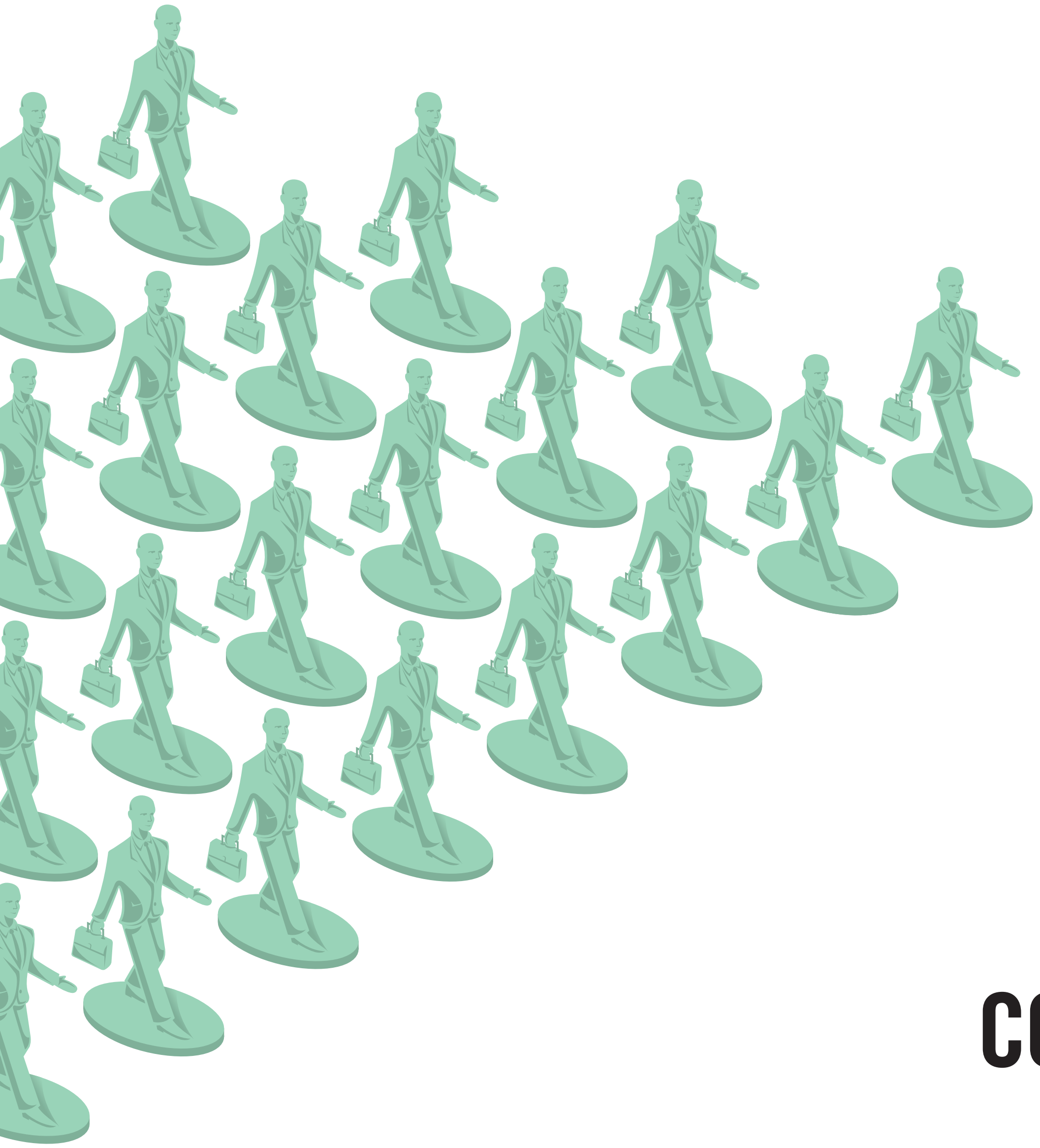
PURPOSE AND PROFIT
Socially responsible investing examined

GLOBAL TEAMS
Time zone differences still an obstacle

GROWING SMART
Sustainable development in the nation's capital

Kogod Now

THE AMERICAN UNIVERSITY KOGOD SCHOOL OF BUSINESS | SPRING 2011



PEACE THROUGH COMMERCE

IN THIS ISSUE

FROM THE DEAN

Academic research is sometimes viewed as though it were conceived under glass. A beautiful environment in which bright ideas are explored, easily observed and respected, yet somewhat removed from reality and lacking in practical application. Keeping academy achievements to ourselves runs contrary to our endeavors as a business school.

LETTER BY
RICHARD M. DURAND
ROBERT AND ARLENE KOGOD DEAN

Dynamic conversation is not simply what we evoke in the classroom. It is equally important between Kogod faculty, their peers, and the marketplace.

The points of intersection between faculty research conducted within a single institution can unintentionally be overlooked. Forums for cross-pollination of concurrent achievements in academic departments are often missing. It is a powerful exercise to consider whether there are meta topics or trends percolating side by side under the same roof.

For us, the exploration of peace through commerce is one such broad-reaching idea that Kogod faculty and their contemporaries are examining through a myriad of lenses. This is not a do-gooder's agenda, unimpeded by the realities of conflict zones. Rather, it is a pursuit of research that is literally battle-tested on issues ranging from private security to entrepreneurship, and it is having a meaningful impact on how both private and public entities can and will operate as a part of the global economy.

Adding to the dialogue between members of the academy are experts like Wade Channell of USAID—whose work in creating business enabling environments is fresh and exciting—and Katie Redford, who fights to hold companies accountable for far-flung human rights violations.

In this inaugural issue of *Kogod Now*, Associate Professor Gwanhoo Lee's collaboration with Pfizer on the use of social media provides solid advice for those leveraging Facebook and other platforms for business dialogue; and real estate futures are reexamined by Professor Peter Chinloy and the leaders of the Kogod Real Estate Council.

Meaningful outcomes of Kogod's scholar-teacher model are celebrated in the success of students like Giselle Rayner, who completed a summer internship focused on corporate social responsibility in Cuernavaca, Mexico and Dana Huff, currently completing her research as a Fulbright Scholar in South Africa. Their achievements are the greatest measure of how our faculty are contributing to the future of business.

In each issue of this magazine, we will share stories and ideas that are shaping and changing the business environments in which we operate both here and abroad. I hope that you find them as inspiring as I do. **KN**

PRIVATE SECURITY'S STRUGGLE FOR MORAL LEGITIMACY

Afghan president Hamid Karzai backed off of a vow to ban private security contractors from the country last fall–for now. It was an impractical demand, and Karzai faced significant pressure from Western allies to allow licensed firms to stay put.

ARTICLE BY
LINDSEY ANDERSON
JACKIE SAUTER

The reality is that their removal would leave a significant void that the Afghan police force could not effectively fill. There are currently more than 50 private security firms licensed to operate in Afghanistan, employing tens of thousands of contractors—nearly all of whom are Afghan nationals. Some contractors even aid the US military with intelligence operations. Through early 2011, Karzai appeared to be constantly rethinking his position.

Though the concept of contractor use in war zones has existed as long as wars have been fought, the modern conflicts in Afghanistan and Iraq have spelled big business for the industry. An estimated $177 billion has been spent on contractors in the two countries since 2001, according to a February 2011 report by the bipartisan Commission on Wartime Contracting.

There's no question that the Afghan economy also reaps a benefit; simply put, military contracting, including private security, is driving the local economy.

Associate Professor Heather Elms knows the companies' monetary value is not the only measure of their validity.

An international business professor, one of Elms's specialties is the relationship between corporate and stakeholder responsibility. Much of her recent research examines the operations of private security companies (PSCs) around the world.

"To sustain themselves, PSCs need to develop moral legitimacy—the sense among stakeholders that they're doing the right thing—in addition to pragmatic legitimacy, which is simply associated with value," she explained.

Elms is studying the industry's attempts at professionalization, including the first-ever International Code of Conduct signed by more than 50 private security companies in Geneva on November 9, 2010.

The voluntary code highlights respect for human rights and the rule of law in conflict zones; offers guidelines for the use of force and weapons management; and explicitly bans mistreatment of detainees, including forced labor and sexual exploitation. It also focuses on vetting and training of personnel and establishing internal whistleblower and grievance procedures.

To analyze the code and explain certification standards in the industry, Elms recently chaired a series of three webinars that examined best practices for effective governance and oversight.

The expert-led discussions featured academics and professionals familiar with all aspects of certification, including process, management, environment, labor, and supply-chain standards. All agree that the new code of conduct is merely the first step. Discussions are now focused on national and international monitoring and enforcement mechanisms.

The International Stability Operations Association, the trade association that counts more than 20 private security firms in its membership, would probably concur.

"We are already working with our partners on the critical next step—the development of an international accountability mechanism that will ensure credibility and transparency in the process," stated ISOA President Doug Brooks at the code signing.

The companies stand to profit from ongoing conflict; however, some firms also contribute to peace-building efforts. In an August 2010 interview with PBS, Brooks pointed out that PSCs contract with not-for-profit and humanitarian organizations as well as commercial spaces—including industrial warehouses—in addition to the military presence.

It's also true that past problems have often come from smaller, lesser-known firms that lack experience but win work by coming in as the low bidder, reaping the benefits of a lack of oversight.

Elms acknowledged that the corporate entities aren't the only parties responsible for their actions. The relationship between PSCs and their stakeholders is a two-way street, Elms said: you can't have corporate responsibility without responsible employees—and consumers need to contract for legitimate projects.

"TO SUSTAIN THEMSELVES, **PSCs NEED TO DEVELOP MORAL LEGITIMACY**—THE SENSE AMONG STAKEHOLDERS THAT THEY'RE DOING THE RIGHT THING—IN ADDITION TO PRAGMATIC LEGITIMACY, WHICH IS SIMPLY ASSOCIATED WITH VALUE."

HEATHER ELMS, ASSOCIATE PROFESSOR

The role of PSCs in conflict zones is a critical one, and a growing concern; as the US military presence fades in Iraq, the presence of private security contractors there is expected to grow.

But private security's presence doesn't guarantee a decrease in conflict.

Classified military documents released by WikiLeaks illustrate this point. One report describes an incident in Iraq in December 2004 in which a convoy from the PSC Custer Battles fired shots near Iraqi police and civilians, including five shots into a crowded minibus, before a British military unit and the Iraqi officers caught up with the contractors. The convoy then paid off Iraqi civilians and beat a hasty retreat to escape disciplinary action. **KN**

INFOGRAPHIC

A GLOBAL ALLIANCE AGAINST BRIBERY

ANTI-BRIBERY CONVENTION:

ENFORCEMENT DATA, 1999-2009

PERCENTAGE OF WORLD EXPORTS IN 2009

CRIMINAL FOREIGN BRIBERY CASES

COUNTRY	DATE OF LAST INFORMATION SUPPLIED	% OF WORLD EXPORTS IN 2009	SANCTIONED/ACQUITTED Total—Individuals and Legal Persons	
ARGENTINA	MAR-09	0.4	0	0
AUSTRALIA	SEP-09	1.3	0	0
AUSTRIA	APR-10	1.3	0	0
BELGIUM				
BRAZIL	DEC-09	1	0	0
BULGARIA	DEC-08	0.1	0	0
CANADA	MAR-09	2.5	1	0
CHILE	DEC-09	0.4	0	0
CZECH REPUBLIC	MAR-10	0.9	0	1
DENMARK	MAR-10	1	0	0
ESTONIA	MAR-09	0.1	0	0
FINLAND	MAR-09	0.5	0	0
FRANCE	DEC-09	4	1	2
GERMANY	DEC-09	8.9	20	24
GREECE	DEC-08	0.4	0	0
HUNGARY	DEC-09	0.6	27	2
ICELAND	DEC-08	0.04	0	0
IRELAND		1.4		
ISRAEL	DEC-09	0.4	0	0
ITALY	DEC-09	3.2	39	1
JAPAN	DEC-09	4	7	0
KOREA	DEC-09	2.8	16	0
LUXEMBOURG	DEC-08	0.5	0	0
MEXICO	MAR-10	1.5	0	0
NETHERLANDS	MAR-10	3.6	0	0
NEW ZEALAND	MAY-09	0.2	0	0
NORWAY	MAR-10	1	6	2
POLAND	DEC-09	1.1	0	0
PORTUGAL	MAR-10	0.4	5	0
SLOVAK REPUBLIC	MAY-10	0.4	0	0

SANCTIONED CASES
Total—Individuals & Legal Persons

ACQUITTED CASES
Total—Individuals & Legal Persons

COUNTRY	DATE OF LAST INFORMATION SUPPLIED	% OF WORLD EXPORTS IN 2009	SANCTIONED/ACQUITTED Total—Individuals and Legal Persons	
SLOVENIA	DEC-09	0.001	0	0
SOUTH AFRICA	FEB-10	0.5	0	0
SPAIN	DEC-09	2.2	0	0
SWEDEN	FEB-10	1.3	1	0
SWITZERLAND	DEC-09	1.6	2	-
TURKEY	FEB-10	0.9	0	0
UNITED KINGDOM	DEC-09	3.9	2	0
UNITED STATES	DEC-09	10	60	32

ADMINISTRATION AND CIVIL CASES

COUNTRY	DATE OF LAST INFORMATION SUPPLIED	% OF WORLD EXPORTS IN 2009	SANCTIONED/ACQUITTED Total—Individuals and Legal Persons	
JAPAN	DEC-09	4	1	0
UNITED STATES	DEC-09	10	57	0

Thirty-eight countries are parties to the Organization for Economic Cooperation and Development (OECD)'s Anti-Bribery Convention; they have agreed to prevent, detect, and investigate bribery and corruption. By protecting whistle-blowers, working closely with the private sector to adopt ethics and compliance programs, and reviewing their policies on small "facilitation payments"–among other actions–the OECD member states reinforce their commitment to fighting corruption.

The OECD Working Group on Bribery supports the effort by monitoring compliance and providing an evaluation procedure. Monitoring takes place in three phases. First, a country's legislation is evaluated to determine adequacy. Next, the effectiveness of the legislation's applications are examined. Finally, the third phase focuses on enforcement of these laws.

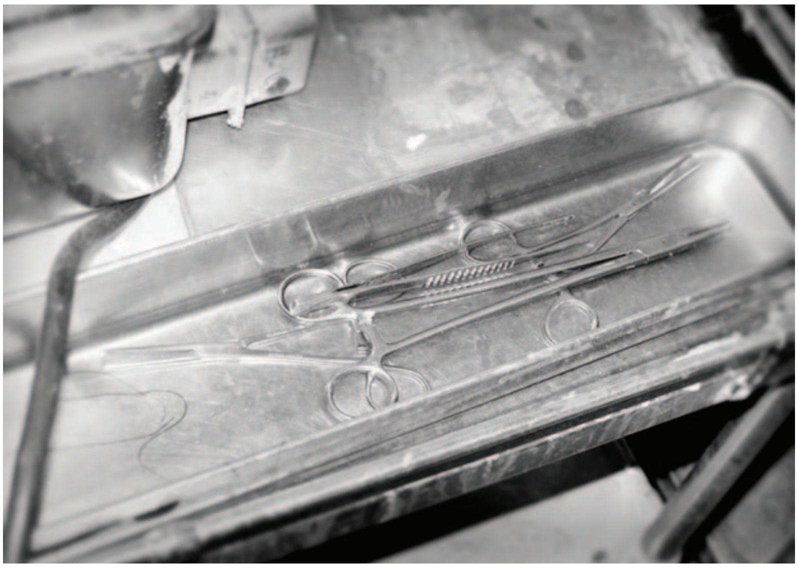
The OECD says "the practical impact of the monitoring process is evident," pointing out that tax deductibility for bribes paid to foreign officials is no longer possible in any of the 38 countries.

