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Can Corporations be Good Citizens?

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Stilpon Nestor¹

Introduction and Synthesis

The present paper's aim is to present the main arguments in a debate that has been raging for more than a century. It reached its first climax in the 1960-70s with the phenomenal growth of the multinational corporations and has again been rekindled in the late 90s with the new -economy-induced globalisation of markets, of culture--and of dissent.

Following the guidance of the organisers, the paper strives to present the arguments in the context of a Porto Allegre- Davos debate, so that healthy Socratic dialectics may ensue. It will become clear that the author is not without opinions. However, this being an issues paper I have tried, maybe not always successfully to put my own view on the plate as one among many others.

In a sense the paper runs a full circle on the issue of corporate citizenship. Part I discusses the concept and its origins putting the title question in a philosophical, political and management theory perspective: can corporations be citizens? Underlying is probably the question of what a corporation really is. Is it primarily a social organisation whose power has to be checked by social forces? Or is it an economic institution whose functions and accountabilities should be primarily determined by economic incentives?

In part II, the paper identifies the three main drivers behind the corporate citizenship bandwagon. The first one is the civil society and its NGOs whose growing power often becomes not only the cause but also the objective of action towards corporations. The companies themselves and their executives are the second driver, as they realise that their clients want more and more to "do good" by consuming; and that their employees like to work for a firm that promotes certain basic values that they consider essential. In a more

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cynical tone, the paper also recognizes that managers pander to popular cause to gain power-- and temper that of their investors. Almost counter-intuitively, it is the latter that constitutes the third driver, with socially responsible investment catering to the preferences of certain--growing--classes of savers, on one hand; and large institutional shareholders taking an increasingly long- term view that raises the pressure on their investee companies to internalise their negative externalities, on the other.

Part III turns to content: what do we mean by corporate citizenship? What values do we include in the concept? The gamut is quite large. From the relatively restrained view of inter-governmental institutions like the UN and the OECD to the wide range of issues raised by specific interest groups, corporations are often confused as to what should be their areas of citizenship action. Because of the generality of the debate, its public relations significance to corporations and the risk of upsetting NGOs, many companies are ready to give in to NGO pressure and not invest under certain circumstances that are considered reprehensible thus hurting the very people that most need their wealth--poor workers in poor countries. Most importantly, it is yet unclear where the borders lie in the corporate citizenship debate and how can companies tell between serving the common good and pandering to special interests.

To escape the indeterminacy of "what", Part IV, like many reasonable corporate citizenship commentators, offers the perspective of "how to". In the end, corporate citizenship might be about putting together proper processes to measure, report, discuss and take action. To a large extent it is the processes that will define the issues.

This brings us "back" to the general conceptual plain. Part V in a sense revisits the debate in Part I. In lieu of an epilogue, it attempts a broad-brush sketch of the main world views on corporate citizenship, weaving a thread that runs from the beaches of Porto Alegre to the snows of Davos. The paper ends with the identification of four questions; milestones around which the discussion of the Conference's second workshop might be organised productively.

Part I: Corporations as Citizens

In a 1999 speech, Tony Blair, the UK Prime Minister pointed out that "...many of Britain's best known companies are already redefining the traditional roles of the corporation. They are recognising that every customer is part of the community and that social responsibility is not an optional extra"². Within the "traditional roles of the corporation" one should also encompass corporate philanthropy, sponsorship of the arts but also a sense of caring for the well-being of the corporation's "own". After all, it was the likes of Henry Ford who introduced social programs aiming to put in practice his own values on the humane existence of his workers-- although some would say that the outcome was closer to corporate fascism than anything else.

As Simon Zadek, one of the key corporate citizenship advocates, points out, "...today, the focus is shifting from philanthropy to the impact of core business activities across the broad spectrum of social, environmental and economic dimensions represented by the vision of sustainable development"³. In other words, we are witnessing a transition from what used to be a sort of social "conscience" of the corporation, very often identified with the values and preferences of its leaders, to the corporate responsibility of the organisation as a whole. The expectations are not anymore about "doing good" alone. They are about actively contributing to the cause of sustainability. An economist--and I am only an amateur one-- could divide this contribution into two distinct categories:

1. Managing negative externalities. This is the risk side of corporate social responsibility, whereby a corporation actively manages all of its affairs in order to minimize any harmful spill-over of its activities; for example, in the environmental sphere, by managing CO2 emissions and ensuring that its production facilities do not unduly harm its neighbouring communities; or, in the social sphere, by ensuring that its subsidiaries as well as its suppliers do not undermine human development in the societies and communities they operate in through child or slave labour.
2. Actively engage in the production of social and environmental goods: an example of this would be BP's and Shell's engagement is developing renewable sources of energy and UBS's involvement in the development of micro-credit

² UK Government Report on Social Exclusion (1999)

³ The Civil Corporation (2001), p.2

institutions in developing countries. The economic argument from a sustainable development perspective is that these goods are not "normally" produced (i.e. as a result of supply-demand interaction) because of market failures.

The concept of sustainable development-- a central concept around which corporate social responsibility and citizenship are articulated-- is by no means without detractors and doubters in the policy, academic and business spheres. It is, however, hard to argue that sustainable development is just one among many other moral and ethical choices. Most of the world's governmental and civil society organisations have now fully embraced it in the form of widely shared UN declarations such as the Millennium Development Goals and the Rio Declaration. Even governments that have been reluctant to embrace fully the political cause--e.g. the US government in its refusal to ratify the Kyoto Treaty on global warming-- are still mindful of at least paying lip service to the goal of sustainability. In other words, to most sustainability is motherhood and apple pie-- one of the foremost social goods that the global economy needs to produce.

