Extracts from Michael Hopkins: *The Planetary Bargain: CSR Matters*

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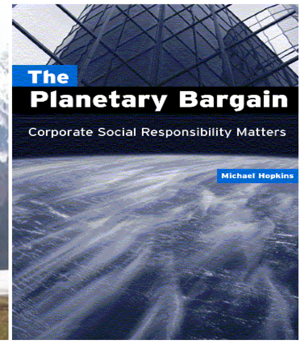

Preface

A Planetary Bargain to Promote Social and Economic Development as We Move into the Next Millennium

Corporate Social Responsibility (CSR) now matters and has taken root at an even faster pace than envisaged when the hardback version of this book was written some four years ago. Encroaching on CSR are other concepts such as corporate sustainability, corporate citizenship, corporate responsibility as well as the older concerns with business ethics, business in society and the ethical corporation. I devote sections of the book explaining the main differences and similarities between these concepts. This significantly revised version of the earlier book updates the material with some of the most important developments since that time and also reflects the author's new ideas since these have also evolved with time. It also reflects the change from 'CSR comes of age', the sub-title of the earlier book, to a broader concern with 'CSR matters'.

Many are wondering where it will all end as unemployment remains stubbornly high in most of the richest nations of the world, poverty persists in the developing nations, globalisation protests are more and more directed at large transnational corporations, and CEOs of large corporations are under investigation as never before. The social protection gained for people in Europe over the nearly sixty years since the end of World War II is under continual threat as costs rise. And the richest nation in the world, the US, struggles to keep its more meagre than Europe, social protection provisions.

Will it all end with the world's production going to the lowest common denominator, that is the country with the lowest social costs, the most paltry wages, the poorest working conditions, and those with the lowest pensions for the old? The trend seems to be heading this way as inequalities deepen, yet this is in no-one's interest. Poor consumers in developing countries would very much like higher living standards, and the sorts of social protection accorded to workers in Germany (say). Transnational corporations need customers for their goods, something not helped by the rising unemployment associated with downsizing or impoverishment in developing countries.

To reverse these negative tendencies, the book's main thesis is that there is a need for a worldwide compact, or *planetary bargain*, between the private and public sectors. In this bargain, the public sector will help private organisms to operate with clear ground-rules, and the private sector will pay more attention to longer-term social development issues than ever before. What such a bargain could include, why it is necessary and who should be involved are the themes that run throughout the book.

A planetary bargain will mean more socially responsible enterprises (SREs). In time, it will not be possible to conduct business without being socially responsible. This is inevitable, so, contrary to conventional wisdom, the book does not propose a new set of rules for businesses to adhere to, as, for instance, is argued by those pushing for more corporate social accountability or social audits. The book will argue that new rules or corporate laws in this area may well be unnecessary, because corporations will see for themselves, and many have seen this already, the need to behave more responsibly in the social area. The book does argue for a 'level playing field' in which a minimum set of rules for corporate behaviour is required. However, it does not argue for new sets of complex rules simply because these would make it even more difficult for corporations to operate and, in turn, would encourage further hopping from one advantageous country to another. If the same rules could be applied universally many corporations would accept corporate social responsibility since a level playing field would apply for all. But, despite halting steps in this direction by such bodies as the EU and countries such as France, an agreed set of rules for CSR activities is unlikely and hence a world consciousness of stakeholders such as consumers, employees, local communities etc. will be better placed to create this level playing field.

Can the private sector do more other than just be good at business? It is the underlying thesis of this book that being a socially responsible enterprise is not only good for business; it is actually *better* for business in terms of long-term profits and stability. It will not be my job here to suggest areas where the private sector can make profits through helping social development directly – they are their own masters at this. For instance, the private sector has been helpful in housing projects for low- income groups, providing credit through the banking system, promoting education through private educational institutions and so on. But corporate social responsibility is not just about corporate philanthropy, as the book argues, it is about a new management and strategic philosophy for companies large, medium and small.

The field of corporate social responsibility, of which this book forms a part, has a burgeoning literature in published form in books, articles, newsprint and increasingly on the Internet. Where possible I have indicated the Internet web pages that I have used, as well as suggesting others that provide useful reference points.

There have been few attempts at quantification of what is meant by corporate social responsibility in the literature, and what does exist, mainly through the social screens of ethical investment companies, is largely subjective. When I started research in this area in 1992, I had intended to rank the Fortune 500 companies from 1 to 500 on a HDI index (human development index following the United Nations Development Programme's work). This task proved beyond my resources but launched me, nevertheless, some eight years ago into this field. This book captures my efforts at determining a conceptual framework for these indicators and then examines how I calibrated them for the UK. There, I was fortunate to be able to use the good services of the Universities of York and London through my friendship with Professor Roy Carr-Hill to collect the necessary information for the 100 largest companies in the UK – here I only report on the top 25 to keep the book a reasonable length.

But I could not present indicators without first looking at what others have done in the field of corporate social responsibility – and there is a lot. So I have critically reviewed this in the first seven chapters. In these, I also develop the elements of an economic theory of socially responsible enterprises when I show, mainly through case studies and anecdotal examples, that social responsibility not only has strong philanthropic undertones, but, as important if not more so, it has sound economic reasons too. By this, I mean that it is increasingly in the economic interest of business, and consequently of societies, to engage in socially responsible activities. If it is not in the fabric of companies today then these companies, more than likely, will not exist tomorrow. This is why, in the book, I argue the need for a planetary bargain.

The main work in the area of corporate social responsibility has been in the US and, more recently, the UK. The book draws most of its examples from these two countries. Many other countries in both the First and the Third Worlds are starting to take the concepts, ideas and practices seriously, too. I cover some of these experiences in Chapters Six and Ten of the book.

Thus, the book covers CSR matters:

- what is meant by CSR

- the historical roots of CSR
- providing the elements of a theory of CSR
- how CSR can be defined
- what precise indicators can de used to measure CSR
- how these indicators can be applied in practice.
- a number of case studies including some evidence from developing countries
- a review of how CSR is being implemented, audited and reported upon by leading groups in the area

What sort of planetary bargain could help increase corporate profitability while not resorting to the bargain basement is the central theme. Gradually, the United Nations, the World Bank, ILO, OECD, UNCTAD, UNESCO, UNDP, UNICEF, UNRISD, UNEP, the UN's Global Compact and the WTO, as well as the burgeoning number of private networks of enterprises and NGOs such as the Social Venture Network (SVN), EBEN (European Business Ethical Network), Business for Social Responsibility (BSR), Business in the Community, Global Reporting Initiative (GRI), World Economic Forum (WEF), World Business Council on Social Development (WBCSD), AccountAbility, the International Business Leaders Forum (IBLF), the Caux Principles etc. are coming to grips with the global issue but, as yet, have not seen this as a global voluntary planetary bargain. It is my hope that this book will contribute to this process, and that beggar-thy-neighbour polices, of countries and enterprises, will be a thing of the past, as the peoples of the world move toward a global agreement with the private sector. The next millennium will have to be the age of corporate social responsibility.

MICHAEL HOPKINS

Chapter1:Why Corporate Social Responsibility (CSR)?

