

The Meaning of "Corporate Responsibility" in the 21st Century

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"The proper business of business is business. No apology required" – or so claimed The Economist magazine in its recent survey of Corporate Social Responsibility (CSR). One imagines Chicago-school economists worldwide rushing for their handkerchiefs. It may be wise for them not to hasten. A quick reality check shows that such views have largely lost the battle for the "hearts and minds" of citizens worldwide. In Britain, MORI polls evidenced that over 80% of respondents consider a company's activities in society and the community important for making purchasing decisions. More surprising perhaps is the fact that many businessmen agree. Henry Ford had already observed that "A business that makes nothing but money is a poor kind of business". What is new though is the eagerness of companies to act – or be seen to act – on this front, as the agendas of recent World Economic Forum meetings demonstrate. Making sense of these developments is not straightforward. We will argue that corporate responsibility is a concept in a state of flux, mutating from its previous capitalistic incarnation under the pressure of a changed society. This process has opened great opportunities for social gain that we cannot afford to disregard.

The Past:

Capitalism and Built-in Notions of Corporate Responsibility

Standard Welfare Economics puts forward two "Fundamental Theorems". Roughly stated, they hold that competitive equilibria are efficient – the size of the social cake is maximised – and that we can "pick" our preferred efficient equilibrium by redistributing initial endowments and letting the market do the rest. The first idea was popularised by Adam Smith through his seminal 1776 work, *The Wealth of Nations*. Smith persuasively argued that individuals pursuing their self-interest would, in the process, work involuntarily towards society's greater good, as if moved by an "invisible hand". Coupling this insight with the second idea may suggest the following course of action: let the invisible hand do its work and let the government carry out appropriate redistribution to select a "fair" or "good" final out-come.

At first sight, the main "responsibility" of business in such a world is to maximise profit for its shareholding owners. The onus is on the government to be responsible, it seems, through its role in terms of redistribution and ensuring that the conditions on which these theorems depend are met – for example, keeping abusive market power in check through competition policy or mitigating "externalities" such as pollution by managing private incentives through the tax system. There is no doubt however that even in this selfinterested world good businesses will be exerting some form of responsibility closer to the usual meaning of the word. For instance, this would involve accountability of management to shareholders and honesty in the firm's dealings with "direct stakeholders", including clients, employees and suppliers. This is more than it sounds. Some managers have unhealthily emulated King Midas in their liking of all things golden – from handshakes to parachutes – and performed other exploits in corporate resource plundering. SEC Commissioner Joseph Grundfest put it best when he parodied the title of a best-selling book by talking of "barbarians inside the gates" – remember RJR Nabisco? Fresher in our memories are the debacles of Enron, Arthur Andersen and Worldcom. A positive take on such dramatic events is that a responsible and honest behaviour of firms towards direct stakeholders eventually pays in most cases where markets operate properly (so that employees and clients can

walk away, or efficient takeovers can happen) and are subject to sound regulatory and legal systems. "Traditional" business ethics are thus both morally right and profitable in the long run.

On some measures, the capitalist system and the notions of corporate responsibility naturally associated with it have been extremely successful in the industrialised economies and those that are fast becoming so. Depending on the adjustments you make to official statistics, the productivity of US workers today is 14 to 25 times that of their late 19th century counterparts, with corresponding improvements in living standards. Otto Bettman vividly reminds us what has been left behind since that time: pigs roaming the streets for garbage; terrible epidemics; 10,000 deaths in rail accidents for 1890 alone; or 60-hour weeks in dangerous occupations such as coal mining. We have clearly come a long way on the present system. Furthermore, firms are now in many ways better regulated than in the past; markets work better, are more numerous, and a healthy press provides an effective means to spread information of wrongdoing. All these factors have tended to increase the economic incentives at the very least for corporations to act responsibly. Yet the dissatisfaction with our corporate systems is great. In what ways can one explain this apparent contradiction?

The Present: Reconceptualising Corporate Responsibility

Part of the reason behind this is precisely because we have "come a long way". It is a commonplace truth that we live in the age of the "Information Society" and "Globalisation". Real-time distress is only one button-push away – that of your television. Economic growth in the affluent world and the peace it has largely known in the postworld war period mean those images will often come from "abroad". Yet the informational and emotional distance between the "haves" and "have-nots" is thinner than it may ever have been before, conditional only on the images being impacting enough to shake the indifference that grows from repetition and shortened attention spans. The international reaction to the recent tsunami tragedy has demonstrated this. The increased availability of information also allows better access to stories of corporate malpractice abroad (e.g. "sweatshops", labour conditions) and to the actions of protest against these, providing the basis for a critical mass of discontentment to be expressed. The publicity that recently surrounded the 20th anniversary of the Union Carbide chemical plant disaster in Bhopal is a fresh example. Furthermore, a situation of sufficient affluence is an important factor allowing for such concern to be expressed. The development of many of today's industrialised countries is often taken for granted. Yet Spanish people over 60, for instance, can remember a time when hunger was a serious problem domestically.

