region based on revenues.

Beyond the clear statements of intention, firms also need accessible rules of conduct and implementable standard operating procedures. If, as is too often the case, the rules for dealing with the risks of corruption are long, complex and convoluted, they are not really providing meaningful guidance. Many large global firms have determined that massive binders of "Standard Operating Procedures" (SOPs) are less useful than practical advice. Country managers, plant managers and sales and marketing personnel need simple and easy to implement advice such as:

1. If a government official, or someone acting or appearing to act on behalf of a government official, seeks to obtain a bribe or inappropriate payment, do not accept the request. Such requests can include:

    - Direct payments to an official
    - Sponsored or subsidized travel, foreign travel, gifts or lavish entertainment
    - Payments to third parties

- Payments to non-profit, educational, health, welfare groups associated with the public official and from which such official obtained a direct or indirect benefit (including tangible or intangible political credit or public media appreciation).



Donnan, Shawn. Foreign Bribery Cases. Financial Times. December 2, 2014.

It is sometimes possible to take time to think through and consult with others in the global firm about how best to respond. If a company official thinks something is wrong or unethical, they should decline to engage in the suspicious behavior. If, out of politeness or deference to local customs, it is rude to be completely blunt, then a request for more time to review a request may be an appropriate response. Whether this is possible or a viable option should be determined in advance in consultation with management at the country and regional level and through the development of "frequently asked questions". For example, if an official from country X asked for a modest present for that country's most important holiday, it would be useful to know the answer in advance of the request. The number of such sample questions can be limited and still capture the most common examples. Using such guidance can also give local suggestions for exceptions that they may wish to make a case for with senior management (see step #3 below).

2. Avoid typical arguments made to justify an impermissible payments, such as:

   - Everyone else, or all our competitors, do it
   - We really need this person or this action to meet our sales or revenue targets
   - If we do not get this business, our operation here will shut down and many employees will lose their jobs.

   In each case, it is possible that there is local truth to the argument. An ethical global firm cannot and should not permit any of these considerations to be used to justify an otherwise illegal or immoral act.

3. If the request for action by the government official or agent is inappropriate, but action that is dependent on the relevant official or his or her department or function is vital, then it can be appropriate to determine if there are any steps that could be taken that would take into account the needs of the local community. If – and only after appropriate review at higher levels of the firm – there are steps that could be taken to be responsive to the initial request, it might be possible to act.

Market access and sanctions

Global firms seek out markets where they exist on the basis initially of whether their products or services are needed by the citizens, businesses or government of a particular country. The first step for any global firm is whether and how to enter a market. These choices can be informed by assessing the economic viability of the target country. But there are also situations where a global firm has made a determination in the past to be in a particular country when conditions on the ground or the context of international or foreign relations have changed for that country. These situations are more acute when the global firm has a substantial embedded infrastructure in the country. Examples of such situations will include oil and gas exploration and exportation, commodity or extraction business, or firms with substantial manufacturing presence in-country.

Firms not only have to build strategies for dealing with corrupt regimes and officials, but also must develop plans for two other difficult situations: countries which employ a sanction-based regime and those where the central government may not actually, or practically, control the entire geography of the country. The first difficulty for a global firm facing sanctions is determining the exact nature, scope and duration of the sanctions. Because the potential penalties for getting any compliance-related detail wrong are so great and the potential reputational damage for a non-compliant firm is so material, extreme care must be exercised. Consultation with the best available legal counsel is a mandatory first step. Scrutiny by senior management -- and for publicly traded firms by the Board of Directors -- should be built-in to assure complete and total compliance.

Current countries facing US and/or EU sanctions include:

- Afghanistan
- Belarus
- Central African Republic
- Cote d'Ivoire (Ivory Coast)
- Cuba
- Democratic Republic of the Congo
- Iran
- Libya
- Myanmar / Burma
- North Korea
- Russia
- Sudan
- Somalia
- Syria
- Yemen
- Zimbabwe

There may also be sanctions against organizations and individuals associated with certain categories of prohibited conduct, such as:

- Transnational and counter-narcotics crime
- Non-proliferation of nuclear weapons and weapons of mass destruction
- Counterterrorism
- Conflict-related diamond trade
- Ad-hoc sanctions against high-profile individuals (i.e. Russian leadership)

There are many other legal regimes in place that have the net effect of applying US-based rules, or the rules of some other countries to transactions that occur outside the United States. These include money laundering and violations of certain treaty obligations.

Doing work with the latter category of countries which have incomplete national control is especially challenging. Countries in this category today would likely include Nigeria, parts of Iraq, parts of Pakistan, and some other nations already within a sanctions regime such as Syria.

The problems that occur in this category of countries can be different from either corrupt nations or countries facing sanctions. Special care should be taken to protect the health and safety of employees of the firm. Firms should work actively with the foreign affairs department of their home country and other nations to make sure that a complete, accurate and current picture emerges about conditions on the ground. This kind of feasibility analysis will, of course, precede any decision to do business in a part of a country that is not yet recognized (as was the case in Libya in the early days for the area around Benghazi). The ultimate question of whether to enter or remain in such markets needs to be undertaken at the highest level within a firm.

Building Trust Case 6: Novartis in China

For the last 20 years China has been averaging an incredible 9.6% growth rate. China's pharmaceutical and health care sectors have grown concordantly, and today China is the second largest market for pharmaceuticals and biological products, and its citizens' health insurance coverage has increased dramatically as has its spending on health care in general. But these improved health care circumstances weren't necessarily foreseeable in the middle of the first decade of the 2000's. For some large and successful multinational firms in the pharmaceutical business the risks of entering the Chinese market were perceived as too great. Uncertainty about intellectual property protection was a major concern, and one based on Chinese market realities. But companies like Novartis determined that the opportunity in China was worth committing to, and that this commitment needed to be executed emphatically and confidently. Respect for Chinese skills in research and development (and associated manufacturing) lead Novartis to spend upwards of $1.25 billion in new commitments through the establishment or growth in Shanghai area research and development facilities. This expression of confidence was genuine, but it also helped to cement a positive and long term working relationship between Novartis and the Chinese government. In this case the primary partner for Novartis was the Mayor and government of Shanghai. Novartis understood better than most multinational firms that government trust is often best secured through forging enduring relationships with key members of the ruling party and leaders in states or regions that embrace the goal of economic growth, and support the role of innovation in such growth. That trust is reflected in Novartis' journey in China – from $128 million in sales in 2001, to China becoming a Novartis top ten market by revenue in 2013.

V. Trust and International Relations

> *For a list of framing questions designed to help illustrate* ***country macroeconomic environment****, please see Appendix E, page 61.*

Building government trust can sometimes be difficult not because the firm has made any missteps, but because the government of the home or headquarter country has done something (or is perceived as having done something) that alienates other governments. Examples of this phenomenon include the recent revelations about domestic and international surveillance engaged in by the United States and other allies. Disclosures of the nature and extent of these practices has led some governments to seek to exclude some American providers from government procurement. Other examples flowing from the same cause include discrimination in government policy decisions such as mandatory placement of data centers in the host country of many customers.

Other business risks that have been created by actions of home governments include, on the positive side of the equation, the financing of infrastructure in Africa by the Chinese government. There is, however, a risk that some government spending or financing efforts can also create some level of local resentment.

Building Trust Case 7: Caterpillar

American industrial manufacturer Caterpillar has a long history of doing business in Russia, having sold tractors and combines to the then Soviet Union during the Great Depression. It is no surprise then that the firm was one of the loudest voices in the fight to repeal the US Jackson-Vanik amendment and to pass Russia Permanent Normal Trade Relations (PNTR), in order to improve market access for its products. Since the eventual passing of Russia PNTR by the US Congress in 2012, Russia has become one of Caterpillar's most important markets with over $1 billion invested and about 1,000 employees in country.

Caterpillar CEO Doug Oberhelman touted the importance of Russia to the firm to the US Congress in 2012. "There is a tremendous opportunity to increase U.S. exports to Russia. From Caterpillar's perspective, Russia ranks among our top 10 export destinations. We want to be involved in building the bridges, roads, ports and everything else that's going on in the Russian Far East in the coming five, 10, 20 years".

But the Ukrainian crisis that began in 2013 is proving costly to Caterpillar and its recent advocacy successes. Following Russia's annexation of Crimea, Western nations enacted several rounds of sanctions against Russian government officials and institutions. Impositions on Russian state-owned banks have created hardship for Russian companies who rely on those banks, including industrial machine giant UVZ. And in light of its restricted access to capital, UVZ cancelled a major rail project with Caterpillar.

What's more, Caterpillar and other Western firms doing business in Russia may find their ability to effectively access the Russian market limited either explicitly or implicitly, as the Russian government considers retaliatory measures against the West.

The challenge for Caterpillar's management now is to implement strategies that will allow them to successfully navigate a tempestuous investment and macroeconomic environment in a critical growth market.

VI. Transcendent Global Risks and Opportunities: Mid- to Longer-Term

Anticipation is the best prerequisite for building government trust. Seeing around the corner to look forward to new or challenging issues is difficult. Often the accuracy of predictions leaves so much to be desired that planning for, or working on, policies in anticipation of an event that has not yet occurred can seem like a waste of time. Though there are risks there are also opportunities if one looks ahead at the forces or trends that will dramatically and materially influence the future environment for a global business. Being a trusted partner with government on issues they must confront is a strong platform from which trust can be built.

Most firms plan ahead for at least three years. In the case of some industries, a longer lead time to product launch is required (e.g. oil and gas, or pharmaceuticals), and the planning cycles for new sources of energy or drugs will be ten or more years.