While most commentators (including this paper) use the term corporate social responsibility (CSR) interchangeably with the term corporate citizenship, part of the literature has drawn an important distinction. As the Australian academic David Birch puts it, " corporate social responsibility is something effectively external to an organisation's internal workings, with little of the activities involved seriously changing internal corporate behaviour or ethos...Holistic corporate citizenship is very much more demanding than that, (requiring) internal behaviour changes so that every decision that is made at every level of the organisation is measured against deeply rooted principles of corporate citizenship"⁴.

Kenichi Ohmae, a Japanese academic, summed up the basic view of the corporation, from the perspective of corporate citizenship:

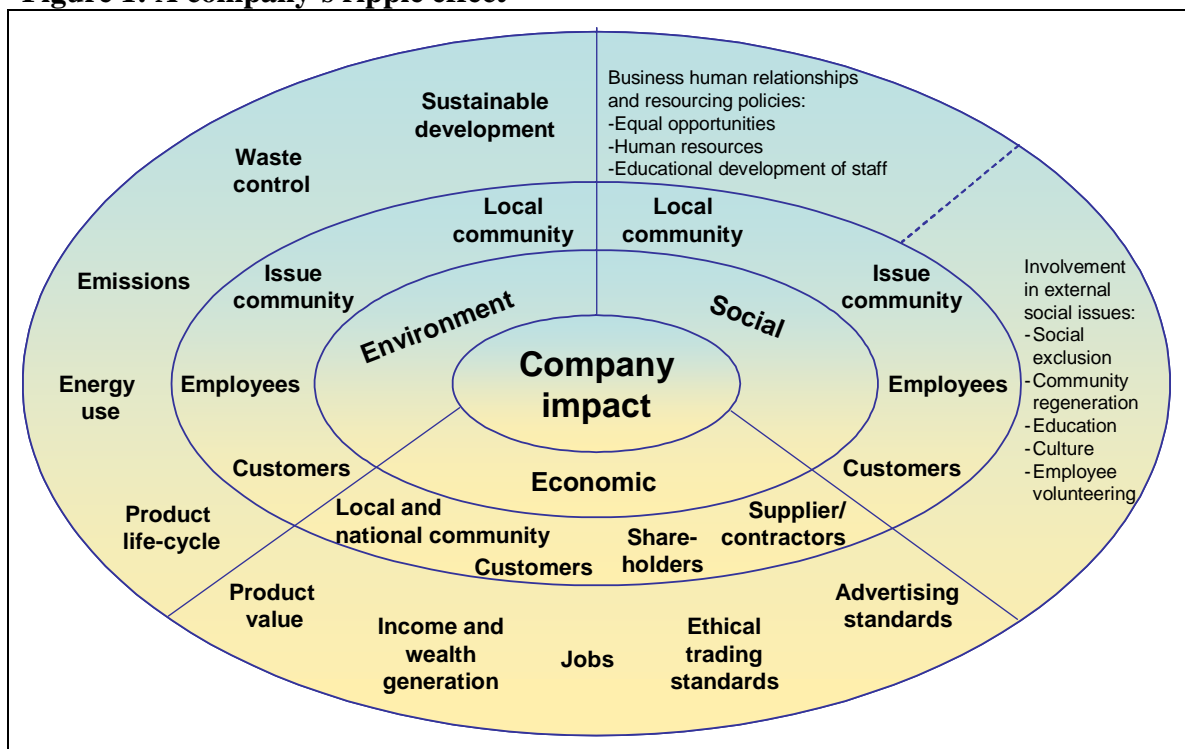
"A corporation is a social institution whose responsibilities extend far beyond the well being of its equity owners to giving security and good life to its

⁴ Corporate Citizenship: Rethinking business beyond corporate social responsibility" in Andrioff A and McIntosh M (eds) "Perspectives on Corporate Citizenship" (2001)

employees, dealers, customers, vendors and subcontractors. Their whole life hinges on the well-being of the corporation."⁵

Figure 1 includes a diagram by Andrioff and McIntosh⁶ of the "ripple effect" of a company on its economic, social and physical surroundings. It underpins the holistic approach of corporate citizenship as the clarion of transformation of corporate organisations into a "social institution" whose true purpose is to serve the quasi-public interest of all of those whose life it touches. It also illustrates the premise of the "triple bottom line" which companies should be pursuing according to the advocates of corporate citizenship.

Figure 1: A company's ripple effect



But why should corporations worry about being good citizens? Because they are probably the most powerful institution that human society has created since the nation state. It is a well known battle cry of the anti-globalisation camp that among the 100 largest economies in the world today 51 are

⁵ The borderless World: Power and Strategy in an Interlinked Economy (1991) p 214

⁶ Supra note 3 at p. 13

corporations⁷. Now, as Peter Drucker puts it, "power has to be accountable, has to be legitimate"⁸. Most of the corporate citizenship advocates would agree that corporate citizenship is precisely about legitimacy. The more powerful an institution the more it needs to show that it cares about the lives of people and communities that come under its remit.

But what about accountability? That is probably where things start to blur. Corporations are of course accountable, like all law-bound institutions. In deed, accountability is the heart of any institution in a democratic society. This is in stark contrast to "citizens" who are by definition free--and therefore unaccountable. In the case of the corporation-- a classic creature of law-- this accountability is laid out in detail in the company law: in most countries companies are accountable to their shareholders. In Germany, Austria and certain other countries, they are partly accountable to their workers, through the system of co-determination. Though boards in most countries have to look after the interests of "the company"-- a logical obiter dictum-- the bottom line is that there is one (or two) constituency (ies) that hires and fires them.