The Working Group's enforcement data was published for the first time in June 2010, and includes the number of criminal, civil, and administrative cases of foreign bribery that have resulted in a final disposition (such as a conviction or acquittal) or similar outcome. **KN**

HIGHLIGHTS FROM THE WORKING GROUP ON BRIBERY ENFORCEMENT DATA INCLUDE:

- **148** individuals and **77** entities have been sanctioned under criminal proceedings for foreign bribery in **13** parties between the time the Convention entered into force in 1999 and the end of 2009.
- At least **40** of the sanctioned individuals were sentenced to prison for foreign bribery.
- Approximately **280** investigations are ongoing in **21** parties to the anti-bribery convention.

Source: The Organization for Economic Cooperation and Development, www.oecd.org



“**PEOPLE ARE DYING EVERY DAY IN [IRAQI] HOSPITALS** BECAUSE OF THE LACK OF GOOD LAB FACILITIES. OTHERS ARE MISDIAGNOSED BECAUSE OF THE ABSENCE OF SUCH NECESSARY SERVICES.”

DR. HATEM MUKHLIS
IRAQI AMERICAN DOCTOR AND ENTREPRENEUR

GLOBAL IMPACT

A BUSINESS REMEDY FOR FAILING HEALTH CARE

Almost 100 miles from Baghdad, a town lies surrounded by desert, interrupted only in the East by the Tigris River.

ARTICLE BY
LINDSEY ANDERSON

The pictures at left are of the inadequate and unsanitary conditions of existing medical facilities in Tikrit.

Photos courtesy of Dr. Hatem Mukhlis

Tikrit was the birthplace of Saddam Hussein and the last major Iraqi municipality to fall to US forces in 2003. Now, a different kind of legacy is beginning there.

Students in Kogod's Peace Through Commerce practicum are conquering real-life funding dilemmas faced by entrepreneurs in high-conflict, impoverished zones, such as Dr. Hatem Mukhlis's medical project in Tikrit.

Mukhlis, an Iraqi American, worked as an emergency room doctor in Ithaca, NY, before leaving behind a comfortable life in the States to return to his native Iraq after the fall of Baghdad in 2003. He hopes to build an urgent care facility and medical lab in Tikrit, complete with a burn treatment facility and a mammography unit.

"People are dying every day in [Iraqi] hospitals because of the lack of good lab facilities," Mukhlis said. "Others are misdiagnosed because of the absence of such necessary services. Women are dying because of late diagnoses of cancer."

Mukhlis hopes the project will bring much-needed care to Tikrit's 200,000 residents and more than 1.5 million people in the Salah Al-Din province. Currently, diagnostic tests are often sent 100 miles to Baghdad for processing, and many burn victims die from dehydration before receiving treatment.

Even those many miles from Tikrit to Baghdad, which crisscross riverbanks and desert terrain, are a short journey compared to how long Mukhlis's project has grown, traveled, and changed.

From one consulting group to another and one business plan to the next, the project has been snipped, split, and stitched back together.

Despite Mukhlis's passion and wealth of professional contacts in the region, he is a medical doctor, not a businessman; acquiring funding isn't his strong suit. Mukhlis had consulted with another university through a State Department program to no avail when Executive-in-Residence Bob Sicina and his 2010 Peace Through Commerce class stepped in.

An international finance expert, Sicina draws on 30 years' experience as a senior executive with Citibank and American Express. Associate Professor Heather Elms joined Sicina last fall, bringing her expertise in international business strategy and corporate social responsibility to the class.

Sicina, Elms, and their students from multiple disciplines create high-quality business plans and seek out sources of funding for the projects.

No project is a quick fix. The Tikrit project is three years in the making and recently completed its one-year anniversary with the Kogod student team.

"I've learned that the race for dollars is often a marathon, not a sprint," said Aisha Brown, a master's student in International Service, who participated in the practicum in Fall 2010. "And the entrepreneurs have to adapt and adhere to the wishes of their donors and investors."

The Tikrit project proposal was initially too large to realistically find backing from grants, foundations, or corporations, so the Kogod team reshaped it into three phases and built a database of potential funders.

The students researched regional medical labs, health-care providers, and equipment suppliers to develop the proposal. During "Snowmageddon" in February 2010, a group of 12 students even held a Skype conference call with Mukhlis until 12:30 a.m. to circumvent the eight-hour time difference.

The project caught the eye of LabCorp, a multi-billion-dollar multinational company, but plans for possible funding fell through.

"CONSIDERING THE LACK OF HEALTH INSURANCE IN IRAQ, THE URGENT CARE CENTER IS **A GREAT HUMANITARIAN ENDEAVOR** THAT WILL PROVIDE BASIC HEALTH CARE TO A POPULATION IN DIRE NEED."

AISHA BROWN, MIS '11

After LabCorp "went radio silent," as Sicina put it, he and the Fall 2010 student team proposed splitting the project into two parts: a for-profit laboratory and a nonprofit urgent care center. The urgent care center is more likely to attract funding from grants, while the medical lab appeals more to private investors, Sicina explained. Dr. Mukhlis agreed to the revised approach.

The split makes the urgent care facility eligible for more grants as a nonprofit, and it helps the medical lab get funding since Mukhlis can now seek investment for the lab as a strictly for-profit venture, said Anna Wiinberg, BS in Business, Language & Culture Studies '12, who worked on the Tikrit grant team that helped devise the split.

The project's division requires revising business plans and crafting grant proposals full of "detail, detail, detail," Sicina said.

"Splitting the lab has meant coming up with a new operational strategy that includes a new equipment list and specifics of day-to-day operations for the urgent care facility," according to Wiinberg.

The urgent care center will ideally attract grant funding from private, philanthropic foundations, Sicina said. The grant will help get the center off the ground, and then all revenue made will sustain it after the grant ends. All profits will return to the urgent care center.

"Considering the lack of health insurance in Iraq," observed Brown, "the urgent care center is a great humanitarian endeavor that will provide basic health care to a population in dire need."

The lab, on the other hand, is more likely to achieve strong levels of profitability and therefore be more attractive to private investors. It will also quickly generate healthy cash flow and has excellent growth potential, Sicina said. Upcoming practicum teams will pitch funding proposals to sources of private patient capital and corporations like lab equipment manufacturers and Qwest Diagnostics. The team will also consider returning to LabCorp to see if the split changes the company's position.

"The laboratory will be the first in Iraq operating at the same standards as the world's best facilities," Brown said. "Consequently, we foresee the laboratory as an attractive and lucrative investment."

Mukhlis's Tikrit project is one of the many projects the students have taken on in the Peace Through Commerce practicum, a course now in its third semester. Others include proposals for a poultry farm in Afghanistan, a rice plantation in the Philippines, and a business training center in Basra, Iraq.

As Wiinberg noted, "Working in a conflict zone is of course challenging in itself, but it is also a challenge in that many investors shy away from risk-averse areas."

If the journey of Mukhlis's project is any indication, the practicum is determined to help entrepreneurs turn their dreams into reality, despite the many challenges they face.

"These guys put their projects in our hands after they've failed in their initial efforts," Sicina said. "It's a Hail Mary pass. We throw Hail Mary passes." **KN**

GLOBAL IMPACT

WORKFORCE TRAINING

IRAQI PROFESSOR AIMS TO HELP LOCALS MEET GLOBAL BENCHMARKS

In Basra, Iraq, another entrepreneur is taking the first steps on a new venture with the help of Kogod's Peace Through Commerce practicum.

ARTICLE BY
LINDSEY ANDERSON

The entrepreneur, whose project is in its infancy, wants to enable local Iraqis to become more qualified for job opportunities with multinational enterprises (MNEs) entering the market. He's observed how often the local applicants simply do not meet job qualifications when MNEs attempt to hire them.

There is a gap between the preparation that local universities provide and what the market demands, said the entrepreneur, a former faculty member at the University of Basra. Often the local would-be employees are lacking practical, professional skills—such as software training. Sometimes they also lack a broad understanding of global business strategies.

"If you have someone who's grown up in Basra, and Shell is hiring a human resources director... there's a lot that applicant needs to understand about what Shell is and what they're trying to do [to qualify for the position]," explained Associate Professor Heather Elms, who co-teaches the practicum.

The entrepreneur's solution: create a management training center in Basra, Iraq's principal port city and second largest metropolis.

To help pinpoint the center's purpose, stakeholders, and costs, Kogod students are crafting a business plan for the entrepreneur. They researched Basra's business environment, as well as potential competitors or partners for the center.

"One of the lessons of this class is the students need to learn that they're helping the entrepreneur figure out what he really wants to do," Elms said.

Her Fall 2010 students determined the learning center should offer beginner, intermediate, and advanced courses that cover accounting and other basic business skills in management, marketing, operations, and Microsoft Office software. After picking up where last semester's crew left off, the Spring 2011 group of students is elaborating on the business plan and continuing forward with the project.

Although establishing a clear business plan has been the most significant benefit from his new connection with Kogod, the entrepreneur knows the students are also benefiting from the symbiotic relationship.

"I think it will be very good for them to hear from someone in Iraq and for them to understand what they can do," he said. "Iraq suffered a lot from the Ba'athist regime [from 1968 to 2003]. The American University students are very keen to provide what they can to help people in Iraq and to increase the knowledge [of Iraq]. We appreciate this type of behavior that could help our nation."

Learning how to start a business in a conflict zone and creating a feasible plan that meets the entrepreneur's vision has been challenging but rewarding, said Scott Macrae, part-time MBA '12 student and a member of the Fall 2010 team.

"I think this is a great opportunity for students to work collectively to help someone achieve their dream," Macrae said. **KN**

WHEN TO

O RISK IT

From high-profile wars in Iraq and Afghanistan to lesser-publicized conflicts sprawling from Senegal to Thailand, there are about 30 ongoing violent conflicts in the world today.

ARTICLE BY
JACKIE SAUTER

The global annual cost of these conflicts approaches $100 billion, and the average poverty rate in a conflict-ridden country is over 50 percent—enough reason for most firms to dismiss the prospect of doing business in one. The relationship appears doomed from the start; after all, 40 percent of conflict zones return to a state of conflict within 10 years, according to the World Bank.

But there are mutually beneficial partnerships to be had in conflict zones, and sometimes a long shot evolves into a long-term relationship.

Consider Rwanda, which was just recognized for making significant regulatory reforms. In the 2011 Doing Business ranking, the small Central African nation made the list of the 10 most improved economies. Case in point: an entrepreneurial group in Rwanda raised $25 million in capital in 2006—just 12 years after 800,000 people were killed in the mass genocide.

The skyrocketing global demand for energy has led to an explosion of growth in sub-Saharan Africa, where the International Monetary Fund expects the region's economies to expand by 5.5 percent in 2011. That growth isn't a one-off: between 2001 and 2009, real GDP growth across Africa was almost 5 percent—more than 1.5 percentage points higher than in the global economy.

There is a proven connection between economic growth and the reduction of violent conflict. As business moves in, troops move out. Economic development contributes substantially to long-term peace, and economic freedom is about 50 times more effective than democracy in diminishing violent conflict, according to the Fraser Institute.

Even with these success stories, business development is just warming up in many conflict zones. Places where peace through commerce is taking root aren't featured on CNN every day: countries such as Georgia, Burkina Faso, Kosovo. New interactions are starting just as the world looks away.

The modern world is a global one, and significant technological advances and manufacturing

needs have led businesses to seek out less expensive environments in which to produce goods and create new markets for their services.

That means businesses of all sizes, in almost all industries, are faced with the choice of wading into the risky business of conducting operations in a potential conflict zone. And while they are there, they often contribute to creating the conditions necessary for peace.

Research has found that businesses can't help but have an impact on a number of factors associated with conflict and peace, even if they are not aware of their impact. Less acknowledged is the fact that bottom lines usually benefit from these contributions to peace, too. As it turns out, purpose and profit are not at odds.

How does a business decide to pursue a strategy that links peace and commerce? How do managers determine what traits to look for in a country before doing business there? It's admittedly difficult to link business practices directly to a peaceful outcome, but there are some key considerations to weigh in a courtship with a conflict zone.

SEEKING A STABLE RELATIONSHIP

Selecting the right partner is the most critical choice. Beyond the potential for economic stimulation, there has to be a deeper connection—and perhaps a shared appreciation for the rule of law.

It is well documented that countries with inherent respect for the rule of law—ones that demonstrate confidence in the legal rules of a society—tend to be less violent, less corrupt, and have a better track record with peace. Weak governments are less reliable partners when it comes to mitigating conflict.

Governmental weakness is especially likely in cases of conflict within the country—which is often the form conflict takes. More than 90 percent of recent conflicts have occurred within states, not between them.

Associate Professor Jennifer Oetzel focuses on risk management and business' response to political and economic challenges, especially in developing economies. She and her research colleague, Assistant Professor Chang Hoon Oh of Ontario's Brock University, took existing research on the topic a step further and discovered a direct correlation between the quality of a country's governance and businesses' decisions to invest in that country.

Oetzel and Oh studied a sample of 71 multinational enterprises and their subsidiaries. They determined that if a disaster (natural or otherwise) occurs in a country with high-quality governance, business disinvestment is less likely due to the widespread belief that the country will overcome the disaster.

"Every country has the potential for a disturbing event, whether it is natural or terrorist-related, but effective governance can minimize the loss of life and the likelihood that foreign firms will reduce their investment or withdraw completely," Oetzel said.

The critical effects of country governance were highlighted by the sharp differences in devastation following two major earthquakes last year in Chile and Haiti. But though the headlines focused on the disparate fallout from the quakes, a better measure of the long-term resilience of the countries is the ease or difficulty of launching a business there, which is seen as a reflection of their governance. The Doing Business 2011 index places Haiti at the near-bottom rank of 178 out of 183 total countries for the ease of starting a business in the previous year; Chile hovers near the top third at No. 62.

The really staggering figures, however, lie in the differences in the cost of starting a business. The index measures the cost as a percentage of the economy's income per capita to level the playing field. In Chile, the cost of starting a business is at 6.8 percent; in Haiti, it is astronomically higher at 212 percent.

We know, then, that governance has an impact on business. But how do we break the vicious cycle and begin to reform? Is there hope for unstable relationships to find stability in the future?

In a follow-up study with an expanded sample of 116 multinational firms operating in more than 100 countries from 2001 through 2007, Oetzel and Oh concluded that firms with greater experience managing crises—particularly high-impact ones—were able to capitalize on that experience in new markets. In sum, businesses "learn" from their bad relationships, just as people do. Experience matters.

Part of that experience includes learning when to take a step forward, and when to step back.

WHEN CONFRONTATION IS RIGHT

As Oetzel and Oh discovered, learning how to deal with bumps in the road makes a business relationship stronger.

Indeed, the business benefits of conflict resolution are considerable: the company benefits from stability, the community's gratitude might lead to future preferential treatment, and the institutional knowledge gained could translate to a competitive advantage.

But if things are not going well, when is it time to confront the problem? It is easier to opt for the path of least resistance, but sometimes it is best to take a stand.

Businesses have the same options when faced with a conflict: to respond, either directly or indirectly, or avoid the problem. A business can take the high road by holding negotiations, cutting off payments from conflict creators, or participating in multi-track diplomacy. On the other hand, it can play the role of peacemaker indirectly by addressing the causes and consequences of violence, rather than the violence itself. Those avenues wind through human resource practices, strategic philanthropy, small business development, and external relations.

