

10 Good Ethics Is Good Business: The Case of Cargill

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The following is the keynote address presented at the Building Ethical Business Cultures in Emerging Markets: Risks and Opportunities conference, September 25, 2015. The conference was convened by the Center for Ethical Business Cultures at the University of St. Thomas, Minneapolis, Minnesota, USA.

ABSTRACT

This chapter is based on the keynote address, presented by the author at *Building Ethical Business Cultures in Emerging Markets: Risks and Opportunities* conference. The conference was convened by the Center for Ethical Business Cultures at the University of St. Thomas, Minneapolis, Minnesota, USA, on September 25, 2015. The author at the time of the presentation was the Chief Risk Officer and Vice Chairman of Cargill, Incorporated. He is describing Cargill's business ethics and corporate social responsibility programs, and is sharing his experience in dealing with complex issues of doing business in various countries and cultures around the world.

Let me start with a real-life conundrum. In one of the countries where we operate, tax laws require us to pay value-added tax and then get refunded by the government. At times, the amount the government owes us on refunds can reach \$80 to \$100 million. This has a significant impact on our ability to run our business there!

As it turns out, there was one official who was making the decisions on how quickly we would get repaid. So when any of our leadership was visiting the country, each of us would pay this official a visit to ask, "Do you think we could get our money soon?"

One time, a few of our leaders paid this official a visit. And after asking when we could get our refund he said, "You know, it's funny. My son's soccer team needs a new fence and scoreboard for their field."

Okay, put yourself in our shoes. What would you do? \$100 million for a fence and a scoreboard. And this is a positive thing for the community, right? Helping a kids' soccer team! We'll come back to this example later.

Cargill, Inc., is a privately held global corporation based in Minnetonka, Minnesota. It was founded in 1865. With more than \$120 billion in annual revenue, it is the largest privately held corporation in the United States. Cargill has more than 150,000 employees in 67 countries (and only one-third of these employees are based on the US) and operates 70 different businesses in food, agriculture, financial and industrial products and services sectors. Today, about 75 percent of Cargill's capital investment is outside the US. After 150 years, the company is still owned by the family that founded it. The owners want a company that makes them proud to have their name on the door. Consequently, a commitment to doing business ethically is at the very core of all we do.

After 150 years our company still strives to operate under the founding premise that "our word is our bond." Consequently, a commitment to doing business ethically is at the very core of all we do.

There's a phrase that's come down through company lore: "Our word is our bond." In 1909, one of our leaders, John MacMillan Sr., was getting complaints about our barley trader in Duluth, that he wasn't doing a thorough enough job inspecting the barley he was buying, and it was causing us to misrepresent the quality of the product we were selling to customers. MacMillan wrote a sternly worded letter to this trader, reminding him, "We want to do exactly as we agree. There is one thing that we have always been proud of – our word is as good as our bond."

It sounds old-fashioned, because it is. But what does “our word is our bond” mean today in a complex, globally integrated marketplace? What does it mean to do business ethically and how does it impact your ability to operate?

That’s what I want to focus: how we keep that “our-word-is-our-bond” promise across 150 years, across 67 countries and across more than 150,000 employees. Two-thirds of our employees are located outside the US. Moreover, more than half our employees (and a significant portion of our assets) are in developing countries and emerging markets.

Given this global distribution, how does doing business ethically actually help us manage risk?

We have a lot to keep our eye on! When I was Cargill’s chief risk officer, I would often tell people, “I sleep like a baby – I’m up every two hours!” We pay special attention to those risks that are high-impact with rapid speed of onset, where you can come into the office one morning and the whole world has changed.

But whether they’re overnight game-changers or not, in nearly all of these areas, including with our customers, counterparties, employees or the communities where we work, our ability to operate is only as good as our ability to keep our word. In other words, good ethics is simply good business.

As the chief risk officer, I’m involved every day in evaluating the commodity and crisis risk exposures in our business, working with colleagues across the company to manage and mitigate risks, and to foster a culture where that orientation is instinctive. In this context, I believe an ethical culture is a powerful asset.