Hence the first fundamental objection to the concept of corporate citizenship, an objection that we may call "political". To give voice to one of its most eloquent subscribers, the renowned US shareholder activist Robert Monks "...corporate citizenship is a great fallacy. The Founding Fathers of the American Republic did not contemplate that corporations would be citizens"⁹. Though the activists are mostly anti-corporate in their beliefs, what they are really achieving with their effort to metamorphose the corporate institution into a new holistic existence is to endow it with inordinate political power. The right to have "values" and "opinions" and--in the US context-- a right to free speech which is recognised by US Courts have all been great mistakes in the road to corporate enslavement. A holistic corporate citizen is a corporation without real boundaries. It is an organisation with a license to influence society and put the might of its

⁷ Anderson and Cavanaugh "The top 200: the rise of corporate global power" (1999). The metrics supporting this assertion have been widely disputed.

⁸ The New Realities (1988). I have substituted "management" for "corporations".

⁹ "The New Global Investors" (2002) p. 54

economic power behind specific political or social goals, in order to generate yet more power. While at first glance "citizenship" might be seen as a great boost for the forces of sustainability, according to Monks and many others it might be the death knell of our individual freedom and democratic institutions.

Not far from the political objection to corporate citizenship is what I would call the philosophical objection. No one has put it in clearer terms than the Nobel laureate, Chicago economist Milton Freedman: In a 1970 article¹⁰, as short as it is notorious, he started from the same premise as Monks, i.e. that "there are no shared values, no "social" responsibility in any sense other than the shared responsibilities of individuals" to conclude that "...there is one and only one social responsibility of business--to use its resources and engage in activities designed to increase its profits, so long as it stays within the rules of the game, which is to say, engages in free competition without deception or fraud".

According to the philosophical rejectionists, the corporation is a dedicated institution, invented and developed in order to bring together sources of capital for the purpose of organising productive activities on a scale that would provide returns to capital committed by individual holder that are larger than if they engaged in that activity independently. Its managers, those who organise production, have neither the mandate, nor the expertise to spend shareholder (or for that matter employee and creditor) funds in order to follow favourite projects that have nothing to do with the corporations business and everything to do with their own values. Market failures (such as monopoly and fraud) and negative externalities (such as environmental damage) are, in principle, the business of government, through prohibition, regulation or taxation. Because these issues are so sensitive, our societies have developed elaborate institutions, mechanisms, checks and balances to deal with limitation of liberties that such intervention entails. When it comes to the production of environmental and social goods that would rather be the job of specifically designed institutions (i.e. NGOs) whose principals do not have a profit motive.

¹⁰ The Social Responsibility of Business is to Increase its Profits,(1970) NY Times Magazine

The initial development of the corporate institution was indeed driven to a large degree by the desire to achieve monopolistic power. That is why most nations adopted antitrust laws, with the US leading the way in the turn of the 20th century. With the monopoly objective not anymore within sights (at least within the "rules of the game"), there was another big driver that propelled corporations into becoming the most successful economic institution of the last few centuries. It is described by Professor Oliver Williamson as "transaction cost economising", in other words the capacity to make economies by bringing transactions that would normally be effectuated at arm's length, in a free market context, away from the market and into a non-contractual hierarchical relationship, the hall mark of corporate organisation¹¹. If creating wealth through economising on bargaining costs is the primary driver behind the establishment and growth of corporations, how can this be reconciled with "holistic" corporate citizenship whose main characteristic is the effort to expand arm's length bargaining (with NGOs and others) at every level of the organisation in order to achieve non economic objectives, i.e. "negative" economies or, as Friedman puts it, a self- imposed tax on production.

It is worth at this point underlining again another aspect of the holistic approach to corporate citizenship. According to Carroll¹², there can be no corporate citizenship without a "moral leader" at its helm. Because corporations and their clientele are in reality only individuals, it is argued that they cannot pursue economics objectives alone, they have to address and pursue a set of other objectives that constitute the fundamental part of their constituents' moral universe. The moral leader's primary role is to identify and articulate this moral universe. The following piece by Fredrik Hayek¹³ illustrates why this well-intentioned yearning for convergence of personal preferences and institutional objectives, while prima facie rational, might indeed lead to disruption and loss of social welfare:

¹¹ The Economic Institutions of Capitalism, (1985), p 15.

¹² "The Moral leader: Essential for successful corporate citizenship" p. 139 in book cited note 3.

¹³ "The Fatal Conceit" in the Collected Works of F.A. Hayek (1988) p. 14

"...Part of our present difficulty is that we must constantly adjust our lives , our thoughts and our emotions in order to live simultaneously within different kinds of orders applying different rules. If we were to apply the unmodified, uncurbed rules of the micro-cosmos (i.e. the small band or troop, say our families) to the macro-cosmos (our wider civilisation) as our instincts and sentimental yearnings often make us wish to do, we would destroy it. Yet if we were always to apply the rules of the extended order to our more intimate groupings, we could crush them. So we must learn to live in two (or more) sorts of worlds at once. To apply the name "society" to both or even to either, is hardly of any use and can be most misleading".

Hayek's point is that we can be kind, caring and giving as individual but hot blooded self-interested profits seekers as professionals. And that by trying to organise the corporation as if it were a caring NGO we might actually be depriving society of one of its most important sources of economic welfare, of what Adam Smith called "enlightened self-interest".