Which factors cause a business to be direct? And which scare a firm into a more oblique stance? That's what Oetzel and Associate Professor Kathleen Getz tackled in 2010. Getz, who serves as senior associate dean for academic affairs, focuses her research on the issues at the intersection of corporate responsibility and development, with an emphasis on business' response to violent conflict.

The pair surveyed 471 international member firms in the United Nations Global Compact, a consortium of businesses that are committed to the UN's strategic policy initiative. By disassembling and quantifying the fundamental traits of conflicts—their intensity, duration, geographic scope, and disruptiveness—Oetzel and Getz determined how the businesses chose to intervene in differing situations. The research helped to construct a framework for businesses' reactions to conflict with respect to existing projects and facilities.

The reactions that they discovered are rational responses based on human nature. Short-lived conflicts are generally ignored by businesses—especially conflicts that are unlikely to recur. Essentially, the business figures, "Why bother to enter?"

Direct interventions are perceived as risky: they draw attention to the firm (sometimes from the parties involved in the conflict) and present the risk of retaliation.Nevertheless, firms did get directly involved in conflicts that were narrowly dispersed over a geographic region, such as the 2008 South Ossetia war; disruptive to key services or infrastructure, such as the civil war in Rwanda, where government offices were regularly attacked; or conflicts that had barely begun, where the firm saw an opportunity to step in before it was too late.

INCREASED UNDERSTANDING MAY CONTRIBUTE TO A FIRM'S WILLINGNESS TO INTERVENE DIRECTLY TO TRY TO STOP THE CONFLICT.

In the last instance, the firms were right on. Scholars and practitioners concur that direct approach is most feasible in the "pre-conflict" stage, and is viable until the conflict intensity nears its peak.

After that point, going toe-to-toe is no longer advisable. Oetzel and Getz point to Chevron's actions in Nigeria in March 2003. The company temporarily shut down all its operations in the Western Niger Delta in response to increased violence in the area, which grew to threaten its employees' safety. Once the intensity peaked, Chevron suspended operations entirely.

If the geographic scope is more concentrated, chances are the embedded firm may be familiar with key players, including instigators. That increased understanding may contribute to a firm's willingness to intervene directly to try to stop the conflict.

And when vital services, such as infrastructure or utilities, are disrupted, firms are more likely to step in—often in their own self-interest—and work directly with others to bring a end to it.

SAFETY IN NUMBERS

It is easier to tackle a problem and conceive of a solution with a companion, especially when the problem is in a conflict zone.

A collaboration between businesses helped bring relative peace to Northern Ireland in the mid-1990s with the publication of the "Peace Dividend paper."

The authors, a group of Northern Ireland business leaders, outlined the economic despair the region faced as a result of ongoing violence. If the violence ended, they asserted, the $1.4 billion spent on law and security services could be reinvested in the economy.

A brief trial proved them correct: After an August 1994 ceasefire, tourism rose 20 percent in one year, unemployment dropped to its lowest level in 14 years, and within six months, $48.2 million in new investments were announced.

This type of collaborative action is a popular strategy with far-flung conflicts or conflicts of a long duration. Oetzel and Getz discovered that, in these cases, firms are more likely to attempt peace-building tactics indirectly and in concert with others. Those conflicts are more likely to have negative effects on the firms' supply and distribution chains or on employees and their families; as a result, many firms simply aim to limit the conflicts' tentacle-like effects.

Size (of the firm) also matters. Only large, multinational firms with substantial clout—and capital—are likely to pursue an overt agenda of peace. For smaller firms, collaborating with other organizations is a more viable option, even though it can be costly. If a firm wants to build understanding around the conflict (or avoid blame), collaboration is frequently viewed as the best approach.

SHOULD YOU STAY (IN COUNTRY), OR SHOULD YOU GO?

Even with a helping hand, the gut reaction to risk or conflict is usually avoidance. Both people and business entities tend to give conflict a wide berth and hope it quietly goes away. For their part, most companies don't want to be viewed as political actors—whether or not they are.

"It's not personal; it's business" is the professional equivalent of "It's not you, it's me."

Yet research suggests that engagement is often a better strategy than avoidance—for both businesses and conflict resolution.

Even so, a business doesn't have to be a caped crusader to consider its involvement in a conflict zone a success. Oetzel recommends setting realistic goals, drawing on one example from Ivory Coast that the UN Global Compact uncovered.

"The ethnic conflict that existed in society had spilled over into the workplace, and the managers realized it was becoming a major problem," Oetzel said. By coincidence, one ethnic group made up the company's day shift; a competing ethnic group comprised the night shift. The result was ongoing conflict during shift changes.

The managers decided to develop internal practices to alleviate the issues: they held a dinner at night and invited both groups. Once the employees knew and understood each other better, conflict between the two shifts reduced. Instead of exacerbating the conflict by firing one group to create homogeneity, the managers' actions led to higher morale and a better organizational performance.

Although engagement is slowly becoming more common, divestment is often still perceived as the last stand, either to save the business or to send a message to the conflict creators. Divestment was the end of the line for Polaroid in South Africa during apartheid. After employees at the company's US headquarters objected to its products being distributed in South Africa, Polaroid first stopped selling products to the government, then pulled out entirely in 1977.

Polaroid was one of the first companies to divest as a result of apartheid, and the company's choice led other American businesses to question their presence in South Africa. With help from the activist movement, divestment was embraced on a wider scale by the early 1980s.

Divestment's ultimate victory in South Africa had more to do with apartheid's intractable history than with the concept of a business taking an active role in resolving conflicts. And it's worth noting that divestment has its limits. In the ongoing conflict in Sudan, for example, divestment activists can run into a stark reality: their influence is often confined to companies that are publicly traded in Western stock markets.

Nevertheless, such activism can have a powerful effect. That was certainly the case with Canadian energy group Talisman, which sold its 25 percent stake in an oil company with controversial investments in Sudan in 2003, after years of severe criti-

cism from US human rights groups. The oil project's revenues directly funded the Sudanese government's war effort, and harsh public outcry threatened Talisman's business in US financial markets.

Sometimes, however, the buyer is worse than the seller. All too often, a Western company that has attempted (but struggled) to comply with human rights standards pulls out of a country to avoid bad press, only to see other foreign companies that aren't subject to the same external pressures step in and scoop up the profits. Frequently, those companies are Chinese. "There are simply no human rights concerns—even massive genocidal destruction—that will lead the Chinese regime to accept … [any] threat to its production and development activities in Sudan," noted Smith College Professor Eric Reeves on his website, sudanreeves.com.

The result: no lasting reforms, and no one to bargain with.

AND THEN THERE'S CORRUPTION

There is no question that bribery and corruption charges inflame conflict zones and detract from the notion of peace through commerce. In outlining business principles for the "interim period" after the 2005 peace agreement, the European Coalition on Oil in Sudan explicitly called for companies to combat bribery and extortion.

And in Afghanistan, where the local government and its Western allies are in the midst of conflict over the presence of private security contractors, a self-admitted briber leads one of the largest private security firms. According to a recent congressional report, Commander Ruhullah admits to bribing politicians, police chiefs, and army generals—he's even suspected of paying off the Taliban—on behalf of his firm, Watan Risk Management.

Thus, if businesses can recognize redeeming qualities in conflict zones, they must also recognize weaknesses. Here's a big one: If the relationship goes sour, there could be a messy, public breakup. The modern version of a business restraining order is enforcement of the US Foreign Corrupt Practices Act (FCPA).

The act surfaced dramatically, the result of a perfect storm from the fallout of the Watergate investigation and a program where the SEC solicited and received voluntary disclosures from more than 400 US companies that made questionable or downright illegal payments to foreign officials, to the tune of $300 million. One of the most high-profile dirty deeds concerned—of all things—banana prices. United Brands Co. bribed the president of Honduras to lower the country's banana export tax, saving UBC more than $7 million; the scandal set off a domino effect that surfaced with the suicide of the company's CEO, Eli M. Black, and eventually led to the overthrow of Honduras' military-led government.

Enter the FCPA, passed two years later in 1977—though not without limitations. Initially, the act only held accountable US companies or persons that are employed by them, but was later amended to include any companies doing business for or in the United States and any agents acting on their behalf throughout the world. And while the ramifications do include fines, the true penalties to fraudulent companies lie in the market's response—which doesn't always react the way one might expect.

The law is best known for the accounting transparency provisions that it added to the Securities and Exchange Act, because they significantly impact public and private firms. There have been about 1,060 enforcement actions on the accounting side, as compared to just over 160 for bribery-related actions. Associate Professor Gerald Martin has been researching those actions for more than a decade.

THE COST OF COOKING THE BOOKS

In studying the FCPA penalties imposed on almost 600 firms for financial misrepresentation through 2005, Martin and his colleagues discovered that the true penalties to firms lay in the market's reaction—not the fines imposed through the legal system.

On average, firms paid only $23.5 million each as a result of the SEC's and Department of Justice's enforcement actions—chump change for a multinational company. But the "reputational penalty," which Martin calculated based on lower sales,

BUSINESSES' BOTTOM LINES USUALLY BENEFIT FROM THEIR CONTRIBUTIONS TO PEACE…TURNS OUT, **PURPOSE AND PROFIT ARE NOT AT ODDS.**

higher financing costs, and other expected losses, is more than seven times the legal one.

Martin found that for each dollar that a firm misleadingly inflates its market value, on average, it loses this dollar when its misconduct is revealed—plus an additional $3.08. Of the additional loss, $0.36 is due to expected legal penalties and $2.71 is due to lost reputation.

In firms that survive the legal process, lost reputation is even greater, at $3.83 lost for each dollar the firm inflates its value. This contradicts the widespread belief that financial misrepresentation is disciplined lightly; rather, reputation losses impose substantial penalties.

Martin and his fellow researchers won the coveted William F. Sharpe Award from the Journal of Financial and Quantitative Analysis in 2008 for their work.

BRIBERY: BUSINESS AS USUAL?

Bribery alone simply doesn't pack the same punch that financial misrepresentation does, leaving Martin and his colleagues to question whether there exists a significant deterrent to foreign bribery as a standalone offense.

RESEARCH SUGGESTS THAT ENGAGEMENT IS OFTEN A BETTER STRATEGY THAN AVOIDANCE—FOR BOTH PARTIES: **BUSINESSES AND CONFLICTS.**

"[The firms] get in trouble for bribery; what we're trying to point out is that the market responses to the two violations are completely different," Martin explained. "You suffer very little reputation effects to the firm if you're found doing a bribe versus if you're found cooking the books."

Think of it as if you were an investor in a firm. If you make a decision to invest based on financial statements you've read, and then you're told those statements were phony, you're going to punish the firm—and the stock price is going to react accordingly.

If, on the other hand, the firm is offering bribes, then it's essentially trying to drum up business for its stakeholders. "Investors don't punish that type of activity, versus being lied to," Martin said.

"It's hard to stop [bribery]," he noted, pointing out that many of the bribery enforcements of the FCPA are cases in which the company self-reported the violation to the regulators. "A lower-level manager who has incentive to get something done might also have incentive to pay a bribe to get it done—which the firm has no control over until they find out after the fact."

Almost all of the stock price reaction to the revelation of bribery can be directly explained by the costs of being caught—including fines (three times the amount of profits from the sales), legal costs, firing the guilty employees, and the cost of the bribe itself.

"Based on the research, you're led to believe that investors really don't care if firms bribe or not," Martin said.

NO ONE GETS OUT ALIVE

Apart from the fiscal hit a company takes because of financial misrepresentation, there is a human casualty as well: the employee who engaged in misconduct.

Martin tracked more than 2,200 individuals who were held responsible for SEC and DOJ enforcement actions and discovered that a whopping 93 percent lost their jobs. Most were explicitly fired. Beyond that, they faced restrictions on future employment and their shares of the firm, along with substantial SEC fines. A sizable chunk—more than a quarter also faced criminal charges and an average jail sentence of 4.3 years.

In short, the individual perpetrators of financial misconduct may find that the long-term cost far outweighs the short-term benefit.

A LABORIOUS RESPONSIBILITY

Of course, the easiest way to avoid getting caught red-handed is simply to play by the book.

Businesses can take proactive steps to hedge against exacerbating an existing conflict and thus mitigate the risk they face. "We learned that businesses must take preventive measures to ensure safety," Oetzel said.

First, study your firm's opponent. Gain a detailed understanding of the nature of the conflict, especially when it comes to hiring. A firm's lack of preparedness can lead it to partner with negative contributors to local conflict, thereby perpetuating the strife.

"Human resource practices become especially

critical in managing conflict," Oetzel said. "A firm that, knowingly or not, hires locals who are involved in the conflict can cause overwhelming interoffice tensions."

"Also, there are times when the issue becomes whom the firm does not hire—if a firm never hires members of a locally oppressed group, it may unwittingly aggravate existing tensions."

US-based firms (or those with a significant presence here) are predisposed to consider race or gender disparity when making hiring decisions—understandably, as they are the hallmarks of human resources conflict stateside. But by studying the dynamics of the host country, a firm may discover that conflicts between workers there are based on regional differences or ethnic backgrounds.

"Those are differences that are not obvious to a foreign organization, so they may not perceive even the potential for a problem," Oetzel said.

This is one role that a not-for-profit or activist group with subject-matter expertise—acting as a partner—can fulfill. "NGOs can bring greater legitimacy to the company," Oetzel said. "Managers are not prepared in all of the social diplomacy, the countries' histories, and all of the intricacies of the country context. Outside players can bring a lot of that to the table."

Assistant Professor Michelle Westermann-Behaylo said that not-for-profits often play a pivotal role by identifying problems with the status quo in a country. Westermann examines business ethics and stakeholder management in her research, especially as they relate to human rights. In conflict zones, she said, NGOs generally fulfill one of three roles when they interact with business: as a "bad cop," making accusations and seeking to discipline companies; as the moral authority; or as a partner, shedding light on the possible positive spillovers of business activity.

Activist groups often provide a watchdog function or a formal legal role by pursuing claims through mechanisms such as the Alien Tort Statute (ATS), according to Westermann. Through ATS, US courts have some extraterritorial jurisdiction over the foreign actions of a firm with US ties. The act's use is fiercely contested; organizations such as the National Foreign Trade Council and International

NOTABLE FCPA-RELATED SETTLEMENTS

COMPILED BY
LINDSEY ANDERSON

LARGEST SETTLEMENT: SIEMENS AG (GERMANY)—$800 MILLION IN 2008

More than 2,300 companies and governments were accused of abusing the UN's Oil-for-Food program during its life span from 1996 to 2003, according to Reuters. One such company, Siemens AG, takes the top spot among the most expensive FCPA settlements for its role in the scandal.

After the Iraqi invasion of Kuwait prompted international economic sanctions against Saddam Hussein's regime, the UN said the Iraqi people faced "imminent catastrophe" as their basic food and shelter needs were threatened by the country's perilous economic conditions.

The Oil-for-Food program allowed Iraq to sell its prime export—but required the government to use two-thirds of the profits to meet its population's basic needs.

Siemens, Europe's largest electronics and electrical engineering conglomerate, and its subsidiaries paid over $1.7 billion in kickbacks to the Iraqi government, ostensibly through the program, to obtain 42 contracts and earn $38 million in profits.

Combined with corrupt payments by three Siemens subsidiaries to Venezuelan, Argentine, and Bangladeshi government officials, Siemens earned a whopping $450 million in criminal fines and $350 million in disgorgement.