It is not always possible to clearly delineate between current issues and future issues. If five years ago one had predicted the surge in anti-corruption efforts in China, or the disruptive effect of an aggravated electorate on the same subject in Brazil, it would have been speculative. Today those issues are front and center for global firms doing business in those two markets. Adding the potentially disruptive effect on labor markets over income inequality does not seem like much of a stretch. Nor does it seem surprising to list the concerns over the increased use of robots in manufacturing, the service sector and in the home. The fear and reality of work displacement is occurring today in labor negotiations and in the wage setting process of industry leaders. What is less clear is how these concerns will manifest themselves in the next five years. It is possible to imagine that the well-settled reluctance to embrace labor productivity improvements in India could lead to restrictions on the use of robots, much to the detriment of the country's economic competiveness.

Putting an issue on the table for the future does not mean that crystal ball gazing should substitute for the urgency of business issues now, but an awareness of change can be a useful tonic to avoid excessive short-term thinking. CEOs who anticipate and understand trending and forthcoming policy issues can position their firms to be partners with government on these issues in the future.

A good way to anticipate government problems – and thus business opportunities – is to pay attention to what governments themselves have identified as major issues going forward. US states have not been shy about the issues created by the high cost of medicines and the increasingly large retiree population. Walmart identified this pain point early on and created a $4 generic drug plan to help address it. Similarly, global firms would do well to heed the remarks of Chinese Premier Li Keqiang, who noted in a 2015 address that China faces challenges with respect to “medical services, elderly care, housing, transportation, education, income distribution, food safety and law and order" (Anderlini & Mitchell, 2015, p. 2). Thus, a corporation seeking to build trust with the Chinese government might:

- Offer to provide track and trace capability to improve the ability of the government to ferret out the source of tainted foods

- Work with the Chinese government to help set procurement standards for a company's purchases that improve air pollution levels by asking for higher standards of sustainability from suppliers
- Help Chinese applicants to American and English universities with easy to use guides on how to complete the "common application", secure student aid or obtain useful pre-enrollment training
- A pharmaceutical company could provide training for nurses to improve the hospital triage process for certain diseases
- A firm like Uber could offer access to mapping technology to help ascertain peak load for the demand certain forms of transportation

These thoughts are examples of how firms can build trust by aligning their agenda to that of a government. When considering national agenda alignment, firms should identify their core competencies to see where they can best differentiate themselves to governments.

Finally, the current world examples of sanctions – as in place today against Iran and Russia – is likely a foreshadowing to the use of such tools in the future as an alternative to armed warfare or cyber warfare. Global firms need to understand, plan for and implement strategies for dealing with international trade and economic sanctions before they are imposed. Similarly, it would be wise to contemplate a reordering of the world of international finance by firms beyond the finance sector. If the Chinese government continues to offer financing for large infrastructure projects on a scale that equals or exceeds the International Monetary Fund, or the Chinese-lead Asian bank concept accelerates the sources (and loan conditions) for many large-scale projects could alter from the previous Washington consensus on fiscal policy to quite a different place. It would be unwise for global enterprises to plan against only the world governance structure, as it currently exists.

Emerging risks

A. **Climate change**
B. **Economic inequality**
C. **Transnational crime**, especially cybersecurity
D. **Monetary policy**
E. **Energy prices and diversification** in supply
F. **Growth and structure of economic growth** in China, India, Brazil, and Africa
G. New rules governing **global trade**

VII. Corporate Responsibility

Introduction

Building government trust is a team undertaking. Securing a trusting relationship with government means contact with government officials, but also includes using various methods to influence or persuade those who directly or indirectly influence government decision-making. The tools available to influence the influencers vary from country to country, issue to issue, and change over time. There are, however, several tools that will invariably come into play in the process. Corporate responsibility encompasses many functions, inextricably linked: communications, corporate giving or philanthropy, and above all a firm commitment to stakeholder relationships all have important roles to play. At a basic level they can help frame a firm's reputation, and serve to outline the relevant facts the company wants the public – and subunits of the public – to know. Putting a global enterprise into the conversation as a constructive partner in society can become the single most effective tool a company can use.

Corporate responsibility involves effective corporate communications and a conceptualization of responsibility that moves beyond the typical conceptualization of CSR (corporate social responsibility) – a stakeholder-based approach which acknowledges the integration of economic, political, social, and ethical issues (Freeman et al, 2006). Under the umbrella of stakeholder relationship-building, coordination of corporate communications and philanthropy within the firm can be achieved by several different methods. Most often those two functions are centrally managed, but for some companies a different approach may better meet management needs. Often corporate communications senior executives report directly to the CEO, but that is not always the best way to go. As noted elsewhere the optimal way for the key functions whose work goes into building government trust is to have a reporting relationship either directly to the CEO or a direct report to the CEO. As a general rule consistency and symmetry are best served if the person providing the CEO advice on this topic can speak with one voice across several functional platforms in order to secure optimal governmental and policy outcomes.

Corporate Responsibility

Each corporation has a place in society which requires one overarching commitment: responsibility. At times, business corporate responsibility is conceptualized as divided: fiscal responsibility, corporate 'social responsibility', philanthropy, etc. Corporate responsibility, at its simplest, and most legitimate, is not a divisive concept. While there are tactical recommendations towards building trust with governments, these are meant to be integral to the overall commitment to corporate responsibility, writ large, which all businesses should hold tantamount.

Discussing business and societal responsibility as two separate things promotes the idea that they involve different activities and processes (Freeman et al., 2006). As a participant in civil society global enterprises have a crucial role to play. They offer employment opportunities, which help drive the larger economy. They provide education and training to their workers, which often is a contribution to the public good by enhancing the quality of the workforce. The research and development undertaken by firms also have indirect spillover effects on the larger economy by offering insights into basic science and technology. Global firms also play a critical role by implementing processes and policies that enhance financial stability, improve infrastructure and facilitation of the distribution of goods, and help to create a sustainable and vibrant environment and many other positive activities. Communication by the firm of these positive attributes should be viewed as 'table stakes' for companies to highlight these kinds of contributions by the private sector.

Corporate responsibility is intentionally a broad and comprehensive term, as it encompasses all of the functions of a firm in society: responding to all stakeholders being a natural function of business. It represents a solemn commitment by the company to act as a social responsible member of civil society. In some countries this commitment is statutorily imposed but in most countries it is voluntary and the nature and extent of the focus varies substantially by context.

In addition to the positive contributions made by global firms there is most often another dimension to the interaction of the firm with the local or national/international community. Firms often provide financial assistance directly from corporately directed foundations. Corporate foundations are often the outgrowth of a sense of commitment to the community from a founder or CEO. It is not uncommon for the early days of a corporate foundation to be almost completely reflective of the views or desires of the CEO or founder. As time passes and generations of new leaders take over, most modern companies undergo a transition from CEO-directed philanthropy to one that is more systematic and guided by a narrower focus, better managed by philanthropy professionals (with concrete goals and metrics of success), and coordinated in a general fashion with the needs of the company and the communities in which the firm operates. The most successful corporate foundations have discovered that they are better off looking towards a shorter list of possible areas for giving and trying to maximize impact. Large companies like Intel have been leaders in Science, Technology, Engineering and Math (STEM) education while underemphasizing other areas of philanthropy. Spreading even large sums of money over many broad topical areas like education, health, arts, poverty, economic development, and local giving can dilute the effectiveness of even the biggest foundations. A focus on philanthropy has permitted some global enterprises with a brand identity and more positive reputation in an important sector of civil society. This philanthropy-enhanced reputation can also serve to advance the trust with which government holds the firm.

Often, corporate philanthropy will be relevant to the task of building government trust. For example, drug companies who face concern over the pricing of their products and the potential for the resulting diminished access to their products have found that free goods or co-payment assistance can be a useful response. In other cases a corporate foundation can help underline a company's commitment to a particular social outcome. If a company faces challenges in a particular dimension, such as the environment, then philanthropy-oriented giving in that area (structured in a legally appropriate way) will be helpful.

Corporate Responsibility in India

In India, corporate responsibility is a legally enforceable mandate at the level of two percent of net profits.

Corporate responsibility in this context is a logical extension of social undertakings by Indian businesses. Activities are generally focused on local communities, but also includes sustainability."

Examples of corporate responsibility done well:

- BP's adoption of a greenhouse emissions cap and corporate emissions trading system in 1997 both reduced emissions significantly and yielded a $600 million increase in net income by improving operational efficiency. The CSR focus helped management identify and decrease the flaring of natural gas from some wells, among other improvements.
- Walmart's communications strategy around its efforts to help Hurricane Katrina victims in 2005 highlighted the corporation's competence (for example, delivery of water and other supplies well before the federal government's relief effort) and warmth (such as store managers voluntarily distributing nonperishable items), yielding large reputational benefits. Walmart allowed store managers and truck drivers to talk directly to the media. The emotional impact of their personal stories of neighbors helping neighbors played an important role in boosting positive perceptions of Walmart and energizing the business's employees (Diermeier, 2013).
- Huawei leveraged its core competency, mobile technology, to help bridge the digital divide in Nepal. As an extremely mountainous country, wired connections are often impossible for both telephony and power, and thus a large portion of Nepalese society has no connection to the outside world. Huawei deployed its proprietary solar-powered mobile telephony solution in these mountainous areas free of charge, bringing phone and SMS capability to millions of Tibetans. As a result, there has been a marked increased in tourism as the 'charm of the Mountain Kingdom has gone global' (Huawei Sustainability Report, 2013).
- Tata's corporate responsibility efforts are driven by the philosophy of creating shared value, wherein the guiding post is the desire to do something for the benefit of stakeholders in the value chain without losing sight of profits. Furthermore, Tata Group encourages its companies to do more than write checks, but to solve problems. According to Tata Group VP Anant Nadkarni, just referring to the number of wells dug up by a company as part of its community engagement programme does not mean much. But, when a company empowers a community by providing access to water resources, it tells an important story (Kaul & Desai, 2014).

