

The Empire Strikes Flak:

powerful companies and political backlash

By Daniel Litvinⁱ

Paper presented to Harvard Business School colloquium on globalisation of markets - May 2003.
Due for publication as chapter in forthcoming HBS book

“Giants really do stalk the world, and most of creation trembles”

Article on multinational companies in *New Internationalist* magazineⁱⁱ

Introduction and overview

In current debates about globalisation, the image of western-based multinational companies as politically powerful, controlling giants has become embedded in the public imagination. Large companies are often assumed to be clever, if not cunning, in their ability to manipulate governments and societies to serve their own commercial ends. This is believed to be particularly true when they operate in developing countries where their profits may dwarf the size of local economies.

This paper tests this assumption by briefly examining a handful of examples of highly-powerful, or at least publicly-controversial, multinationals - two from past centuries (the English East India Company and the British South Africa Company) and two from the present (Royal Dutch/Shell and Nike). It focuses on these companies' attempts to anticipate, and to manage to their advantage,

the social and political context in which they have operated in poorer parts of the world.

The paper finds that these particular companies have in fact struggled to a surprising degree, given their size and resources, to manage such political pressures. In this sense, they appear more like clumsy, partially-sighted giants, than all-powerful ones.

The evidence in the paper also suggests that – both in past centuries and currently – the western opponents of such large companies (or anti-globalisation activists, to use a modern phrase) have often tended to focus their attention on issues which appear important from a western perspective, rather than on the concerns which are most important to local people. Those scrutinising the companies from the west, in other words, would appear to be partially-sighted too.

The four examples, as well as the overall findings, are drawn from "Empires of Profit: Commerce, Conquest and Corporate" (Litvin, 2003), a more in-depth examination of the political record of (and activism surrounding) western multinationals in poor countries. "Empires of Profit" looks at larger sample of powerful companies through history, and analyses each in more detail than is provided here. Among the other companies it examines, for example, are United Fruit, the American banana multinational, whose political machinations in Central America in the early twentieth century helped give rise to the term "banana republic", and the various large American energy firms which ran Saudi Arabia's oil industry from the 1930s to the 1970s. In this sense, this paper provides a snapshot of the themes and material of this broader work.

Before moving on to the examples, a few further points of context may be helpful. How, for example, does this paper fit into the general discussion in this book about Professor Levitt's article? Clearly, the subject matter is somewhat different: the focus here is the management of political pressures by big companies rather their marketing strategies.

Nonetheless a general criticism that has often been made against Levitt's article in recent years – that he overstated the case for standardised global products and management processes - parallels neatly the evidence on political pressures presented here. Just as companies have found that to thrive commercially they must be sensitive both to global and local dynamics and to local variations in consumer preferences, so the complexity and variability of the social and political contexts in which they operate across the world means that any global, standardised management response to these political pressures is bound to be too crude for the task at hand.

One of the reasons the companies examined here have behaved like clumsy giants is

indeed partly because of the sheer complexity of the pressures they have faced. Even managers with a high degree of political skill and cunning might have found the situations described difficult to deal with. But another reason is management failure - the repeated failure of the corporate headquarters, for example, to understand and control what managers in poor countries get up to on the ground; and the repeated use of simplistic management techniques.

An interesting question is whether the set of management tactics which today goes under the name of "corporate social responsibility" is an example of such an overly simplistic response. The examples of Shell and Nike certainly suggest this is the case. This question is explored as well in the last section of this paper on management lessons.

Finally, it should be emphasised the overall aim of the paper, as of "Empires of Profit", is not to draw a moral judgement about the multinationals examined, that is, not to conclude whether overall they were good or bad for the societies in which they invested. It is rather to sketch as objectively as possible their social and political interactions, to see if any patterns can be detected through history.

Of course, there are vast differences between the historical periods; the companies of the imperial era, in particular, were far more willing than modern firms to use naked force to overcome local resistance to their activities. However some striking patterns through time are apparent – namely the way in which the companies have repeatedly fumbled their political interactions, and also the recurring western-bias of many of their critics. It is these patterns that will be highlighted in the following sections.