MOST COMPANIES TO SIMULTANEOUSLY SETTLE: PANALPINA SETTLEMENT—SEVEN COMPANIES

Making history last November, Panalpina and six of its oil and gas services customers simultaneously settled FCPA violations. Between 2002 and 2007, Panalpina, a forwarding and logistics services company, paid $27 million in bribes to seven countries (Kazakhstan, Russia, Brazil, Nigeria, Turkmenistan, Angola, and Azerbaijan) to obtain government contracts and circumvent local laws and inspections.

Panalpina's customers—including Shell and Transocean Ltd.—were also charged with bribery and record-keeping violations. In all, the companies will pay $156.5 million in criminal fines and $80 million in penalties and disgorgement.

CURRENTLY FIGHTING EXTRADITION FOR $137 MILLION IN BRIBES—JEFFREY TESLER, BRITISH INTERMEDIARY FOR KELLOGG BROWN & ROOT

Tesler faces extradition to the United States for his role in KBR's bribery of Nigerian officials. The global engineering, construction, and services company and its former parent company, Halliburton, paid $137 million in bribes to Nigerian officials to build liquefied natural gas facilities on Bonny Island in Nigeria's oil-rich southern delta.

So far, the United States has collected $1.28 billion in fines from companies involved in the Bonny Island case. Some of those involved are US companies (hence Tesler's extradition). Tesler lost his March 2010 extradition hearing, but has begun the appeal process with his lawyers.

Source: Richard L. Cassin et al. at www.fcpablog.com.

Chamber of Commerce are actively seeking to limit or repeal the law to diminish corporations' liability.

ATS played a pivotal role in Talisman Energy's divestment from Sudan. The company was motivated in part by a $1 billion class action lawsuit, filed in New York in 2001 and brought under ATS. The suit charged Talisman with violating human rights, and dragged on for years before it was dismissed in 2006. The US Supreme Court declined to hear the case in October 2010.

ETHICAL CONSIDERATIONS

The intellectual conflict here lies in the gap between a business's legal obligations and its moral ones. The question: How wide is that gap?

The UN Secretary-General's Special Representative on business and human rights, John Ruggie, published in November 2010 a draft of guidelines on the responsibility of businesses to respect human rights—and called for feedback.

> "IF FIRMS COULD SEE HOW INCORPORATING HUMAN RIGHTS INTO THEIR BUSINESS PLAN IS GOING TO BE GOOD FOR THEM, **THEY'D BE MORE LIKELY TO DO IT.**"
>
> **MICHELLE WESTERMANN-BEHAYLO**
> **ASSISTANT PROFESSOR**

Westermann jumped at the chance, arguing that Ruggie's risk-avoidance approach sets the baseline responsibility of businesses too low. Merely directing them to refrain from impinging on human rights is akin to saying "do no harm." And operationalizing the guidelines with a legalistic due diligence approach may foreclose future possibilities for doing good.

"If the company is knocking on the door of a new stakeholder in the form of a lawyer doing risk management, I don't think the stakeholder's going to want to actively engage with the company," she concluded. The possibility of finding mutual common ground or establishing a positive dialogue between the company and its stakeholder may be lost.

Westermann agrees that establishing a baseline of legal responsibility for businesses is crucial. But as any teacher knows, when you set the bar low, many pupils will simply do the bare minimum.

Rather, she asserted, the UN should be encouraging businesses to manage their human rights responsibilities holistically, so as to build a mutual trust with stakeholders and establish a reputation for integrity. The UN implementation should champion the strategic and reputational benefits businesses can gain by being more proactive and engaged.

"If firms could see how incorporating human rights into their business plan is going to be good for them, they'd be more likely to do it," Westermann said. "I'm worried that if this is institutionalized [in its barest form], then nobody will go further than the legal minimum. That shouldn't be the end of the line for peace through commerce; so much more is possible."

The shortcomings of a strictly legal approach to business' role in human rights become abundantly clear when the issue of enforcement is raised, she said. As the FCPA and ATS demonstrate, there's yet to be a true consensus on who has the authority to hold business' feet to the fire.

ENTREPRENEURS AND DOMESTIC FIRMS

There are always people the rules don't apply to, or those who are worth breaking the rules for.

In the world of peace through commerce, those exceptions at the moment are considered by many to be the highly charged war zones of Iraq and Afghanistan. The involvement of the US military has complicated the dynamics there, and present economic development in the countries is coming primarily from other sources: domestic firms and local entrepreneurs.

To say that Iraqi and Afghan entrepreneurs face an uphill battle is an understatement. While securing funding is the biggest hurdle they face, there are plenty of other obstacles. To start with, the entrepreneurs themselves may simply be ill equipped to produce sophisticated business plans.

FROM CONFLICT TO THE CLASSROOM

Bob Sicina is an executive-in-residence in Kogod's International Business department and co-teaches the Peace Through Commerce practicum course, which enlists students in the aid of entrepreneurs in conflict zones. "The biggest value that we bring to entrepreneurs is helping them think through a thousand things they haven't thought about," he

said. "Of all the projects I've worked on, none of the principals would have been able to produce the product we ended up doing."

Sicina, his co-teacher Associate Professor Heather Elms, and the others know that the value of working with entrepreneurs isn't purely in whether or not the business plans come to fruition. Rather, the students' experience—combined with their faculty's research—will educate the next generation on the value of peace through commerce.

It's far from instant gratification. But as the students graduate, enter the workforce, and rise through the ranks, they will bring an understanding of the complex global business environment, from Washington, DC, to Cairo. **KN**

CREATING THE COVER STORY

Academic papers that gave rise to the cover story.

Kathleen Getz & Jennifer Oetzel
MNE Strategic Intervention in Violent Conflict: Variations Based on Conflict Characteristics.
Journal of Business Ethics (2010).

Jonathan M. Karpoff, D. Scott Lee & Gerald S. Martin
Bribery: Business as Usual? (2010).

Jonathan M. Karpoff, D. Scott Lee & Gerald S. Martin
The Consequences to Managers for Financial Misrepresentation.
Journal of Financial Economics (2008).

Jonathan M. Karpoff, D. Scott Lee & Gerald S. Martin
The Cost to Firms of Cooking the Books.
Journal of Financial and Quantitative Analysis (2008).

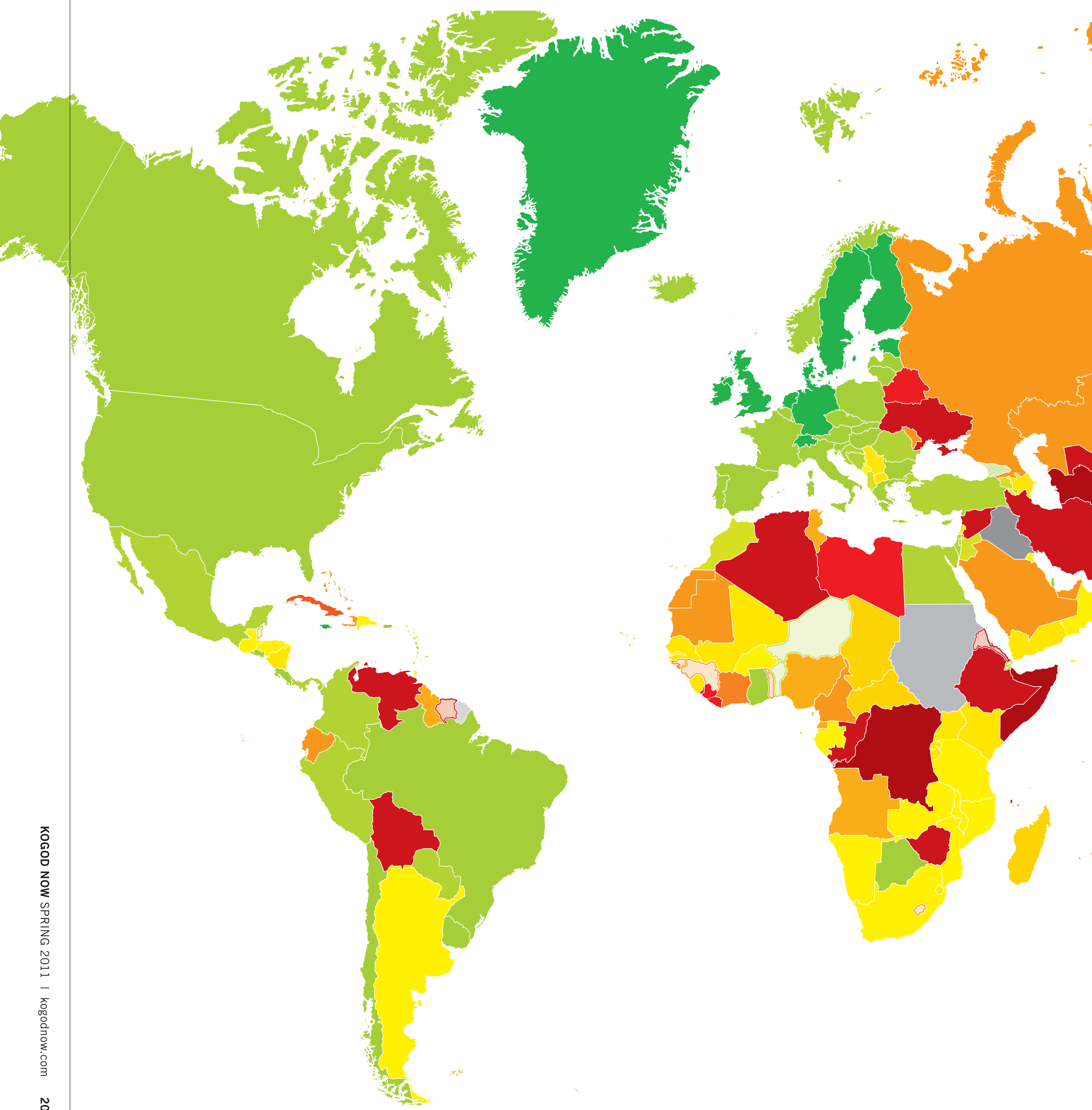
Chang Hoon Oh & Jennifer Oetzel
Multinationals' response to major disasters: how does subsidiary investment vary in response to the type of disaster and the quality of country governance?
Strategic Management Journal (2010).

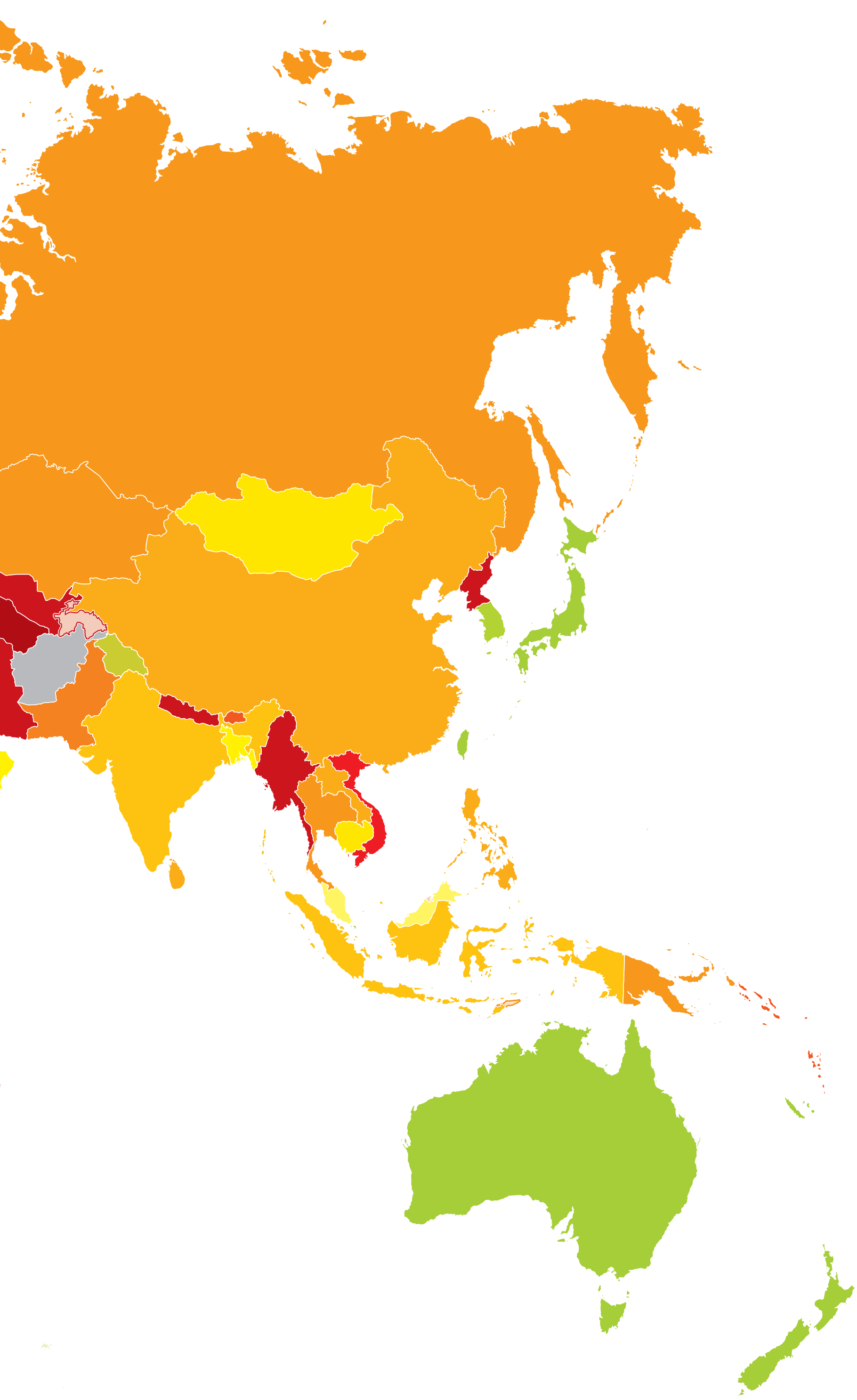
Michelle Westermann-Behaylo, Jennifer Oetzel, Charles Koerber, Timothy L. Fort & Jorge Rivera
Business and Peace: Sketching the Terrain.
Journal of Business Ethics (2010).

Michelle Westermann-Behaylo
Institutionalizing Peace Through Commerce: Engagement or Divestment in South Africa and Sudan.
Journal of Business Ethics (2010).

INFOGRAPHIC

INTERSECTIONS OF INVESTMENT FREEDOM AND POLITICAL INSTABILITY





GLOBAL PEACE INDEX POLITICAL INSTABILITY
SCALE OF 1-5 WITH 5 AS HIGH INSTABILITY

1 2 3 4+ N/A

0-20
21-40
41-60
61-80
81-100
N/A

INVESTMENT FREEDOM FROM 2011 INDEX OF ECONOMIC FREEDOM
SCORE OUT OF 100 WITH 100 AS MOST FREEDOM

There is a relationship between a country's political instability and businesses' decisions to invest in that country. The map below uses two thoroughly researched and celebrated indices to examine these subfactors–investment freedom and political instability–and their ranges across the globe.

The first index is the 2011 Index of Economic Freedom, compiled by the Heritage Foundation and the *Wall Street Journal*. It measures 10 subfactors, including investment freedom. The ranking in this category is based on a variety of quantifiable elements, including national treatment of foreign investment, restrictions on land ownership and sectoral investment, and foreign exchange and capital controls.

The second index, the Institute for Economics and Peace's Global Peace Index, uses 23 indicators to measure what contributes to peace—defined as the absence of violence—in a country. Political instability, or the degree to which political institutions are able to support the needs of its citizens, businesses, and overseas investors, is one of these indicators.