The last but not necessarily least objection to a pervasive corporate citizenship approach I will call "managerial". Professor Michael Jensen¹⁴ of Harvard Business School sums it up very effectively:

"Any theory of action must tell the actors, in this case managers and boards of directors, how to choose among multiple competing and inconsistent constituency interests. Customers want low prices, high quality, expensive service etc. Employees want high wages..... Suppliers of capital want low risk and high returns. Communities want high charitable contributions, social expenditures by firms.....Obviously any decision criterion-- and the objective function is at the core of any decision criterion-- must specify how to make the trade offs between these often conflicting and inconsistent demands... Because stakeholder theory provides no definition of "better", it leaves managers and directors unaccountable for the stewardship of the firm's resources." In other words, while an all- encompassing corporate citizenship approach might enhance the legitimacy of the corporation, it might considerably weaken the accountability of its management.

¹⁴ Value Maximization, Stakeholder Theory and the Corporate Objective Function (2001), p 11.

Part II: The drivers of Corporate Citizenship

a. Civil Society

The first and foremost driver of corporate citizenship has been the rising power of civil society, of these forces that do not compete for either political (i.e. state- related) nor economic (i.e. business/corporate related) gains. This has been a long time coming and has been a result of a number of interconnected developments:

- Unprecedented levels of wealth in a growing number of countries and ever- widening distribution of this wealth has resulted in higher standards of living and education for the masses. In its Human Development Report for 2004, the UN notes that more than 50 countries, with more than 1 billion people, have achieved high human development scores. Rising levels of education in a growing number of countries is creating demand for information and pushing transparency on behalf of corporations. People understand more so they want to know more.
- The communication revolution, which brought the world to the fingertips of many millions of internet users. In addition to the point below, the communication revolution is in the process of fundamentally reshaping social allegiances and even moral aspirations.
- The globalisation of product and services markets (including travel), which brought mass consumer tastes and economic aspirations far closer than they ever were.

The proponents of corporate citizenship would argue that the growing importance of civil society has resulted in the empowerment of the "little" man and woman which is manifesting itself in two (again, interlinked) ways: the power to exercise "voice", through a burgeoning array of NGOs, increasingly international in membership, funding and aspirations; and the power to "exit", or vote with their feet, through mass consumer boycotts but also, less dramatically, by simply switching to products and services that fit their individual preferences better.

Civil society and its NGOs have been using their (relatively) newfound voice and muscle to demand that corporations follow citizenship objectives. Their action has often been very successful: you only need recall Greenpeace action over Shell's plan to sink its off shore platform Brent Spar into the depths of the North Sea, or the consumer uproar that led Nike to introduce a robust external review of labour practices of its supply chain, after it was revealed that subcontractors in certain developing countries employed young children to make sneakers.

There are of course several problems with the "civil regulators"¹⁵, to use Simon Zadek's expression for these parts of civil society that take it upon themselves to enforce values and standards on corporations. One is that there is rarely such a thing as a free lunch. Zadek rightly accepts that the enforcement of these standards has often very high costs. But he is silent on another problem, the fact that more often than not "civil regulators" pursue narrow special interests, rather than universally accepted moral values. Consider the following passage of his:

" the view that there need be no trade- off between financial profitability and being responsible to society and the planet is, plainly, a nonsense...It is easy to identify cases of business behaviour that are immensely profitable and cannot even with a stretch be argued as ethical. Destructive drugs, child prostitution, laundering funds stolen by politicians, weapons of war...., all come to mind as relatively incontestable examples. More disputed examples of questionable business practices (include) animal testing...., the use of genetically modified organisms and products ...that offer protection against pregnancy."

But note that all of the areas that are "easy to identify" concern illegal products and services in most developed parts of the world¹⁶. Companies do not need to incur "costs" --other than complying with the law, a "cost" that not even Friedman disputes. His "more disputed" examples are just that: they concern practices that, while for some highly unethical, for others are not only lucrative but highly ethical, because they help preserve human well

¹⁵ The Civil Corporation p. 51.

¹⁶ There is of course a caveat here ("developed") to which we will come back in little further down.

being, increase human welfare in poor parts of the world or promote choice among women to take his example.

b. The companies and their managers

By far the most effective argument for corporate citizenship amongst business people is that, when it is couched in reasonable terms, its net economic effect is positive. In other words while there are plenty, often important, costs associated with corporate citizenship that might have an impact on a company's bottom line, these costs are incurred with a view to preserving or increasing the long-term value of companies. This view is fuelling the emergence of a fully-fledged corporate citizenship advisory industry and has provided many an activist with employment opportunities in big corporations.

Corporate citizenship might create economic benefits to firms principally in two ways: by reducing risks (preserving value); and by actually creating value.

By addressing corporate citizenship issues, a company is managing reputational risks that might affect its immediate sales prospects as well as its longer-term brand "pull". This risk primarily materialises when the company becomes a target of NGO attack. NGO attacks can also have an impact on employee moral. Huntington Laboratories, a UK biotech company, saw an exodus of employees who were constantly harassed, psychologically and even physically by animal activists who wanted to stop the company from animal testing for its product development. BAA, the UK airports operator, exemplifies the risk management side of corporate citizenship in the following statement: "To deny that our neighbours have a genuine stake in the company is to deny ...their ability to obstruct, delay and even stop the growth of our airports"¹⁷. In another risk-related statement, Ahold, the Dutch retailer present the following view: "we recognise that we have to be sensitive in our development of retail units...taking greater account of diversity of our client base and employees.