This chapter introduces the notion of corporate social responsibility (CSR), from its historical roots to what is happening today, particularly in the US and UK, where ideas about social responsibility have made their biggest impact to date. The key issue for a business is its bottom line, and how social responsibility either contributes to or weighs against this. I look at this under the heading, 'Is business's only job to make a profit?' Linked to this important question are three further areas that have dominated the corporate social responsibility debate in recent times: stakeholder theory, the notion of trust and business ethics. I examine each of these in this chapter in relation to how they fit into the framework of a socially responsible enterprise. There are a variety of definitions of CSR and no overall agreement. My own definition, which I elaborate in various sections throughout this book, is:

CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable according to international norms. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation. CSR, or CR, is a process whose main aim is to create sustainability.[Note: Updated slightly by author in 2011]

1.INTRODUCTION

Historical Roots

Corporate social responsibility is not a new issue. The social responsibility of business was not widely considered to be a significant problem from Adam Smith's time to the Great Depression. But since the 1930s, and increasingly since the 1960s, social responsibility has become 'an important issue not only for business but in the theory and practice of law, politics and economics'.[1] In the early 1930s, Merrick Dodd of Harvard Law School and Adolf Berle of Columbia Law School debated[2] the question, 'For whom are corporate managers trustees?' Dodd advocated that corporations served a social service as well as a profit-making function, a view repudiated by Berle. This debate simmered for the next fifty years, according to Gary von Stange, before it once again sprang into prominence in the 1980s, in the wake of the 'feeding frenzy atmosphere of numerous hostile takeovers'. This concern for the social responsibility of business has even accelerated since the fall of the Berlin Wall, which symbolised the collapse of communism and (more importantly) has turbo-charged globalisation.

Further acceleration has occurred in the past few years. Global concerns were given an additional edge by the awful events of September 11th. The collapse of Enron and World Com and their auditor Andersen due to dubious accounting practices has raised the level of examination of large companies as well as their auditors. And this is in spite of the most friendly to companies President of the USA known in modern times – himself with a dubious past in share dealings and sailing close to the wind in business transactions as Paul Krugman's "Op-Ed" columns in the New York Times have carefully analysed. Even the President has broached, albeit tamely, the notion of the responsibility of corporations[1]. Moreover, previously quiet CEOs have begun to note the pressure – for instance, in a rare public appearance in June, 2002, the chairman and chief executive of Goldman Sachs Henry M. Paulson Jr. noted[2], after the collapse of the Enron Corporation in late 2001, that "I cannot think of a time when business over all has been held in less repute."

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[1]See President Bush's speech in early 2002 and again in July, 2002: http://www.whitehouse.gov/news/releases/2002/03/20020307.html

[2]www.nytimes.com

Moreover, the need to address questions of low living standards, exploitation, poverty, unemployment, and how to promote social development in general, has been to date almost entirely the preserve of governments. Clearly, they will continue to have *a*, if not *the*, major role to play. But, increasingly in the future, the promotion of social development issues must also be one of partnership between government and private and non-governmental actors and, in particular, the corporate sector. This importance is shown by their size. When companies' turnover is compared with the GDP of countries then, of the world's largest 100 economies, 50 turn out to be corporations![3]

Up until the 1970s, despite regulation and legislation, business continued largely along an autonomous path, from which it ignored its critics and listened only to its shareholders, to whom it felt somewhat responsible. But the decade of the 1960s was to be a period of enlightenment for many. The Korean War had ended indecisively, and new conflicts in South-East Asia seemed destined to follow the same pattern. Citizens were distrustful of government, of business and of the undefined 'establishment'. Consumers had grown suspicious of adulterants in their food and dangerous defects in the products they bought. People were becoming aware of the fragile nature of the earth's ecology, while simultaneously becoming more cognisant of human rights.

However, the drive in the 1970s to set every nation to contribute 1 per cent of its GDP to socio-economic development failed miserably, with only small countries like the Netherlands and Sweden getting anywhere near that figure. The largest economy, the USA, gives only a meagre 0.1 per cent, and most of that goes to only two countries – Egypt and Israel. Now, should we expect those companies with turnovers larger than that of Holland to contribute 1 per cent of turnover to compensate, that is to fill this gap where nation states have failed? Is this excessively naïve, or is it crucial that they do so to secure future sustainable development? That over 300 UK companies already belong to a Per Cent Club, with an aim of contributing 1 per cent of pre-tax profits to the community, is both a step in the right direction and an indication that many firms are beginning to take their social responsibilities seriously.

The focus, in this book, is on the largest companies – the TNCs. By the early 1980s, trade between the 350 largest TNCs contributed about 40 per cent of global trade; today the TNCs account for 70 per cent of the world's trade. Also, foreign direct investment from TNCs doubled from the early 1980s, to the early 1990s, from $US910bn to $US1.7 trillion. Because of their often immense size, decisions about the location of investments, production and technology by the TNCs not only influence the distribution of factor endowments, notably of capital, skilled labour and knowledge, between the countries in which they run their activities, but also assume a crucial importance for their political and social consequences.

Today

Today we see consumers avoiding what they see (rightly or wrongly) as socially irresponsibly made products or products of companies that have allegedly not acted in society's best interest. It is inevitable, as I shall argue in this book, that, more than ever before, companies in the private sector will be expected to behave socially responsibly. Already, many enterprises across the world have taken this as part of their business plan, and, one may note, they are doing this because they feel it is good for business.

Enterprises have noted that social responsibility is good for business for, and from, each part of the *seven main azimuths* within which they trade and operate. These parts are: their shareholders and potential investors; managers; employees; customers; business partners and contractors or suppliers; the natural environment; and the communities within which they operate, including national governments (discussed in Chapter 3). Such an azimuth is now commonly known as an enterprise's stakeholders. I shall show with anecdotal and statistical evidence throughout this book, and, in particular in Chapter 9, using data for the largest enterprises in the UK, that an emphasis on stakeholders does not hinder profitability; on the other hand, negative social events, such as a poor internal human-resource policy, cavalier downsizing, an industrially caused environmental disaster or conviction for a corporate crime, are likely to have harmful effects on profitability and return on investment.

On the plus side, according to the US Social Investment Forum, for the first time ever, more than $1trillion in assets are under management in the US in socially and environmentally responsible portfolios.[4] Estimates vary, since it all depends on definition, but this latter figure has been backed up in the September issue of The Cerulli Edge-Global Edition[3] published by Cerulli Associates, a well-regarded

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[3] *Ethical Investor Newsletter,* No. 41 (10/9/01-16/9/01)
http://www.ethicalinvestor.com.au/default.asp

Boston and London based research consultancy who estimated, in September 2001, the value of the *world's* ethical investment portfolio to beUS$1.42 trillion.

In the UK pension fund trustees are required to incorporate their policy on socially responsible investment (SRI) in their statement of investment principles (SIP) – the document which sets out the aims, scope and restrictions for the investment of the pension fund. Concomitantly, there has been a rapid expansion of firms that screen companies for socially responsible performance, which is having a positive effect on the redirection of investors toward those companies that are top performers in this area. According to Eiris[4], in the UK about $US49.3bn was invested in SRI funds in 2001, less than 1 per cent of total funds under management, although this figure has been doubling every two years. Across Europe about $US9.38bn is under SRI management in 2001, again according to the SRI monitoring firm Eiris.

Pension funds and other financial vehicles have billions of dollars available, and speak with a loud voice as their members become increasingly concerned about where and how their money is invested.

Indeed, appalled at being implicated in antisocial practices, thousands of investors are placing ethics on a par with personal gain in choosing where to put their money. In response, a number of money managers are tailoring portfolios to allay their clients' qualms. By now, the managers of billions of dollars of investment funds have channelled their cash into companies that pass one test or another for ethical or social responsibility. For people investing their own money, several investment management companies maintain blacklists of ethically or socially *irr*esponsible companies.

Moreover, poor social performance will drive away potential investors. The increase in litigation, especially in the US (arising from corporate lawbreaking), has strengthened the penalties on professionals and has made the conduct of business a hazardous occupation. Because of the litigation explosion, business now faces a two-front battle: increases in both the number of multimillion dollar verdicts and the number of actions actually filed. Expanded third-party liability means that many more professional groups are being held liable, including underwriters, accountants and lawyers. The year 1992 was the first in which substantial awards were given to corporate whistle-blowers; since then, the increased focus on business conduct has coincided with the growing public perception that business should be more socially responsible.