While this is not intended to be a comprehensive illustration of the prospects for peace through commerce, we attempt to depict the association between investment freedom and political instability across the globe. **KN**

DON'T BLAME THE DISTANCE; BLAME THE TIME ZONES

Professor Erran Carmel and Associate Professor J. Alberto Espinosa are constantly pushing the limits of boundaries.

ARTICLE BY
JACKIE SAUTER

Carmel and Espinosa have accumulated knowledge over 15 years about time separation's effect on global working teams and are considered the leading scholars in the field. The pair's research on the topic has involved a wide variety of research methods and extensive fieldwork.

In an increasingly global world, they assert that the biggest challenge is still simply getting the work done. "There's no other way these days," Espinosa said. "Either your clients are global, or your employees are global, or your service providers are global."

The researchers have discovered that, although many professionals successfully use technology to overcome the physical distance from their colleagues, working in different time zones is a harder obstacle to overcome.

In other words, the Internet hasn't solved circadian rhythms. "Time zones do still matter," said Carmel. "Today, we see knowledge workers doing a lot of time-shifting to accommodate another person's schedule and interact synchronously. These people work in what I call 'scatter time,' spreading their work in clumps throughout the day and night."

In one of their lab experiments, the researchers simulated time zone differences and gave study participants a simple task to complete: describe a map to the other person and ask him to draw it. Some pairs' work times overlapped completely; some partially; and some did not overlap at all.

Carmel and Espinosa measured production speed and accuracy to determine performance; they found that as workers overlapped less and less, the accuracy of the maps decreased. But the relationship of speed to time separation was intriguing: speed declined when teams overlapped slightly, but picked up again when there was very little or no overlap.

In essence, global teams whose work schedules do not overlap at all are more likely to finish projects quickly, but not as accurately. Some amount of overlap results in slower but more accurate work. Put another way, the lab results find a clear trade-off between speed and accuracy.

"We speculate that the reason speed goes up [with no overlap] is because there are no interruptions," Espinosa explains.

NEW, PRELIMINARY RESULTS FROM FOLLOW-UP STUDIES SHOW THAT THIS GENERAL THEME—THAT **WITH MORE TIME ZONE SEPARATION, SPEED INCREASES AS QUALITY DECREASES**—HOLDS TRUE ACROSS A VARIETY OF TASKS.

New, preliminary results from follow-up studies show that this general theme—that with more time zone separation, speed increases as quality decreases—holds true across a variety of tasks.

With their colleagues in Kogod's Information Technology department, the pair has begun to study the effects of other types of boundaries on working teams, such as corporate cultural differences, language barriers, and national cultural variations. "Generally speaking, as you have more boundaries, you have more problems," Espinosa said, but time zone differences and cultural differences are generally what their studies show cause more severe coordination and communication problems.

They hope to determine how firms can maximize effectiveness in terms of geographical setup and exercise the optimal amounts of managerial rigor or flexibility.

An early suggestion for a highly interdependent, complex project: bring diverse, far-flung teams together in one place early on. Allowing the team members to get acquainted results in more productive work.

"Once they get to know each other, everything improves," Espinosa said. **KN**

Interested in learning more? Erran Carmel's 1999 book *Global Software Teams* was the first on the topic and is considered a landmark in the field; his second book, *Offshoring Information Technology*, was published in 2005 and is popular in graduate business courses on outsourcing.

Carmel and Espinosa are currently finishing their book on the special problems of working across time zones, with the working title *I'm Working While They're Sleeping: Coordination Across Time Zones.*


LIBERTY
IN GOD WE TRUST
1989
UNITED STATES OF AMERICA
ONE DIME
QUARTER DOLLAR
ONE CENT
2004

THE HUMANE INVESTMENT

As the global economy becomes increasingly interconnected, investors are watching where their money goes, whether by supporting green businesses, avoiding companies that work under corrupt regimes, or targeting developing nations to bolster struggling economies.

A growing number of individuals and investment firms are voting with their wallets to support Socially Responsible Investing (SRI). Supporters say that social concerns and corporate responsibility are valid factors when it comes to deciding where to invest funds. The goal is to compel companies to improve environmental, social, and governance (ESG) performance.

According to the Washington, DC-based Social Investment Forum, the membership association for SRI professionals, approximately 250 SRI-screened mutual funds have assets of $316.1 billion. That's up from 55 screened funds with $12 billion in assets in 1995. Out of every eight dollars that's professionally managed in the United States, one dollar is involved in SRI, the Forum said.

ARTICLE BY
AMY BURROUGHS

But SRI faces unique challenges, above and beyond making money in a tough economy, and professors from the Kogod School of Business say the issue is far more complex than simply investing for a good cause. Experts point to cases where public pressure has compelled corporate improvement—think Nike's black eye over child labor practices in the late 1990s—while others argue that creating true change in developing nations is tough under the best of circumstances.

DOES SRI MAKE MONEY?

Predictably, potential SRI investors have one question: Does it pay off?

Leigh Riddick is an associate professor of finance at Kogod. She specializes in analyzing risk and return models used to construct portfolios, particularly investors' tendency to overinvest domestically and underinvest abroad. Currently, she is researching investors' assessment of development factors in evaluating international investing.

"The big discussion when all this started was, 'Am I losing money if I do this?'" she said. As economists, "we tend to focus on outcomes over time."

"The initial responses on socially responsible funds show they did earn less. Later research shows they earn more," Riddick noted. "My sense is that, like every other investment fund, it depends on whether you have a good fund, and by that I mean managers who pay attention to the companies."

According to the Social Investment Forum, SRI funds are competitive with traditional investments. While some research suggests SRI performs better, others find the funds about on par with the rest of the market.

That's one reason Mark Waldman, executive-in-residence in Kogod's Department of Finance and Real Estate and owner of Waldman Financial Advisers, counsels his clients against SRI mutual funds in favor of individual stocks. Waldman, a certified financial planner, also has worked for the US Agency for International Development and written two books on personal finance.

He is skeptical of SRI because it eliminates investment options and, he said, tends to favor the issue of the moment over a sustained approach to creating wealth.

"The problem with [SRI] is that it's hard enough to do well when you can pick from anything. The more you limit the universe of potential investments, the harder it gets," Waldman said. "You say, 'Okay, I don't want to invest in military spending, nuclear power, firms that exploit their labor force.' So you keep screening stuff out, and then you have to choose from what's left and it's a harder job."

Antonin Robert, who graduated from Kogod with a bachelor's degree in 1989, is a partner with Global X in Cleveland. The firm uses tax consulting to encourage socially responsible investing, helping investors leverage tax assets and government policy to finance projects in historic preservation, brownfield mitigation, environmental initiatives, and other concerns.

His clients, high-income individuals and global corporations, have various motivations for financing socially responsible projects.

For some, he said, "social causes don't do anything for them. Their tax adviser told them, 'I'm going to save you 15 percent on your tax bill by doing this,' and they say, 'Go for it.' And I could point you to others who really like the social benefit."

"IT'S HARDER TO SAY THAT IF WE DO THE SAME THING, FOR EXAMPLE, TO SUDAN THAT WE DID TO SOUTH AFRICA THAT SUDAN WOULD CHANGE."

LEIGH RIDDICK
ASSOCIATE PROFESSOR

SRI INTERNATIONALLY

When investors consider international companies, they're not talking about a small piece of the pie. In 2009, 11 percent of the nation's $11.1 trillion in mutual fund assets were invested in foreign corporations, according to the Investment Company Institute, the Washington, DC-based association of US investment companies.

Those investments also draw interest because in 2009, stock prices in emerging markets grew significantly more than in the United States and other developed countries, the Institute said.

That trend is expected to continue, according to Ghiyath Nakshbendi, executive-in-residence in Kogod's International Business department. He attended the IMF/World Bank meeting in October 2010, where it was forecast that economic growth in developing countries would continue to be higher than in developed countries.

Nakshbendi, whose work in finance focuses on Middle Eastern and North African nations, has worked around the globe, including serving as a senior adviser to the Arab Fund for Economic and Social Development and the Kuwait Investment Authority. While he acknowledges the intangible returns that appeal to SRI investors, he recognizes that the bottom line still drives the system.

"Business is not a charity," he said. "I'm not going to invest in Kenya because I want to help the guys in Kenya. I'm going to go and invest in Kenya because there are opportunities there and that opportunity is going to provide me with a return on investment."

At the same time, moral imperatives can overlap with financial decisions. Riddick traces the shift to SRI to institutional investors' avoidance of South Africa under apartheid. But while that broad response contributed to change in that country, efforts may have dramatically different results elsewhere, she said.

"I think it's harder to say that if we do the same thing, for example, to Sudan that we did to South Africa that Sudan would change. The reason is that South Africa was a well-developed country to start with and it had a government structure to start with, however right or wrong it was," she said. "But in Sudan … they don't really have a competent government to work with. There's no Bishop Tutu, there's no Mandela, there's none of that."

Thanks to a great deal of press coverage, Sudan has become a prominent example of nations that socially conscious investors strive to avoid. Civil war and genocide led Congress in 2007 to enact the Sudan Accountability and Divestment Act, which prohibits federal contracting with companies that do business in Sudan and supports states and investment companies that want to divest themselves of Sudan investments. In June 2010, the US Government Accountability Office recommended that the US Securities and Exchange Commission require publicly traded companies to disclose their business operations in Sudan. Only time will tell whether the practice will be reevaluated following the January 2011 Southern Sudan referendum.

Riddick differentiates between developing nations, those struggling to achieve basic levels of political and economic stability, and emerging nations like India and China, which are strongly developed in some areas but lagging in others.

"The quality of information you have generally gets better the more developed the country is. So the less information you have, the riskier an investor would view any opportunity in that country, and therefore they would command a higher return in order to be induced to make that investment," she said.

Because of the difficulty of obtaining information, Waldman advises clients to utilize mutual funds when investing in emerging markets.

"It just so happens that emerging markets are doing very, very well right now. Is it a smart investment in the long run? Yes, it's something to invest in, but gently," he said. "Every investor needs to

SRI BY THE NUMBERS

$8 — For every eight dollars that's professionally managed in the United States, one dollar is in socially responsible investments

11% — The percentage of $11.1 trillion in US mutual fund assets invested in foreign corporations

639 — The number of shareholder proposals on social and environmental initiatives put forth between 2007 and 2009

800 — The number of investment institutions that have signed on to the United Nations' six Principles for Responsible Investment as of October 2010

250 — The number of SRI-screen mutual funds as of 2010

1,882 — The total number of shareholder proposals put forth between 2007 and 2009

Sources: United Nations, Social Investment Forum, Investment Company Institute have some exposure to emerging markets, but these markets tend to be more volatile, more subject to political risk."

BUILDING A SUCCESS STORY

International investing to target specific issues is tricky, Waldman cautions. An investor who wants to bring potable water to developing nations might be inclined to support GE, which has a hand in water projects all over the world, but Waldman questions the effectiveness of that investment as a solution for bringing people water.

Research is ongoing into the best ways to help nations develop internally and encourage outside investment. The challenge, Riddick said, is pinpointing relationships between investment and outcome.

"Causality is hard to nail down, but we can at least see correlation: first the money came in and then the schools got better," she said.

Nations exist on a continuum, Riddick explains, with near-disasters on one hand and those who need just a little help on the other. Ultimately, she said, one could argue either side about the international success of SRI.

"Imagine a country that is in bad shape and I have money in it; if I pull out, it could be in worse shape. If a country is doing badly and I put money in, it could be in better shape. But you could also build the case that it doesn't really matter—the country is going to do whatever it's going to do," she said.

Waldman points out that many factors are in play when it comes to bolstering a nation for the long haul.

"Since World War II, we have given hundreds of billions of dollars to impoverished countries and, for the most part, it hasn't helped," he said. "We've staved off disasters, we've fed people during famine—and that's worth doing—but in terms of producing persistent economic growth and self-sustaining growth, foreign aid's been a dismal failure. What has been a remarkable success is real, market-based economic development that's occurred in areas like India and China."

One practice that seems to enjoy universal support is microfinancing, which provides very small loans to help individuals grow self-sustaining enterprises. A village woman in Africa might get a loan to buy a pig, which she can then breed to sell piglets or expand a small farm. Waldman calls microlending "one of the big success stories of the last 30 years."

Loans enable borrowers to become small-scale merchants, Nakshbendi said, and help citizens become self-sustaining instead of endlessly dependent on short-term aid.

Riddick agrees, noting that borrowers often repay loans early and even start their own small lending operations to help others. "It's an amazing process. But that again is very different from sending a message to a government."

VOICES FOR CHANGE

Despite the challenges of effecting international change, SRI can be a powerful tool for individual investors. And Nakshbendi makes the point that stockholders are not the only ones with a vested interest in corporate behavior.

"Stakeholders like the press, the community, the government—all of these … can make or break that particular enterprise if they take a position that these kinds of activities are morally or socially unacceptable. Consumers are going to take note of that and, consequently, they are going to stop dealing with that institution," he said.

In fact, socially conscious investors are making themselves heard. Between 2007 and 2009, social and environmental initiatives accounted for one-third of shareholder proposals—639 out of 1,882, according to the Investment Company Institute.

One company, ISS Corporate Services, based in Rockville, MD, has even added a Sustainability Analytics product that helps companies assess their SRI performance, engage with socially conscious investors, and respond to shareholder resolutions.

"To the extent investors can identify practices on the part of firm management that they really disagree with, they can choose to put their money elsewhere," Riddick said. "Very often the best fiscal decision for a firm is to discontinue the practice that created the problem." KN

THE FUTURE OF SOCIALLY RESPONSIBLE INVESTING

ARTICLE BY
AMY BURROUGHS

As more people and more money are poured into Socially Responsible Investing (SRI), it becomes increasingly likely that the call for global standards, regulation, and corporate disclosure will increase as well.

In the 2010 annual report of the Washington, DC-based Investment Company Institute, president and CEO Paul Stevens said investors will continue to see changes spurred by recent financial crises.

"The wide-ranging reforms around the world emphasize the need for us to think about international aspects of fund investing," Stevens said, noting that the International Organization of Securities Commissions is working toward increased regulatory standards.

"Policies set in one jurisdiction can have a significant influence elsewhere," he added. "We need to stay abreast of these international developments and make sure that all regulators recognize the impact of their decisions."

Similarly, a 2009 study of emerging market investment by the Social Investment Forum, a membership association, found that one of the biggest challenges is a lack of corporate disclosure about environmental, social, and governance (ESG) issues.

"Key drivers for improved ESG disclosure include development of national sustainability indices, ESG listing requirements, [and] influences of global standards and norms," the report said.

The survey shows that Brazil, South Africa, China, South Korea, India, and Taiwan are actively pursuing disclosure improvements.

Meanwhile, Ghiyath Nakshbendi, executive-in-residence in Kogod's International Business department, said the International Monetary Fund and World Bank call for developing countries to continue enjoying higher economic growth than the United States and developed nations.

Nakshbendi said he also predicts growth in microfinancing, which will enable more investors to participate in small loans to citizens of developing nations.

"The field is evolving," he said. "We are at the stage at which these microfinance operations are getting more and more involved in acting as deposit-taking institutions, so in a sense we are broadening the source of funding. We are going to go through a process by which we have more and more nationally accepted practices, but we are not there yet."

Steady international support also is likely for the United Nations' Principles for Responsible Investment, issued in 2006 to reflect the agency's support of ESG standards. According to the UN, a record number of investors committed to the principles in 2010, a trend that shows no signs of slowing. As of October, 800 investment institutions from 45 countries had become signatories.