¹⁷ BAA Connecting with our Neighbors (1999),

When it comes to actively managing environmental risk a recent report by CERES/ IRRRC notes a number of risks faced by companies in key sectors of the world economy:

"Modest greenhouse gas controls could reduce the market capitalization of many coal-dependent U.S. electric utilities by 5 to 10 percent. Under a more stringent Kyoto regulatory scenario, such companies could face a 10 to 35 percent reduction in market value.

- Market capitalization of major oil companies could decline by as much as 6 percent as a result of CO2 emission constraints, while companies with large reserves of natural gas stand to benefit.
- Among auto companies, costs of compliance with climate policies could vary by a factor of 25, adding a new competitive dimension to the industry that could cause some companies' earnings to increase by up to 8 percent while others fall by as much as 10 percent."¹⁸

Most importantly, however corporate citizenship adds value. A company that is attentive to the quality of its products should normally be attentive to what its customers expect from it in terms of basic values and social interaction. Levis understood early enough that its customers would happily spend a few dollars more if they could bask in the glow of a product that was 100% free of any abusive labour practices even though it was made in places where such abuse is rife. This approach contrasts significantly with the NIKE approach. Nike at first ignored supply chain management issues and later, following a net drop in sales as a result of widespread child labour allegations regarding its supply chain, adopted a strategy of risk control and damage limitation, increasing transparency and outside verification but not proactively assuming responsibility. Only later did it come around to fully and actively managing its value chain.

There are many more angles to value creation by corporate citizenship strategies. According to W. Ford Jr, CEO of Ford Motors, "if we are a leading corporate citizen we will attract better employees and the highest calibre of

¹⁸ Investor Guide to Climate Risk (2004)

people out of universities"¹⁹. According to Placer Dome, the Canadian natural resources company "...commitment to environmental protection, social progress and shared economic benefit will give us preferred access to projects around the world, thus ensuring continuous success and growth."²⁰

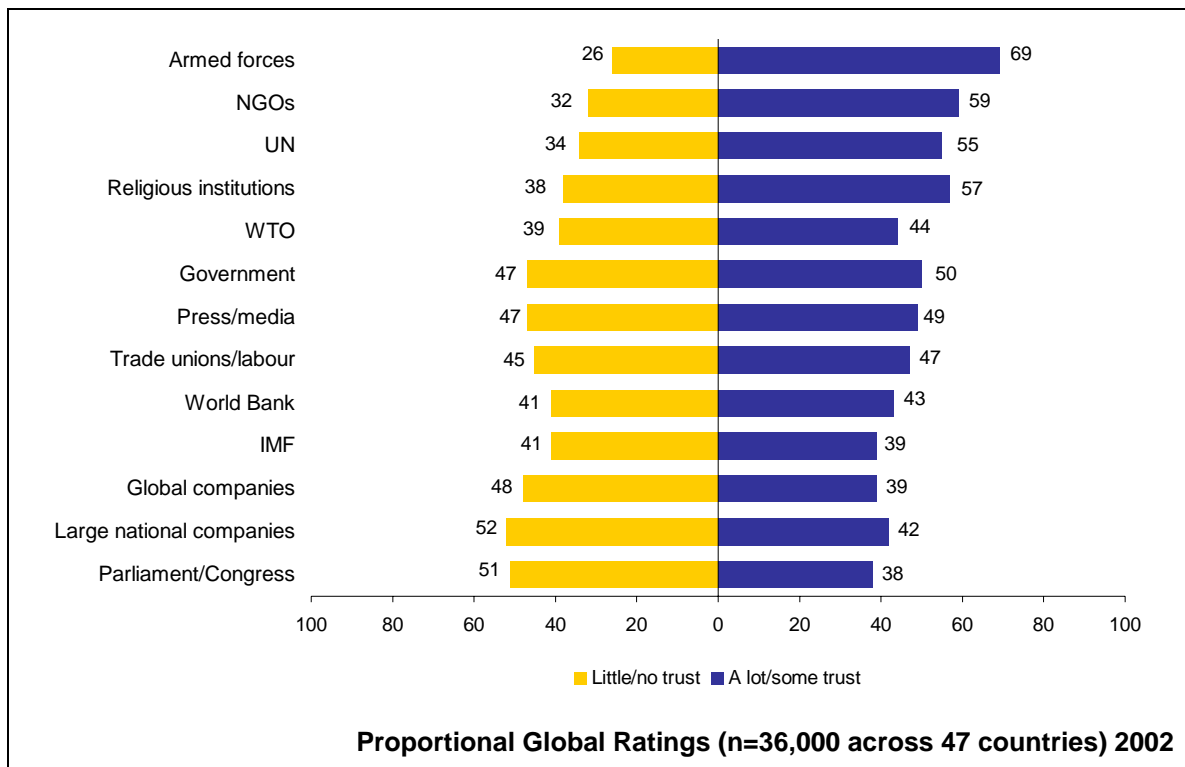
In the end of the day, the whole effort of corporation to become good corporate citizens is about trust. This is all the more the case today, in the aftermath of the big crisis of trust that followed the bursting of the bubble in 2001-3 (Enron, WorldCom, Parmalat etc.). If by improving their corporate governance, companies enhance trust in the markets, by pursuing good corporate citizenship companies improve trust among other stakeholders that are key for their businesses, most importantly their customers and their employees. There is a real economic reason as to why some of the world's most profit oriented companies engage in proactive dialogue with influential NGOs and in some cases, align themselves with their views. What they are really doing is "borrowing" NGO trust. In the wake of the "world's third wave of distrust" pollsters Dan Yankelovitch and Steve Rossel found in a 2002 worldwide survey that NGO were the second most trusted institution in the world²¹ (figure 2).