The best advice I ever got in my career was when somebody told me, “Cargill will never do anything to embarrass you, so don’t you ever do anything to embarrass Cargill!” But as the leadership of the company, how do we make sure that the actions of one team or individual in Cargill won’t embarrass the other 150,000 people we have working for us? After all, we share one balance sheet across the entire company, and one reputation as well. We each have the chance

to enhance that reputation through our behavior, and we are each in a position to destroy it, too.

So with that in mind, how do we build an ethical culture?

It starts by putting in place what I call *essential infrastructure*. For instance, these are the seven Guiding Principles that make up our code of conduct:

- We obey the law.
- We conduct our business with integrity.
- We keep accurate and honest records.
- We honor our business obligations.
- We treat people with dignity and respect.
- We protect Cargill's information, assets and interests.
- We are committed to being a responsible global citizen.

Just seven sentences to guide the behavior of 153,000 people. But we want to be very clear about what we stand for, and what we won't stand for.

A lot of organizations probably have principles or rules like this. What makes them valuable, though, is not simply having them written down somewhere, but making them a vital part of your culture. Wrestling with them every day. As you'll see, we have plenty of chances to do this!

For example, think back to our opening conundrum about the tax refunds and the soccer field. Our Guiding Principles might seem simplistic in the abstract, but which ones come into play here?

We're talking today about doing business ethically in emerging markets, but in Cargill we don't think of these as values that we "bring" from the developed to the developing world. Rather, these are universal absolutes that do not vary, regardless of country, business, or circumstance, North and south, east and west – they're constant.

There also needs to be teeth behind these principles. Consequences for violations are real, material, and can include termination. We let go of a significant number of employees every year for violating these principles, and discipline even more.

HOW ELSE DO WE BUILD AN ETHICAL CULTURE?

We have a Business Ethics & Compliance Committee, which regularly examines real-life episodes drawn from the world of Cargill and clarifies how the team involved should have acted, especially in situations where things are not cut and dried. The committee publishes case studies based on these reviews that are available to all employees and promoted on our company intranet, so teams around the world can learn from both the tough choices and the mistakes of others.

We have required training globally for our Guiding Principles and code of conduct. This is translated into more than 20 languages. We also have a global ethics hotline, an anonymous way that employees can report situations where they either see a clear violation or just aren't sure about something.

We also call on employees to actively verify compliance. Every year, all of our salaried workers – roughly 35,000 – have to certify that they understand our principles and aren't aware of any situations that violate them. The rest of our employees go through this process every three years.

As you can imagine, operating in so many different countries, across so many different sectors, there can be gray areas. In my experience, it isn't the first mistake that gets employees in trouble. It's what they do after that mistake that proves far more damaging to their careers. Do they cover it up? Make other employees complicit to try and smooth it over? Or maybe they continue the behavior because they didn't get caught the first time.

To avoid these slippery slopes, we foster a culture of thinking out loud. We train our employees to communicate openly and ask questions if they're not sure about something. Generally, if they're uncomfortable talking about something, that's an even greater indication that there's a problem, and they need to get it out in the open.

The goal is always to encourage discussion. Our motto could be: "If you see something, say something." We had a case where a leader of a team that originates and exports commodities was

falsifying export sales contracts to help an important supplier qualify for government subsidies. This person involved his entire staff – the controller, the commercial manager, the logistics manager – in this fraud. Unfortunately, the team members followed his instructions, knowing this was against the rules. They even misled their local lawyer about the true nature of the contracts.

Eventually, it was all uncovered. As I like to say, “You find out who’s swimming naked when the tide goes out!” So we terminated the leader. But we also disciplined the team members who went along with him. Keeping quiet doesn’t mean you’re not culpable.

Another case where conversation could have prevented things from going downhill: We had a business that learned a major competitor was building a new plant nearby. They wanted to learn as much as they could about the plant’s capacity, what products it would make, when it would be completed, etc. The business leadership challenged the sales and operations teams to learn as much as they could. So they started with publicly available data. Permits, zoning records, things like that. They talked with customers and suppliers about what they saw coming in the market. They drove by the construction zone to try and get a look at it.

