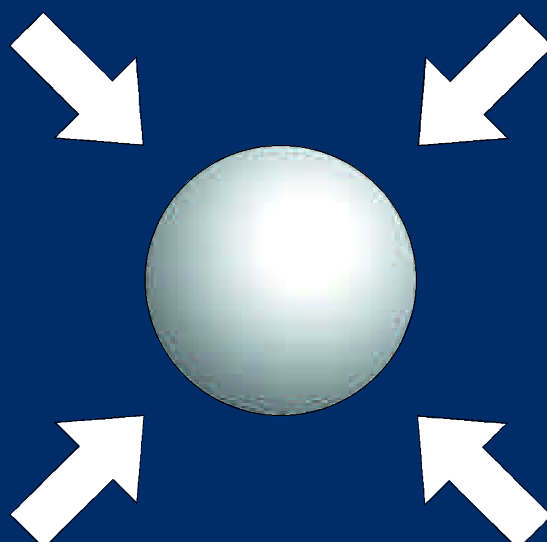
A RESEARCH REPORT INTO US CORPORATE SOCIAL RESPONSIBILITY TRENDS AND THE IMPLICATIONS FOR PROGRESSIVE CORPORATIONS AND REGULATORS

ENGAGE



A. C. Ping

CONDUCTED UNDER THE AUSPICES OF THE CORAL SEA SCHOLARSHIP
AWARDED BY THE AUSTRALIAN-AMERICAN FULBRIGHT COMMISSION

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AND THE IMPLICATIONS FOR PROGRESSIVE CORPORATIONS AND REGULATORS

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I have also benefited, as all who read this report will, from Ruth's expert editing and the fabulous feedback of all who read the initial drafts. Thank you for your time and considered thoughts, they have been invaluable.

Finally, I'd like to acknowledge you the reader for taking the time to consider the ideas in this report. I hope you find them provocative and that they encourage you to be bold in the task of remaking our world.

A.C. Ping
Melbourne, Australia

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PART ONE

REPORT METHODOLOGY
AND CSR OVERVIEW

1.0 INTRODUCTION

We stand at the beginning of the third millennium facing a period of change unprecedented in recent history. The advent of new-age communication technologies and the opening of previously closed countries is transforming the world into a truly global village.

There are many benefits to these changes, but there are also many concerns about:

- Belief system clashes between radical Islam and western Judeo-Christian countries.
- The increasing gap between rich and poor, both within countries and globally.
- The deteriorating the global environment.
- Human rights abuses.

If the late 20th Century represented the Information Age, the early 21st Century is the Age of Convergence. In this Age, the barriers between the sectors of national economies and the borders separating countries are beginning to dissolve.

However, unlike the day the Berlin Wall fell, this Age is not yet a happy time. Before we can create a world with a new global vision, we must come to terms with our differences and resolve to move forwards.

Corporations now comprise 51 of the largest 100 entities on the planet. Many global corporations have greater turnovers than the GDPs of some countries. Clearly, corporations must play a significant role in this time of change.

This report was conducted under the auspices of the Australian-American Fulbright Commission through the 2001 Coral Sea Scholarship. At the time of this award, Enron was considered an exemplary company and the twin towers in New York stood firm. When the research was conducted in 2002, the landscape had changed dramatically. In 2002, trillions of dollars were wiped from global equity markets, corporate leaders were vilified and public trust in corporations nose-dived. These events and the accompanying destabilisation of global relations through the rise of terrorism give the findings of this research even more pertinence. In particular it is clear that the role of corporations in the creation of a new global arena is more critical than ever before.

The research method used was the posing of four key questions to representatives of a cross-section of US corporations, not-for-profits, activists, academics and leading thinkers.

These four questions are:

1. What are the most pressing issues facing corporations in regard to social responsibility?
2. What are the key future issues and challenges in business social responsibility?
3. How is role of the corporation in society changing?
4. What are the cutting edge examples of business social responsibility that point the way forwards?

The answers to these questions provide a snapshot of the thinking in the United States regarding corporate social responsibility (CSR) issues. This snapshot and the lessons learnt in the United States are then used to address the question: What are the implications for progressive corporations and regulators?