As the public becomes aware of the negative consequences of the social irresponsibility of some businesses, so too has it become aware of good products and socially responsible activities. In parallel, business has also become equally aware of the informed consumer and/or investor. Yet, although transnational corporations (TNCs) could potentially play an important role in social development, their current impact on this process is moderate, according to some commentators.[6]

Corporate Wrongdoers

Alice Tepper Marlin, the founder of the US Council on Economic Priorities (CEP), was the original promoter of a report that has since sold 600000 copies, with the title *Shopping for a Better World: A Quick and Easy Guide to Socially Responsible Supermarket Shopping*. The book rated 168 companies behind 1800 products in such areas as charitable giving, community outreach, information disclosure, environmental impact and family benefits. So many people contacted companies after the 1989 guide was published that the 1990 issue included an appendix with the names and addresses of all the listed companies' chief executive officers. A CEP study of buyers of the guide found that 78 per cent said they had switched brands as a result of using it, and that 64 per cent refer to it regularly. The seeds of CEP were planted when Tepper Marlin was a Wall Street securities analyst with a client who did not want to invest in companies that supplied arms for use in Vietnam. Since its beginning, CEP has had an impact far in excess of its size, now at 6500 individual members.[7]

There are negative rewards, 'dishonorable mentions'. One of the least coveted awards is that given by the CEP to 'America's Worst Toxic Polluters', which in the early 1990s was presented to the General Motors, Cargill, DuPont, General Electric, MAXXAM, Rockwell and USX corporations.[8] That 'award' is now discontinued and there are few rankings on the internet that identify the worst corporations with any seriousness. Most rankings, as seen next, concentrate on the top 100 or so best corporations.

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[4] Financial Times, London, Wed July 11th 2001

Responsible Corporations

There are many attempts nowadays to reward good corporate social performance. It seems that not a month goes by without some publication announcing winners of a corporate award, and these have more than doubled since 1979. According to Gita Siegman, editor of the tenth edition of *Awards, Honors and Prizes*, there were 6000 listings of awards in the US; in the latest edition, there will be 15500 listings.[9] Besides the normal complement of prizes in arts, sciences and letters, corporate awards can be given and received in such diverse categories as women's achievement, human rights and environmental correctness. Many of the significant honours – including the Baldridge[5] – were created in the mid to late 1980s. Most were established to honour corporate responsibility, initiative, environmental sensitivity or other exemplary behaviour. A good corporate award should be clearly defined and relevant. It should illuminate exemplary behaviour, even corporate heroism, and it should spawn imitative actions. It should also be well publicised, so that there is an air of expectation.[10]

More and more, we are seeing awards going to ethical businesses, the best known in the US are the top 100 corporate citizens of the magazine *Business Ethics*[6], and in the UK the ACCA business ethics awards [7] and the awards for excellence of Business in the Community (BiTC)[8]

A problem with all of these rewards is either that they tend to acclaim a specific programme or policy, without regard to other factors, or that each awarding agency has its own, often unpublished, criteria for the awards. Thus, each of the awards may carry some motivational impact, but the totality lacks impact due to the absence of comparability. *Business Ethics* publishes, to a certain extent[9], its criteria for selection using work by Samuel Graves and Sandra Waddock of Boston College. Their 2002 list ranked IBM as the leader followed by Hewlett Packard and Fannie Mae. Their criteria are based upon five areas:

Environment looks at positive programs in place such as pollution reduction, recycling, and energy-saving measures; as well as negative measures such as level of pollutants, EPA citations, fines, lawsuits, and other measures.

Community relations looks at philanthropy, any foundation the company has, community service projects, educational outreach, scholarships, employee volunteerism, etc.

Employee relations looks at wages relative to the industry, benefits paid, family-friendly policies, parental leave; team management, employee empowerment, etc.

Diversity looks at percent of minority and women among employees, managers, and board members; any EEOC complaints; diversity programs in place; lawsuits, etc.

Customer relations might include quality management programs, quality awards won, customer satisfaction measures, lawsuits, etc.

Comforting, in *Business Ethics* list is that neither Enron nor WorldCom – the bad boys of 2001 and 2002 – appear. However, the absence of comment on either company illustrates yet another limitation of awards – bad boys don't get punished nor, in fact, do award examinations allow the sort of early warning of poor behaviour that the public craves.

For its part, the business community has recognised the power of both its friends and critics abandoning its earlier defensive stance. Now the literature and media are awash with examples of CEOs presenting their personal

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[5] The Malcolm Baldrige National Quality Award is given to U.S organizations that have exemplary achievements in seven areas: leadership, strategic planning, customer and market focus, information and analysis, human resource focus, process management, and business results

[6] See http://www.business-ethics.com/100best.htm#Chart

[7] www.accaglobal.com

[8] http://www.bitc.org.uk/index.html

[9] The rankings are based on KLD data – see Chapter ? – but *Business Ethics* notes, on its website (see above footnote) that what KLD looks at in each area "will vary by company. There is no set formula."

and corporate ethics through various fora – the views of Goldman Sachs CEO were noted above. Even in the early 1990s[10], several CEOs addressed social responsibility. Robert A. Schoellhorn, chairman and chief executive officer (CEO) of Abbott Laboratories, stated that private enterprise has a role in addressing social problems, but that role is primarily through the conduct of its business. On an even higher plane, Alcoa Chairman and CEO Charles W. Parry said that an organisation cannot operate successfully if its sole goal is profit, and Navistar's Donald D. Lennox feels it is his job to be responsible in an ethical manner that relates to all of the firm's stakeholders, including lenders, vendors, employees and stockholders. The examples in which corporate leaders insist on a high standard of fair play in their organisations shows that fair-minded competition is viewed as being more important than immediate, tangible gains. Nevertheless, the continuing pressure on corporations to behave socially responsibly has still not led to accounting practices and behaviour which do not smack of corruption and shady dealing. There is still a long way to go. Should this way be regulated? I look at this issue in the next chapter.

Corporate Governance and CSR

With the publication of the OECD Principles of Corporate Governance in 1999 added impetus has been given to improving corporate governance of firms[11]. The OECD report, which did not say an awful lot about CSR – it only covered a few stakeholders - covered the rights of shareholders, the equitable treatment of shareholders, the role of stakeholders in corporate governance, disclosure and transparency and the responsibilities of the board. It was followed by the King report on guidelines on corporate governance for the 56 Commonwealth countries[12]. In the CACG guidelines, good corporate governance requires that the board must govern the corporation with integrity and enterprise in a manner which entrenches and enhances the licence it has to operate. Stakeholder and ethical issues are discussed within the CACG report leading to the question whether CSR and corporate governance issues are covering the same ground?

The World Bank notes, however, that there is no single model of corporate governance with systems varying by country, sector and even in the same corporation over time. Among the most prominent systems are the US and UK models, which focus on dispersed controls; and the German and Japanese models which reflect a more concentrated ownership structure. My definition of CSR, stated above is much wider than the corporate governance definitions used, to date for instance, by the OECD and the World Bank. The OECD principles imply that a key role for stakeholders is concerned with ensuring the flow of external capital to firms and that stakeholders are protected by law and have access to disclosure. While the World Bank have been intrigued by a June 2000 Investor Opinion Survey of McKinsey that finds that investors say that board governance is as important as financial performance in their investment decisions. The survey finds that across Latin America, Europe, the USA and Asia investors (over 80% of those interviewed) would be willing to pay more for a company with good board governance practices.

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[10]See *Business Horizons* (July–August 1991),

[11] OECD: "Principles of Corporate Governance", May, 1999, OECD, Paris.