In fact, capitalism today is sick because of its own affluence, thereby providing an additional driving force behind the quest for corporate responsibility. The data show that the spectacular increases in prosperity recently achieved by industrialised nations have hardly filtered through to people's happiness, as noted by observers such as Professor Layard. In the US, the percentage of people describing themselves as "very happy" to Gallup pollsters has exhibited a downward trend since the late 1950s. Japanese figures show stability since the 1950s despite a six-fold increase in income and similar findings apply to Europe on the basis of Eurobarometer data. Economics Nobel prize-winner Daniel Kahneman rightly called this phenomenon "the major puzzle in the study of wellbeing". The consequences go beyond which box you happen to pencil in for such surveys. Workers feel overstressed. The New York Times recently estimated that US yearly expenditure on anti-stress medicines and treatments amounted to \$300bn (roughly 3% of GNP), whilst the British Department of Health estimated 13 million working days were lost yearly

on this account. French Prefects summed up the mood in an unusually harsh-worded note: "French people do not believe in anything anymore".

The fact is that industrialised societies face a crisis of meaning in a way that is novel due to historical circumstances. Pope John Paul II sharply captured this when he observed: "It is not a matter of 'having more', but of 'being' more". Demands for corporate social responsibility represent a natural outlet for a citizenry disillusioned with the view from the mountaintop after the climb. They are disillusioned by the system they live in, as well as by the fate of others. This is why the ensuing questioning takes the form of the Porto Alegre movement, ATTAC and the widespread mistrust of multinationals viewed as the foot soldiers of globalisation. CSR is an attempt by people worldwide to manually override values into a system which they perceive sacrifices them all on the altar of productivity.

The Future: Some Ideas for Change

What, then, is to be done?

A first step would be for business to recognise that in the social field as in the commercial one every opportunity not taken is a wasted opportunity. This calls for a business mindset in which the potential for social gain is ever present, especially with regard to "spare capacity". An excellent example of this mindset in action is the Coca-Cola Company making available its extensive distribution network to help bring condoms, testing kits and medical literature to remote clinics in Africa. Such actions fit naturally with the activities of the company yet display great social returns. Similar examples come to mind in other fields: Endesa, the largest Spanish electricity company uses its expertise to illuminate heritage buildings; major law firms such as Freshfields Bruckhaus Deringer allow their employees extra time off to carry out pro-bono work; FedEx leverages its logistics to assist in the shipping of emergency supplies. This mindset calls for attention to detail in every area - no contribution is to be neglected. For instance, millions of processor cycles are wasted unused in corporate computers worldwide when they could be exploited to help in the computation of research data for projects such as ClimatePrediction or Find-a-Drug – IBM already contributes in this spirit through its World Community Grid project. The challenge is to make such thinking systematic, both across and within companies.

It is possible for some companies to move even further in identifying their sense of purpose with service to the community. One can imagine firms committed in this way putting aside a certain percentage of their stock as belonging to the poor of the countries in which they operate, for instance. The power of this idea is that it gives the disenfranchised a direct claim into the benefits of capitalism, thereby fighting both material and systemic exclusion. Good times are to be shared by all. Reforms of this type should be carried out with consenting shareholders or at the stage when the company is still private to avoid the paternalistic enforcement of charity denounced by Clive Crooks as "borrowed virtue".

What some may regard as the stuff of utopia has started acquiring the glow of reality for some leading companies. For instance, Salesforce.com is implementing daily its CEO's concept of "integrated philanthropy" with employees donating 1% of their time to the community, 1% of the stock going to its foundation and 1% of the profits given to NGOs through product donations. Such initiatives clearly represent an end in themselves, but have the additional merit

of responding to the craving for meaning experienced by our overstressed societies – with ensuing business benefits. For instance, a MORI poll recently revealed that nine in ten British workers felt that their employer's social and environmental responsibility was important to them, making this a valuable asset in the "War for Talent". Everybody stands to gain.

The potential for corporate contributions to social welfare is thus clear. It is also necessary. Government is nowadays a smaller force in the economy of many industrialised countries. Much intellectual talent is attracted by the lure of private sector rewards and employment stimulation. As a consequence, many specialised skills are to be found primarily in the private sector. In many countries, this is also true for physical capital and infrastructure. The NGO sector remains critically under-resourced for the accomplishment of its goals and the collection of individuals in society is too atomistic and boundedly rational to make optimal donation/intervention decisions. Yet its views are key in motivating official government assistance which thereby becomes in large part driven by "fashion", as noted by Afghanistan's former Finance Minister Ashraf Ghani. The solution to all these problems is clearly moving to a world of genuine cross-sector partnerships. Corporations are the organised expression of people coming together to achieve common aims and natural places for energies to coalesce. As such, they have a key role in such a framework of partnerships.

Conclusion

Capitalism has worked well in many ways and contains several built-in features incentivising corporate responsibility when well-functioning. As important as such responsibilities may be, the informed, globalised and affluent nature of our modern world have made that threshold of responsibility obsolete. The unhappiness of our societies and their questioning of "globalisation" are symptomatic of this. A fundamental rethink of the potential contributions of corporations in every area is urgently needed. Things that work well can be made to work better, to the benefit of all. Industrialised countries must now make the transition from societies of Information to societies of Meaning.

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