Example of corporate responsibility gone wrong

- "In 2000, when Philip Morris spent $150 million on advertising to publicize the $115 million it had contributed to battered women's shelters and other causes, the company was attacked widely. Blowing one's own horn too loudly leads the public to suspect ulterior motives."

Communications

Effective communication to stakeholders helps advance corporate strategic plans and priorities. At its best, an effective communications organization uses a proactive method for establishing certain themes that the company wants to communicate, segmenting the markets for those communications, and planning for and executing tactical plans for those communications. The diverse audiences essential to effective corporate communications are:

- The general public

- Investors and shareowners
- Employees
- Suppliers and vendors
- Communities in which the firm has a substantial number of employees
- Customers or consumers of the firm's products or services
- Expert communities who influence others (including customers, policy makers, non-governmental organizations, and analysts)
- Government officials

This diversity of audiences for corporate communicators is a function of the breadth of topics or subjects that companies need to communicate. The varieties of content-related communications tasks are outlined below:

1. **Financial Communications**. To sustain a strong financial base, meaningful communications with investors and shareholders are a very high priority for any global enterprise. The exact nature of communications with these audiences will vary with the form of the organization, its ownership structure and the like, but will typically entail a detailed amount of financial data and projections about future activities as well as a report on immediate past sales, revenues and products. Often the content of these communications will be dictated by relevant legal and regulatory constraints. Also most often these kinds of communications are driven by the financial function of a company.

2. **Internal Communications**. Virtually every successful company is built on the quality of its people. Communicating and interacting with them is more than an obligation, it should be a source of strength. No system of ethics and values can be created unless it is communicated, understood, and re-communicated. No sense of corporate philosophy and values can arise in a vacuum. As effective and as important as one on one, or small group communications are to building bonds between the company and its employees, the larger architecture needs to be persistently and consistently communicated in various forums using different communications tools. Effective employee-oriented communications should be respectful and -- to the extent feasible -- interactive. A two-way communication stream is more authentic and successful in this social media era than the traditional one way or broadcast mode only method of communication. Internal communications are often the responsibility of the human resources function, but it is vital that any internal communication goals and methods match up with what is being said outside the firm. In today's environment the distinctions between internal and external communications are increasingly blurry.

3. **Marketing-related Communications**. Every company regardless of industry, sector or product communicates with their customers. Most often these communications are about a specific product and have a specific target audience in mind. In an ideal world each of these communications should be fully consistent with the overall brand that the firm is trying to communicate. This does not necessarily mean that all product communications need to come from a centralized function at corporate headquarters. In fact sometimes the

distance and autonomy from the center can foster an environment for creativity and originality that might otherwise not occur. But, any delegation of authority to communicate at the product, division or business unit level (or the regional or country level) should be accompanied by three major undertakings or responsibilities for those receiving the delegation:

- Prior notification and consultation on any major, new initiative that poses risks to the corporate brand
- Use of similar approaches (when legally appropriate) to product claims
- Regular sharing of plans for commonly used platforms such as websites
- Regular management reviews to assure the adoption of best practices and avoidance of problems experienced by other products or geographies.

4. **External Communications with Other Stakeholders**. The general public will often be a relevant audience for corporate communication, as will suppliers, vendors and the communities most intimately involved with the company. The content of these communications will differ by purpose, but there are some consistent themes. All external communication should be:
    - Based on honesty
    - Authentic
    - Demonstrate respect for others
    - Provide information in the context of the audience's lives or businesses that is meaningful.

5. **Policy-related Communications**. Communications directly or indirectly with government should be carefully and fully evaluated. The benefits of any such communication should be clear and, to the extent possible, the risks mitigated. Traditional methods of government-oriented communications include opinion editorials, public testimony or other means. Indirect communications can often come through efforts to persuade stakeholders in a policy issue to adopt a point of view. In this regard trade association relationships can be beneficial [See *Trade Associations*, page 54]. Similarly, it is now much more likely that NGOs have the credibility and access to policy makers that warrants outreach to them. This type of communication is best effectuated if controlled by the relevant corporate official in change of government affairs. The watchword for any communications in this context is honesty. Anticipate that whatever is said will be repeated, and sometimes misused. Thus, it is best to have a consistent set of messages that can be shared and understood by ever increasingly larger circles of audiences.

There are two final lessons for the manager on the topic of corporate communications and government affairs. First, it is important to anticipate and plan for crisis communications [See *Crises*, page 21]. There is no set of circumstances under which a global enterprise will be free from the throes of a crisis over some issue over the mid to longer term. Second, the explosion of social media in terms of utilization requires a deep and comprehensive rethink of how to engage as a fast follower in the world of modern communication. Four important considerations for this review:

- Social media is much faster than traditional businesses are used to (understand it, deal with it, and do not complain about that reality)
- Monologue communications styles and the mere broadcasting of news is now an evolving set of interactions between many, many different players each with a unique voice
- Corporate governance models that worked in the era of print and broadcast journalism will not work here
- Everything the firm does will likely be received on a mobile device (by 2018 there will be 2.5 billion smart phone users).

Corporate communications done well

In 1982, seven people in the Chicago area died after taking Tylenol that had been poisoned by a serial killer. Tylenol maker Johnson & Johnson immediately sprung into action: after identifying the problem, they recalled *all* Tylenol, assisted health departments with nationwide public service advertisements to spread awareness of the situation, made a toll free hotline for concerns and questions, and set up an exchange program for customers to return purchased Tylenol capsules with the safer tablet form. CEO James Burke was the public voice of the company every step of the way. One month after the initial crisis, Burke introduced tamper-proof packaging for J&J medicines on live television.

In everything J&J did to address the crisis, the firm was motivated by an understanding of the central business issue at hand: customers could lose trust in the J&J brand. Thus they did not seek to assign or shift blame, but instead to build and maintain trust.

Today Tylenol is the 2nd most purchased medicine, despite its unwitting role in a horrific incident. Amazingly, in the years to follow, some Johnson & Johnson products were branded with the phrase 'from the makers of Tylenol'. The firm's response to the crisis was so strong that they were happy to take public pride in their product. This is the origin of the *Tylenol Test* – if you go through a crisis and would want to be known as 'the maker of Tylenol', you have passed the Tylenol test (Diermeier, 2011).

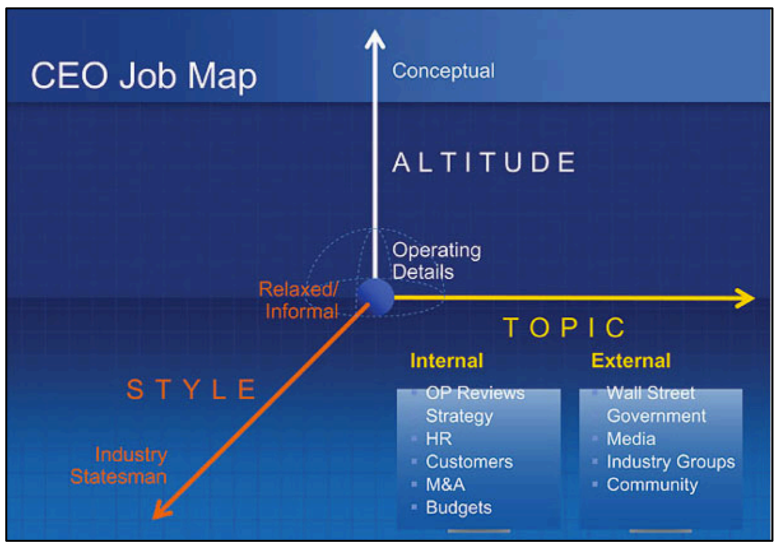
Corporate communications gone wrong

Johnson & Johnson set the gold standard for crisis communications. But ironically, they also failed against their own high bar in 2010, when FDA regulators found irregularities and contamination in J&J factories that led to a recall of products including Tylenol. It took J&J months to take concrete action while Congressional hearings blasted the company as inept, and CEO Bill Weldon was criticized for being nearly invisible in the process. In this instance, the firm's response was too slow, and the central business issue at hand – customer trust, as in the 1982 Tylenol case – was not identified and acted on.

VIII. Conclusion

Building government trust is a necessity for a global enterprise. The freedom to operate in any geography depends on permission to enter the market – no major enterprise operates in a government-free zone. Every company encounters government in one of its many roles: purchaser, policy maker, enforcer or promoter. The foundational lesson from successful global enterprises is that they have made their relationship with government (and with those who influence government) a core part of their business strategy. CEOs of global firms need to be architects of a comprehensive plan to build strong, enduring and positive levels of trust with governments in the markets in which they operate (or would like to enter). Finally, truly global firms which strive for achievement have people, plans and programs to build trust with governments that do more than assure permission to do business. They anticipate issues and enact a concerted plan to win public policy debates and to position themselves as winners in a market that is materially altered by the non-market strategic imperatives and rules of governments.

The rationale for engagement with government is straightforward in some dimensions. Virtually every country in the world – democracies, dictatorships, or collective government – has increased the level, magnitude and extent of regulation of business activities in the past ten years. Equally important is the relationship between global firms and how their reputation influences customer and government behavior. The intersection of forces outside the firm's direct control has grown, from civil society to a global enterprise's standing in the community. This latter factor makes it even more imperative that global firms try to actively participate in, and influence, the level of trust held by civil society of the global firm.



"You have to be like an athlete in a flow sport, where you just know what the flow on the field is, and almost instinctively you're able to shape the flow, adapt to it and change your own movements as necessary, depending on what the play of the game is at that moment or what outcome you want." – Kevin Sharer, former CEO Amgen, explaining the complexities of the CEO role (Sharer, 2009)

Each company has to authentically and organically create their own set of values and commitments to integrity as a matter of management philosophy. The CEO and his/her management team need to do more than hollowly echo commitments to compliance and trustfulness: values and commitments can only sustain a firm's reputation if there is a sincere commitment to values-driven leadership and ethics. A well-articulated intention to do the right thing by employees, customers, suppliers, investors and the communities in which the firm operates is critical. Equally important is the solid competence to execute a plan to carry out those intentions. All of these foundations require an organization that is structured to work with stakeholders, an environment where honest dealing is demanded, a context that offers sufficient resources to be effective, and a monitoring system that works to assure compliance with the solemn commitments made by the firm.