[12] CACG Guidelines: "Principles for Corporate Governance in the Commonwealth", Commonwealth Association for Corporate Governance (CACG), PO Box 34, Havelock, Marlborough, NewZealand, Nov., 1999 and see www. cbc.to

‘Poor governance’ was defined by McKinsey as a company that has:

- Minority of outside directors
- Outside directors have financial ties with management
- Directors own little or no stock
- Directors compensated only with cash
- No formal director evaluation process
- Very unresponsive to investor requests for information on governance issues

‘Good governance’ was defined by McKinsey as:

- Majority of outside directors
- Outside directors are truly independent, no management ties
- Directors have significant stockholdings
- Large proportion of director pay is stock/options
- Formal director of evaluation in place
- Very responsive to investor requests for information on governance issues

Given the questions, it is not surprising that the figure of 80% was arrived at, but the point is that ‘Good Governance’ has a very narrow fit to the OECD principles and even narrower when compared with corporate social responsibility sentiments. Nevertheless, there is increasing advocacy of a broader and more inclusive concept of corporate governance that extends to corporate responsibility and has a wider concept of ‘stakeholder’ than that used by the OECD (see schematic). These ideas are reflected in the King Report for South Africa, the Commonwealth principles of business practice, the UK’s Tomorrow’s Company etc.

In conclusion, the notion of corporate governance fits well into current concerns of management structure at the top of corporations and is becoming increasingly better defined thanks to the work of the World Bank and OECD etc., but hardly encompasses the concerns of corporate social responsibility notions. On the other hand, notions of corporate social responsibility have not advanced as far as the corporate governance school with its agreed set of principles. There is light on the horizon thanks to work by King and others and also in the Cadbury definition itself that notes that the aim of corporate governance is to align as nearly as possible the interests of individuals, corporations and society. Indeed, not only thinking about corporate governance issues is on the up, but codes of ethics developed by individual companies and associations also appear to be on the rise.[17]

..so what is corporate social responsibility (CSR)?

In this book I talk about corporate social responsibility as defined above. Thus, I mean the ethical behaviour of business towards its constituencies or stakeholders (I discuss ethics, briefly, later in this chapter). I define stakeholders as consisting of seven azimuths or major groups (see Chapter 3), which form the core of the discussions and measurement in this book, the theoretical framework as it were.

There are a wide variety of concepts and definitions associated with the term ‘corporate social responsibility’ but no general agreement of terms. To provide some guidance to readers in this area I have included a box (see Glossary of Terms[13]) that provides a number of definitions. Alert readers will notice, however, a fluidity of concepts that really requires more extensive research and consideration than has been done so far. Without a common language then we don’t really know that our dialogue with companies is being heard and interpreted in a consistent way. To date I believe the dialogue has been highly flawed as some companies use the terms corporate citizenship, some the ethical corporation, while others use good corporate governance etc These flaws lead some companies to consider CSR as purely corporate philanthropy, others such as Shell as a new corporate strategic framework while others dismiss the notion entirely.

In this context, a lively debate has led some authors, mainly US based academics, to prefer to use the concept of ‘corporate social responsiveness’, rather than corporate social responsibility *per se*. They

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[13] These are drawn from the author’s website www.mhcinternational.com which is updated as definitions and concepts harden or improve. There readers are invited to place their own views.

argue, Ackerman and Bauer,[18] among them, for instance, that the connotation of ‘responsibility’ is that of the process merely of assuming an obligation. It places an emphasis on motivation rather than performance, but, they believe, this motivation is not enough, because responding to social demands is much *more* than deciding what to do; thus there remains the management task of *doing* what one has decided to do: *this* is social responsiveness. However, I believe that managers must accept the notion of social responsibility *before* they work out what to do; there is no argument about the fact that once this has been accepted, *then* the next step is the response, in other words that acceptance of the motivation to be socially responsible *immediately leads* the manager into what should be done next, i.e. into social responsiveness. Acceptance, of course, does not come easily, and the point of this book is to show that corporate social responsibility makes sound economic as well as social, ethical, political and philosophical sense. Being socially responsible and applying the main principles of this will result in a good business, that is one that is long-lived and profitable.

GLOSSARY OF TERMS

Corporate Social Responsibility is concerned with treating the stakeholders of the firm ethically or in a responsible manner. 'Ethically or responsible' means treating stakeholders in a manner deemed acceptable according to international norms. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation. CSR, or CR, is a process whose main aim is to create sustainability *(Michael Hopkins)*

Corporate Citizenship implies a strategy that moves from a focus on short-term transaction to longer-term, values-based relationships with these stakeholders. Loyalty will be based on a company's ability to build a sense of shared values and mission with key stakeholders *(S.Zadek et.al. 'The new economy of corporate citizenship', The Copenhagen Centre, Denmark, 2000)*

A socially responsible company will seek and identify the concerns of its stakeholders and endeavour to treat those stakeholders fairly. (*Stephanie Draper, in 'Corporate Nirvana:Is the Future Socially Responsible?', Industrial Society, London, 2000')*

Corporate Social Responsiveness is the management task of *doing* what one has decided to do so as to become socially responsible *(Ackerman and Bauer, op.cit.)*.

Corporate Governance is concerned with holding the balance between economic and social goals and between individual and communal goals. The corporate governance framework is there to encourage the efficient use of resources and equally to require accountability for the stewardship of those resources. The aim is to align as nearly as possible the interests of individuals, corporations and society" *(Sir Adrian Cadbury in 'Global Corporate Governance Forum', World Bank, 2000)*

Corporate Sustainability aligns an organisation's products and services with stakeholder expectations, thereby adding economic, environmental and social value *(Price WaterhouseCoopers).*

Ethics the science of morals in human conduct. (*Oxford Dictionary*)

Ethical Accounting is the process through which the company takes up a dialogue with major stakeholders to report on past activities with a view to shaping future ones. (*John Rosthorn: 'Business Ethics Auditing - More than a Stakeholder's Toy' in Journal of Business Ethics 00: 1-11, 2000, Kluwer Academic Publishers, Netherlands)*

Ethical Auditing is regular, complete and documented measurements of compliance with the company's published policies & procedures. (*John Rosthorn, ibid.)*

Ethical Book-Keeping: is systematic, reliable maintaining of accessible records for corporate activities which reflect on its conduct and behaviour. (*John Rosthorn, ibid.)*

Reputation Assurance: A number of common global principles for the business environment assembled to provide quantitative and trend information. (*John Rosthorn, ibid.)*

Social Reporting: Non-financial data covering staff issues, community economic developments, stakeholder involvement and can include voluntarism and environmental performance. (*Michael Hopkins)*

Sustainable Development: Environmental impact measurement, improvements, monitoring and reporting . (*John Rosthorn, ibid.)*

In my definition of CSR, I include economic aspects simply because the study of economics is a 'social' science which also encompasses financial aspects. Triple bottom line is also implicit since the third part of the triple is the environment and I have always considered the environment to be one of the stakeholders of a company. Nevertheless, many prefer the term 'corporate responsibility' and in a published correspondence with the magazine 'Ethical Corporation' I took issue with their wish to drop the word 'social'. Their argument was[14] that "CSR is confusing, not only to those that do not yet know what these three letters stand for, but also to those who do and yet see it used in contexts in which corporate environmental or financial performance is the issue…we prefer the simple 'corporate responsibility' because it's not at all confusing, does not exclude environmental and financial aspects of corporate performance and does not represent too great a departure from the current, unsatisfactory 'CSR'".

My own view, kindly reproduced[15] in 'Ethical Corporation Magazine' is that using the term 'corporate responsibility (CR)' instead of 'corporate social responsibility' changes the nature of the publication and their conferences. The term 'social' is included by many practitioners to encourage corporations to look at their'social' responsibilities as well as their usual 'responsibilities'. To date, the main responsibility of a corporation has been to make profits for their shareholders. Hence 'corporate responsibility' describes this very well. However, including 'social' means, and emphasises, the inclusion of other aspects such as the wider economy, other stakeholders than shareholders and the environment. I noted that the International Business Leaders Forum fell into the CR trap when it announced in one of its recent press releases that, "President Bush addresses corporate responsibility" and then went on to say, "U.S. President George W. Bush has outlined a tenpoint plan to "Improve Corporate Responsibility and Protect America's

[14] Toby Webb, "Editor's Notes", *Ethical Corporation Magazine,* March-April 2002, p.3

[15] Michael Hopkins, 'Letters', *Ethical Corporation Magazine,* May 2002, p.15

Shareholders." The proposals are guided by the following core principles: 1) Providing better information to investors; 2) making corporate officers more accountable; and 3) developing a stronger, more independent audit system. Critics slam Bush's ten-pointer for lacking specifics, penalties, budget support, and consideration of corporate social responsibility." But, a closer look at those ten points would reveal that the nearest Bush got to corporate responsibility was when he announced "Proposal #8: An independent regulatory board should ensure that the accounting profession is held to the highest ethical standards. Under this proposal, an independent regulatory board would be established, under the supervision of the SEC, to develop standards of professional conduct and competence. This board would have the ability to monitor, investigate, and where needed, enforce its ethics principles by punishing individual offenders." Hardly what Ethical Corporation meant by its definition of corporate responsibility! It is harder to avoid giving shortshrift to the social part of corporate responsibility if you include the word "social".