The English East India Company

One of the earliest, and certainly among the most extraordinary, multinational companies the world has seen, the English East India

Company began life in 1600 as a small trading concern. Run from offices in Leadenhall Street in the City of London, it evolved over time into a major territorial power. By the mid-nineteenth century, it was in charge of government of the entire Indian subcontinent, and other numerous other colonies besides. This shift was reflected in the composition of the company's revenues over time. For the first century and a half of the company's existence, these came primarily from trading a broad range of commodities, including tea, cotton, silks and spices, between Asia, England, and elsewhere. From the 1750s onwards, however, taxation of the Indian population comprised an increasing proportion of its revenues - and the administration of India swallowed up much its expenses.

The reason why the company evolved in this way from a trader to a governing power was partly political turmoil in the region in which it was operating – a situation with parallels to that experienced by foreign investors in the more unstable developing countries today (even if their response is typically rather different). In the case of the East India Company it was the decline during the eighteenth century of the Mughal empire, which once ruled much of the Indian subcontinent, and the fragmentation of this imperial state into a series of smaller principalities and kingdoms, often warring with each other, which helped draw the company into local political disputes. Already an influential economic presence in the region, the company was seen by some Indian rulers as an ally, by others as an enemy, and hence became embroiled in local military conflicts. Conquering territory by territory, and over the space of a century, it thus ended up acquiring ownership of India.

Perhaps inevitably the company eventually became unpopular among many Indians as a governing power. Local anger erupted in the "Great Indian Rebellion" of 1857-8 which began when Indians serving in the company's own army mutinied. The revolt

was quashed. But shortly after, the British government decided to take over the job of ruling India from the East India Company, thus effectively nationalising the centuries-old corporation. The rebellion had raised serious doubts in the minds of British politicians as to whether such a private-sector entity could be trusted to continue the delicate task of colonial rule.

That, at least, is a potted overview of the company's long and fascinating history. Its story also contains some early examples of anti-corporate activism. Indeed centuries before the emergence of the modern anti-globalisation movement in the west, there was pressure from activists in the Britain over the East India Company's behaviour in India. But as with (it will be argued) the western pressure surrounding many modern companies, the British critics of East India Company adopted a western-centric perspective, disconnected from what are likely to have been the concerns of Indians.

One of most popular complaints in Britain against the company, for example, concerned the behaviour of its managers who had enriched themselves corruptly India (and embezzlement and private trade among these expats in India was indeed legion). What appeared particularly to annoy many British people, however, was the way in which these *nouveau riche* company men (who became known as "nabobs", a corruption of *nawab*, the Indian word for Mughal governor) came back to England, some of them buying up country estates and even parliamentary seats. The effect of their corruption on the Indian people seems have been less of an issue.

Admittedly, at a later stage in Britain there was more explicit public pressure on the company to behave "ethically" in India. But interestingly, it was this which actually helped provoke Indians' anger. The period in question was the early nineteenth century, when the company was encouraged by the British government and others at home more actively to impose "British" values in India.

Previously the company's managers had been content to simply to trade with Indians or at least to take taxes from them, without significant cultural imposition. Christianity, the English language, British legal principles: all now as result began to be inculcated by the British in India with greater vigour. This was one of the reasons (albeit not the only one) for the Indian rebellion against the company's rule in 1857 – "ethical" reforms which the British had assumed Indians would welcome gratefully were seen by them as riding roughshod over their culture and traditions.

The East India Company certainly developed over time into a hugely powerful force in India. So in what way can it be said to have fumbled its political interactions? In the stark sense that its invasion in India was in part a management accident. In general, the instructions issued by the company's directors in London to its officers on the ground were that they should engage only in peaceful trade. Yet these instructions were often ignored by gung-ho local managers, men such as Robert Clive (or Clive of India), who had a stronger appetite for war and political manoeuvring, than for commerce - and who found themselves in their element in unstable, post-Mughal India. The long time lag in communication between London and India made it difficult for directors to prevent such independent-minded behaviour: wars and territorial acquisition were often reported back to them as *faits accomplis*.

The process of the company's invasion of India was thus largely that of local officers becoming embroiled in fights with Indian princes (Clive's battle with Siraj-ud-daula, the Indian ruler of Bengal, at Plassey in 1757 was only the first and most famous of these local conflicts). And it occurred not so much because it was willed by the corporate headquarters, but because the headquarters failed to understand and control the local situation.