Cross-border leadership cannot be defined by local-only situational ethics. It is not possible to act corruptly in one country (claiming it is the norm) and not expect the consequences of noncompliance to be a worldwide risk to the firm's reputation. As a management strategy, many firms delegate responsibility to senior regional and country managers and others far distant from headquarters. Some firms seek to centralize decision making with respect to even the smallest interaction with the general public or government. Experience has shown that a values-driven culture that holds executives responsible and accountable for compliance to a straightforward and understandable set of principles can often secure more meaningful compliance.

The reputational base for the firm needs to be strong and can only be derived from solid values and a positive working relationship with all relevant levels of government. Knowing individual decision makers with significant understanding of the role held by each government official, his/her office and function would help ground current and future interactions. Knowing how to anticipate the interests of, and role for, a particular government official can make it possible to fundamentally understand how they look at problems and what kinds of outcomes they might need. Any interaction with government has elements of a negotiation (Fisher & Ury, 1981). It is vital to understand more than the tactical position of a government official: the conversation and the persuasion to adopt a particular course can flow more easily if the global firm understands the interests of government officials.

Impressing the economic impact of a firm is an extremely vital part of the advocacy plan for any issue. Regardless of the applicable role of the government, most public officials should be informed about the nature of the economic impact and relevance of the global firm. Companies which add value directly or indirectly to civil society through the creation of jobs, upgrading of job skills, or the development of infrastructure will be favored over those who do not offer such benefits.

In addition to having competence in dealing with government officials, it also important to have a keen awareness of third parties with the direct ability to influence government. Media or press is an obvious example of third party influencers. Failure to deal with, understand, or have a plan for dealing with the press is often the biggest mistake large firms make, especially in moments of crisis. In turn, other third parties such as academic experts, think tanks, research institutes, advocacy groups, trade associations and non-governmental organizations also frequently play a big role.

Upon a platform of values, compliance and ethics the firm needs strong, measurable goals, a comprehensive strategy and a team – led by the CEO – to govern and implement the strategies towards building government trust.

Key long-term items for the CEO to-do list

1. Develop and implement a social architecture that integrates values such as honesty, fair dealing, transparency and accountability into the fabric of the firm.
2. Secure a strong corporate reputation by demonstrating through example and communication a commitment to living those values and adding to civil society
3. Develop a management plan that puts a select number of government engagements into the context of an overall corporate strategy and adopt a management plan that assures CEO engagement – when appropriate – to secure meaningful advances on that agenda.
4. Communicate relentlessly – internally and externally – the goals and contributions of the firm to the national wellbeing of countries in which the firm has a material presence.
5. Plan for and manage against the need for an integration of different functions (government affairs, communications, social responsibility, and philanthropy) around common goals, and assure coordination and accountability.

Key short-term items for the CEO to-do list

1. Conduct a diagnostic review of the firms' government engagement approach, successes and failures – including a review of structure, resources and personnel.
2. Benchmark yourself on these dimensions against major competitors and best-in-class within your HQ country.
3. Identify a single key issue in three markets – HQ, biggest non-HQ, and most problematic – and work it to success or resolution, so that the theory of how well your firm is situated can be tested. A management dashboard should be used which:
    a. Clearly states the goal of the strategy used for the issue
    b. Summarizes the strategy
    c. Notes any fact updates
    d. Provides roles and responsibilities for follow up items
    e. Employs the traditional green, yellow, red stop-light format (optional)
4. Conduct a survey of relevant stakeholders in several key markets concerning:
    a. Knowledge of your firm and its products/services
    b. Corporate reputation
    c. Corporate values
    d. Contributions your firm makes to civil society.

Summary – a CEO checklist for building government trust

Goals

- **Alignment with government**/national priorities or agenda
- **Alignment with other corporate** goals
- **Focus**
    - Positive opportunity or prevention of harm or cost
    - Distinctive relative to others in the sector/competitors
    - Authentic
    - Achievable
- **Buy-in**
- **Few in number**
- **Base on Trust** (transparency, honesty, consistency/competence, respect for others, and a commitment to a larger community beyond the firm)
- **Measureable** and success is well-defined
- **Aspirational**

Strategy

- **Comprehensive**
- **Long Term**
- **Flexible**
- **Based on validated facts** and insights
- **Global applicability** vs. regional or country specific issues
- **Clarity about targets** for effort (government as purchaser, regulator/standard setter, promoter/financial engine, revenue collector, governance setter, or policy maker)
    - **Stakeholder definition and development** to identify anticipated other players, including adversaries, allies, influencers and their positions
- **Metrics**
    - Agreed upon methods of measurement

Team

- **CEO Role** is clear
- **Governance**
- **Government Affairs** and Public Affairs Team
    - Skills
    - Values
    - Competence
- **Adequate Resources**
- **Communication / Planning**
    - All parts of business are on the same page with regards to goals – Communications, Marketing, CSR, etc.

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Building government trust is possible on a global basis only if the CEO of a firm is committed and engaged in making that goal part of the overall strategy of the company. I want to thank Kevin Sharer, former CEO of Amgen (now an instructor at Harvard Business School), for guiding and leading my former firm down the road to becoming truly global. His leadership and role as a teacher and mentor helped to shape this book in many, many ways.

I would be remiss if I did not recognize the elected public officials who taught me how to understand their obligations in fashioning sound public policy. Vice President Al Gore and President Bill Clinton, as well as former Congressmen Robert Drinan, Bill Hughes and Bob Kastenmeier all were stellar examples of public servants who put principle above politics.

As is evident from the authorship of this paper it was a collaborative effort. My friends and professional colleagues at the Darden School of the University of Virginia have been a driving force behind helping the private sector understand how best to interact with society. From its earliest days in the formation of the Institute for Business in Society (IBIS) through their work on this paper, Dean Robert Bruner, Professor Ed Freeman, Executive Director Dean Krehmeyer and Senior Associate Carla Manno have been invaluable partners.

Often in the thank you section of any publication the lead author thanks less well-known staff who helped on research and writing. In this case my colleague Chris Williams did much more than that. He was a true and complete intellectual equal and partner. Without him this work would never have seen the light of day, nor would it have been half as good.

Appendix A – Family- and State-Owned Enterprises

Family-Owned Enterprises:

In this report we use the term 'firm' frequently. In a global context these terms may have different legal and practical meanings in different jurisdictions. Perhaps more important are the distinctions between publicly traded firms and family- and state-owned enterprises.

Recent data demonstrates that in major markets, family businesses, as a percentage of top firms exceed 50% in India and South-East Asia, 40% in France and Germany, and over 30% in the United States (Hrnjic, Reeb, & Young, 2015). There are different types of family owned enterprises (e.g.: family owned conglomerates; family owned businesses that operate only in one economic sector) and also governance differences. Some hold the primary goal of orderly, fair transfer of wealth between generations, while in others there can be mix of hardheaded business practices and a firm commitment to the improvement of a particular country or location.

Family owned businesses can have some distinct advantages over publicly traded companies when engaging with government:

1. The time horizon of the firm may be longer, and the dominant focus may not be on short-term profit maximization.
2. Family owned firms in many instances are central to the power structure of the government, or are seen as key business leaders.
3. Family owned enterprises are often very active in civil society and philanthropy outside of the four corners of the business.

On the other hand, potential disadvantages include:

1. Governments outside their home country may see a family owned business as being too close to, or affiliated with, the HQ government.
2. Controversies associated with the family can be transferred to the business and can become a negative in some markets, or with some public officials or the press.
3. Lack of public accountability and transparency can make some suspicious of family owned businesses.

The applicability of this paper to family owned businesses is clear, but care should be exercised when applying some of the lessons or recommendations to the particulars of any particular family owned enterprise.

State-Owned Enterprises:

The role and relevance of SOEs is materially significant in certain countries and even more so in some sectors of the global economy. State Owned Enterprises (SOEs) are a dominant form of corporate structure in many nations. SOEs operate under different rules than the traditional publicly traded corporation. They may experience

> Please note that this section addresses two distinct audiences:
>
> 1. SOEs who are part of CGE
> 2. Those who compete with SOEs (and who often see them as extensions of the government.

similar challenges to family owned businesses when dealing with government, and care should again be exercised when applying this paper's recommendations to a particular state-owned enterprise.

SOEs face traditional agency problems. The risk of misalignment between management and their self-interest and the owners (in this case the State or the people) is a significant risk. Virtually every government with any SOEs has enacted policies to guard against the risk of corruption (Budiman, Lin, & Singham, 2009). These agency risks also frequently play a role relative to competition with others, including publicly or privately held firms. In a competitive government procurement situation, the risk of inappropriate influence from an SOE executive can make or break the process.

Since government acts in several different capacities in the economy – as regulator, enforcer or financier – in the case of an SOE without legally binding rules and limitations, it is possible that an SOE can experience the advantage of government subsidies or inexpensive financing. SOEs can, on occasion, also be deemed exempt from certain regulations. Lastly, SOEs can sometimes be freer to exercise monopoly or monopoly-like influences if they are de facto exempt from antitrust enforcement (Capobianco & Christiansen, 2011). While these concerns are extant, it is of note that there are major shifts in the ways in which SOEs manifest and the ways in which governments hold majority or minority control within specific SOEs (Bruton, Peng, Ahlstrom, Stan, & Xu, 2015).