The focus of this book, then, is to address both existing and new ways in which social responsibility, and consequently social development, can be pursued by the private sector (with emphasis on the large transnational corporations) and government itself. Companies that are socially responsible in making profits also contribute to some aspects of social development, although obviously not all. One should not expect *every* company to be involved in *every* aspect of social development; this would be ludicrous and unnecessarily restrictive. But for a firm to be involved in some aspects both within and outside itself will, so the argument goes in this book, make its products and services (for example financial services) more attractive to consumers as a whole and therefore the company more profitable. There will be increased costs to implement CSR but, as argued in this book, the benefits will far outweigh the costs. The link to profits is discussed next.

2. IS BUSINESS'S ONLY JOB TO MAKE A PROFIT?

Milton's Friedman's oft-cited pronouncement that the social responsibility of business begins and ends with increasing profits[19] plays less well, according to John Plender,[20] today than in the heyday of Reaganomics or Margaret Thatcher's Conservative government. Plender cited a MORI poll that showed that 87 per cent of the people in Britain believed, in 1996, that large companies should have a wider responsibility to the community than profit making *per se*. When Dwight Eisenhower was President of the United States, there was a widespread acceptance of the oft-quoted statement of its CEO that, 'What's good for General Motors is good for the USA'. Business practices were rooted in the nineteenth-century operations of American and European industry.

The practices of the oil industry and its many companies, however, began to bring about an awareness of the role and power of business in society. Theodore Roosevelt and his trustbusters attacked many of the monopolistic practices of the largest of American businesses. The determination of the federal and state governments to regulate the oil industry prompted the industry to examine itself and move towards practices that would better conserve what was rapidly becoming the world's most important non-renewable resource. Even under President's Bush obvious affinity for the oil companies, the withdrawal of the US from the Kyoto environmental treaty in 2001 and the struggle to explore for oil in virgin lands in Alaska, the environmental lobby for sustainable development is an important damper on any excesses in the oil industry.

Nevertheless, many private enterprises continued to treat certain resources such as air and water as 'free', and ignored the effects of using or damaging common resources and releasing waste into what many thought was a bottomless rubbish bin. In the 1950s, business practice in this area consisted largely of obeying the law in a minimal way, lobbying to defeat regulatory action and retaining good corporate lawyers. Business was seen as an 'economic' institution, quite separate from 'social institutions' and in no way under the control of society, nor responsible to it.

Not all observers were willing to grant such a broad autonomy to business. In the 1950s, a field of scholarship developed that questioned the roles and obligations of business in a capitalist–democratic society. Early writers in business and society, such as Bowen, Elbing and Elbing, and Healt,[21] were concerned with what they saw as an excessive autonomy and degree of power for business, apparently unconnected to any responsibility for the negative consequences of business activities.

The literature of the early 1970s was concerned with the impact of social responsibility on profits. For instance, much like Friedman, Linowes[22] insisted in 1974 that the touchstone of 'responsibility' was costs or foregone profits. He provided a measurement system of social responsibility based on the marginal costs of activities beyond the regular costs of doing business. It is obviously necessary to understand the exact costs of social responsibility. But with costs come benefits that were not quantified by Linowes. Such a 'hard-nosed' approach is often not taken by some of the more romantic social reformers. As Ackerman and Bauer[23] of the Harvard Business School say, the slogan of many reformers is that business must forego some of its (presumably swollen) profits to serve social goals. Conservative economists go even further, and argue that it is 'unethical' to forego profits. Ackerman and Bauer continue: 'most activist reformers seem to vastly overestimate the amount of profits available for diversion to good causes'.

These notions were backed up to a certain extent by the findings of the Opinion Research Corporation in the USA in the mid-1970s that the public believed that business earns 28 per cent profits after taxes on the sales dollar, whereas the correct figure was a little over 4 per cent after taxes. Furthermore, there was little awareness of the uses to which profits were put, and the dangers of a takeover to which a firm would expose itself if, as 'seems certain', its stock price were depressed because it diluted its profits substantially.[24]

But social responsibility, as argued in this book, is not solely about using profits for good causes. It is about the whole fabric of the enterprise being involved in socially responsible processes and procedures. Ackerman and Bauer realise this, later saying in their book that only 'assessing marginal costs for social investments, as Linowes proposes, could produce anomalies'. They cite[25] the case of a bank that wrestled for seven years to develop a programme for lending to minority entrepreneurs. At the end of that time, the bank had a smoothly running programme. The officers had learned how to manage that type of loan and had reduced losses. Furthermore, the handling of these loans had been transferred to regular loan offices, and as a result the assignment of overhead costs to the programme would have been very difficult, and scarcely worth the accounting costs. In other words, precisely when the programme was institutionalised into the regular operations of the bank, the measured 'social responsibility' of the bank would have approached zero.

Thus, linking costs with social responsibility too closely muddies as much as it clarifies. As Ackerman and Bauer say, no business investment pays off instantaneously. If future benefits can be anticipated, then whether an expense is seen as a cost or investment is arbitrary. They continue that they have 'liquidated the apparently neat argument of the conservative economist such as Milton Friedman who argues against the propriety of business expenses that do not contribute to profitability'. The question is of long-range profitability based on investments of today. Consequently, a short-time horizon and no imagination will allow expenditures with no direct, immediate business benefit to be eliminated. Managers of today are increasingly recognising the staying power of positive social acts that may not, in the short term, offer any immediate benefits.

The 1980s also saw business and profits in a different light. The fall of the Berlin Wall and the subsequent collapse of the Soviet Union and communism was a landmark. At first, the West thought that the score was unbridled market capitalism 1, socialism 0. But the rules of the game were quickly revised (and the teams changed) as it became clear that the winners could not ignore social questions such as unemployment in the First World and poverty in the Third. Instead, business began bringing about its own scrutiny by society as a result of a series of environmental disasters and corporate crimes. Consumer activist groups successfully attacked products that were dangerous or of poor quality, and groups such as Friends of the Earth and Greenpeace challenged conventional wisdom that had allowed the trashing of the seas and the atmosphere for so many generations. Society's growing awareness of the faults of some businesses, combined with business's own errors, became the motivation behind the further development of the field of corporate social responsibility and the notion of ethics in business.

The word 'business' assumes some common understanding of a set of social phenomena. A business is certainly a social organisation, and by its nature interacts with other social organisations. This interaction is not confined to its customers, suppliers, and stockholders and owners, but spreads widely, through many different social groups. Neither is a business internally simple. Even the smallest of businesses have employees, regulations and policies, communications needs and a myriad of other concerns, mechanisms and day-to-day operational principles.

When we examine the interaction of one or more businesses with society, these relationships become more complex. Some aspects of a business deal directly with the external world – sales staff, buyers and so on. Others may appear to deal only with the direct staff of the business. But even internal staff operate under regulations and assumptions that relate their activities to the larger society. It is no easier to classify and understand business in society than to classify and understand how one person and his or her constituent personality interacts with another.