Perhaps predictably given this, the invasion proved unsatisfactory from a commercial perspective (as well as, of course, being ethically dubious). The wars themselves cost the company money, as did administering the new territories - and the tax revenues the company was able to raise from the local population in the new domains often turned out to be less than had been anticipated. Partly as a result, the company came close to bankruptcy at various points after 1750. The political clumsiness of this particular giant, in short, cost it dearly.

The British South Africa Company

This was another London-based multinational which conquered swathes of overseas territory for the British empire. Dating from 1880s, it was run by Cecil Rhodes, the megalomaniac tycoon who also had a role in the early history of De Beers, the company which still today dominates the world trade in diamonds. The British South Africa Company was Rhodes' vehicle for acquiring supplies of another precious mineral: gold. It was believed at the time that the lands of the Matabele and Shona people (the region covering present-day Zimbabwe) sat on large reserves of gold. Rhodes triumphed in a race against commercial interests allied with various other imperial powers (all part of Europe's so-called "scramble for Africa"), to secure control of these lands from the native population.

He achieved this in the typical style of the times: either by bribing local chieftans (among them was Lobengula, the once-feared king of the Matabele) to give his company access to the minerals under their land; or, if local rulers proved eventually to be uncooperative, as did Lobengula, to wage wars against them and actually to invade their territory (Lobengula met his end in 1893, committing suicide following the defeat of his warriors by the company's army). In such conflicts, it helped of course that Rhodes' soldiers had Maxim machine guns, while the Africans attempting

to defend themselves were often armed merely with spears.

At a later stage - in a parallel with the experience of the East India Company following its conquest of India - there was a local rebellion against the British South Africa Company's rule. In 1896, both the Matabele and Shona people took up arms and tried to evict the company (together with the European settlers it had brought with it) from their lands. As with the "Great Indian Rebellion", however, the revolt was eventually quashed and British rule reasserted.

The story of Rhodes' company also contains an illustration of early western anti-corporate activism focusing on issues disconnected from the reality on the ground. There were certainly various British-based groups critical or suspicious of the British South Africa Company; among them was the Aborigines Protection Society, devoted to upholding the welfare of the "native races". But the key issues, in the view of most such campaigners, were combating slavery, preventing the spread of alcoholism among Africans, and introducing Christianity. The sheer brutality of Rhodes's treatment of the Matabele and Shona appears to have sparked comparatively limited attention.

In fact Rhodes was often able to respond to western "ethical" pressures, and sometimes even turn them to his advantage, without comprising his freedom of manoeuvre in Africa. The British South Africa Company's charter, for example, committed the company to combat the slave trade and prevent the sale of "intoxicating liquor to the natives". The latter commitment was certainly no problem for the company given that drunken Africans would be less productive as mine labourers. To win support from the British public, the company also sent an official representative to a major anti-slavery conference in Brussels in 1889-90 where it supported tougher regulation. In London in 1889, meanwhile, Rhodes had

tried to advance his claim over Nyasaland (present day Malawi), another territory over which he had ambitions, by offering to help clear Arab slave traders from the region.

In terms of the management lapse illustrated by the story of the British South Africa Company, it should have been relatively apparent to Rhodes and his managers that they were little liked by the Matabele and Shona; yet they notably failed to anticipate the rebellion of 1896. There were ample reasons for discontent among the Africans: not only had much of their best land and cattle been appropriated by white settlers; they had also become subject to a widely-despised "hut tax" under the company's rule, as well as to the rough justice of the company's police.

Admittedly, given the complex and shifting nature of African tribal society, keeping track of local sentiment would never have been an easy task for the company. But Rhodes and his managers not only made little effort in this respect; they were deluded about local sentiment, convincing themselves the Africans were pleased to have them there because of the economic stability the company brought and because - at least as they saw it - tyrants like Lobengula were no longer in charge. The following excerpt from a letter sent by one of the settlers to his mother shortly before the rebellion erupted illustrates the degree of ignorance among the British about the political context in which they were operating:

"There was a rumour of a possible rising among some of the tribes [...] but that was of course all moon-shine [...] The natives are happy, comfortable and prosperous and the future must be magnificent".ⁱⁱⁱ

A month later the "natives" were spearing and slaughtering many of the whites and their families. Though as mentioned, the revolt was eventually quashed, this was not without cost to the company, as well as of course loss of life on both sides. A powerful multinational, in short, had once again shown itself to be

politically blinkered, with disastrous consequences.