One tenth of the world gross domestic product (GDP) is generated by SOEs, and approximately 20% of the total global equity market (Economist, 2010, 2012). While firms have historically been viewed as either state owned or privately held, today's myriad manifestations of SOEs requires a much more nuanced consideration. They are more 'hybrid' organizations, with state-control and private ownership control varying, with multiple representations of such control levels in any given country, rather than one particular format presenting itself in a given region or industry.

Recent comprehensive literature reviews of scholarly research associated with SOE's evidences that we know about SOEs is in fact quite limited (Bruton et al., 2015). What we do know is that SOEs have thrived and are an integral part of our world's economy, and that the range of hybridization within SOE's may account for this very survival (Diefenbach & Sillince, 2011; Inoue, Lazzarini, & Musacchio, 2013). For this reason if no other, the consideration of SOEs in the scope of this paper is germane in that they represent a valuable font of examples along a continuum of public-private partnerships, where building government trust is by nature essential to the success of the organization.

Musacchio and Lazzarini (2014), in their book 'Reinventing State Capitalism: Leviathan in Business, Brazil and Beyond', comprehensively explore the transformations within SOEs from traditional government control to varying levels of government as majority or minority 'shareholder'. They see this transformation from owner and manager to majority shareholder as having the effect of reducing many agency problems commonly faced by SOEs, but not reducing "the temptation governments face to intervene in the operation of large strategic enterprises" (Musacchio & Lazzarini, 2014, p.4). They also explore how even as minority shareholder, minority shareholder, where governments enjoy small equity ownership, they generally do not intervene in management, though there are instances where governments (especially in natural resource industries) use their minority positions to exact strong influence on management (Musacchio & Lazzarini, 2014).

Several entities – including the European Union, Australia, and the multilateral OECD – have enacted measures that seek to eliminate or mitigate the unfair influences of SOEs in the economy. For those nations – as for private and publicly traded firms that compete with SOEs – the goal is to secure competitive neutrality. This term implies that no business entity is competitively advantaged or disadvantaged solely because of its ownership structure (OECD Competitive Neutrality Report, 2012, p. 3). As the Australian government states in the OECD Report (2012, p.5): "Competitive neutrality requires that government business activities should not enjoy net competitive advantages over their private sector competitors simply by virtue of public sector ownership." Leaders of SOEs may benefit by preemptively engaging these and other competitive neutrality discussions in order to help shape rules – even in jurisdictions other than their home HQ country (Sheng & Zhao, 2012). Such engagements can be an opportunity to demonstrate transparency and perhaps build government trust.

The most important take away for Global Enterprises is to assess the market situation and conditions across the globe, planning for the presence of SOEs in those markets. If a Global Enterprise is an SOE, special considerations need to be made to deal with governments outside the home, or headquartered market. For firms facing direct or indirect competition from SOEs, a competitive analysis should be step one. Leaders of such enterprises need to be clear about how, when and where they will be competing with SOEs and, in unusual circumstances, it might be possible for a global firm to effectively participate in the process of creating new public policy seeking to secure competitive neutrality rules.

Appendix B – Additional Case Studies

Government as a regulator

Amgen engages with FDA in order to increase market access for its drugs

- This case study demonstrates one approach to working with regulators in a highly regulated industry
- Demonstrates third party approach
- Government as a regulator

Between 2010 and 2014, the American pharmaceutical industry undertook a collaborative approach to market liberalization for biotech medicines in contrast to previous industry strategies in decades past. Companies shared scientific experience to assist the FDA in creating initial rules for a new class of biologic medicines called 'biosimilars'. Biosimilars are medicines made after proprietary drug patents expire by additional industry members that generally replicate the effects of the proprietary drugs, without qualifying as 'generics' in the scientific sense.

Pharmaceutical firms that innovated the proprietary drugs on which biosimilars were based were intent on protecting their products and the intellectual property that provided the platform for innovation in the first place. However, they also recognized the importance of expanded patient access to high quality medicines and the need for budget headspace for new innovation.

The collaborative approach from the biotech sector was somewhat unexpected given historic industry precedent for an antagonistic approach to this type of regulation. In the 1980s the pharmaceutical industry had dealt with the first emergence of non-innovative medicines by seeking maximum benefit for themselves and fighting the development of generic drugs at the FDA. But this time around, proprietary drug makers like Amgen chose a different path – a ***yes, if*** approach rather than a ***no***.

They opted to work directly with regulators via scientific engagement based on data, while also leveraging relationships with third party 'fellow travelers' including patient groups, physicians, universities, venture capitalists and other science-based organizations. Together this coalition argued that as long as the regulatory review process was based on sound science and appropriate incentives for future innovation (the ***if***), then there could be a viable pathway to market for U.S. biosimilars.

One sticking point was how long a period of novel property protection was fair in order to provide an adequate incentive to create the next generation of cures and treatments like Avastin for cancer, or Enbrel for rheumatoid arthritis. Despite determined opposition from the Administration and many in Congress, the result was an overwhelming vote in favor of protecting the mechanisms of innovation and a sufficient period of protection against "free riding" in an industry where the United States leads all other nations.

The key to Amgen's success in this case was its effective work – early on in the process – with the scientific community and interested third party groups, which reinforced key patient protection measures and removed the perception of mere self-interest and instead demonstrated to regulators the wide-ranging concerns that American innovation was at stake.

Questions for further thought

- Pharmaceutical innovators learned lessons from past failures, and those lessons informed strategy on this issue. What lessons have been learned from advocacy failures in other (your) sectors?
- Amgen and fellow innovators built a coalition from likeminded third parties. In other (your) sectors, what groups might be included in a regulation advocacy coalition?

Lessons Learned

- Managers may find that cooperative engagement with regulators can be more fruitful than inflexibility
- Involving 'neutral' third parties in the regulatory process can help realign regulator perceptions of your positions to your benefit, especially if third parties are brought on board early in the process

Shell's plans to dispose of its Brent Spar oil platform are foiled by Greenpeace

- This case study demonstrates the power of NGOs – and media – to constrain business decisions, even when those decisions have been made with due diligence and received government approval
- Government as a regulator (UK government); government as a constrainer (German government)

Brent Spar was a North Sea oil storage buoy built by global energy firms Shell and Esso in 1976. Shell UK wholly operated the buoy, and was therefore responsible for its eventual decommissioning. When Brent Spar became obsolete due to a new pipeline in 1991, Shell conducted research, strategized, and decided that the best option for disposing Brent Spar was to sink the buoy in a deep sea trench in the North Atlantic. This option received UK government approval in late 1994.

Greenpeace, an environmental protection NGO well-known for high profile activism, learned of Shell's plans for Brent Spar in 1995. The organization was concerned that the sinking would cause serious environmental damage due to the oil still in Brent Spar, which it estimated at 5,450 tons, as well as set a dangerous precedent going forward. This was in stark contrast to Shell's estimate that there were roughly 50 tons of hydrocarbons aboard the buoy (later independently assessed as accurate). Greenpeace furthermore categorized Shell's decision to sink Brent Spar, rather than dismember it on land, as being entirely based in cost reduction.

On April 30, 1995 the first of what was eventually 25 Greenpeace activists and photojournalists boarded Brent Spar via helicopter. Shell responded by sending ships to use water cannons against the activists, so that they might leave and Shell could continue with its plan. Greenpeace understood the power of these images and broadcast them around the world, leading to major boycotts in the UK and across northern Europe, with official objections to the sinking plan lodged by the German government to the UK government. While much of the oil industry was supportive of Shell, firms that stood to profit from on-shore dismantling publicly supported the Greenpeace position.

On June 20, one day before the sinking plan was due to be carried out, Shell reversed its decision and announced that it would be mothballing Brent Spar until a permanent solution could be found. Eventually, the Norwegian government agreed to store the buoy in a fjord, where it was deconstructed for industrial parts.

> *"Shell's position as a major European enterprise has become untenable. The Spar had gained a symbolic significance out of all proportion to its environmental impact. In consequence, Shell companies were faced with increasingly intense public criticism, mostly in Continental northern Europe. Many politicians and ministers were openly hostile and several called for consumer boycotts. There was violence against Shell service stations, accompanied by threats to Shell staff".*
>
> – June 20 Shell statement announcing reversal of sinking plans

In sum, Shell had carried out environmental studies and accurately determined the amount of pollutants in Brent Spar, and scientifically determined that there would be a very limited toxicity to the North Atlantic. Shell received regulatory approval from the UK. But Shell greatly underestimated the breadth and depth of public sentiment, and did not understand the optics of their business decision to sink the buoy. Furthermore, Shell did not consider that the sinking of Brent Spar would have impacts beyond the United Kingdom – particularly with the German governing coalition, which at the time included the Green Party.

Questions for further thought

- What could Shell have done differently to allow them to follow their preferred sinking plan?
- Does your firm have strategies in place for public confrontations with relevant NGOs?

Lessons Learned

- Managers must think about all business decisions in a global and holistic manner. All stakeholders to a decision or strategy should be considered, even when those stakeholders have only an indirect involvement, like an NGO, the public or a tangential government. Shell had clearly not conducted a landscape analysis or stakeholder mapping, and thus failed to understand how its actions might affect these players.
- Managers must try to anticipate problems, even were the " facts" suggest there are none. Not anticipating such problems is often the cause of NGO disputes. Here, Shell missed the obvious point that sinking steel junk in the ocean sounds like pollution.

Vodafone responds proactively to potential ban on roaming charges, but the EU moves ahead with regulation all the same

- This case study demonstrates the importance of understanding the political and regulatory context in which firms operate
- Vodafone proactively and creatively sought to negate the need for EU-level roaming regulation, with mixed results

In 2006, mobile network operators in Europe were warned that the European Commission was intent on legislating lower cross-border roaming charges in the EU. These fees were a significant source of revenue for most operators and especially critical to Vodafone Group as it was the only major European mobile network operator without a fixed-line business.