¹⁹ Corporate Citizenship Report (2004)

²⁰ Sustainability Report (2001)

²¹ Making Trust a Competitive Asset (2003)

Figure 2: Trust in Institutions to Operate in Society's Best Interests



This trust is often blind. Greenpeace's appeal was barely damaged even after it admitted that the whole Brent Spar campaign was one big costly mistake. Zadek²² believes that "people trust NGOs because---or as long as-- they are able to express a part of themselves that is not otherwise adequately experienced in their day-to-day lives."

c. Capital markets

The role of the capital markets as a driver of corporate citizenship is slightly less obvious. After all, this is where the red hot heart of capitalism and profit seeking beats. And yet, according to far from perfect estimates, between 8 and 12% of assets under management in the UK and the US in 2001, were subject to mandates that prescribed Socially Responsible Investment (SRI) in one form or the other. This is by no means small fry and some commentators believe it is bound to get bigger. That is because big chunk of these funds are faith related in a world that is becoming more religious by the minute. It was interesting to note that religious rivalry is developing even in the investment arena, with Muslim SRI funds performing better than their

²² Supra note 2, p. 47

Christian counterparts in 2005²³-- probably due to a dismal stock market performance of interest-charging financial institutions that brought the Christian average down.

Bob Monks²⁴ argues that large institutional investors (pension funds and insurance companies), are bound to invest more and more of their equity assets in a passive way reflecting broad-based indices. They thus end up "owning the market", a very large chunk of the economy of one or, often, more nations. Because they are very long term owners with little possibility of exit they fret about negative externalities, such as climate change and other environmental risks that are not properly priced in today's markets (although a lot of economists might challenge this assumption). It is rational for them to do so as the (very) long term value of their assets could diminish. Stephen Davis²⁵ calls this brand new positioning of large financial institutions as the guardians of common welfare the "civil economy".

Back to the present, a whole industry has emerged, catering to the needs of SRI. Stock Index providers Dow Jones and FTSE have both launched sustainability indexes that screen companies in their mainstream global indexes for their corporate citizenship credentials and rank them appropriately, excluding the laggards from the index. These indexes seem to be providing an important push to corporate citizenship. According to FTSE²⁶, 469 global companies in its FTSE4Good universe did not meet the requirements for environmental sustainability back in 2002, when the index was launched. By the end of 2005, 192 of these companies have met the requirements while 117 were taking action to meet them.

Part III: The content --and limits-- of Corporate Citizenship

By now it should be clear that corporate citizenship--or CSR-- mean different things to different people. As The Economist put it in its January 2005 survey entitled "The Good Company":

²³ Financial Times 22/1/2006

²⁴ Supra note 7, p 79

²⁵ The Civil Economy, (2004) mimeo

²⁶ 2004-2005 Report

"At one end of the broad span of CSR lie corporate policies that any well-run company ought to have in place anyway, policies that are called for on any sensible view of business ethics or good management practice. These include not lying to your employees, for instance, not paying bribes, and looking farther ahead than the next few weeks. At the other end of the range are the more ambitious and distinctive policies that differentiate between leaders and laggards in the CSR race, require large expenditures of time and resources on charitable activities, for instance, or binding commitments to ethical investment, or spending on environmental protection beyond what regulators demand."

FTSE4Good now looks at 4 main sets of criteria: environmental impact management, human rights criteria, supply chain management and (recently) anti-corruption and bribery standards. In this it follows the mainstream that has been set by the most highly visible initiative of the last decade in this area, the UN Global Compact. This international partnership brings together UN agencies, business, civil society and public sector organizations. Membership is based on a high level commitment to its ten principles, derived from key UN and international declarations on labor, human rights, and the environment. The UN Global Compact aspires to set the basic normative framework for global corporate citizenship. More than 1200 companies, including 200 large multinationals have signed up, although very few among them are US companies. To participate, a company sends a letter from the CEO to the UN Secretary-General expressing support and is expected to: (a) Set in motion changes in operations so that the principles become part of strategy, culture and day-to-day operations. (b) Publicly advocate the Compact via communications vehicles (c) Publish in its annual report a description of ways in which it supports the principles. In other words, there is no compliance verification and assurance nor any transparency mechanism in the contract.

The 10 Principles are:

Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labor;
Principle 5: the effective abolition of child labor; and
Principle 6: the elimination of discrimination in respect of employment and occupation.
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery.

Next in the level of normative detail come the OECD Guidelines for Multinational Enterprises. Once again the product of intergovernmental consultation in an international forum, the Guidelines are, according to AccountAbility²⁷, a corporate citizenship consultancy "... the closest thing we have to a comprehensive global corporate code of conduct. It is a key reference point of international norms for business. While the Guidelines are non-binding on businesses, adhering governments are committed to promoting them and to making them influential among companies operating in or from their territories."

Not only are the OECD Guidelines considerably more detailed than the UN Principles; they also have a much broader scope. On top of the four Compact areas (human rights, labor relations, environment and anti-corruption) the Guidelines have provisions on proper corporate disclosure, consumer protection, science and technology-related investment and know-how transfers, anti-trust and tax law compliance.

Both the UN Compact and the OECD Guidelines fundamentally serve developmental goals. Most developed OECD jurisdiction have a robust

²⁷ Strategic Challenges for Business in the Use of Corporate Responsibility Codes, Standards and Frameworks (2004)

enough regulatory framework to address most of the issues covered by them. The Principles and the Guidelines might really make a difference for companies that have significant presence in developing economies with a weak legal and institutional framework, i.e. where the standards in many of these areas are much lower than in OECD countries. The prevailing view here is that by being good global citizens and void exploiting institutional and regulatory shortcomings companies will help raise poor country standards.