The target audience for this report is two-fold: Government and Corporations. So, as a progressive corporation, what can be learnt from the US views of CSR? What are the implications for future business activities? And as a government body, what role should be played by regulators and legislators in ensuring the constructive involvement of Australian corporations in the creation of an abundant and egalitarian society?

This report is presented in four parts. Part One addresses the report methodology and defines CSR. Part Two considers the role of the corporation in society by examining current and future issues. Part Three considers the way forwards and the challenges faced by corporations and governments. Part Four summarises the research findings and presents a conclusion.

It is not the aim of this report to present a long-winded theoretical argument for CSR backed up by statistical evidence. The aim is to consider, in a pragmatic sense, the issues as identified by people 'on the ground' – and the action required in order to move forwards.

1.1 METHODOLOGY

Between May and July of 2002, the four questions listed in the introduction were posed to twenty-two people. These people were approached because they deal with CSR issues on a daily basis, as corporate representatives, academics, lobbyists, researchers or activists. Written information was gathered from organisations that could not, for logistical reasons, take part in face-to-face interviews.

Interview Participants

San Francisco

Robert H. Dunn
Chief Executive Officer, Business for Social Responsibility

Jamey Edgerton
Manager, Corporate Communications, GAP Inc.

Jed Emerson
Senior Fellow, William and Flora Hewlett Foundation and Lecturer,
Stanford University, Graduate School of Business

Lyuba Zarsky
Director, Globalisation and Governance Program,
Nautilus Institute for Security and Sustainable Development

Benjamin Klasky
Executive Director, Net Impact

Joshua Karliner
Executive Director, CorpWatch

Ken Larson
Corporate Social Responsibility Manager, Hewlett-Packard

Washington

Fran Teplitz
Managing Director, Social Investment Forum

Todd Larson
Managing Director, Co-Op America

Matthew W. Shapiro
Marketing Director, Social Accountability International

New York

David J. Vidal
Director of Research, Global Corporate Citizenship, The Conference Board

Claire Preisser
Program Manager, Initiative for Social Innovation through Business,
The Aspen Institute

Francis G Coleman
Executive Vice President Christian Brothers Investment Services, Inc.
and Board Member of the Interfaith Centre for Corporate Responsibility

Timothy J. McClimon
Executive Director, AT&T Foundation

Shari Berenbach
Executive Director, Calvert Foundation

Susan V. Beresford
President, The Ford Foundation

Farha-Joyce Haboucha
Chair of the Social Venture Network and Fund Manager for Rockefeller & Co.

Laura J. Castellano
Manager, Corporate Affairs, AVON

Boston

Dr Mark Albion
Former Harvard University Business Professor, best selling author and principal of 'Making a Life, Making a Living'

Professor Joseph Badaracco
John Shad Professor of Business Ethics, Harvard Business School

Mark Brownlie
Interim Secretariat, The Global Reporting Initiative

Dan Bakal
Director of Outreach, Coalition for Environmentally Responsible Economies

Corporate Information was gathered from:

- Starbucks Coffee Company
- Rolltronics
- Levi Strauss
- Nike
- McDonalds

Additional research and publications were gathered from a variety of sources. These are listed in Appendix A2.

1.2 WHAT IS CSR?

Corporate Social Responsibility is about the way corporations address the obligations to society that arise from the social deal made when they incorporate. In most western capitalist countries, the legislation governing corporations specifically defines the duties of directors, but fails to define the social responsibilities a corporation must address.

This is 'the social deal' to which Susan Beresford from the Ford Foundation refers,

> *"The early political rationale for the corporate form was a form that protected investors from personal risk. So the question that this raises is, 'What is the social deal that you are making if you get protected from personal risk?' Are you obligated in some way to minimise personal risk for the people who are advancing your economic interests in this protected environment?"*

The terms of this social deal are not specified in corporation law. Therefore, Corporate Social Responsibility has many definitions all varying in their interpretation of the 'deal'.

At one extreme is the infamous view proposed by Milton Friedman in 1970 in the New York Times,[1]

> *"There is only one social responsibility of business – to use its resources and engage in activities designed to increase profits"*

At the other extreme is the view that corporations are vehicles for social change. Of late, the narrow view of CSR proposed by Milton Friedman over thirty years ago is rapidly losing ground. In 2001, Environics International surveyed representative samples of around 1000 citizens in each of 20 countries across five continents.[2] They concluded that 36% of the general public and 41% of opinion leaders thought that a company's role is to help build a better society.