Nike

Fast-forwarding to the late twentieth century, an examination of two modern multinationals – Nike and Shell - whose operations in developing countries have provided the focus of some of the loudest protests by the anti-globalisation movement in recent years reveals interestingly similar patterns to the two case studies from history (as well as of course inevitable differences given the centuries that have elapsed).

Starting with Nike, this company has attracted major criticism in the west over the last decade regarding alleged labour abuses in its supply chain – particularly in the contract export factories in Asia from which it buys many of its sneakers and apparel. In the 1990s, western unions and human rights activists accused these factories, and Nike by implication, of numerous ethical lapses, including employing children, paying low wages, and using harsh physical punishments against misbehaving workers. In certain cases, at least, these criticisms were founded. And in terms of low wages, it was true that for a pair of Nike shoes retailing in the west for, say, \$120, employees in a poor Asian counties might receive just \$2 a day - a gap which certainly appeared stark in the eyes of many liberal-minded westerners.

In this sense, Nike became a symbol for western activists of everything that in their eyes was wrong with western consumer culture: the exploitation of workers, for example, over-consumption of material goods, and a reliance on branding and advertising rather than the intrinsic value of products. Importantly, however, as in centuries past, the western activists were still often focusing on different issues from those most important to local people.

True, instances of physical punishments and exploitation of children were clearly important to the victims concerned, and ought to be considered inexcusable in any part of the world, rich or poor. But missing from the accounts of many of the western activists was an understanding of the broader social and economic context for workers in developing countries – the fact, for example, that the growth of jobs in export factories in Asia, such as those which sell shoes to Nike, has assisted many families to lift themselves out of poverty; and that the wages paid, however low by western standards, are often considered attractive locally.

Factory work has also, in some respects, assisted the empowerment of women in many tradition-bound Asian societies – a point little noted by western activists. The Asian export factories are similar in this sense to the sweatshops of industrial-revolution Britain: however grim the working conditions, in countries such as Bangladesh these factories are providing the first opportunity for women to gain paid employment outside of their homes, and hence the control of their husbands – a trend which the women themselves often view favourably. The British academic Naila Kabeer has done some interesting research on this issue^{iv}.

In a similar vein, there are examples of western boycotts against goods made by child labour actually harming the interests of children. The threat of one such boycott by America in the 1990s, for example, led to the sacking of some 50,000 children from export garment factories in Bangladesh, as local factory owners sought to uphold foreign demand for their goods. Research showed that many of these sacked children went on to more hazardous jobs, including scavenging for waste, breaking bricks, and street hawking.^v Poverty had originally driven these children into the labour market, and little had been done to fix this underlying problem.

Nike's story reveals, as well, another example of corporate management struggling to

manage the complex political context of their business – and, at least at first, walking half-blind into problems which should have been possible to predict. For when the criticism regarding alleged labour abuses in its contract factories first arose in the 1990s, Nike appears to have been poorly informed itself about the actual conditions on these factories. It was paying its Asian contractors to make shoes and apparel, without monitoring in much detail how they treated their workers. Given the interest of western unions in stemming the loss of jobs to Asia, and also the interest of western activists in targeting high-profile companies such as Nike, the company's managers ought arguably to foresee that public attention soon would be directed towards precisely the issue of working conditions in its supply chain.

Later in the 1990s, as a result of all the public pressure, Nike focused considerable attention on upholding labour standards among its suppliers, much more so indeed than most other western multinationals. As well as issuing a code of conduct, for example, it hired a small army of labour monitors to check that factories are treating workers fairly. It signed up to numerous external initiatives on "corporate social responsibility" (CSR) such as the United Nation's Global Compact. It also became an enthusiast for "stakeholder dialogue". This a popular tactic among firms wanting to prove their CSR credentials and is premised on the idea that by consulting with activists, unions and other groups, companies can develop a broad public consensus in their favour.

Interestingly, however, while public criticisms of Nike have diminished to a degree, damaging attacks on the company's reputation – and hence brand – continue sporadically. One of the problems is that the CSR tactics that Nike has initially adopted may be too simplistic for the complex task at hand. A number of times since 2000, for example, the company has been taken by surprise by revelations in the media or from

NGOs and other groups of continuing abuses in some of its factories – including the discovery of more child workers, for example, and of complaints of harassment by women employees. Nike's own team of labour monitors had failed to detect these abuses.