There is however considerable dissent to that view. Many commentators would argue that asking corporations to have very high global standards of corporate citizenship actually discourages investment in poor countries, making the road to wealth-- the road that most OECD countries followed-- inaccessible to the countries that most need to follow it. In the words of the Economist²⁸:

"Attitudes that discourage investment by making it less profitable, or by exposing companies that have made such investments to ridicule or censure, undoubtedly hold poor countries back. They also keep in poverty the very workers who would otherwise have got those jobs. To withdraw from such investments, as good corporate citizens are frequently enjoined to, may well be profitable for the companies concerned because staying put would impose heavy costs on their reputation."

According to these critics, capitulating to the ill-judged demands of the NGOs may be rational, profit-seeking behavior on their part, especially in view of the considerable reputational risks they run should they come within their range of fire. But in this case, what is good for corporate profits and NGOs is bad for global and especially poor country welfare.

If the OECD and the UN view mostly the developmental impact of corporate citizenship, activist SRI investors have a much broader agenda. IRRC, one of the main providers of research to US SRI funds follows in detail the following areas: human and labor rights, equal employment opportunity, board

²⁸ The Good Company (21/1/2005)

diversity, charitable contributions, energy, environmental reporting, genetically modified organisms, global warming, executive compensation, military contracting, pharmaceutical pricing, political contributions, sustainability reporting and tobacco marketing²⁹.

It is obvious from the length of the above list--which comes from one amongst the "softer" institutions in the activism arena--that corporations might have a hard time satisfying all the criteria that are piling upon them. Many of them face persistent and quite noisy narrow interest groups that put resolutions in their annual shareholder meetings and often harass their executives, as with the Huntington case, discussed above. In fact, US executives use the threat of stakeholder activists to repel sensible corporate governance reforms that would introduce more board accountability to the shareholders. They argue that, given the unwillingness of many retail investors to exercise their voice, general meetings with more decision making power might be effectively high jacked by various special interests with nefarious results to shareholder welfare.

In other words, there is a real boundaries problem. While many of the issues raised by the CSR lobby are truly motherhood and apple pie others are less easy to comply with without opening the flood gates of yet more demand and more costs. The more "holistic" the approach to citizenship the more fluid the become boundaries of each organization.

Part IV: The road to Corporate Citizenship

At the operational level corporate citizenship means that a corporation engages to measure, communicate and improve the organization's impact on society and thus contribute to the goal of sustainability According to Global Reporting Initiative (GRI), one of the most influential voices in the area of measurement and reporting of citizenship performance, corporations have a lot to gain by being flexible and innovative in engaging with their various stakeholders. "By engaging with diverse interest groups and reporting its performance to them, an organization can:

- Learn how those affected by it perceive the organisation.

²⁹ Information at www.srwire.com (2006)

- Understand the aspirations and needs and how they can be satisfied.
- Communicate how these ambitions are being addressed
- Explore challenges and conflicts of interest between stakeholders and build consensus
- Be sensitive to the changing needs of the organisation and all its stakeholders and anticipate and manage risks as they arise."³⁰

The above is a tall order and, some might add, an alien one for business organisations. The latter are expected to be more focused on running their business than constantly taking the pulse of everyone who is affected by it. It is therefore important that it is kept in context from the point of view of the resources that need to be expended to this effect. After all, a real, "physical" citizen spends most of his time being active in the community and a very limited amount of time and effort on self examination and psychoanalysis. Too much introspection does not necessarily make a good citizen.

But let us assume that all of the above adds value or is otherwise a "must". If that is the case, a framework is needed against which all of these needs could be assessed, measured, benchmarked and communicated. Companies should avail themselves of the resources, including specialised teams that would engage in choosing the various standards for purposes of accounting and assessing all the relevant figures and in preparing the actual reporting to stakeholders. Assurance would then need to be provided, so that the integrity of reporting could be established. And of course, reporting alone is not enough. Companies would need to take serious concrete steps to address weaknesses that were identified through the above process through commitments and possibly negotiations with stakeholders.

That is where GRI comes in. "The GRI provides a generalized reporting format which gives guidelines and boundaries to the process of sustainability reporting...There is a push towards companies producing

³⁰ See executive briefing by Global Reporting Initiative (2005) at www.conversations-with-disbelievers.net

sustainability reports, and the GRI Guidelines have emerged as the 'only game in town' in terms of specifying what these reports should cover. However, the balance of costs and benefits of comprehensive reporting in accordance with the GRI remains unclear.

Costs of implementation of reporting per se are sometimes significant,

and once a company commits to the format it is difficult to withdraw.

One of the key selling points of GRI reporting is comparability and the ability for stakeholders to use it to create an instant index of performance. However, it is yet to be shown to what extent stakeholders are taking advantage of this benchmarkability.

GRI indicators are end-point measures which are not designed for management purposes – two sets of accounts are necessary; one for reporting and one for day-to-day management."³¹

In the UK, the government had until recently been pushing for the expansion of reporting obligations to non financial reporting that would include the kind of information generated by GRI triple bottom line reporting. However, in a spectacular about face, the UK Treasury decided in October 2005 not to adopt a requirement for public companies to produce an annual forward looking discussion of their strategy--including stakeholder/citizenship issues. The Operating and Financial Review (OFR) was considered one reporting cost too many for UK companies. It was also viewed by many as opening potential risks of litigation which might in turn lead many companies to go through boiler plate texts drafted by their lawyers, as is the case with significant risk disclosures in most US annual 10-K filings.