"THESE MICROFINANCE OPERATIONS ARE GETTING MORE AND MORE INVOLVED IN ACTING AS DEPOSIT-TAKING INSTITUTIONS."

GHIYATH NAKSHBENDI
EXECUTIVE-IN-RESIDENCE

Closer to home, companies and investors who value socially responsible business practices may see new developments in Maryland, which in 2010 became the first state to create a new class of corporation, the Benefit Corporation.

The designation is modeled on social and environmental criteria created by the nonprofit B Lab. Essentially, the designation gives protection to companies doing good things who might have those actions challenged by a change in management or ownership. **KN**

MODERNIZING

MA

NST

How will the greater Washington DC region absorb millions of new residents in the coming years? By adopting some development practices that once seemed old-fashioned.

ARTICLE BY
ANDREA ORR

Smart growth should be a no-brainer. The concept is simple enough: enhancing communities through development, rather than piling on to existing problems. Yet real estate developers now see that many practices that made sense for decades were neither smart nor sustainable.

Sure, anyone can have a big lawn and an unobstructed view if they build far enough from a city center. But the roads required to support that outward expansion create traffic and scatter the pollution while diminishing the availability of public space and the quality of life for all.

As the greater Washington area prepares to absorb an estimated 1.7 million new residents by 2030, Kogod is focusing on the sorts of sustainable development that make the most sense here and in other rapidly growing metro areas.

As president of Donatelli Development in Bethesda, MD, Chris Donatelli has overseen multiple mixed-use development projects in Washington, including the Kenyon Square condominiums in Columbia Heights. Donatelli serves on Kogod's Real Estate Advisory Council, bringing his professional insight to the classroom.

"I do see the future [of real estate growth] in urban development," says Donatelli, who notes that during the current economic downturn, inner-city real estate values have generally held up better than those in the suburbs. His formula for successful urban development calls for a combination of residential and retail properties close to a Metro station; the practice promotes walking and use of public transportation and creates a sense of community.

SUBURBAN
DOWNTOWN

DRIVE
WALK

SMART
GROWTH

"SMART" DEVELOPMENT IN WASHINGTON

BIKE-FRIENDLY: 15TH STREET BIKE LANE
In 2009, a southbound bike lane was installed along a stretch of 15th Street in Northwest Washington, traditionally a key car commuting lane for drivers headed downtown. More recently, an expansion was approved to take the lane all the way to the Capitol, a total of 2.5 miles. Although Washington already has about 50 miles of bike lanes, the relatively recent move to incorporate these lanes into busy roads such as 15th Street signals an effort to encourage biking to work and adds to the appeal of downtown housing.

TRANSIT-ORIENTED: WISCONSIN PLACE, FRIENDSHIP HEIGHTS NEIGHBORHOOD
Not long ago, the area surrounding the Friendship Heights Metro station, on the DC/Maryland border, had large swaths of undeveloped land. That's changing rapidly with a series of developments, most recently Wisconsin Place, which features high-end retail, condos, and a wide assortment of dining—a total of 1.1 million square feet of office, retail, and high-rise residential space, all on the same block as the Metro entrance.

PEDESTRIAN-FRIENDLY: TYSONS CORNER, VA
Longtime residents of the Washington region may not be able to fathom the idea of walking around Tysons, a region marked by strip malls, car dealerships, and indoor malls and surrounded by traffic-choked roads that lack sidewalks. But that's changing. In late 2010, a draft plan was approved that would encourage development of residential properties, along with four transit stations and the addition of new office space, in an effort to organize the sprawl around a central, walkable core.

This sort of mixed-use development is, in many ways, a return to an earlier time, when people lived in compact towns and were able to conduct much of their business along the town's Main Street. In contemporary Washington, the concept has only recently been embraced in regions such as the U Street Corridor and Columbia Heights in Northwest and Gallery Place in downtown.

New development in these areas has turned once-deserted strips into vibrant retail and dining centers, with new apartments and condominiums nearby. "For many years, downtown Washington was a ghost town," says Donatelli, a Bethesda native. "The most striking difference from when I was growing up is how dynamic and international the downtown core has become."

David Orr, who heads the development firm Orr Partners in Reston, VA, and also serves on the advisory council, stresses that aside from their convenience factor, mixed-use developments can concentrate buildings in a way that limits land disturbance and ultimately leaves more open space for everyone to enjoy.

"If we can minimize the consumption of our resources, we are going to be a better planet," says Orr. "It's about recognizing patterns of growth and saying, 'Let's be responsible and preserve the green spaces.'"

For all of the appeal the notion of Main Street holds in the American consciousness, it is clearly not possible—or even advisable—to attempt to return entirely to the past. Modern cities are too populous and modern life too complex to build all activities around a single city center.

Such limits to extremely dense development are particularly applicable in Washington, where a 100-year-old law restricts the height of any building to 110 feet. When developers talk about town centers now, they are referring not only to the downtown areas within cities but also to places like Virginia's Reston Town Center, where people once went to get away from crowds.

After years of urban residents migrating to the outer suburbs, Reston Town Center—which is more than 20 miles from downtown Washington—offers a kind of modern Main Street in the heart of the suburban sprawl, saving residents long trips into the city.

"The sprawl is there. You can't make it go away," explains Robert Lipnick, an adjunct real estate professor at Kogod who focuses on green building. As an LEED-accredited professional, Lipnick believes smart development should not only use space more efficiently but also incorporate green building materials, such as permeable outdoor surfaces that limit wastewater runoff.

"FOR MANY YEARS, **DOWNTOWN WASHINGTON WAS A GHOST TOWN.** THE MOST STRIKING DIFFERENCE FROM WHEN I WAS GROWING UP IS HOW DYNAMIC AND INTERNATIONAL THE DOWNTOWN CORE HAS BECOME."

CHRIS DONATELLI
PRESIDENT, DONATELLI DEVELOPMENT

Lipnick says that his dual training in medicine and real estate helps him appreciate that real estate development can impact not just the quality of life but the quality of health as well.

"Part of where I come from is having spent my life in the world of medicine," he explains. "I have come to appreciate that the American lifestyle, with its heavy reliance on cars, has contributed to a sedentary population and high rates of obesity. The car and the architectural sprawl have both contributed to this problem."

Although he understands that change will be protracted and that restrictive zoning laws and "not in my backyard" attitudes will have to be addressed before dense, mixed-use development is adopted throughout the region, Lipnick firmly believes that the era of building new roads to accommodate outward development is over.

"We are beginning to take the existing infrastructure and convert it to an environment that is more inviting for people to travel by foot and by bicycle. For students planning careers in real estate, it is imperative that they recognize this."

Professor Peter Chinloy, whose research at Kogod specializes in real estate innovation, says one need look no further than the Metro station that serves the American University campus.

The Tenleytown area serves the University, other large employers, and residential communities. But in the center of the bustling community is an underused commercial strip of mostly low-rise retail space; several gutted buildings sit vacant at street level. They are a product of the practice of building out rather than filling in.

Yet even the Tenleytown neighborhood is starting to fill in its underused spaces with the addition of new condos, a city pool, and a new library, currently under construction—a testament that sometimes smart growth comes in the second act. **KN**

KOGOD STANDOUT

DETERMINING THE VALUE OF CSR

Giselle Rayner, MBA ’11, spent the summer of 2010 applying a framework to determine the value of corporate social responsibility (CSR) to 12 companies in three sectors across four transitional economies.

ARTICLE BY
JACKIE SAUTER

She also planted corn and tended to her boss’s animals: three chickens, one turkey, two rabbits, and four dogs.

An appreciation for the environment is a necessity for interns at ES Global Consulting, where Rayner interned in the Cuernavaca, Mexico, office. That’s why one of the position’s application requirements was an essay on the importance of sustainability.

She noted the uniqueness of the experience on her blog:

> **“NOT SOMETHING THAT IS TYPICAL TO AN INTERNSHIP IN DC,** BUT HERE IT IS ALL PART OF THE ‘MEXICAN EXPERIENCE.’ WITHIN A WEEK’S TIME, THE CORN WE PLANTED HAS ALREADY SPROUTED TO THE SURFACE AND IS CONTINUING TO GROW!”
>
> GISELLE RAYNER, MBA ’11

ES Global brings a handful of interns to its headquarters in Mexico every summer for its CSR practice—one of three arms of the firm, which also supports microfinance and economic development. The firm’s past work includes projects with the United Nations Development Program, US Agency for International Development, and the International Fund for Agricultural Development.

Rayner and her fellow interns were charged with applying an index that ES Global developed in-house to assess how CSR benefits the selected companies in Turkey, Malaysia, Kenya, and Mexico. The goal: to use the completed, robust data model as a carrot—a financial incentive for other companies to begin practicing CSR. ES Global has led executive training in CSR strategy and sustainability reporting for more than 100 corporate executives over the last two years.

It was a complex task, by Managing Partner Marc de Sousa Shields’s own admission.

“Marc said—first thing, you have to understand each country and the needs of the country,” Rayner said. “Then you can determine how these companies operate within that context.”

With guidance from de Sousa Shields as a starting point, Rayner began digging into specific companies, analyzing their financial statements and reputations within the chosen sectors: telecommunications, consumer goods, and airlines.

The group defined three criteria for the selection of each company, which included having a publicly available annual report or CSR report, a recognizable brand or public reputation, and operating within the selected industries.

Using industry standards such as the UN Global Compact to form a baseline for comparison, Rayner reached out to not-for-profits and company representatives to acquire details on the companies’ local reputations and to have primary sources.

"I DO THINK THAT CSR IS THE WAVE OF THE FUTURE... **IT DOESN'T HAVE TO BE SO POLARIZED**—THERE IS A BENEFIT FOR THE COMPANY IN ADDITION TO THE SOCIAL BENEFIT IT WILL CREATE."

GISELLE RAYNER, MBA '11

The resulting matrix evaluated the companies based on six main drivers: client relationships, reputation and image, stakeholder perception, competitive pricing, inertia/tradition, and innovative technology.

Within each main driver, the company was rated on more subfactors—ranging from the environment to corruption to human rights—and compared on three levels: internationally, within the sector, and within the country.

For example, the Mexican brewery Grupo Modelo was assigned three separate numerical ratings for its environmental reputation internationally, within the brewery sector, and in Mexico.

Rayner acknowledged the difficulty of measuring CSR success.

"But by putting all the information together in one cohesive piece, I think you can find a quantifiable, measurable outcome."

For example, the interns identified the responses of the beverage industry to the scarcity of water as a natural resource, and uncovered how Grupo Modelo was remaking its image to become more green-conscious. Rayner and the others identified the company's green initiatives, including route reengineering, new distribution models, and recycling water in its factories.

While the majority of the CSR practices demonstrated a financial value to the originating company, the consumer goods sector didn't enjoy as much of a benefit. Rayner hypothesized that this was due to the amount of waste and high environmental impact, which was difficult to offset.

She said compiling the data and looking for patterns was laborious but worth the effort. Rayner believes the future of CSR depends on the answer to this question: Why would a company put together a CSR initiative unless it could expect an impact on the bottom line?

Her experience was not only gratifying but also essential to her professional aspirations; Rayner wants to pursue CSR work full time when she graduates in May.

"I do think that CSR is the wave of the future," she said. "It doesn't have to be so polarized—there is a benefit for the company in addition to the social benefit it will create."

She hopes her undergraduate education at Virginia Tech, where she majored in sociology, will complement her business education and internship experience in Cuernavaca and at the Washington, DC-based CDS Development Solutions.

"I just decided that I wanted to be one of those people that was passionate about what they did," she said of her decision to return to school.

This spring, Rayner will support Bob Sicina, an executive-in-residence in the International Business department and co-teacher of the Peace Through Commerce practicum, in driving enrollment and finalizing a more reliable project pipeline.

As for Cuernavaca, it was a whirlwind experience, but well worth it.

"I loved the city, I loved the experience," Rayner said. "I took away a lot from it. It really helped in molding where I see myself and how I want to contribute to society in my future career." **KN**

AVOID SOCIAL MEDIA SLIP-UPS

We've all heard the stories of social media scandals, blunders, and flops like the Domino's pizza debacle–when two employees posted a highly unpalatable video to YouTube–or the Southwest scandal, when representatives from the airline told renowned director Kevin Smith he was too fat to fly.

ARTICLE BY
LINDSEY ANDERSON

Avoiding Facebook brawls doesn't have to be a complicated, fly-by-the-seat-of-your-pants process. Just follow these seven simple guidelines for using social media from Associate Professor Gwanhoo Lee, an expert in open innovation, social media-based collaboration, and how companies use social media to improve service and connect with users.

Lee recently conducted a field study with the pharmaceutical company Pfizer on a groundbreaking website that asked the company's tens of thousands of employees how to better serve its customers and improve its long-term performance. Employees voted and commented on ideas, and the best proposals helped Pfizer shape its new strategic plan.

But social media has a dark side as well. Lee says that whether you're merely employing social media for personal use or your company is looking to adopt social media guidelines, you can just think Aretha Franklin. You know, "R-E-S-P-E-C-T."

REPLY PROFESSIONALLY TO OTHERS' COMMENTS. Greenpeace advocates launched a social media campaign against Nestlé in March 2010 that mushroomed into a sticky social media mess. Environmentalists had long criticized Nestlé's use of palm oil from suppliers like Sinar Mas that allegedly destroy orangutan habitats in Indonesia.

The campaign started with a grisly YouTube video from Greenpeace of a Nestlé employee unwittingly eating an orangutan finger disguised as part of a Kit Kat bar. The mixture of orangutan fur, blood, and chocolate is less than appetizing. Facebook users soon took up the cause, posting on Nestlé's official page with modified Nestlé candy bar logos as their profile picture (think "Nestlé Kit Kat" turned "Nestlé Killer").

A Nestlé rep made the situation worse when replying to hundreds of comments with acerbic statements such as, "We welcome your comments, but please don't post using an altered version of any of our logos as your profile pic—they will be deleted," and, "Thanks for the lesson in manners. Consider yourself embraced." The rep later apologized.

The scandal showcases the fast-acting power of social media: within two months Nestlé—looking to avoid an ongoing PR battle after receiving 200,000 e-mails of protest—announced it would cut ties with Sinar Mas, the second-largest palm oil supplier in the world, and switch to sustainable palm oil by 2015.

ENHANCE PUBLIC VALUE WHEN POSTING MESSAGES. Don't post useless chatter. Don't blatantly push your product. Make each post meaningful. Your company switched to 100 percent recycled paper? Tell us about it. But if employee No. 10,435 John Smith won Employee of the Month? Leave it out—no one cares.

SIMPLIFY YOUR MESSAGE. Not everyone speaks business lingo. Rather than describe your propitious horizontal integration, which aggrandized your market share, just tell your followers why your newest acquisition is awesome for your business.

Simplifying your message is especially important with the social media platform Twitter, where you have a mere 140 characters to get the word out. Decide what it is you want to say and say it clearly—and in as few words as possible.

PROTECT REPUTATION AND PRIVACY. If you wouldn't say it in person, don't say it online.

ENSURE VALIDITY OF INFORMATION SOURCES. No one wants the embarrassment of posting something that is later proved wrong. Taking a few minutes to check the validity of your sources—not to mention spelling and grammar—is time well spent.

CORRECT ERRORS/PROBLEMS QUICKLY. In April 2009, two Domino's employees filmed themselves messing with a customer's order and violating public health codes, like sticking booger-covered cheese on a sandwich, and posted the video to YouTube. Domino's initially chose not to respond to the video, hoping the problem would disappear if they ignored it.