Few would disagree that the primary social responsibility of a company is to make a profit that enables it to remain in business. However, most definitions of CSR now suggest that the responsibilities of corporations extend into four areas.

- The Workplace
- The Marketplace
- The Environment
- The Community

1 Friedman, M. 'The Social Responsibility of business is to increase its profits', New York Times, 13th Sept, 1970.)

2 Environics International. 'Corporate Social Responsibility Monitor' www.environicsinternational.com

The World Business Council for Sustainable Development in its report 'Making Good Business Sense' by Lord Holme and Richard Watts gives this definition of CSR,

> *"Corporate Special Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large."*

The European Commission, in their Green Paper 'Promoting a European Framework for Corporate Social Responsibility' (July 2001) defines CSR as a,

> *"Concept whereby companies integrate social and environmental concerns in their business operations and their interaction with their stakeholders on a voluntary basis."*

Regardless of the definition one uses, the most important aspect is the acknowledgement that 'business' is not a separate realm from society. Rather, it is a subset of the greater environment. As a player in this greater environment, business activities impact on the other members of society. CSR is all about ensuring that companies make this impact a positive one.

1.3 DRIVERS FOR CHANGE

The key word in regard to CSR is Expectation.

What does the general public expect from corporations in return for the 'social deal' to which Susan Beresford refers?

When the first corporations were granted this 'social deal' it is reasonable to assume that corporations were viewed as good, and of benefit to society. Over the years, the actions of corporations have faced increasing exposure under the public spotlight. However, unless the expectations of the average people in the street differ from their perceptions of reality, there is no incentive for change.

The real battle then is to capture the hearts and minds of the general public as to what should be expected of corporations and what is actually happening. On one side, proponents of the Milton Friedman view would like to assure the public that focusing only on profits is the best way to service the deal. On the other side, activists would have us believe that focusing solely on profits is a parasitic approach.

This is an ongoing battle, but there have been significant events along the way that have given the advantage to the activists. Most notably, the 1995 Shell Brent Spar Oil Storage Platform incident formed a turning point in history. Much has been written about the way Shell conducted an environmental impact study and gained government approval to sink their storage platform into the North Sea. And then Greenpeace became aware of Shell's intentions and created an international media show.

Corporate environmental disasters much worse than sinking an oil storage platform had happened before, but none were successfully transformed into a global media campaign; and none resulted in the embarrassing retreat of the company involved. Shell found that not only was it under attack from the public as Shell service stations in Germany were firebombed, it was also under attack internally. Employees around the world wanted to know what was going on and the Shell head office was bombarded by requests for an explanation.

If the Shell Brent Spar incident was a turning point, then the events of the last half of 2001 and early 2002 signalled a sharpening of the knives for the 'profits-alone' believers. Trillions of dollars have been wiped off global stock markets, multi-billion-dollar companies have collapsed on the back of corporate scandals, celebrities have been caught in insider trading rackets, and, amid all this chaos, the average person in the street has lost thousands of dollars from investments and retirement funds.

If ever the gap between public expectations of corporate social responsibility and the perceived reality has been large, it is now.

As this gap widens it spawns vehicles that create incentives for corporations to change.

The four key vehicles are:

The screened investment community

Pressures corporations through direct lobbying, shareholder resolutions and PR campaigns.

Supply Chain

Corporations that have adopted a more progressive view of CSR pass these responsibilities down the supply chain by refusing to conduct business with companies that are not like-minded.

Brand Effects

Reputation is a key to success, both internally and externally. Consumers want to buy from companies with a good reputation, employees want to work for them and investors want to invest in companies they can trust.

NGO Pressure

Not-for-profit groups are all about keeping companies honest. In this age of global communications the world stage leaves nowhere to hide and NGOs exploit this for maximum benefit.