Most operators set to lose revenue by the mooted legislation took no action except to voice strong opposition. Vodafone, however, took two further proactive steps. First, it created a program called 'Vodafone Passport' that allowed frequent border crossers to make calls at normal rates for a low flat fee. Second, it leveraged the ensuing popularity of the program in a direct advocacy campaign targeted at regulators that argued that binding regulation of roaming charges wasn't necessary, and referred to Vodafone Passport as proof (Bach & Allen, 2010).

Ultimately, the campaign failed as the European Parliament implemented binding rules on roaming charges two years later. While Vodafone had been proactive and creative in its direct advocacy actions, it and the rest of the telecommunications industry had failed to consider the bigger political and regulatory picture: cross-border roaming charges are a type of barrier to a single market and free movement of people, and the EU will never allow for private interests to undermine its prized single European market.

While it ultimately did not achieve its aims, Vodafone's ingenuity and proactive direct advocacy did have some positive results as it empowered them to

- Create a differentiating new product
- Adjust more rapidly to new realities when the rules were eventually passed
- Further develop relationships in Brussels and solidify its brand with policy leadership credentials

Questions for further thought

- How might a firm in a regulated industry other than telecommunications have modeled a response to new prohibitive regulatory procedures after the Vodafone example?

Lessons Learned

- Managers must have an understanding of the wider political and regulatory milieu in which they operate. Even the best-laid business plans may fail without a clear sense of the operating environment. Proactive response to restrictive regulation and legislation can result in marketplace advantages, even if the regulation or legislation ultimately comes into effect

Government as a promoter

Cargill establishes solid foundation with Indonesian government, sets stage for new markets

- This case demonstrates the value that strong business-government relationships can have when firms move into new market sectors
- Corporate commitment to local communities and development goals leads to government recognition and positive host-nation trust
- That trust enables joint public-private partnerships in new industries
- Government as a promoter

Private food and commodity giant Cargill began doing business in Indonesia in 1974 in the palm oil sector. Cargill has followed a strategy in Indonesia that has enabled it to smoothly expand its operations into new areas over time.

Cargill began to build trust with the Indonesian government by demonstrating its commitment to local communities and international development goals. For example, a Cargill plant in South Sumatra created health programs for both employees and local communities in order to support UN Millennium Goals in Indonesia. For this work the Indonesian government recognized Cargill with its Dedicated Health Partner award in December 2013. Cargill's community development work has also brought the firm the Best Investor Award, the RSPO sustainability certification, and the prestigious Platinum Indonesian CSR award, amongst others.

Cargill had built up a store of goodwill with the Indonesian government. So when the firm was interested in entering the cocoa sector in Indonesia, the government actively promoted its efforts. In May of 2014, the Soppeng Regency (local) government, along with the business development agency Swisscontact, entered into a signed memorandum of understanding to implement the Cargill Cocoa Promise. This move is part of a planned $100 million investment in the region.

Shortly thereafter Cargill announced plans to invest $1 billion in Indonesia over the next three to four years, with an eye towards both expanding their palm oil business and entering the poultry sector. Again, the Indonesian government welcomed these investments.

By integrating its long history of success in the palm oil industry and its trust from the Indonesian government, Cargill was able to:

- Successfully expand into new sectors with joint promise agreements with the Indonesian government
- Be equipped with the solid local, regional, and national stakeholder relationships needed to enter new sectors
- Model effective relationships in the Asian region that can be replicated with similar success in other expansion areas

Questions for further thought

- What are examples of projects unrelated to the core business that can increase government trust (as Cargill did through health initiatives, among others)?

- What are the risks of entering into promise agreements (as Cargill has with the Cocoa Promise) where a third party (here, Swisscontact) is involved in a public-private partnership.

Lessons Learned

- Demonstrating commitment to a market builds trust and can support future success. Managers should note that trust-building initiatives do not necessarily need to align with the core business

After a global crisis and shifts in supply of ports, Maersk benefits from Vietnamese government price policy

- This case study demonstrates corporate commitment to long term growth in a new nation, weathering supply-demand shifts
- Government intervention facilitates continued growth while addressing industry needs
- Corporate recognition of the benefit of trade agreements in a new region leads to long-term staying power through
- Private-public partnerships with national corporation and Maersk leads to win-win for port growth

In August of 2006, Danish shipping giant Moeller-Maersk received approval from the Vietnamese government to build and operate a container terminal in the port of Cai Mep. Maersk anticipated growth in the region, after much success with its Singapore ports, and the Vietnamese government welcomed their addition to Cai Mep.

During the global economic crisis in 2008, however, Vietnam had to divert exports normally destined for the US and Europe to Asia, Africa, and Central America. Would Maersk and others who had invested in Cai Mep be able to weather the storm? Several measures involving government policy, related trade agreements, and public-private cooperation over the subsequent years led to continued success in Vietnam for Maersk, despite the downturns.

In 2012, through a joint venture between Maersk and the Vietnam National Shipping Lines (Vinalines), Vietnam was able to anchor a 363-metre vessel, with large TEU capacity, for the first time in Vietnam maritime history. By early 2013, this venture and other growth had seen Cai Mep grow to handle 42% of throughput for Vietnam as a whole.

Shifts in utilization due to oversupply in ports, however, began to impact Maersk and others, as capacity was far below expected (operating at about 30%), and subsequent reduced prices threatened the success of Cai Mep as a whole. It seemed that oversupply had occurred after a flood of investment in the sector at around the same time Maersk was entering Vietnam years earlier.

The Vietnamese government moved to impose a price floor rate of US$46 per 20-foot container move, and Maersk recognized this move, continuing to build government trust. In connection to direct government fiscal measures, a joint Trans Pacific Partnership (TPP) trade agreement was also recognized by Maersk as setting the path for the next phase of Vietnam's growth as a manufacturing center of the Pacific Rim. Such measures, along with continued FDI and increased trade volume, keep Maersk optimistic in Vietnam. In addition, long-term political stability and a government committed to enhancing economic stability and development.

Questions for further thought

How did the government intervention of a price floor address the issue of in the supply/demand in the port industry? Without these measures, what other public-private business strategies could have been implemented?

- Consider the impact of other trade agreements (other than the TPP) and their impact on private-public partnerships or ventures in new sectors/regions. How is this example different and what other economic or other factors impacted its relative success for Maersk?

Government as a purchaser

Brazilian government to build undersea fiber-optic cable to Europe without bids from US vendors, including Cisco, in order to bypass the NSA

- This case study highlights how a nonmarket crisis can arise overnight that threatens key business interests
- Open-ended and current problem, business choices and repercussions aren't known yet
- Government as a purchaser
- Could very well become a case study demonstrating a trade association approach

The revelation of US National Security Agency (NSA) programs that collect global telephony and Internet data en masse has created a new scrutiny of US high tech firms around the world. National governments have expressed fear that these firms may cooperate with the NSA and turn over customer data, or that the NSA might have 'back doors' built into their technology itself to enable mass and targeted surveillance.

These security and privacy concerns and their effect on American firms can be seen in the Brazilian governments response to the NSA revelations. In November of 2014, Brazil announced that its planned $185 million undersea fiber-optic cable to Portugal would exclude all US vendors in order to bypass the NSA.

> Washington thinktank Information Technology and Innovation Foundation (ITIF) estimates that American firms are set to forgo as much as $35 billion through 2016 as a result of declining orders in light of the NSA revelations.

For American firm Cisco, the Brazilian ban on US vendors represents a dangerous and costly precedent. Cisco CEO John Chambers said uncertainties related to NSA spying were causing international customers to "hesitate" in buying U.S. technologies. And Brazil, once one of Cisco's most promising markets, is now among its poorest performing ones, with orders in Brazil falling 13 percent during the height of the controversy in the second quarter of 2014 (Edgerton & Robertson, 2014).

Cisco must now determine how it can restore trust to avoid a being shut out of Brazil and other markets. As it does so, Cisco must consider the international scale of its perception problem, the political environments in foreign countries that may enable backlash against US firms, and its relationship with the US government as both a customer and a source of controversy.

Questions for further thought

- What actions could Cisco have taken ***before*** the revelation of NSA surveillance in Brazil in order to protect its reputation with Brazilian leaders?
- What actions will enable Cisco to rebuild trust in Brazil and other markets targeted by NSA surveillance programs?
- How might Cisco engage with the United States government in order to nullify foreign fears about its products?

Lessons Learned

- Business may be asked to answer for the 'sins' of home countries. To the extent possible, leaders should have crisis strategies in place for political backlashes

Citizenry mobilizes en masse to successfully fight IP protection legislation

- This case study demonstrates the nonmarket force of public opinion and public action. Content industries were defeated not by regulators or legislators, but by public nonmarket forces and a coalition of the high tech sector
- Government as a regulator

In January of 2012, a large coalition of websites voluntarily suspended their services in order to make clear their position about the dangers of two US laws – the Stop Online Piracy Act (SOPA) and the PROTECT IP Act (PIPA). Coming on the heels of an Internet-wide public outcry against the two proposed laws, this highly visible 'blackout' was a result of coordinated action by Wikipedia, Google, Twitter, Mozilla, Tumblr and Reddit to create an awareness-raising campaign against regulation of the Internet (Wales, 2014).

SOPA and PIPA were proposed laws intended to combat online piracy and increase the criminalization of copyright infringement. The law drafts included provisions that would give the US government the ability to remove websites that infringe property rights, as well as force ISPs to block websites hosted outside the US that enabled piracy domestically. Furthermore, the bills would have forced search engines to remove blocked sites from their result.