Nike's global supply chain, like that of many other modern multinationals, is both large and complex, comprising not just many suppliers, but many suppliers of each these suppliers, and so on. Even if Nike labour monitors paid daily visits to all of these factories, this would not guarantee their compliance with its code of conduct (harassment of employees, for example, can be particularly difficult to detect by such outsiders). Nike's labour monitoring system thus may need to become more elaborate and sophisticated to succeed in this respect. Also, however much "stakeholder dialogue" the company conducts, its high-profile brand and reliance on low-cost labour from the developing world, is likely always to attract western unions and activists eager to unearth further examples of alleged exploitation.

These are some of the complexities of the social and political pressures faced by modern multinationals which will be touched upon again in the next sections. For now, however, it is enough to note that Nike's management, in spite of its recent efforts, continues to face challenges aplenty in this area.

Shell in Nigeria

As the world's second biggest oil company, Royal Dutch/Shell, the Anglo-Dutch multinational, has attracted public attention on a number of social and environmental issues in a variety of different countries. But in the mid 1990s, its operations in Nigeria (where it is the largest foreign investor in the country's oil industry) became a particular rallying point for the anti-globalisation movement, just as did Nike's labour practices around the same period. This is why Shell's Nigerian activities provide the focus of this final case study.

Complaints had been rumbling among campaign groups for some time about the company's environmental record and alleged complicity in human rights abuses in the Niger Delta, the particular region of Nigeria where the oil reserves are concentrated. But these exploded into an international controversy in 1995, when the Nigerian government (then run by the dictator Sani Abacha) executed Ken Saro Wiwa, an anti-Shell activist and representative of the Ogoni people, one of the numerous ethnic groups living in the Delta. Shell was accused – fairly or unfairly – of being guilty by association. In western countries, campaigners produced posters of its logo dripping with blood.

Whatever the rights and wrongs of Shell's actions during this period (and while not all the criticisms against it were merited, it clearly had not exerted as much pressure as it might have done to dissuade the Nigerian government from executing Saro-Wiwa), the relationship between western criticisms against the company and the concerns of local people was not simple either. For while the western campaign groups focused on the alleged environmental and human rights outrages, what was driving local anger at least as much was an issue that surfaced relatively little in the western media and western political debates: the question of how Nigeria's oil revenues should be distributed between different ethnic groups and different parts of the country.

The ethnic groups living in the Delta had long complained - with some justification, given their crushing poverty - that they received few economic benefits from the oil pumped from under their land. Nigeria's federal government had long distributed the oil revenues down lines of political patronage which saw little trickling back to these local communities.

It was not until the emergence on the political scene of Ken Saro-Wiwa, however, that these local grievances gained

international attention. And one of the reasons was that Saro-Wiwa, an astute and media-savvy political operator, understood that the way to gain the attention of western audiences and NGOs was to emphasise the environmental, human rights, and anti-corporate grievances of the Delta communities – issues, in other words, which chimed with the suspicions of many westerners as to the behaviour and impact of their powerful corporations. In this way, therefore, a complex political dispute over distribution of oil revenues within Nigeria became portrayed in the western media as a rather simpler story of a rapacious multinational abusing Nigeria's environment and people.

The point being made here, it should be emphasised, is not that environmental and human rights issues were unimportant to Delta communities, but rather that they occupied a less central role in their litany of complaints than the narrative of most western activists suggested.

A further indication of this is that in recent years, while the environmental and human rights situation in the Niger Delta has in many respects improved (Shell, for example, has improved its pollution controls; while the Nigerian government has evolved from a dictatorship to a democracy of sorts), there have been regular outbreaks of local violence, anger and civil unrest driven, as before, by disagreements over the distribution of oil revenues. The Delta region remains both mired in poverty and highly volatile politically. Yet in contrast to 1995, with the western NGOs now paying less attention to Nigeria, these local problems have gained relatively little western media coverage. As through the centuries, western compassion and local concerns have proved to be somewhat disconnected from each-other.

Also fitting the historical pattern are the problems encountered by Shell's managers in attempting to deal with the political and ethical pressures in Nigeria. The picture here is once again of a company not so much

cunningly controlling and manipulating its political environment in its favour, but rather colliding with a series of unexpected obstacles.