It didn't. In less than 48 hours, more than a million people had watched the video. A national study by HCD Research found that 65 percent of respondents who would have visited Domino's to order food before the scandal wouldn't after watching the video, according to the *Wall Street Journal*.

Although Domino's launched its own YouTube video in response, and hunted down the employees and fired them, it was too little, too late. More than 24 hours in response time is too long in the age of social media.

TELL THE TRUTH ... ALL THE TIME. Search engines and social media make fact checking extremely easy for everyone everywhere. Save yourself a scandal and tell the truth. **KN**

TAX Q&A

HELPING MARRIED STUDENTS TACKLE TAXES

Q&A

Like most Americans, Julie and Kevin Jones find taxes confusing.

The couple moved from North Carolina to Washington, DC, last summer, where they both are now first-year MBA students at Kogod. As full-time students, Julie and Kevin are not currently employed, but they collectively had earned between $50,000 and $60,000 in 2010 before returning to school. Since the couple resided in two states in 2010 and owns property in North Carolina, they will have to file four tax returns in April.

Confusing? We thought so. That's why Professor Don Williamson, director of the Master of Science in Taxation program at Kogod and a self-proclaimed "tax therapist," sat down with the couple to give them—and you—helpful tax tips. As executive director of Kogod's new Tax Center, he will oversee the center's research on federal tax policy and provisions that impact the middle class and small businesses.


SS

1

Q. What tax breaks do we qualify for as graduate students?

A. You won't qualify for the American Opportunity Credit—which is $2,500 per person for undergraduate students—because you already have undergraduate degrees. But you could qualify for the Lifetime Learning Credit. That credit can give you a maximum of $2,000 per household on the first $10,000 of tuition. Any individual paying "qualified tuition" at a postsecondary school can qualify for the credit each year, even if you are only taking one college course.

2

Q. Should we start putting money into an Individual Retirement Account (IRA)?

A. At that $50,000–$60,000 earned income range, you have the opportunity to make a contribution to an IRA if you have the spare cash; it's always about the cash.

Since you're young, you may want to consider a Roth IRA. It's not deductible, but all of the money earned in the account from that point forward in the Roth IRA is tax-free, if you withdraw it after age 59.5 and the account has been open at least five years. At your ages, you're going to have 30 years of income earned in the account that's tax-free.

Contributions to the deductible IRA could even be refundable. The maximum amount you could contribute is up to $5,000 each. But $5,000 is a lot of money for a couple making $50,000–$60,000. Where do you get the cash?

If you have a savings account that earns interest, you could transfer some of the balance of that savings account into an IRA. That could be a "deduction above the line" that would reduce your "adjusted gross income" (AGI). It is that AGI threshold that can trigger a lot of other tax benefits, like education credits on Form 8863.

In this scenario, if we make deductible IRA contributions, bringing the $50,000–$60,000 in taxable income to $40,000–$50,000, you'd get a standard deduction for a joint return of $10,400, and personal exemptions of $3,650 per person. So your taxable income is down to $25,000–$30,000. That $30,000 is taxed at a marginal rate of 15 percent, resulting in a total tax of around $3,000. Then you claim the $2,000 Lifetime Learning Credit against that $3,000. So maybe you'd have a maximum tax of less than $1,000 on the $50,000–$60,000 of income. That's very, very good.

3

Q. Does being married penalize you when it comes to taxes?

A. There's no question about it, being married costs successful couples money. Although you qualify for the standard deduction of $10,400—twice the standard deduction for single people—your combined earnings are likely to move you into higher marginal tax rates than if you remained single.

4

Q. We are taking out loans to pay for school, but we also have some money in a 401K plan. Can we use some money from our 401K to help pay for college?

A. I wouldn't want to tap my retirement plan. I would rather borrow the money because you can deduct the interest on those loans in arriving at your Adjusted Gross Income. And the interest rates are very low right now.

The basic problem with young people is they don't save. You guys do, but generally people don't save. If you can get a 401(k), you never see the money; it just goes straight in the plan. If you don't have that money, if you don't see it, if it's not in your pocket, then you won't spend it and you'll save. With time, you're going to make money on that 401(k). You just have to forget about it; it doesn't exist.

I wouldn't touch the 401(k). I would actually choose to attend school part-time and work before taking money from the 401(k).

5

Q. We own a condo in North Carolina and are renting it out. Right now, we're barely breaking even. Will we see benefits in the future?

A. You'll lose money on the house, and that's actually a good thing. Even if you're breaking even in the cash and the out-of-pocket costs, you'll be depreciating the home. Since it's a residential property, it will depreciate the same amount each year over 27.5 years.

Don't expect thousands and thousands of dollars of tax deductions, but in the first year, a property costing $100,000 will earn $2,700 in depreciation deductions. In the 15 percent tax rate bracket, that will save you about $400.

Generally, that depreciation loss won't be deducted from the $50,000–$60,000 because the loss is what we call a passive activity loss. Passive activity losses go on an 8582 form and can offset other income as long as your AGI is less than $150,000; otherwise, it is suspended and used to offset income if you ever have a net rental profit, or when you sell the house.

6

Q. We lived in North Carolina for part of 2010 and DC for the rest. Which tax forms do we need to file?

A. Your $50,000–$60,000 for 2010 was earned in North Carolina, so that will go on a North Carolina return. So you would file a part-year North Carolina return from, say, January 1 to September 1.

You'd also have a part-year DC return from September 1 to the end of the year. But mind you, you have no income on that return, so you might not even have to file one. Generally, I advise people to file even if they don't have to. The tax authorities will see your DC address on the form and ask, why does someone live in DC and not file a DC return?

So you'll have a part-year North Carolina resident form, a part-year DC resident form, a part-year North Carolina non-resident who owns rental property form, and a federal return. So here we're talking folks making $50,000–$60,000 and I've got you filing four returns. And that's what's wrong with the system, because $50,000–$60,000 is middle class. That's the purpose of the Kogod Tax Center, to deal with issues of the middle class, issues of inordinate complexity relative to the income and lifestyle of the taxpayers.

The point is middle-class Americans can't have legions of CPAs doing tax planning for them; it's uneconomical. But the way the rules are designed, they are as applicable to you middle-class guys as they are to the million-dollar guy. And that's probably wrong. But nevertheless, it's there. **KN**

KOGOD STANDOUT

FULBRIGHT FALLS FOR SOUTH AFRICA

"I LEARNED ABOUT **THE HARDSHIPS OF DAILY LIFE**, THE LONGING FOR JOB OPPORTUNITIES, AND HOW THE LEGACY OF APARTHEID STILL PERMEATES THROUGH TOWNSHIP LIFE."

DANA HUFF, BSBA '10

Many residents of a South African township near Johannesburg had never met an American until Dana Huff came along. A Fulbright scholar, Huff, BSBA '10, is researching social entrepreneurship as a tool to lift young women out of poverty in South African biracial—or "colored"—communities.

"My time in South Africa has been unforgettable because of the open, hospitable, and generous South Africans I have met," she said. Huff has single-handedly produced the first magazine the local church has ever seen, created community pamphlets and advertisements, and helped a social entrepreneur enhance his company profile and business plan.

Photographer: Kurt Wellcome

PRACTITIONER PERSPECTIVE

MONEY IS NOT ETHNIC: BUSINESS' ROLE IN CREATING RULE OF LAW

In 2003, Macedonia was a country coming out of violent conflict between citizens of ethnic Macedonian and ethnic Albanian origin. One Albanian businessman, when asked how ethnic issues affected commerce, succinctly noted, "Money is not ethnic." In other words, business cut through the conflict, as each side had something the other needed. Better business, he asserted, would lead to better relationships. And the relationships are continually improving.

Economic growth is known to decrease the likelihood of conflict and increase stability. Job creation can take former and future combatants off the street and give them a vested interest in rebuilding the nation. Increased trade can build common ground between quarreling factions. By providing hope for the future and calming the tensions of the past, perhaps Sudan, Burundi, or even Afghanistan can move beyond turmoil and become countries that are too busy to fight.

But the path to such peace is not easy. Reformers tend to assume that if a country can get the procedural laws—the "rules of the game"—right, then investors will take advantage of the level playing field through vibrant commercial activity, leading to economic growth. It is undoubtedly true that rule of law is essential to long-term, broad-based economic growth. It is also true that laws and regulations are critical in creating an environment that is conducive to business. It is therefore tempting to believe that a country can simply adopt the right laws and business will follow. Unfortunately, this simplistic analysis does not hold up.

The rule of law—so crucial for growth and stability—is not about law; it is about rule. It is about the relationship between the government and the governed, the dynamics of setting boundaries and enforcing them. Rule of law takes root when the general population assents to that rule and is willing to accept and even support sanctions against rule breakers. This applies to commercial law every bit as much as it does to human rights, environmental legislation, or traffic regulations. Rule of law requires some form of consensus among competing interests.

During violent conflict, trust is destroyed as the rule of law gives way to rule by force. Frequently, the root of the conflict lies in the misuse of power, when elites rule on the basis of privilege rather than rights, and only members of the privileged few benefit from the law. Replacing turmoil with peace, however, requires more than force; it requires restructuring social and economic relationships to create greater opportunity and benefits for an ever-wider array of citizens. It requires movement from special privileges to general rights.

In the United States Agency for International Development's 2008 *Guide to Economic Growth in Post-Conflict Countries*, USAID sets forth a number of principles for renegotiating the failed social contract in pursuit of broad-based growth. The *Guide* firmly cautions reformers to focus on legitimacy in establishing new rules and regulations and not to substitute "urgent" solutions for the hard work of building the rule of law. Laws alone will not create an attractive climate for trade or investment; what is necessary is a government that obeys its own rules.

Business has an important role to play in establishing the legitimacy that supports the rule of law. This legitimacy has four critical components:

SUBSTANCE Laws and regulations must adequately address the concerns of the business community through appropriate quality and intricacy. A government must attract investment by ensuring that investment will be protected against unreasonable risks and costs. As the World Bank's Doing Business project has shown, business-friendly environments achieve far greater development than do extractive regimes. Croatia once attempted to bypass the hard work of stakeholder input, only to find that its new company law was fundamentally flawed. Thanks to comment from the business community, the law was extensively revised and improved.

PROCESS Substance and trust require a process that includes business in the formulation of the laws and regulations that affect commercial activity. Process is legitimate when stakeholders believe they have been adequately included in revising the rules of the game. Passage of law by fiat, even if the law is well drafted, undermines acceptance and suggests that rule by force is still in effect. In Vietnam, a new commercial code required more than 15 drafts; although seemingly inefficient to some, this slow, deliberate process has allowed business, government, and the legal profession to hash out an agreement that can be implemented and enforced.

REPRESENTATION People are often resistant to rulemaking if they do not trust those who are supposedly acting on their behalf. Different stakeholder groups have different interests and want to know that someone with similar interests has a voice in the process. It is not enough to allow elite business interests to speak for all business; multiple representatives are needed. In Afghanistan, changes to the legal system are more respected if they come from an Islamic country; some projects have therefore employed professors from the Middle East to provide training.

IMPLEMENTATION Laws do not implement themselves; they require an array of institutions to ensure that rules are applied fairly, evenly, and without unauthorized costs (such as bribes or unsanctioned fees). There must be feedback systems to allow refinement and revision, and these systems must likewise be considered legitimate by those they affect. Georgia was able to increase trade in the midst of a Russian embargo by implementing business-friendly reforms in customs procedures, such as changing inspection procedures and documentation, while also creating an expedited process for trusted shippers; business provided regular input on design and progress.

Creating legitimacy takes time, but it cannot be avoided on the road to peace. Business has a role to play by actively participating at each level of legitimacy. Substance is unlikely to be satisfactory if business associations, commercial lawyers, and investor organizations do not actively engage with the government in a participatory policy process. These groups need not wait for an invitation, but can proactively advocate reforms to demonstrate demand for the rule of law, a system of rule that incorporates their input and concerns through the process of hammering out new rules.

There is a temptation, especially in the urgent conditions of post-conflict environments, to pass laws and regulations rapidly in order to get the commercial framework in place. This approach assumes that the laws will somehow be implemented just because they have been passed by the parliament or other authority.

But implementation requires dynamic systems run by competent institutions populated by qualified personnel. Enactment may not lead to implementation at all. Indeed, lawyers and business leaders throughout the developing world frequently report that laws have been adopted but never implemented. This is often because there is little or no consensus about the law and its aims: business was not adequately consulted, implementing institutions and agencies were not consulted, and legitimacy was not established. By avoiding a participatory process, the rapid approach will likely bypass the capacity building and relationship development that are necessary for the laws to take hold.

Healthy commerce is both a driver and a result of stable environments. Such stability is more than the absence of violence; it arises from interwoven systems of socioeconomic relationships that help to mitigate conflict. By establishing rule of law—where law arises out of a social contract built on mutual respect—governments lower the costs and risks of commercial activity and enable businesses to better meet human need by providing essential goods and services at affordable prices. In return, the business community creates jobs and generates public revenues for government services.

Economic growth and development are the most effective means of achieving the goals that most people seek—health, security, opportunity, a world without poverty. Growth happens at the firm level, when businesses of all sorts and sizes, whether multinational manufacturers or mom-and-pop kiosks, can profitably produce affordable goods and services. Business flourishes best under rule of law, but good rule of law requires active participation by business. **KN**

WADE CHANNELL
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PRACTITIONER PERSPECTIVE

HOLDING CORPORATIONS ACCOUNTABLE FOR HUMAN RIGHTS

Browse virtually any multinational firm's website these days, and you're likely to learn all about its commitment to such goals as human rights, the environment, and community development. Television advertisements featuring programs that support education, create jobs, and save the planet are just as likely to be by Chevron or Shell as by an environmental or humanitarian agency. Such outward displays of heightened conscience reflect a growing recognition by the business sector that commitment to commercial goals alone is not sufficient to ensure success in today's world.

The rules of the game have dramatically changed in recent years. Corporate leaders know that they must at least talk the human rights talk—which they often do using the language of corporate social responsibility (CSR). Although a window-dressing approach might assuage an unsophisticated public in the short term, it's clear that corporations who fail to embrace fundamental human rights obligations do so at peril to their brand, their reputation, and their bottom line.

Legal liability for multinational corporations complicit in human rights abuses is certainly one of the critical factors altering the global business playing field in the past 15 years, beginning with the first of these "David and Goliath" lawsuits brought in 1996 by villagers from Burma against California oil giant Unocal.

With scant regard for human rights risks or liabilities, and knowledge of the junta's dismal human rights record, Unocal and its partner, Total S.A., contracted with the then State Law and Order Restoration Council (SLORC) to provide security for the consortium's executives, foreign personnel, and facilities. In fulfilling their end of the deal, Burmese military units proceeded with their usual tactics, committing human rights abuses that included forced labor, torture, rape, extrajudicial killings, and attacks on indigenous and ethnic-minority people.

Filed in US Federal District Court under the Alien Tort Statute (ATS), *Doe v. Unocal* highlighted the myriad ways in which global corporations partnering with repressive police, military, and government forces were getting away, quite literally, with murder. At the time, the case was a long shot—but it gave my client, Jane Doe I, a chance to seek justice for the brutal killing of her baby by Burmese soldiers working with Unocal. It provided John Doe VIII the opportunity to tell a court his story of being forced as a slave to work on the pipeline, build a company helipad, and carry arms and ammunition for the pipeline soldiers up and down the pipeline route.