Francis Coleman explains the approach of the Interfaith Centre for Corporate Responsibility when dealing with corporations,

> *"What the ICCR does is think about what's the best strategy and how to use it. Do we negotiate with the company? Do we not? How long do we have dialogue? Have things gone on too long with no results? Do we push it to the next level?*
>
> *All of it is built around trying to get the company to take ownership of issues and come to meaningful resolution around these issues. Trying to get companies to be more responsible and responsive, trying to get them to be more ethical and value-orientated in their decision-making and integrate the values and ethics into the strategy planning process so when they are thinking about production overseas they are thinking about, 'How do we deal with this in a way that protects the workers in those factories and ensures they have a safe environment?' We're trying to affect all this in the macro sense."*

Joseph Badaracco from Harvard University, however, says that the best way to support or discourage CSR activities is via the market,

> *"The ultimate justification for a company's social responsibility activities is what the shareholders want. With a company that is active in corporate social responsibility issues, if the investors think that this is a waste of money, or think that the company is making contributions that individuals should make on their own, then they can sell the shares. If it isn't the case now, in the end it should be that most of the shareholders are people that*

> *back what the company is doing regarding corporate social responsibility activities. That is capitalism exactly as it should be."*

Whichever view one takes, there is increasing evidence to show that societal expectations have changed and pressure on corporations to adopt a more progressive view of CSR is on the rise.

The next section of this report analyses the role of the corporation in society and the challenges confronting the modern progressive corporation.

PART TWO

THE ROLE OF THE CORPORATION IN SOCIETY

CURRENT AND FUTURE ISSUES

2.0 INTRODUCTION

This part of the report considers the present and future issues in CSR, as distilled from the interviews conducted in the United States. Before considering these issues, it is worth asking how the interview participants feel about the state of Corporate Social Responsibility in the United States.

There was a wide variation of opinions in response to this question, ranging from the view of Bob Dunn from BSR,

> *"I feel as though we have cleared rocks from the land, turned over the soil, planted seeds in the ground but we have very fragile plants that are emerging. War, pestilence, plagues and foul weather could still put this movement at risk. It is still excessively dependent on champions who have not successfully found ways to make this a part of the DNA of corporate cultures and it is still not sufficiently rewarded when manifest, or penalised when it is not, to firmly embed it in the global business culture.*
>
> *I'm hopeful though, because I believe that there is now more happening at this moment than at any time in modern history and some of it is capturing what occurs as a result of people's natural dispositions and values."*

To David Vidal from the Conference Board,

> *"The vision of CSR in the US remains relatively small in comparison to the more expansive view and practice developing in other regions of the world, notably Brazil, the UK, Germany and the EU. Part of the reason is that the US is basically a big island and a lot of our citizens and our leaders do not have a global view of the world, and business leaders are no different."*

And finally the view of Joseph Badaracco from Harvard University,

> *"My impression is that there aren't any new or novel social responsibility issues. That's to say, none that haven't been around for a number of years. Retailers are concerned about sweatshops, IT people are concerned about privacy, manufactures are concerned about pollution, and currently everybody is concerned to some degree about security. None of these issues are new. Lots of things that were novel about corporate social responsibility are now becoming routine. This is a settled issue, as a big company you need to address this."*

There was however, general agreement that CSR has become a strategic issue for modern corporations, a point that was best explained by Dr Mark Albion's use of a Jack Welsh quote,

> *"Jack Welsh said 'Companies care about reputation, productivity and regulation.' In that framework, if what we're talking about affects one of these three things, it is a strategic issue. If not – it's not."*

Given the strategic nature of CSR, it was also generally agreed that CSR is no longer an issue that can be managed by one part of an organisation. Instead, it should be integrated into every part.

David Vidal from the Conference Board explains,

> *"The main idea with corporate citizenship these days is that no portion of the company owns it. The whole company owns it, so if you're limiting it to just the Board of Directors, you're missing the boat."*

2.1 THE ISSUES

Given the definitions of CSR detailed in Part 1, the issues raised have been organised into four categories: Market, Community, Environment and Workplace.

Globalisation is included as an additional category. However, as the world becomes a smaller place, all of the issues will become global. Therefore the issues raised in the Globalisation category are only those with urgent and pressing global ramifications.

Globalisation Issues

- Poor countries + Rich corporations versus the Middle Class
- Corporate Imperialism
- Corporate Influence on Governments and the UN
- Terrorism
- The effect of Capitalism on the role of women in society

Market Issues

- Corporate Ethics – short term versus long term focus
- Disclosure and Transparency
- The fiction of Perfect markets
- How do you measure CSR?
- The power of Reputation

Societal Issues

- Convergence – the breakdown of the barriers between government, business and the not for profit sectors

Environmental Issues

- Resource Efficiency

Workplace Issues

- Equal opportunity for whom?