One of the confusions over defining and acting upon corporate social responsibility (CSR) results, according to Young-Chul Kang and Donna Wood,[26] from a flawed assumption that CSR is an *after-profit* obligation. This means, they say, that if companies are not profitable, they do not have to behave responsibly – 'in the extreme, if all firms are affected by severe economic turmoil or are run by lazy, short-sighted managers, then societies would have no choice but to accept pollution, discrimination, dangerous working conditions, child labour and etc.' Embedding socially responsible principles in corporate management is what the two authors call a '*before-profit*' obligation. They cite corporations who embody these ideas and see the trend accelerating. For instance, in 1950 Sears's CEO listed four parties to any business in order of importance as 'customers, employees, community and stockholders'.[27] For him, profit was a 'by-product of success in satisfying responsibly the legitimate needs and expectations of the corporations' primary stakeholder group'. By the 1980s, Levis even repurchased its stock in the public market under the rationale that stockholder's interests might limit the firm's effort to be a socially responsible organisation. And, in the 1990s, both Rhino records in the US and NatWest in the UK recommend that employees be actively involved in charitable community service performed in company time. Migros, of Switzerland, funds its cultural and social programmes not by profits, but by gross sales, so that profitability does not influence the firm's level of involvement.

Nevertheless, the debate on profits and CSR has not gone away. On May 16th, 2001, Martin Wolf of the Financial Times (FT) wrote a provocative article 'Sleepwalking with the Enemy' criticising CSR and argued, based on a pamphlet by David Henderson former Chief Economist of the OECD, that social responsibility distorts the market by deflecting business from its primary role of profit generation (see Martin Wolf in www.ft.com). Wolf argued that CSR is conducted by activist groups, who are "with few exceptions . . . hostile to, or highly critical of, multinational enterprises, capitalism, freedom of cross-border trade and capital flows and the idea of a market economy. One might expect, and indeed hope, that the business community would effectively contest such anti-business views. But…the emphasis is on concessions and accommodation." Wolf believes that powerful objections can be made to such a radical redefinition of corporate objectives: it accepts a false critique of the market economy; it endorses an equally mistaken view of the powers of multinational businesses; it risks spreading costly regulations worldwide; it is more likely to slow the reduction of global poverty than to accelerate it; it requires companies to make highly debatable political judgments; and it threatens a form of global neo-corporatism, in which unaccountable power is shared between companies, activist groups, some international organisations and a few governments. Wolf's article concludes with the statement that "the role of well run companies is to make profits, not save the planet. Let them not make the error of confusing the two".

One problem with Wolf was that he did not start with a definition of CSR. My definition above, remember, was that CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner and that stakeholders exist both within a firm and outside. Wolf apparently believes that this will lead to the distortion of the market and reduce profits. This is the heart of the matter. Does Wolf imply profits at any cost? Does not Wolf realise that treating stakeholders well will actually lead to improved profits? For instance, those companies that treat one stakeholder well, its employees, tend to perform better than those who do not - see Collins and Porras in 'Built to Last'. (Century, 1994, USA). Yet other stakeholders are a companies shareholders and management.

Wolf's straw man of CSR is then turned into a diatribe of those who are against markets and profits i.e. he equated those who see merit in CSR as anti-market. He said 'hostility to markets is sour old wine' and cited Henderson who says many activist groups 'with few exceptions ..are hostile to...the idea of a market economy'. But Wolf is correct in saying that the 'aim is not to eliminate private business but to transform the way it behaves'. He qualifies his previous statements by arguing that profits should be pursued within 'the constraints of law and the principles of honest dealing'. This is exactly what the more serious proponents of CSR are examining i.e. what aspects of law need to be improved and what is meant by honest dealing and the ethical treatment of stakeholders.

Wolf continued in the vein that CSR is against the market when he equated CSR to a notion of the 'triple bottom line...economic, social and environmental' and then said that this ' ..accepts a false critique of the market economy..'. In fact there are many instance where economic aspects alone produce profits but to the detriment of the environment and social welfare. There is an increasing body of evidence that positive environmental action by firms leads to increased profits and longer-term sustainability. The evidence linking social aspects to increased profits is still the subject of research but preliminary results are positive and companies such as the Co-operative Bank, as stated in their 2001 social report, are very happy with their results based on improved levels of CSR.

Will CSR increase costs to businesses? The short answer is probably yes. But to say that this will be imposed on companies, as Wolf argued, by Greenpeace is only partly true. Unless Greenpeace makes a solid case they will be ignored - to whit their confusion over the Brent Spar. But the balance is on both sides of the equation - costs will increase but so will profits and longevity – I illustrate this point later in a matrix of costs and benefits in Chapter 7. Wolf also argued that a company that follows CSR policies will harm the development of poorer countries. This issue I discuss in Chapter 10.

The list of enterprises that believe in corporate social responsibility, or 'before-profit obligation' in Kang and Wood's words, is expanding. More and more, the above arguments affirm, and this will be seen by the examples and case studies studded throughout this book, that businesses are realising that gaining short-term profits at the expense of social responsibility is not likely to lead to longer-term viability. Consequently, I believe that it is appropriate to revise Friedman's aphorism from one of social responsibility *or* profits to one of social responsibility *and* profits. This is the new bottom line!

3.SOCIAL RESPONSIBILITY AND STAKEHOLDER THEORY

Is the notion of a socially responsible enterprise just another side of stakeholder theory (ST)? There are some similarities and some differences. First, let us look at what is meant by ST. Preston[28] traced the origins of the stakeholder approach, if not the actual use of the term, to the Depression, when the General Electric Company in the US identified four major stakeholder groups: shareholders, employees, customers and the general public. The publication of Freeman's book *Strategic Management – A Stakeholder Approach* saw the concept of stakeholder become embedded in management scholarship and manager's thinking.[29] Stakeholders, according to Max Clarkson, are persons or groups who have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future. He divides these into two – *primary* stakeholders are those without whose continuing participation the corporation cannot survive as a going concern – typically shareholders, investors, employees, customers and suppliers together with what is defined as the public stakeholder group: governments and communities that provide the infrastructure, markets, laws and regulations. *Secondary* stakeholder groups are defined as those who influence or affect the corporation but are not engaged in transactions with the corporation and are not essential for its survival. The media and a wide range of special-interest groups are such people. When Clarkson studied and collected data from 70 of the largest companies in Canada, he found that it was necessary to distinguish between *stakeholder* issues and *social* issues, because corporations and their managers manage relationships with their stakeholders and not with society.[30] In Chapter 3, where I list the stakeholders, I take note of Clarkson's list but, as will be seen, I argue that corporations must also manage their relationships with society.

In the UK, to date, ST has hardly been adequately defined. The influential publication, of the Royal Society of Arts (RSA) *Tomorrow's Company*,[31] tackled what it considered to be the 'sterile debate over shareholder versus stakeholder' head-on. It stated that only by giving due weight to the interests of all key stakeholders can shareholders' continuing value be assured; it described this as the *inclusive* approach. This was taken further by David Wheeler and Maria Sillanpää in their book *The Stakeholder Corporation*, which was greatly influenced by their experiences at the Body Shop,[32] in which they argue that 'It is our belief that in the future the development of loyal, inclusive stakeholder relationships will become one of the most important determinants of commercial viability and business success.'

John Plender's book on stakeholder theory,[33] *A Stake in the Future*, is full of anecdotes, but the path he suggests is vague. He begins by claiming success for the notion of ST, on the grounds that Tony Blair made a much-publicised speech about it in Singapore in early 1996, a year before he was elected Prime Minister for the first time. In the speech, Blair described a stakeholder economy as one in which opportunity is available to all, advancement is through merit, and from which no group or class is set apart or excluded; people have a stake in society, so that they feel a responsibility toward it and an inclination to work for its success. Blair also put his weight behind the notion of a voluntary bargain, when he said that 'legislation could not guarantee that a company will behave in a way conducive to trust and long-term commitment'. But he thought it was time to assess how to shift the corporate ethos from the company being a mere vehicle for the capital market to be traded, bought and sold as a commodity, toward a vision of a company as a community or partnership in which each employee has a stake, and where a company's responsibilities are more clearly delineated.