That this case was allowed to proceed when the district court in California granted jurisdiction set off corporate alarm bells everywhere. After a handful of subsequent ATS cases upheld claims for human rights violations against corporations, multinational firms and the business-friendly Bush administration joined in repeated attempts to eviscerate the law. These were unsuccessful, and during the 10-year course of the litigation, the company was under a constant spotlight from media, shareholders, and the public. Unocal's reputation and brand were irreparably tarnished, its stock price remained flat, and it became an unattractive acquisition target.

Suspicions of lost opportunities and financial harms were confirmed when the company agreed to a settlement in 2005, marking the first time outside of the Holocaust context that a corporation paid compensation for human rights abuses . The media hailed the settlement as a "big win for human rights" and analysts surmised that the case would spur better corporate conduct. Just two days later, with the notorious legal claims resolved and no "poison pill" left to swallow, Chevron announced its bid to take over Unocal.

Corporations like Unocal have learned the hard way that benefiting from human rights abuses quite simply doesn't pay. My organization has since represented plaintiffs from communities in Nigeria, Peru, Colombia, and India in suits against oil, agricultural, and chemicals companies for sponsoring killings and torture and degrading public health and the natural environment.

Royal Dutch Shell also learned this lesson when a team of lawyers, including EarthRights, sued the company for complicity in the torture and execution of members of the indigenous Ogoni tribe, including Ken Saro-Wiwa, whose peaceful advocacy to protect Ogoniland from Shell landed him international prestige, including a Right Livelihood Award, the Goldman Environmental Prize, and a nomination for the Nobel Peace Prize.

Our clients in this case also put a price on human rights abuses when Shell agreed to a settlement on the eve of trial in June 2009. In addition to the price that Shell paid to the Ogoni—not to mention Shell's own lawyers during the 13-year course of litigation—Shell endured years of negative media, numerous shareholder actions, and an increasingly embarrassing "Shell Guilty" campaign. Perhaps most significant is the fact that to this day, Shell has never been able to resume its operations in Ogoni territory, which was previously an important source of petroleum.

As we watch states and oil companies scramble for sources of oil that are ever harder to access, it's clear that it would have been much simpler, cheaper—and yes, morally sound—for companies like Shell and Unocal to have done the right thing in the first place. The same argument can be made in other sectors, and this is precisely what Google did when it decided to shut down its China server in March 2010.

Citing Article 19 of the Universal Declaration of Human Rights, which protects freedom of information and expression, Google argued that the company would better serve its shareholders if Google "does good things for the world." Referring to its core business value, "Don't be evil," management ultimately calculated that compromising on censorship in China would invite public and legal scrutiny in its biggest markets in Europe and other Western nations, and decided that human rights promotion was the best economic decision.

The future of the ATS as a vehicle for corporate accountability has recently come into question with the Second Circuit's ruling in the case *Kiobel v. Royal Dutch Petroleum Co.* in October 2010. Despite years of precedents in the federal courts, the majority in the Kiobel court denied corporate liability under the ATS. Regardless of whether the Kiobel decision stands, corporations are not off the hook. Most ATS cases have multiple theories of liability, and other legal claims currently pending against corporations include common law tort claims such as assault, battery, and negligence, or state

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"*DOE V. UNOCAL* HIGHLIGHTED THE MYRIAD WAYS IN WHICH GLOBAL CORPORATIONS PARTNERING WITH REPRESSIVE POLICE, MILITARY, AND GOVERNMENT FORCES WERE **GETTING AWAY, QUITE LITERALLY, WITH MURDER**."

KATIE REDFORD
CO-FOUNDER, EARTHRIGHTS INTERNATIONAL

law claims like California's Unfair Competition Law. Claimants can seek justice against corporations for certain abuses under federal statutes like the TVPA and RICO. There are also criminal statutes that could and have been used to address corporate human rights abuses, such as that which forced Chiquita to pay $25 million for providing material support to a designated terrorist organization (AUC) in contravention of US law.

Meanwhile, the web of accountability expands in the courts of other states. Lawsuits against Total S.A. for abuses in Burma have been brought in Belgium and France; Shell is currently being sued in the Netherlands for widespread environmental damage associated with gas flaring in the Niger Delta. Canada is currently considering legislation that would create an ATS-type law to address corporate human rights abuses, while coalitions and organizations like ACAN and ICAR in Australia and the US, respectively, work to develop new corporate human rights laws.

Even voluntary standards and codes of conduct—long the favored approach of companies that would prefer to avoid binding regulation—have begun to develop teeth, enabling individuals and communities to hold companies accountable, or at least empowering them to engage and challenge abusive practices. The new International Code of Conduct for Private Security Contractors, for example, will be enforceable through contract law mechanisms. Section 1504 of the Wall Street Reform Act requires companies to report their payments to governments in SEC filings, which will be enforceable through criminal and (potentially) civil sanctions.

And a number of major multilateral organizations, such as the Organization for Economic Cooperation and Development (OECD), the International Finance Corporation, and the US Overseas Private Investment Corporation, now provide mediation services that allow affected people to allege corporate violations of environmental and human rights standards and receive institutional assistance to negotiate and, potentially, resolve disputes with companies.

The Universal Declaration of Human Rights declares a commitment to "a common standard of achievement for all peoples of all nations" and urges respect for all people who are "free and equal in dignity and rights." Like it or not, corporations play a huge role in either undermining or achieving this common standard; their actions help determine whether we live in a humane, peaceful world or a brutal one.

From their perspective, failure to respect human rights threatens both public relations and investor relations, and opens a corporation to litigation. It also risks the alienation of tens of thousands of people who would otherwise look to that company with admiration and favor, and invite it into their country, community, or village.

From my perspective, companies such as Unocal, Shell, Chiquita, Dow, Chevron, and others cannot be relied upon to monitor and hold these common standards alone. Clear and consistent legal regimens and accountability mechanisms must be in place to prevent the rape, torture, killing, and slavery that companies can cause. Litigation, advocacy, shareholder action, and community-based organizing against harmful projects has changed the way they do business, and will continue to do so.

From the US to Australia to the EU to China and elsewhere, the corporate accountability train has left the station. It's up to business, now, to decide whether they're going to miss that train and suffer the consequences, or get on board. **KN**

HOW TO INVEST

MICROFINANCE IN THE CLASSROOM

PERU

AVG. ANNUAL INCOME
$6,715

EXCHANGE RATE
2.676 PEN = 1 USD

RECIPIENT
Amelia Leonidas

LOAN FROM IBUS CLASS
$100

TOTAL LOAN REQUESTED
$575

LOAN STATUS
Paid back by January 2009

SECTOR Food

PROJECT DESCRIPTION
Amelia is 32 years old and married. She used the loan to purchase rice, sugar, cooking oil, noodles, candy, and condiments for her coffee shop.

FIELD PARTNER
FINCA Peru

AFGHANISTAN

AVG. ANNUAL INCOME
$1,490

EXCHANGE RATE
47.92 AFN = 1 USD

RECIPIENT
Darkhshan Reta Group

LOAN FROM IBUS CLASS
$50

TOTAL LOAN REQUESTED
$1,475

LOAN STATUS
Paid back by January 2011

SECTOR Services

PROJECT DESCRIPTION
Darkhshan Reta is a group of five Afghan women who each receive an individual loan, but are bound by a group guarantee. The women used their loans to improve their own and their husbands' businesses.

FIELD PARTNER
Ariana Financial Services Joint Stock Company (AFS) – a partner of Mercy Corps

AZERBAIJAN

AVG. ANNUAL INCOME
$6,171

EXCHANGE RATE
0.805 AZN = 1 USD

RECIPIENT
Allahyar Nadjafov

LOAN FROM IBUS CLASS
$25

TOTAL LOAN REQUESTED
$2,500

LOAN STATUS
The second installment of $625 repaid in February 2011

SECTOR Agriculture

PROJECT DESCRIPTION
Allahyar is 59 years old and has three children. He will use the loan to buy four calves.

FIELD PARTNER
Komak Credit Union

CAMEROON

AVG. ANNUAL INCOME
$2,421

EXCHANGE RATE
437 XAF = 1 USD

RECIPIENT
Ngwe Prudencia

LOAN FROM IBUS CLASS
$25

TOTAL LOAN REQUESTED
$650

LOAN STATUS
Eighth monthly installment of $43.33 repaid in February 2011

SECTOR Agriculture

PROJECT DESCRIPTION
Ngwe is a widowed mother of five. She will use her fourth loan from GHAPE to purchase plantains, cocoa, fowl, and groundnuts for the small market stand she manages.

FIELD PARTNER
Grounded and Holistic Approach for People's Empowerment (GHAPE)

In Ghiyath Nakshbendi's "Microfinance & Global Business Development" class, his students are hands-on. They make microloans through Kiva, a popular online organization that provides small loans to entrepreneurs around the globe. They browse loan requests, donate, and track loan progress online, and the organization's on-the-ground partners—called "Field Partners"—distribute the loans directly to the recipients.

Nakshbendi's class has made microloans to four entrepreneurs in total—three in 2010 and one in 2008—and boasts a zero percent delinquency rate. An executive-in-residence in Kogod's International Business department, Nakshbendi brings his background in developmental finance in the Middle East and North Africa to the Kogod course. **KN**

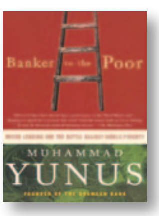
ON THE SHELF

SUGGESTED READING

Peace Through Commerce: Responsible Corporate Citizenship and the Ideals of the United Nations Global Compact
Edited by Oliver F. Williams
University of Notre Dame Press
2008, 512 pages

Top business leaders and scholars examine issues set by the UN Global Compact. The book features case studies of businesses that successfully help themselves and society, including IBM, Nestlé, and Ford.

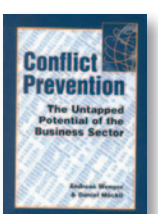
IMAGE FROM undpress.nd.edu



Banker to the Poor: Micro-lending and the Battle Against World Poverty
By Muhammad Yunus
PublicAffairs, 2007

Nobel Peace Prize laureate Muhammad Yunus's bestseller explores the rise of his Grameen Bank for the poor in Bangladesh. The founder of modern microfinance, Yunus's book is a must for all aficionados of peace through commerce.

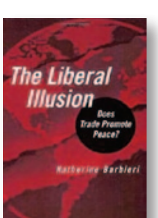
PHOTO FROM www.urbanenterprise.org



Conflict Prevention: The Untapped Potential of the Business Sector
By Andreas Wenger & Daniel Möckli
Lynne Rienner Publishers, Inc., 2002

Wenger and Mockli's work examines what the business sector could bring to the table in preventing deadly conflict and how businesses can engage in prevention efforts.

PHOTO FROM www.wheelers.co.nz



The Liberal Illusion: Does Trade Promote Peace?
By Katherine Barbieri
University of Michigan Press, 2005

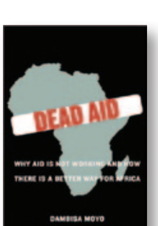
If you're looking for a counterview to the peace through commerce movement, here it is. Barbieri's 200-page book cautions lawmakers against relying on trade-based strategies to promote peace.

PHOTO FROM press.umich.edu

Prophets, Profits, and Peace: The Positive Role of Business in Promoting Religious Tolerance
By Timothy L. Fort
Yale University Press, 2008

Fort examines the concept of peace through commerce and argues that today's businesses have the ability to foster religious harmony and peace.

PHOTO FROM yalepress.yale.edu



Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa
By Dambisa Moyo
Farrar, Straus and Giroux, 2009

Dambisa Moyo, MBA '92, was one of *Time's* "100 Most Influential People" of 2009. Her first book and bestseller contends that developmental aid is more harmful to countries than no aid, and argues instead for solutions like microfinance and new bond markets.

PHOTO FROM www.iftf.org

KOGOD NOW

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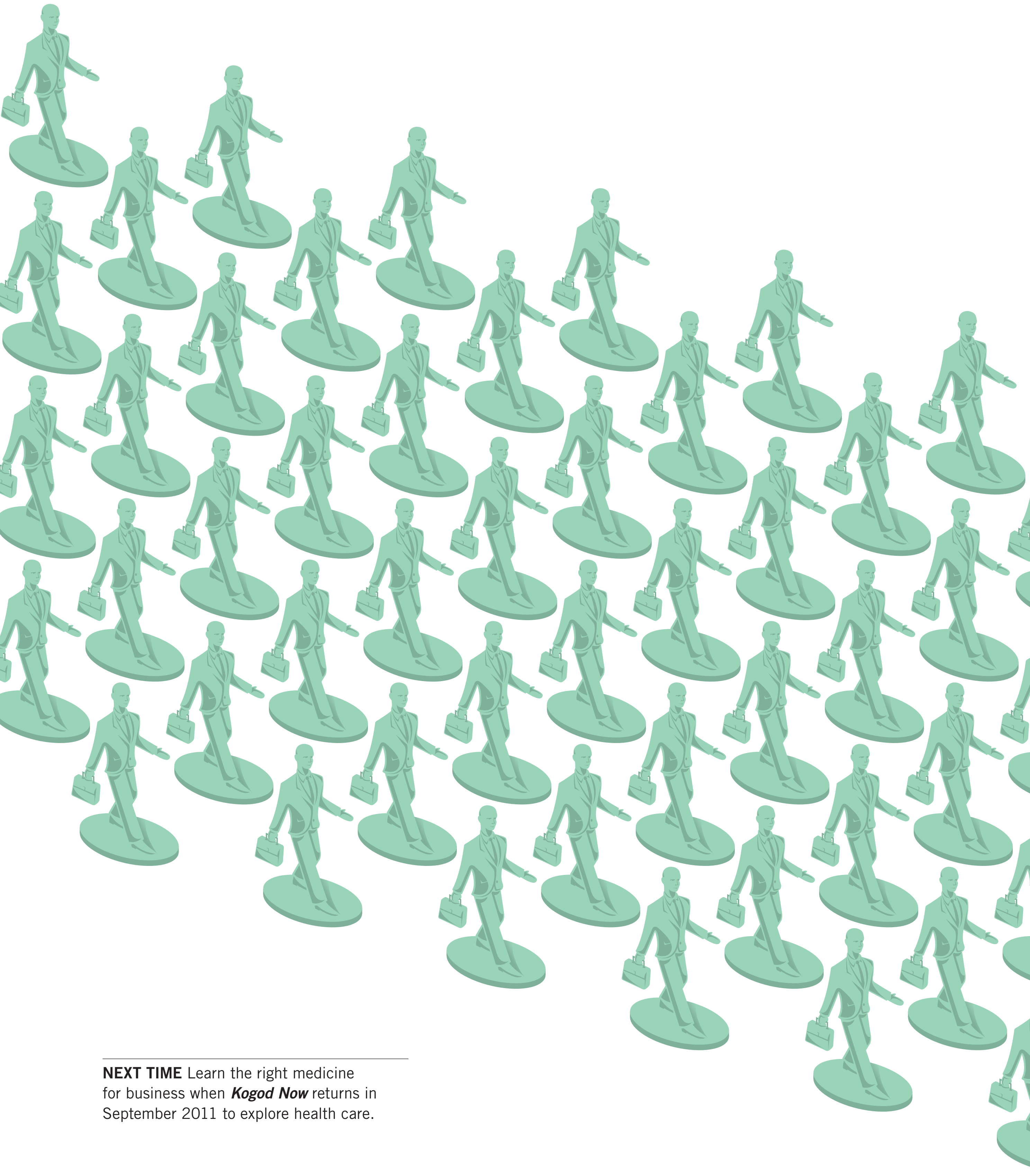

NEXT TIME Learn the right medicine for business when ***Kogod Now*** returns in September 2011 to explore health care.