2.2 GLOBALISATION ISSUES

2.2.1 Poor countries + Rich corporations versus the Middle Class

As stated in the introduction, one of the current key problems facing the world now is the gap between the richest nations and the poorest nations. In 1960, the richest one-fifth of the world's population were 30 times better off than the poorest one-fifth. By 1997, that figure had escalated to 74 times.[3]

There is no doubt that if the poorest nations of the world adopted the style and standard of living of the United States, the world would very rapidly run out of food and suffocate on carbon-rich pollution.

Bob Dunn from BSR raises this dilemma,

> *"There is a great debate underway, although it is very quiet and doesn't get much press attention, between, on the one hand, the leaders of the NGO organisations in the developed world who want to accelerate the application of standards to the developing economies. And on the other, leaders from many of the undeveloped countries who are saying 'time out' – if we can't square the issue of reparation and you're not going to compensate us, for example, for your use of the available carbon dioxide then you can't come in and restrict our capacity to grow and develop along the path which will enhance our standard of living."*

This dilemma results in the alignment of the poorest countries of the world, who are seeking to increase their standard of living, with the richest corporations who are seeking cheap resources and labour. From the perspective of social responsibility it raises a complex problem. It may make good business sense (from a narrow, profit-only perspective) to use unsustainable methods to log the old-growth forests in Indonesia. This exploits cheap labour, and it certainly would not be possible in the corporation's home country.

On one side is the argument put forward by developing countries – 'Let us get to your standard of living, then we'll address the environmental and social issues. You have no right to patronise us, tell us not to do what you have already done.'

On the other side is the argument put forward by NGOs and the 'middle class' – 'Just because we did it doesn't make it right. Please learn from our mistakes, we are living in a global world.'

Caught in the middle of these two arguments are the corporations. Consider the ethical dilemma faced by an American construction company doing business with a Dutch oil company in an unregulated ex-USSR country where anything goes. Which ethical standards should be adopted, US, Dutch or USSR? The answer will influence dramatically the outcome of negotiations.

3 United Nations Development Program, 'Human Development Report' 1999

As Joshua Karliner from Corp Watch points out,

> *"If you could force US corporations to adhere to the same standards across the world that they use in the United States, that would be a significant advance."*

At present there are no binding global corporate conduct standards and to introduce and implement such standards would be an administrative nightmare. However, there are voluntary standards such as the UN Global Compact, The Global Sullivan Principles and the Caux Roundtable Principles.

Conclusion

Some corporations will continue to exploit the cheap resources of developing countries but two things will work against them. First, the continuing increase in the level of awareness and concern about these issues in developed countries by the 'middle class'. Second, the role of NGOs in tracking the actions of corporations and exposing them. The ever-improving standards of communication technology is making this task easier and easier for the NGOs. Companies doing the wrong thing face an increasing risk of exposure.

Given that developed countries seem unwilling to aid poor countries in improving living standards (current first-world aid levels stand at 0.22% of GDP[4]) responsibility falls on the corporations who wish to conduct business in these countries to do this in a way that has a positive impact on society.

4 The Worldwatch Institute, 2002

2.2.2 Corporate Imperialism

Particularly during the last ten years, some corporations such as Nike and Shell have been caught out by NGOs for conducting business in a way that was perceived by the public to be irresponsible. Nike, like many other clothing manufacturers, was found to be exploiting cheap labour in undeveloped countries and was vilified in the media.

If there is one thing that forces a business to change, it is pain. Bob Dunn from BSR explains,

> *"There was an interesting marketing research study that was leaked a couple of years ago when Nike first came under attack when its sales were climbing. The people in the company said all of this was just a lot of noise and nothing behind it. But then in the marketing study of 13 to 20 year old, kids were asked what they associated the Nike brand with. The first response was 'cool', second was 'sport' and the third highest response was 'exploitative labour practices'.*
>
> *So, the people at Nike came to understand that you don't build a global brand through an association with exploitative labour practices. And when you look at the value of the brand and you say, 'What's the financial impact of damaging the brand by half of one per cent, by one percent, by five percent?' It's an enormous sum. So would you make investments to protect the brand? To enhance it's value? Of course you would. There is also growing evidence to show the effect of such things on employees. At Nike the first visible effect of these campaigns was the demoralisation of the people in the company. People who had always been proud to work for Nike were suddenly embarrassed to say they worked for Nike when they went home at night or when they went to cocktail parties."*

Nike's response, like Shell's, has been to stop and reassess its way of conducting business, its *raison d'être*. They have not been alone in this. Many leading companies have taken the time to clarify how they will and how they will not conduct business. Many, like GAP and Hewlett-Packard, now have 'Vendor compliance criteria' which affects with whom they will and will not conduct business.