Consumers active in using social media and the Internet (commonly called Netizens) and the high tech firms that rely on their patronage were concerned that SOPA and PIPA would lead to over-regulation of the Internet, and negatively impact the power of the Internet to share data. Several technology firms condemned the bills because they believed them to disrupt the Internet's culture of free sharing of information – and therefore ultimately limit the freedom of speech. Venture capitalists got involved in the public battle as well, arguing that the bills would disrupt the funding of online start-ups and therefore limit innovation and competitiveness in the American tech industry.

These coordinated online actions resulted in collective action globally, with a Google petition against SOPA and PIPA collecting over five million signatures in the US, and the SOPA/PIPA Wikipedia page accessed more than 162 million times. Driven by the enormous Netizen response, the Senate's website received so much feedback that the site was unable to accommodate all citizens' requests for contacting their elected representatives. The day after the blackout, it was reported that the majority in Congress were no longer in favor of the bills, with 18 out of 100 senators withdrawing their support for PIPA. The hearing of the bills was postponed and the legislations shelved.

The power of Netizens to impact business and policy is not a US-specific phenomenon, as Europe experienced a similar populist "uprising" (although without a blackout) within a few months of the US experience with SOPA/PIPA. European civil society groups objected vehemently to the recently concluded Anti-Counterfeiting Trade Agreement, know as ACTA. They argued ACTA would limit Internet freedom. Their efforts compelled European authorities to back off the Agreement, effectively inflict a deathblow.

Lessons Learned

- Global firms need to fully understand the role of consumers who are motivated to act on Internet and similarly popular issues. Leaders would do well to anticipate these citizen power phenomena when making plans that intersect with relevant issues. In this instance with SOPA and PIPA, incumbents were prepared for a traditional

Trade Associations

Trade associations are a useful tool to add to a global firm's advocacy efforts, but they are most often insufficient to provide either total coverage of issues or to be consistently effective. Several examples are reviewed from different countries and to different results.

- This case demonstrates the value of working with relevant trade associations on some government-oriented advocacy, but also shows the limitations of excessive reliance on such resources.
- The nature and design of trade associations vary by country, region, and industrial sector and are measurably different in their effectiveness.
- Direct CEO involvement in trade associations should be a rarity, but can sometimes become vital

Worldwide there are tens of thousands of trade associations. They range in size from truly giant – the United States Chamber of Commerce – to tiny entities run by part time professional association managers. The depth and variety of such business groups is striking. For purposes of this discussion the term "trade association" will be limited to those few, relevant, resourced and effective groups with whom a global firm should engage. It is unlikely at the senior executive level that any more than 5-10 such associations are worth paying attention to on a global basis. Some firms consciously eschew any involvement in trade associations. While this can be a viable approach it is outside the mainstream and can sometimes be either idiosyncratic or counterproductive.

At their best trade associations have a focused or narrow mandate and are run by a cadre of well-chosen and well-compensated professionals. A determining factor in trade association effectiveness is management. Studies have demonstrated that a small board of governors or directors is essential for success, provided that the board is populated by executives at the CEO level, or by officials who can authoritatively speak for a company member. These characteristics need to be coupled with a limited and annually updated set of priority goals. Provided that a sufficient overlap exists between the association goals and the firm's aims then participation in trade groups can be a strong method of building government trust.

Why join up with a trade association as a global enterprise?

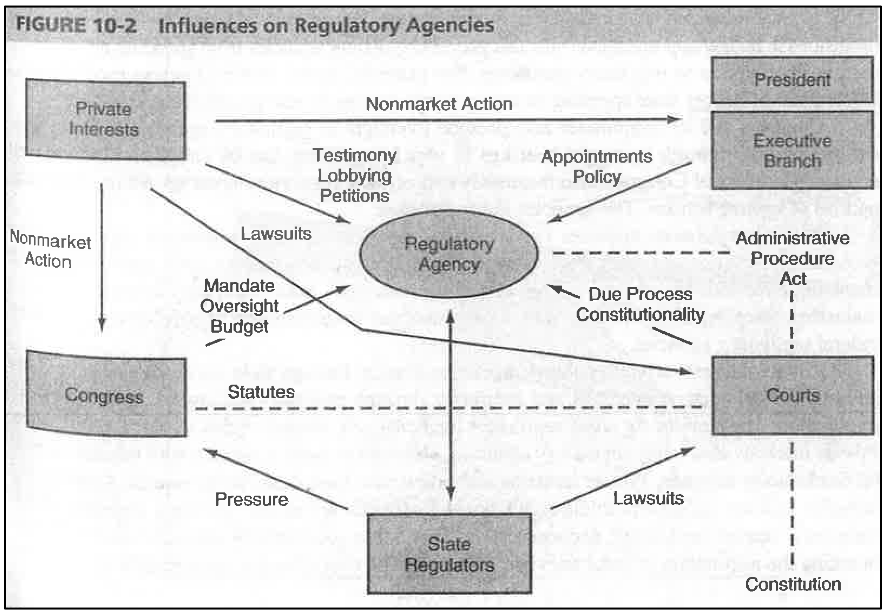
1. To participate in, and be perceived as a leader of, an important sector of the economy
2. To permit public policy advocacy to be understood as something beyond helping an individual firm
3. To permit an entity one stepped removed to take on some issues where direct advocacy is too complex, controversial, or distracting from business goals
4. To permit access to higher level officials as a part of an industry group than ordinarily occurs for individual firms
5. To use economies of scale to staff competence on issues across an industry as compared with each firm building redundant capacities

In the United States trade associations representing the movie, cable television, banking, securities, life insurance, and petroleum industries are often cited as being effective. In the European context the auto sector, chemical industry and maritime sector have been successful on some issues. In China trade associations that are aimed at representing national firms play a different role and are perceived as a part of the government structure. But, in India, China, Brazil and many other important markets there are also trade associations representing multinational firms, international firms in an industrial sector or other more traditional trade associations.

Appendix C – Regulatory Capture

Issues of regulatory capture – the well-researched and undesirable state wherein a government agency becomes controlled by the interests they are meant to regulate – are beyond the direct scope of this paper. Therefore this section will only briefly touch on regulatory capture as it relates to building government trust, and the changes that the Internet has brought to the regulatory process.

At a superficial level, it might appear that the legal obligation of publicly traded companies – especially in the United States, under Delaware corporate law – is to maximize profits, but that is an incomplete answer for most top global firms. A majority of firms are not bound by those rules because of their own geography, applicable legal rules or structure. And for privately held firms and family- and state-owned enterprises, the fiduciary responsibility rules about when and how to engage with government regulators are different.



(Baron, 2009)

There are some who have begun making a case that firms have a parallel obligation to make sure that the public policy positions they take are viewed over a longer time horizon, and serve to effectively sustain support for the market-oriented capital driven system (Henderson & Ramanna, 2015). One does not have to agree with that point of view about corporate governance. But, it is clearly the case – as articulated recently by Larry Fink – that firms do need to think more deeply about the sustainability of their enterprise (Fink, 2015). One way to think about this issue is to understand that firms operate with the permission of society and through governments. If the citizenry of any country lose faith in the institutions of government – due to corruption, perceived co-optation, or unfairness and lack of transparency – then the legitimacy and durability of some governmental and regulatory decisions could be undermined (Carpenter & Moss, 2013). Thus, there may be instances where the long term interest of the firm is in a more open, more transparent regulatory or policy making process with greater voice being given to those who are not being directly regulated (e.g. consumers and users) so as to preserve and protect the underlying societal permission essential for firms to operate.

Furthermore, the presence of a radically more transparent information-sharing environment, made possible by the Internet and social media, means that firms engaging with regulatory agencies may benefit from taking a longer-term view with respect to the protection of users' and consumers' interests (Luce, 2015). The power of transparency within the regulatory process is vividly demonstrated in the recent failure of the Comcast-TWC merger. The FCC received over 4 million public comments, crashing servers and – perhaps more importantly – making an approval politically risky for the FCC. The fate of online piracy acts SOPA and PIPA offers similar insight into the power of 'Netizen' movements, and the change that the Internet has brought to the regulatory process.

Appendix D – Lobbying the US Congress

Lobbying the United States Congress is a well-known but little understood process. It constitutes a multibillion-dollar industry, as the 11,760 registered lobbyists spent over $3.2 billion in 2014 alone (Center for Responsible Politics, 2015). With 535 members of Congress and about 11,400 Congressional staff, there are more than 20 lobbyists per member of Congress and about one per staff member, while roughly $6 million is spent on each member of Congress every year.

Lobbying Congress can range from seeking federal funding (usually through the appropriations process) to seeking investigations of federal agencies or seeking intervention in pending regulatory matters in the Executive Branch or an independent agency. For the purposes of this overview, we assume the lobbyist's client or global enterprise seeks the passage of a proposed new federal law and Presidential signature on such a measure.

There are multiple steps to the process: bill introduction, hearings, markups, floor consideration, reconciliation between differing versions in the House and Senate (a common occurrence) and eventually a Presidential signature. The cost of resources necessary for an individual firm to see this process through from beginning to end can be substantial, and they will, of course, differ by topic, magnitude of the issue, cost of the proposal and the nature and extent of inventions by other parties (both opponents and allies).

Lobbying expenditures have grown substantially in the last 10 years. Below are the five largest spenders on the US Congress, by year:

2014

US Chamber of Commerce…………… $124m
National Assn. of Realtors……………..$55m
Blue Cross/Blue Shield………………...$21m
American Hospital Assn.………………$21m
American Medical Assn.……………....$20m

2004

US Chamber of Commerce……………..$53m
American Medical Assn..………………..$19m
General Electric………...……….……...$17m
Altria Group……………………….……$16m
PhRMA………………………………… $16m

In 2010, lobbyists reported about 65,000 contacts with members of Congress compared with roughly 80,000 interactions with administration agencies, according to data compiled by Bloomberg View and the Center for Responsive Politics

Tasks or tactics that could go into a campaign for a modestly complex, somewhat costly and moderately controversial bill include:

1. **Conceptualizing the problem**, research and landing on a proposed solution. This needs to involve crafting an initial position from which compromise is possible before enactment. Planning for and enlisting potential allies and supportive groups and individuals. An honest assessment of the role and position of other interested parties is part of any initial evaluation. Careful evaluations of the probability of success measured against risks and costs of the undertaking are also a first step.