According to Plender, the stakeholder idea was eventually shelved by Blair, partly as a reaction to a powerful book by Will Hutton,[34] *The State We're In*. Hutton's negative assessment of Britain's economic prospects, coupled with his advocacy of a reformed constitution and a stakeholder economy, smacked of 'Old Labour' interventionism, and was something Blair was keen to avoid in the run-up to the May 1997 election.

Plender argued that ST offers a means of 'legitimising the tempestuous mechanics of capitalism and of preserving human and social capital in the interests of competitive advantage'.[35] To define ST, Plender offered four basic tenets. First comes the concept of *inclusion*, whether at the level of society or of the company. By this, he presumably meant that a poor distribution of income, whereby those who work earn great rewards while the increasingly unemployed are penalised, is something that must be avoided. Second, behaviour in markets must be tempered by self-imposed *social* and *ethical* constraints, that is the exercise of property rights entails obligations that do not begin and end with the property owner, but extend to the wider community. This, clearly, falls within the ambit of a voluntary planetary bargain for socially responsible enterprises as advocated in this book. Third, ST is an efficient *alternative to market liberalism* and its individualistic excesses. What is meant by this is not clear. Plender is against global Keynesianism (a plank of our PB argument). He cites several British companies to support his argument, such as Marks & Spencer, Unipart and the John Lewis Partnership, which are all run as profitable companies with strong paternalistic characteristics in the Quaker tradition. Fourth, ST views firms as social institutions in which people aspire to *self-respect*, as well as to a higher standard of living. This reflects the notion that values of loyalty and trust within the organisation foster wealth creation and contribute to competitive advantage, so that, in the long run, the stake holding ethos is more conducive to corporate success than is a culture in which fear is the main motivator.

Hutton's negative book on the UK was written in 1995, when prospects for Britain looked bleak under the 'everything for sale' Conservative government and in the face of persistent unemployment and rising poverty. Conditions have improved since then, but did not prevent Hutton, in his later book, *The State to Come*,[36] continuing his diatribe against the tendencies in British society towards more government by contract, in which seemingly every service from transport through water to the provision of health services was open to contracting to the private sector. This was leading to a society in which the imbalance of power, knowledge and financial muscle was forgotten, as were the wider social consequences that make contracting unstable and inefficient.

In a revised defence of stake holding, Hutton argued that Stake holding is not a call for the socialisation of capitalism, big government or a new corporatism; rather it requires institutions, systems and a wider architecture which creates a better economic balance, and with it a culture in which common humanity and the instinct to collaborate are allowed to flower.

In fact, Hutton contradicts himself here, because he is, even if implicitly, calling for the socialisation of capital. He later notes that 'Britain could develop a new capitalist model in which market flexibilities are integrated with webs of trust and commitment, and where society acknowledges the imperative of sharing risk and income as fairly as possible.' He rightly notes that the owners of most UK companies are professional investment fund managers, who can switch billions of pounds at the press of a button. They, therefore, take a short-term perspective, which is harmful for any company that wishes to take a longer-term view. Hutton advocates that government should prevent funds being transferred from one investment manager to another for at least five years for funds over a certain size – those more than 100 million pounds he suggests. This is obviously unworkable in practice. A bad investment manager would be rewarded by being unable to lose invested funds for five years. What I think Hutton should have said is that the stake holding idea holds the seeds of the solution, which is to convince stakeholders that their company must become socially responsible, to define what this means in practice and to identify clearly the roles of the state and the private sector. But it cannot be that corporations should be responsible to *all* stakeholders in the sense that any or all stakeholders can tell a company what to do. This would make a nonsense of CSR. A company should treat its stakeholders in an ethically responsible way and take account of their views but not be dictated to as such.

Samuel Brittan[37] is scathing of ST. He argues that it is the *role of markets* to make use of the dispersed knowledge not available either to boards of directors or to governments. The knowledge problem is something he believes is overlooked by so-called ethical economists. A simple profit-maximization model provides subsidiary performance indicators for decentralised managers within a corporation, but not the much vaguer, he says, stakeholder objectives. The market liberal, whose position is what Brittan defends, believes that ST will give to business leaders new responsibilities for the role of shaping society for which they are ill-suited, and that they would serve us and themselves better if they stuck to limited aims. Brittan, as is so often the case, uses the phrase ‘role of markets’ as though markets will make use of dispersed knowledge in society’s best interest. Presumably, he expects the analysts and soothsayers involved in buying and selling shares located in the City of London, Wall Street, Frankfurt, Singapore or Tokyo to inject concerns of social responsibility into the affairs of companies; however, traders of this kind are not the people to do this hence the rise of social investment funds such as FTSE4good. Consequently, the simple profit-maximization model of the boardroom has to be extended. This does not mean further complications, but it does mean that clear benchmarks and indicators are required. This is the subject treated in this book in Chapters 7 and 8.

ST is backed up by a recent work that has proved very popular in the US – the book *Built to Last* by James Collins and Jerry Porras.[38] The core argument[39] is based on the premise that managers who reflect a genuine concern for the interests of all their stakeholders are those who produce superior results for their shareholders (as well as other stakeholders) over the longer term. One of the most fundamental conclusions of the study is that successful companies do not resemble the centrally controlled machines on which so much management theory, language and practice are still based. Instead, they are more like biological organisms, which adapt mainly through what the authors call ‘undirected variation’, or what Darwin termed ‘random genetic mutation’.[40] That has untold implications for the way companies are organised and run – or, rather, steered. The book gives little direct advice about the vital question of how an average company can become a great one. But, by comparing each of its study companies with the evolution of a less successful rival, the authors help to show just why Ford compares favourably with GM, as Disney has for years with Columbia, GE with Westinghouse, Motorola with Zenith and Citicorp with Chase Manhattan.

Moreover, citing the same study, Bruce Lloyd of South Bank University adds[41] that where any organisation is driven primarily by the interests of one stakeholder, this will invariably result in conflict that will have a negative effect on its bottom-line performance over the longer term. Of course, it is possible for organisations to get away with operating on the basis of a narrow set of priorities in the short term, and sometimes that is even necessary for sheer survival. But it is the exception rather than the rule. For the best results, says Lloyd, a stakeholder philosophy should be incorporated within an overall responsibility-driven approach that avoids a bureaucratic or legalistic attitude. This also needs to be believed in by all those responsible for the performance of the organisation. In other words, put people first!

These findings are backed up by Arie de Geus, writing recently in the *Harvard Business Review*.[42] He asks why do so many companies die young? He found from an analysis of companies across the Northen Hemisphere that average corporate life expectancy was below 20 years. Yet, he also found 27 companies that ranged in age from 100 to 700 years – including DuPont, Kodak, Mitsui, Sumitomo and Siemens. Within these 27 long-term survivors he found that the group shared four personality traits – conservatism in financing, sensitivity to the world around them, awareness of their identity and tolerance of new ideas. One of the most surprising finding was that each of the 27 companies had changed their business portfolio completely at least once. DuPont, which is approximately 200 years old, started out as a gunpowder company. In the 1920s it was the major shareholder of General Motors, and now is a speciality chemical company. These companies had valued people, not assets, concluded de Geus. Scuttling people to preserve plant and equipment is tantamount to suicide.

So, returning to the question phrased initially, is corporate social responsibility just another face of ST? To a certain extent it is, because both are interested in the social responsibility of corporations, and this is best tackled by breaking down the corporation into specific stakeholder groups and analysing what is meant by social responsibility among each group. However, corporate social responsibility, as envisaged here, goes further in one sense than ST, because it advocates social responsibility not only at the enterprise level but also at the world or planetary level. This is described in what I call ‘the planetary bargain’ (PB), and takes a more global view than stakeholder theory, as I argue in the next chapter. But corporations should not be responsible to *all* stakeholders in the sense of control. The idea is to take account of stakeholder interests in an ethically responsible manner since stakeholders, as defined in the next chapter, are the fundamental building blocks for a company that is to be considered an SRE.