Well, here’s where things started to get off track. And if they’d stopped and had a conversation with their leaders about what they were really doing, it might have put a halt to it. But next they chartered a small plane to do a flyover of the plant under construction and take photos. Then they noticed that the perimeter of the construction zone, which had a “No Trespassing” sign, had a gap in the gate. So they drove through onto the competitor’s property to take a look. When they turned around to leave, they’d been blocked in by someone who’d already called the police. They were arrested and, needless to say, we got some very irate phone calls from our competitor!

This is exactly why we encourage continuous conversation. Looking at public records, even driving by the perimeter of the construction on a public road were great ideas. When they got to the

point where they were hiring a plane, they probably should have stopped and talked it over!

These episodes reinforce that the training we give our leaders is critical. Mentoring is a key way we help new leaders learn how to manage teams that often span geographies and cultural norms. All of us as senior leaders in Cargill regularly coach new managers to help them with this, because it's not always easy.

When I first went to work in Switzerland in 1992, my wife and I went to a Swiss enculturation class to learn more about what it takes to lead a team cross-culturally. What I learned was straightforward: keep things simple, make expectations clear, build trust and emphasize ethics, all while focusing on respect and integrity for the individual and keeping in mind the patriotism that all people have for their home country.

If the trust isn't there, it taxes the organization. This carries significant costs with it. For instance, in some cultures, it's impolite to bring bad news. I had an instance where a team in Latin America just could not give me the true picture of a bad situation. It was getting worse and worse, but the numbers weren't telling the story because of some wonky macroeconomic conditions in the domestic market. It took a major disruption in the currency of this country for the real economic condition of the business to emerge.

These aren't just issues in developing countries, by the way. Americans, for instance, are notoriously bad at handling candid feedback. Even when they ask for it! So you need to equip leaders to handle situations cross-culturally while still staying anchored to our core values.

Because complex situations will arise. Once you're already in the thick of a situation, you can't try to lay a foundation at that point. As our executive chairman Greg Page puts it, "You cannot talk your way out of a situation you've behaved your way into!"

Let's take a look at a few more real-life Cargill examples and what lessons we learned from those situations. These are situations where the rubber really meets the road.

Iraq: In the 1990s, Iraq and the UN started a food-for-oil exchange program many of you may have heard of. Because of the corruption that infiltrated this program, Cargill simply said we wouldn't participate in it.

When the program ended some years later, the Iraqi Grain Board was instructed to come to us to buy wheat, because we were perceived as being ethical as a result of refusing to participate earlier. A great opportunity for us that underscored the value of ethics, but the story didn't end there.

A while later, we were accused of corruption when some of the Baghdad flour mills where we were delivering wheat were reloading it out the back of the facilities at night and claiming the shipments had never arrived from us. This demonstrates that you can face extra scrutiny when you come in as an outsider, especially in an environment like Iraq where there is zero trust in anything or anyone. At times, it's just easier to blame the outsider than local players.

Ivory Coast: We entered this market 16 years ago, in part because of our desire to be an end-to-end player in the cocoa and chocolate supply chain. More than 60 percent of the world's cocoa is grown in just two countries: Ivory Coast and Ghana. So we need to be there if we want to be in cocoa.

Since we entered that market, there have been two civil wars. It's been a difficult, sometimes violent place to do business. Things can move very slowly for stretches of time. As one of our African colleagues puts it, "If you don't have patience, you will learn to have it. If you do have patience, you will lose it!"

But over time, people have realized that our word truly is our bond. This is priceless in Africa. It creates better relations with external stakeholders, who see us as a dependable, consistent partner who's there for the long haul. Suppliers love us because it lowers their costs, and the government respects us for doing what we say we will, and listens to our opinion. It also helps us attract and retain top local talent. When we were forced to close our operations in the

country because of the war, we continued to pay our employees and support them in other ways. As a result, almost immediately after hostilities ceased, our operations were up and running again very quickly, unlike some of our competitors.

Another example of the business value of good ethics: Cocoa is a cash business, but we don't like to use cash for security reasons. However, paying by check in Ivory Coast is very hard, because it often takes more than a week for the check to clear through a bank and for a supplier to get their money. Because we're perceived as being ethical, honoring our obligations (i.e., we won't default), we are the only company in Ivory Coast that can issue a check for cocoa, and anyone with a check from us can get cash immediately over the counter. This is a huge competitive advantage!