2. **Setting the stage.** Evaluating the likely legislative process that could lead to enactment. This can sometimes be straightforward, but increasingly in recent years many new ideas are attached to other "must pass" legislation.

3. Finding a coterie of champions or **bill sponsors** in each body of Congress, especially those who sit on the relevant committees.

4. **Press and social media plan** that is phased over time, comprehensive and detailed. This plan must be fully integrated into the lobbying process. It will often be wise to have conducted focus group analysis and polling.

5. **Bill introduction**, securing relevant co-sponsors and creating a sense of forward momentum and positive construct for key opinion leaders for the bill are crucial.

6. **Hearings** with credible, knowledgeable witnesses, especially including third parties. Preparing for hostile or unsympathetic witnesses can be an important hurdle to overcome.

7. **Mark up of legislation**. During this part of the process members can offer amendments and the role of the Chair of the committee and ranking or minority member are very influential. Working the entire committee, its members, staff and those who influence them is a necessity.

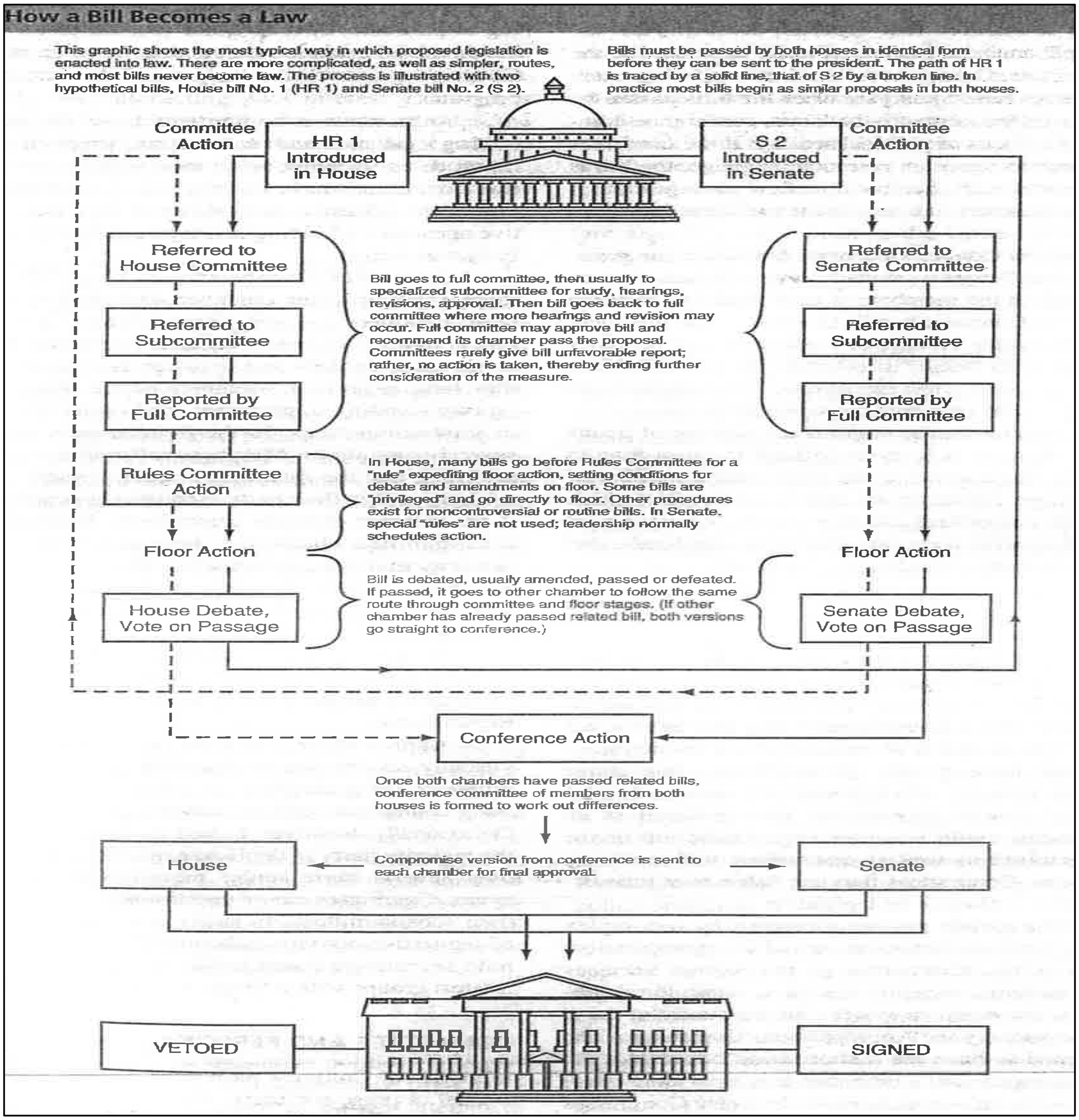
Once a bill is ordered reported it goes to the **House and Senate Floor for votes**. In general, the process in the House is often to take up and pass the bill without any amendments other than those approved by the relevant committee. In the remaining cases the number and type of amendments permitted is limited by operation of a rule for the consideration of the legislation. Those rules are guided strictly by the House leadership. In the Senate bills are often "worked out" and passed by unanimous consent. In the Senate, however, there are no procedural safeguards to prevent individual Senators from blocking for a period time, or from seeking permissible (and often what most lay people would call unrelated) amendments.

If, as is often the case, the House and Senate pass different versions of the legislation on the same topic they need to **reconcile** or shed those **differences**. While traditionally most civic teachers call this the use of a "conference committee" current, modern practice means that the differences are most often resolved between the chairs and ranking members of the relevant committee in the two legislative bodies.

Finally, after this process the bill goes to the White House for **consideration by the President**. In virtually every case the views of the Administration will be well known in advance. Depending on the issue Administration views are presented informally and then in writing at the Committee and Floor level by either the relevant Cabinet department. Short of a written communiqué that states that the "President will veto this bill" every other view or threat is usually something that can be dealt with if caught early enough in the process. The exceptions to this rule are situations in which the Congress or a party in the Congress actually does not seek a public law but a political controversy over an issue with the President.

Each step of this complex process involves engagement from, and attention to detail by, the global firm. It is often the case that finding and working with key legislative champions is something the CEO of such a firm is in a unique position to accomplish. Lobbying and appropriately influencing the Administration – at the Cabinet and senior White House Staff level – is also an appropriate role for the CEO.

The most important decision for the global enterprise, however, is not how well they play the US Congressional lobbying game. Rather it is when, whether and how to play the process to win, for the firm and its stakeholders.



(Baron, 2009)

Appendix E – Understanding Country Macroeconomic Environments

When planning the process to determine where and how to "build government trust", any global firm needs to ask itself some preliminary or context-setting questions. Below is a condensed version of a useful set of questions for that level-setting exercise. This list of questions should be especially helpful in assessing conditions in emerging markets or developing economies (Lhanna, Tarun & Palepu, 2010).

Strength of Institutions

1. To whom are the country's politicians accountable? Are there strong political groups that oppose the ruling party? Do elections take place regularly?
2. Are the roles of the legislative, executive, and judiciary clearly defined? What is the distribution of power between the central, state, and city governments?
3. Does the government go beyond regulating business to interfering with it or running companies?
4. Do the laws articulate and protect private property rights?
5. What is the quality of the country's bureaucrats? What are bureaucrat's incentives and career trajectories?
6. Is the judiciary independent? Do the courts adjudicate disputes and enforce contracts in a timely and impartial manner? How effective are the quasi-judicial regulatory institutions that set and enforce rules for business activities?
7. Are nongovernmental organizations, civil rights groups, and environmental groups active in the country?
8. Do people tolerate corruption in business and government?

Investment Environment

9. Are the country's government, media, and people receptive to foreign investment? Do citizens trust companies and individuals from some parts of the world more than others?
10. What restrictions does the government place on foreign investment? Are those restrictions in place to facilitate the growth of domestic companies, to protect state monopolies, or because people are suspicious of multinationals?
11. Can a company make greenfield investments and acquire local companies, or can it break into the market only by entering into joint ventures? Will that company by free to choose partners based purely on economic considerations?
12. Does the country allow the presence of foreign intermediaries such as market research and advertising firms, retailers, media companies, banks, insurance companies, venture capital firms, auditing firms, management consulting firms, and educational institutions?
13. How long does it take to start a new venture in the country? How cumbersome are the government's procedures for permitting the launch of a wholly foreign-owned business?
14. Can a company set up its business anywhere in the country? If the government restricts the company's location choices, are its motives political, or is it inspired by a logical regional development strategy?

Financial and Trade Environment

15. Are there restrictions on portfolio investments by overseas companies or on dividend repatriation by multinationals?

16. Does the market drive exchange rates, or does the government control them? If it's the latter, does the government try to maintain a stable exchange rate, or does it try to favor domestic products over imports by propping up the local currency?
17. What would be the impact of tariffs on a company's capital goods and raw materials imports? How could import duties affect that company's ability to manufacture its products locally versus exporting them from home?
18. Has the country signed free-trade agreements with other nations? If so, do those agreements favor investments by companies from some parts of the world over others?

Movement of People and Ideas

19. Does the government allow foreign executives to enter and leave the country freely? How difficult is it to get work permits for managers and engineers?
20. Does the country allow its citizens to travel abroad freely? Can ideas flow into the country unrestricted? Are people permitted to debate and accept those ideas?

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