With the--at least temporary-- demise of the OFR, the realm of standards for assessing and reporting citizenship issues and strategies as well any related transparency requirements have remained firmly in the voluntary sphere. All reasonable commentators whether fans or critics of corporate citizenship seem to agree that this is a good thing, even though many of them looked at the OFR as a needed transparency complement to current reporting requirements. A 2001 attempt by the EU Commission to launch a wide consultation on the need to regulated certain CSR areas--mostly

³¹ Supra note p.20

transparency-related -- came to naught, as it was met with great hostility on the corporate and investment side.³²

Part IV: Epilogue: Looking for common sense

So where does all this leave us? How can corporations become citizens and address some of the very real long-term issues that confront our economies without compromising their main mission of creating wealth? This is an issues paper so a "tour d'horizon" of the main world views as we have already discussed them is in the order of the day:

According to some, corporations are candidates not for citizenship but for the psychiatric ward. CSR is a chimera at best and a plot at worst. Prof. Joel Bakan of Columbia Law School whose book "The Corporation: the Pathological Pursuit of Profit and Power" also became a best selling documentary, puts it in the following words: "The corporation's legally defined mandate is to pursue relentlessly and without exception its own economic self-interest, regardless of the harmful consequences it might cause to others. Today, corporations govern our lives. They determine what we eat, what we watch, what we wear, where we work and what we do. We are inescapably surrounded by their culture, iconography and ideology. And, like the church and the monarchy in other times, they posture as infallible and omnipotent, glorifying themselves in imposing buildings and elaborate displays. Increasingly, corporations dictate the decisions of their supposed overseers in government and control domains of society once firmly embedded in the public sphere. Corporations now govern society, perhaps more than governments themselves do; yet ironically it is their very power, much of which they have gained through economic globalization, that makes them vulnerable. As is true of any ruling institution, the corporation now attracts mistrust, fear and demands for accountability from an increasingly anxious public. Today's corporate leaders understand, as did their predecessors, that work is needed to regain and maintain the public's trust. And they, like their predecessors, are seeking to soften the corporation's image by presenting it as human, benevolent and socially responsible."³³ It is

³² "Promoting a European Framework for Corporate Social Responsibility"

³³ (2002) p. 4

mystifying that Prof. Bakan and his many followers seem to ignore the tremendous wealth effect of companies in western societies over the last couple of centuries, both in size and spread.

Then there are the "holistics", who believe that "...to pretend that social purpose can simply be grafted onto the existing corporate organization is an illusion and an evasion"³⁴ In order to address these issues, business "...has to increasingly understand itself as a public culture"³⁵. A public culture, of course, is a culture in which the profit motive is one among very many other aspirations. In this vision, corporations would become associations of the people that are affected by them and simply aggregate their individual goals. Adam Smith seems truly very far away...

Then there are those I would call "CSR realists"--very often consultants to companies. Simon Zadek sees the "civil corporation (as) the one that takes full advantage of opportunities for learning and action in building social and environmental objectives into its core business by effectively developing its internal values and competencies"³⁶. Notice that the emphasis here is on developing process around the "core business", not turning private self-interest into "public culture".

Coming to citizenship sceptics, I would put my money on Michael Jensen's view of the world. Like Peter Drucker before him, he recognises that "...if we tell all participants in an organisation that its sole purpose is to maximise value, we would not get maximum value for the organisation. Value maximization is not a vision or a strategy or even a purpose, it is the *scorecard* for the organisation....Defining what it means to score a goal in football, for example, tells the players nothing about how to win the game. It just tells them how the score will be kept. This is the role of value maximization in organisational life"³⁷. In other words, many of the citizenship issues--human rights, labour standards, environmental concerns-- should indeed enter the corporate strategic realm because they

³⁴ N.W Chamberlain , *Social Strategy and Corporate Culture* (1982), p. 12

³⁵ *Supra* note 5, p.56

³⁶ *Supra* note 2 p. 216

³⁷ *Supra* note 13, p.15

increase long term value but should not obscure the way management and organisational performance is measured.

Further down the economic purity curve come the business minimalists. Prof. Elaine Sternberg in her book "Just Business" insist that the only constraint on business should be to act within the law and in "ordinary decency", which excludes "lying, stealing, cheating, killing, coercion, physical violence and most illegality ". Companies should instead act "honestly and fairly". It is only fundamental business ethics that should temper the profit motive. Something Prof. Friedman would agree with in his definition which I cannot but quote again: "The social responsibility of business is to increase its profits".

Part VI: Issues for discussion

There are mighty waves and mountains separating Porto Allegre from Davos, but there are also flights, telephones and computers that bring them very close. This paper has tried to present the arguments on both sides with a view to the practical middle ground. The goal was to design a roadmap for the panel to debate the issues rationally and dispassionately as participants in the old School of Athens would. Only outcomes of such a debate might make the declaration of Athens useful to companies, policy makers and civil society.

There are four milestones to this road map and they can be summed up in the following four questions:

1. Can corporations become citizens without compromising individual political liberties and the profit objective?
2. What should be the main elements and limits of corporate citizenship? Is the CSR agenda setting objectives and expectations that companies can meet?
3. Should the implementation of corporate citizenship principles be left to civil society and markets or should governments intervene in any way, and, if so, to what extent?
4. Should the creation of long term value to the company be used as a benchmark for corporate citizenship or should other yardsticks based on broader ideals or principles be employed?