Like Nike, for example, Shell was taken by surprise by the fierceness of the global campaign against it in the 1990s. And as with Nike too, it can be argued that Shell's managers ought to have foreseen that a storm was brewing. The decades of neglect experienced by the Delta communities at the hands of Nigeria's federal government, for example, meant that an upsurge of local anger was inevitable at some point. One of the problems may have been that Shell's management in Nigeria had become too focused on keeping on good terms with the federal government, for this was where the main political threat to its operations had lain in the past: in the 1970s the government had nationalised various western oil assets. But whatever the cause, Shell's local management clearly paid too little attention in advance to the brewing discontent in the Delta, at a cost their company's global reputation.

Now, partly as a result of the 1995 controversy, Shell has committed itself loudly, like other high-profile multinationals, to the doctrine and practices of "corporate social responsibility". As well as bolstering its environmental performance, Shell's Nigerian subsidiary undertakes much more "stakeholder dialogue" with local communities than before and has trebled its annual spending on local welfare projects, such as schools and small-business schemes, to over \$60m. It has also exerted pressure on the Nigerian government to raise the proportion of oil revenues which flow back to the Delta region – and partly as a result the proportion was indeed raised to 13% (the figure was 3% previously).

Interestingly, however, and again in parallel with Nike's experience, Shell's CSR efforts in Nigeria have so far failed to protect the company from continuing political

problems. While attention from western NGOs has died down, the situation in the Delta region as mentioned remains politically volatile: in March 2003, for example, fighting between ethnic groups and government troops forced Shell and other western firms to shut down much of their Nigerian oil production. One of the problems is the Nigerian state system is riddled with corruption and has itself failed to deliver basic public services in the Delta region, such as decent education and healthcare system. In such a situation, however much Shell spends of its own money on local welfare projects, this is unlikely on its own to make much of a dent on local poverty, and hence on local tensions.

The increase in state oil revenues now starting to flow to the Delta may help in this respect over the long term. But Shell's strategy of applying pressure on the federal government to return more money locally in this way poses a fresh set of risks for the company. For it will require Shell managers to walk a political tightrope in the coming years: any increase in political activism on their part, however discrete, could potentially be perceived by some Nigerians as a return to neo-colonialist meddling. True, Shell ought arguably to have applied *more* pressure than it did on Sani Abacha back in 1995. But if it is seen to become too involved politically now, it risks a backlash from politicians at the federal anxious not to see any further reduction in their slice of the oil cake. Maybe Shell will succeed in walking this tightrope. But it certainly requires a delicacy of political touch which has often been absent from the sample of multinationals examined in this paper.

Discussion and management lessons

Would an examination of a different sample of firms through history have led to different conclusions? Without doubt many large firms have managed their political interactions much better than those examined here; and certainly not all western activists have failed

to appreciate fully the local perspective, as did many of those described here.

Even so, the firms in this sample were some of the most powerful or publicly controversial multinationals of their particular era, widely perceived as epicentres of power and political savvy. So the finding that they often fumbled their political interactions would suggest that the general reputation of large multinationals for being cunning operators at least needs to be called into question. Similarly the fact that these multinationals were among the companies most heavily scrutinised by western activists in their era suggests that a discrepancy between western and local perspectives is probably a general pattern of anti-corporate campaigns. The other multinationals examined in "Empires of Profit" certainly fit these findings.

While the main aim of this paper has been to highlight the patterns through history, rather than to draw specific management lessons for companies, some basic conclusions in this respect are unavoidable. Even given the inherent complexity and unpredictability of many political pressures, for example, it is clear that the companies examined here would have been able to predict at least some of the problems they faced had they developed a more sophisticated system of social and political intelligence and risk-assessment. It also clear, too, that such an understanding ought to have informed their overall business strategy and processes.

In the case of the East India Company, for example, a better understanding on the part of the London headquarters as to the political pressures faced by managers in India would have highlighted the need for much tougher controls on these local managers' behaviour. In the case of Nike, better intelligence early on regarding the labour conditions in its contract factories would have indicated the need, again, for a tougher monitoring and control system, so as to pre-empt potential criticisms. In the case

of both Shell in Nigeria and the British South Africa Company, an earlier management awareness of the growing discontent of local people, and how if this might become explosive if left to fester, would likely have made both companies more attentive to local needs.