4.TRUST, SOCIAL CAPITAL AND CSR

A gentleman's or lady's word is their honour, and the contract is sealed by their handshake. Such was the maxim behind Britain's rise as the industrial power in the eighteenth and nineteenth centuries. If trust does not exist in business behaviour then the transaction costs of doing business are much higher than they need be. This is because trust lowers the need for costly information gathering,[43] and avoids elaborate contracts produced by expensive lawyers.

Trust and corporate social responsibility are closely linked. A company practising CSR will have provided the data and the sort of track record that increase the level of trust of all its stakeholders in its activities. The costs of breaking this trust are high. Indeed, in the USA, litigation has got out of hand as consumers take the meaning of corporate responsibility to new and often absurd heights.

Francis Fukuyama, the author of the book on the 'end of history and the last man', in his book on the subject of trust,[44] linked the latter to the notion of social capital. This, he says, arises from the prevalence of trust in a society or in certain parts of it. It can be embodied in the smallest and most basic social entity, the individual, the family, as well as the largest of all entities, the nation, and all the other entities in between. At the individual level, clearly it is socially responsible to put one's litter in a provided receptacle. A person who carries his or her (and 'she' normally has more social capital than 'he' in general) trash despite ample opportunities to throw it away in a secluded spot is certainly the type of person one can trust. If all people in a society could be trusted on small things like this then bigger things would follow, and the social capital of the society would increase.

A nation like Iraq, which surreptiously fabricates nerve gas even under international scrutiny, is a nation that no one will trust. Should Iraq ever escape rule by a clique of thugs, it will take generations to rebuild its social capital and thereby raise the living standards of its people. A different story could have emerged if Iraq had had the notion of social responsibility in the 1980s and had then invested in the human capital of its people using its oil wealth. It would have had no need to invade Kuwait. Such a socially responsible strategy would have earned it enormous respect internationally, leading to greater wealth and, who knows, maybe Kuwait would have clamoured to be part of it.

Yet the West is not without its skeletons. The CIA activities of the USA in Latin America in recent times (in Chile, Guatemala and Honduras) have led to fewer developing nations trusting the USA as a partner. When the station chief of the CIA was asked in mid-1997 to mediate between Israel and the Palestinians to find the perpetrators of recent outrages in Israel, the attempt was, because there was no trust, doomed to failure. Who can trust the USA to act independently when its own interests are at stake and it uses a body (the CIA) with a terrible reputation for trust?

This extends into corporate life. On a larger scale, the litter that Shell wished to dispose of in the Atlantic Ocean (the obsolete Brent Spar oil rig), led to an international outcry. Whatever social capital and trust Shell had built up over the years (and it was known at one time as a particularly altruistic enterprise) was destroyed very rapidly, and has taken years to replenish. Cor Herkstroter, chairman of Shell's committee of managing directors, admitted at that time that Shell had been 'slow to appreciate the growing authority and importance of environmental and consumer groups' and had 'failed to engage in serious dialogue' with them.[45] In recent years through Shell's series of social reports[16] has led to Shell being one of the leaders in the CSR stakes. As its chairman, Mark Moody-Stuart, stated in the aforementioned report in the year 2000 'My colleagues and I are totally committed to a business strategy that generates profits while contributing to the well-being of the planet and its people. We see no alternative."

Already these changes have translated into measurable outcomes to the extent that Shell (UK) comes fairly high on a set of indicators of social responsibility, as can be seen in Chapter 9. In a list of the 25 largest UK companies it ranks eighth, because it has one of the highest scores in terms of a battery of

[16] See, for example, "The Shell Report 2000: People, Planet and Profits", May, 2000, Shell International Ltd., London, UK followed by another in April, 2002 with the same title but for the year 2001 – see also www.shell.com

environmental indicators, is very keen that its suppliers adopt a code of good practice, is one of the best contributors to charitable causes and has one of the best records in recent years in terms of advertising complaints against it.

Turning back to Fukuyama[46] who noted that social capital is like a ratchet that is more easily turned in one direction than another; it can be dissipated by the actions of governments more readily than those governments can build it up again. Now that the question of ideology and institutions has been settled, the preservation and accumulation of social capital will occupy centre stage. A socially responsible enterprise will fight to preserve that and to create even more social capital in the future.

5.ETHICS AND CSR

Towards the end of the nineteenth century, an Oxford tradesman observed how his competitors were cheating and swindling at every opportunity. He agonised about how he could avoid doing the same without going out of business. Eventually, the tradesman screwed up his courage and took his problem to the formidable Benjamin Jowett, the master of Balliol College. Jowett paused only for a moment before replying: 'Cheat as little as you can.'[47] The moral of the story is that there are no hard and fast rules for ethical good practice. In fact most university business schools that teach ethics, such as the top-rated Darden School of Business in Charlottesville, Virginia, USA, recognise the difficulties and use case studies to illustrate how ethics can be treated in business.

The idea of ethics in business is not new. It can be traced back to nineteenth-century philanthropists like the early socialist entrepreneur Robert Owen and various Quaker-owned businesses. But by the 1950s governments had introduced laws and regulations to prohibit many unethical practices.[48] In more recent times, especially in the US business schools, ethics has been a growth area although, as the collapse of Enron and WorldCom illustrated, is still not part of general business practice.

Ethics are a set of values and principles that influence how individuals, groups and society behave. Business ethics are concerned with how such values and principles operate in business. According to Chryssides and Kaler,[49] they, have two aspects: one involves the specific situations in which ethical controversy arise; the other concerns the principle of behaviour by which it is appropriate to abide.

What is the relation between business ethics and social responsibility? The latter goes much further. CSR is part and parcel of the management strategy of a company and thus social responsibility encompasses good business ethics. This is because one normally thinks of business ethics applying to what business does within its walls, that is to four of the seven stakeholders that I focus upon in this book – managers, consumers, investors/owners and employees. Less concern is placed on the natural environment, the community and its suppliers and their conditions of work. Social responsibility encompasses good ethics, both within the walls of the company and without. It encourages enterprises to be involved in social issues, such as community involvement, improving Third World working conditions, and so on, that are outside of the walls of the enterprise. The consideration of all seven stakeholders is encouraged for two main reasons. First, it is good for business, that is for longevity and profitability. Second, the private sector has won the battle to keep government out of business, but this still leaves many areas of the world where the private sector can either replace or assist the public sector in improving living standards. Both these reasons take the issue further than confining the study of ethics to a 'not-for-profit' course as it was at one time at Harvard Business School[17].

[17] Since the first edition of this book, courses on CSR are prolifigating. For instance, in July, 2002, CSR network organised a conference at INSEAD in Paris to raise the profile of CSR in business education. Over 250 particpants took part, including this author, over half from business schools, and INSEAD is to sponsor work on 'Business in Society' its name for CSR. My own course that started in 2007, can be found on www.corporateresponsibility.ch .

Chapter 2:The Need for a Planetary Bargain

‘Those who engage in social co-operation choose together, in one joint act, the principles which are to assign basic rights and duties and to determine the division of social benefits.’ (John Rawls)[1]

In this chapter, I outline the elements of what could be in a planetary bargain to promote CSR. The two main actors in such a bargain are governments and business. There are, of course, many actors on the world stage, and governments are not always the best to represent their own societies especially in some developing countries. Yet, if a planetary bargain is to come about to promote corporate social responsibility then the lead will have to come jointly from governments (including international organisations) and business itself. Therefore, the first two sections in this chapter set the parameters of what each could expect from each other. I then discuss the link between a planetary bargain and globalisation before entering into some detail of what a planetary bargain could consist of. Whether a planetary bargain should be voluntary or enter into the legal framework of nations is an issue I cover before ending the chapter with a link to theory, when I ask ‘Is a planetary bargain simply another version of global Keynesianism’?

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