Truck Weights: This one is very much a gray area at times. In many countries where we operate, there are laws on the books that dictate how much trucks can weigh when they're transporting goods like agricultural commodities. But in some of these countries, regular practice is to overload trucks beyond the legal weight of the truck.

To further complicate the issue, we aren't always the ones bearing the legal or commercial responsibility for loading trucks coming in and out of our plants, as customers will send their own vehicles or ones from a third party and have us load them in fulfillment of procurement contracts. In other words, we aren't the responsible party according to the law. So although we wouldn't ever fill our own trucks over weight in violation of a local law, how do we handle a situation where our actions could be construed as helping another party to break the law?

This is a \$75 million global issue for us, with implications for competitiveness (paying for two trucks instead of one), safety (accidents) and environmental impacts (more fuel to run more trucks), as well as ethics. Many times, although a local law may state one thing, how it is put into practice is very different. We need to hold true to

our Guiding Principles, yet as the saying goes, “It doesn’t help to be the best-looking horse going into a glue factory!”

We had an ongoing leadership debate about this issue a few years ago. The obvious guidance we gave our businesses was that they were never allowed to break the law themselves. As for the gray area where we were not the legally responsible party, we asked our local teams to bring their influence to bear in getting the existing laws enforced and followed evenly across the board. Doing so was the harder choice, and it threatened some of our commercial relationships. But we felt it was important, even when we didn’t bear the legal responsibility for compliance, to help move the industry in a positive direction. In fact, we were able to get meaningful changes made in two very large countries.

South Korea: Recently we settled a case with the Korea Fair Trade Commission for allegations that we and 10 other companies engaged in price collusion on animal feed from 2006 to 2010. The case centered on industry meetings that our employees attended where prices were discussed.

This was a disappointing case for us. Although we believe we never made agreements on pricing, we know it was inappropriate for our employees to stay at those meetings once pricing came up. They should have gotten up and left, and that’s what we instruct people to do.

But it also illustrates the risk when you transplant other companies into your own culture via acquisition, rather than what we refer to as “growing your own timber” – growing businesses and individual careers internally. The Korea case was an example of a business we had largely absorbed through an acquisition. To mitigate this risk, we often embed experienced senior Cargill managers in newly acquired companies at the highest level to help establish the right expectations and behaviors.

In this case, we did terminate 41 out of about 7,000 employees globally who came with the acquisition, some at a very senior level.

This is in addition to self-selected departures as a result of us making our expectations about ethical conduct clear. In one instance, we did training for new employees on our Guiding Principles after the deal was finalized, and the next day, the entire night shift for one plant in Central Europe didn't show up for work! We made our expectations clear, and they simply didn't want to work in that environment. But this does help us to avoid risk, and it's not just reputational. We had a significant theft problem at that plant and it got much better after the night crew resigned!

India: Another issue we often face is in obtaining government permits in many countries where we operate. Our businesses are routinely told by officials that the permitting process for new facilities could be sped up considerably if we would just make "facilitation payments."

For example, in India, a colleague and I led a project to build a palm oil refinery on the east coast in the state of Orissa, which is the second poorest state after Calcutta. Building the plant required 53 permits. Each one of those came with a request for a bribe in order to get the permit. It took us a lot of extra time and a lot of extra relationship building, but we didn't pay one dollar to anyone and we eventually got all the permits we needed. It may require more effort, but it can be done.

Incidentally, when I went to visit the plant, we were celebrating 1 million man-hours without a lost time accident. Can you imagine? One million hours with no one getting hurt. This is in a region where the value of human life can be tragically low. There was a facility being built next to ours in another industry, where 117 people were killed during construction and nobody blinked an eye. But here we were, sending our employees home every night in the same condition that they arrived in the morning. Eventually, the public port nearby started to adopt our safety policies, which was great to see. So in many cases, doing the right thing is simply a choice.

We don't just focus on the internal side when it comes to ethics, as important as that is. Our ethical behavior has to carry through to our activities outside our front door.

We have a broad commitment to corporate responsibility that includes four main focus areas. One, we've already talked about at length, and that's conducting our business with integrity. Let me talk a little bit more about the others.