In all the cases examined in this paper, in other words, better intelligence and a pre-emptive management response would have allowed financially costly or reputationally-damaging situations to have been avoided, or at least the risk of such problems to have been reduced. Once the problems had actually arisen (whether violent rebellions in the case of the colonial-era companies, or global NGO campaigns in the case of the modern companies), the management solutions available to the firms (whether military counterattacks, or global PR campaigns to rebut the criticism) were much more costly and often less-than effective.

So the prescription from the evidence presented here is clear - that multinationals need to develop a more sophisticated understanding of their social and political context, and to use this genuinely to inform the way they do business. As a final point, however, it is worth exploring briefly why such an apparently obvious prescription is, in fact, often difficult for firms to implement in practice.

Part of the problem lies in the traditional structures and divisions of responsibility within many large firms. The departments charged with managing reputational and political issues in firms today, for example, are often the "public affairs", "corporate affairs" or "communications" divisions – in other words, the functions whose principle task within the company is seen to be that of public relations: promoting the company in the media and elsewhere externally and also rebutting unfair criticisms.

Such departments often lack the internal legitimacy to secure changes in corporate

behaviour which may be necessary to pre-empt public criticism or political backlash; put another way, the unreasonable expectation from other corporate functions is that the standard PR tactics of rebuttal or lobbying should be sufficient to fend off problems while the rest of the firm can continue with business as usual. "Public affairs" departments also traditionally operate in a reactive mode, responding to problems as they arise, rather than focusing on analysis of likely future political trends and pressures.

Related to this, the strength of corporate culture can prove to be an obstacle too. While many companies find that a sense of purpose or mission is a prerequisite for commercial success, pride and insularity often accompanies strong cultures, and this can blind managers and employees to the external environment in which they are operating, and to the differing perspectives of local people. (This was a particular problem faced by the management of the United Fruit Company, one of the other case studies in "Empires of Profit".)

And a further, related, problem is the difficulty of constructing sound internal systems of communication and control between head office and local operations regarding political and social issues. Even internal reporting and control systems on financial performance remain imperfect in many large companies today; and complex local political situations cannot be summarised and communicated to headquarters in the same standardised way as, say, data on quarterly profits. The East India Company's system of internal control on political issues was clearly seriously flawed. But in many modern firms, too, headquarters find it difficult to guarantee that local managers are implementing all the global corporate policies on, say, the environment or labour standards or avoidance of bribery. Such internal assurance is necessary, of course, to reduce

the risk that potential critics will find grounds to attack the company.

All this, incidentally, also helps to explain the limitations of the "corporate social responsibility" tactics enthusiastically adopted by many modern firms. Without doubt CSR can be genuinely useful for companies – as well beneficial for the wider world - if it induces among managers a greater sensitivity to social and reputational issues. But within firms, responsibility for CSR tends to be handed to the "public affairs" or an equivalent department. Hence the focus of much CSR work tends to be on producing well-meaning "sustainability" reports rather than on the more challenging task of ensuring corporate policies are implemented globally – even though this, as mentioned, is crucial for protecting the corporate reputation.

Furthermore, a common assumption which underlies the CSR efforts of many firms - that through consultation they will be able to balance the interests of their numerous "stakeholders" - belies the often-conflicting nature of the pressures they face. As the examples in this paper have indicated, responding to the demands of western activists may lead to a different set of actions from those which would be needed to keep on the right side of local people or of host governments in developing countries.

The management challenges faced by multinationals in this area, in short, are unlikely to be solved overnight. The political clumsiness of corporate giants, a pattern which began with the East India Company, can thus be expected to repeat itself well into the future.

ⁱ Biog: Daniel Litvin is director of Percept Risk and Strategy Ltd, a London-based advisory firm which provides analysis to companies on social and ethical issues, and author of "Empires of Profit: Commerce, Conquest and Corporate Responsibility" (Texere 2003). He was formerly policy advisor to Rio Tinto plc, the

mining multinational, where he wrote guidelines on human rights for the company's managers, and before that, was the environment and resources correspondent of "The Economist".

ⁱⁱ August 1993 edition; article by Kirkpatrick Sale

ⁱⁱⁱ Quoted in Thomas, A. *Rhodes: the Race for Africa*.

London: BBC Books, 1996. p306

^{iv} See Kabeer, N. *The Power to Chose*. London: Verso, 2000.

^v See, for example, Clean Clothes Campaign. *Unstitching the Child Labour Debate*. 1998.

www.cleanclothes.org/publications/unst1.htm