Everywhere we operate, we try to enrich the communities where we live and work. This includes school-building programs in Vietnam and Ivory Coast, programs to support women entrepreneurs in India, Zambia and Honduras, contributing expertise to food banks in Canada and the US.

We also believe that a key part of working to feed the world is empowering farmers to grow their best crops: to feed their families, their neighbors and world markets. We have farmer training programs in more than 20 countries to help producers raise their productivity, conserve resources and increase their livelihoods.

We have global partnerships with NGOs like CARE, the Nature Conservancy, World Wildlife Fund, TechnoServe and World Food Programme to strengthen food security, education and environmental stewardship.

Increasingly, our commitment also focuses on operating sustainable supply chains. This can be difficult, given the length and complexity of those supply chains in many cases. But to paraphrase Greg Page, in a world where people want to know where their food comes from and how it was produced, it's the responsibility of the middleman to account for all the links in the chain before us and all the links after us.

In the past year, we've undertaken the development of a new company-wide strategy on sustainability, to take action in the areas where we think we can have the greatest impact. The four areas we identified are land use (including deforestation), water use, climate change and farmer livelihoods.

All of these efforts unite with our business purpose of nourishing people, lifting them out of poverty as we work to raise standards of living around the globe. This means that our work “on the clock” and our work “off the clock” are in lock step.

The simple truth is: You can’t bifurcate and be one person with a certain set of core values in life and then come into work and adopt a totally different set of values. This is why we put the “who” before the “what” in terms of hiring. Hiring based on a person’s inclination to act ethically is more important to us than just domain expertise. We can train you to do a job, we can provide an ethical environment for you to work in, but we can’t make you an ethical person!

As a result of all this internal and external work, what benefits do we realize? These can be summarized in five bullet points:

- Cost avoidance
- Moving at the speed of trust
- Customer preference
- Employee engagement
- Freedom to operate

Let’s start with the simple stuff and build up to the really crucial ones. First, there’s *cost avoidance*. That includes litigation, fines and other penalties for noncompliance, either from governments or from counterparties.

Second, we *move faster*, at what I like to call “the speed of trust,” because we know that as a rule, we can take our colleagues at their word and trust that they’re doing the right thing. As I’ve said, a lack of trust creates drag, friction, and this taxes the organization.

Third, we win and keep the *support of our customers*. We are a key supplier to major consumer brands. They entrust us every day with their brand equity and reputations when they choose to source from us. They know they won’t end up in the newspaper for something unethical or illegal that we’ve done.

Fourth, we *engage our employees* and *attract strong recruits*. Employees want to know they aren’t going to be embarrassed by the

company they work for. And they want to work for organizations with a “noble purpose” whose values are aligned with their own. This is especially true of the younger generation entering the workforce. Simply getting a paycheck doesn’t cut it anymore.

Fifth, it helps us maintain our *license to operate*. We are a guest in the 67 countries and thousands of communities where our plants and offices are located. Being appreciated as a responsible organization that operates with integrity underpins our ability to do business in each of these places. It also helps us pursue new opportunities, being welcomed into new markets and expanding in existing ones.

All of these add up to a strong brand and reputation as a company you want to work with, one that will help you thrive, whether you’re a customer, an employee or a community. It also adds up to a company all of us, including our employees, our leadership team and our family owners, can be proud of.

So as you can see, it isn’t easy to maintain a commitment to ethical business. I joked earlier that I’m up every two hours, but really, I sleep pretty good at night. If you’re acting unethically, you can forget sleep! A colleague once quoted Confucius to me: “He who is pure of heart, need not fear a knock on his door at midnight.”

No, in the end, we believe it’s simply better to do business this way in the long run. The world is increasingly complex, with murky areas in virtually every geography, and yet we also know that demands for corporate accountability and transparency are rising.

Nothing stays hidden in today’s environment, and as we like to say, “In a world where nothing stays hidden, you better have nothing to hide!”

So to go back to our original conundrum with the soccer facilities, what do you think we did?

I’ll tell you what we were prepared to do, after much debate. We weren’t prepared to buy one official his fence and scoreboards. What we were willing to do was to build new fences and scoreboards for every soccer field in the city!