This raises an interesting question – Does this become Corporate Imperialism? And if so, is this a bad thing?

Ken Larson from Hewlett-Packard explains,

> *"In developing countries the issue often isn't that they don't have laws, the issue is that they don't hold companies responsible to them. But we are going to hold our suppliers to our conduct codes which probably mirror, to a pretty close level, the laws of the land. Do we then become the rule of law in a country that doesn't have a strong central government to roll out their laws and hold them accountable? Effectively we do."*

GAP is another company that has revised its way of conducting business. It now has a comprehensive Vendor Compliance Code and employs approximately 100 people in its Global

Compliance Section. The company works with suppliers and also engages with government representatives in the countries where they work. Like Hewlett-Packard, they also refuse to work in certain countries.

By promoting itself as a socially responsible company, GAP also finds itself an agent of social change. As explained by Jamey Edgerton,

> *"As one of the companies that does care about CSR issues we get calls from groups saying 'We know you are making changes, we see what you are doing but we want you to do more.' An example is where GAP does not work with a factory at all, so we are not monitoring them because we are not doing business with them. Then another company comes in and there is some sort of issue. The group will call us and say 'We need you to put pressure on the vendor to address this issue'.*
>
> *GAP will do this by sending letters to the factory and speaking to them, saying, 'You are getting attention on this issue and it would be in your best interests to address it.'"*

What is the effect of these actions?

First it is interesting to note that by forcing suppliers to adopt higher standards and by paying employees more money companies such as GAP put themselves at a competitive disadvantage to companies that adopt the 'we-know-nothing' approach.

The best strategic response is to do three things:

1. Encourage all companies to adopt the higher standards.
2. Encourage and/or facilitate market mechanisms that promote transparency so that those companies that do not adopt the higher standards are exposed.
3. Encourage consumers to consider these factors when making purchasing decisions.

The more companies that adopt high standards, the more pressure there will be on countries to address human and labour rights issues. If every corporation based in a developed country adopted high standards, then countries wishing to enter into the global free market system would have no choice but reform.

Once in the door, a progressive company like GAP becomes a catalyst for social change. Not only do they monitor vendor compliance they also become educators on a diverse range of issues including health and human rights issues.

Dr Mark Albion agrees,

> *"There are issues, particularly in Latin America, about capitalism serving the rich at the expense of the poor. For two-thirds of the world's population, corporations aren't necessarily seen as good for society.*

(But) *a good company uplifts the human spirit and helps alleviate poverty and suffering on the planet."*

Conclusion

All too good to be true? Maybe, but the trick is the efficient operation of the market. If companies like GAP are to succeed in encouraging higher business standards worldwide, then we all need to know what company standards are now. That is, the transparency of business activities needs to be high. Second, we need to understand our role in the system, and recognise the power of the average consumer to change things.

All of this requires:

- A strong NGO sector that is willing and able to track the activities of corporations.
- An 'educated' media that can effectively and coherently report on the issues.
- Regulators who are not 'in the pockets' of companies to implement and enforce transparency.

If all of these elements are in place then corporations truly can become agents for great and positive social change – corporate imperialism can be a good thing.

2.2.3 Corporate Influence on Governments and the UN

One of the great concerns of the anti-globalisation movement is the influence that corporations have with both national governments and the United Nations.

The first major anti-globalisation protest in Australia occurred in September 2000 at the meeting of the World Economic Forum in Melbourne.

On September 12th, Vandana Shiva was allowed into the WEF meeting to read the 'Protester's Statement'. It reads, in part:

> *"Over 10,000 people encircled Melbourne's Crown Casino on Monday September 11th 2000. The reasons for us being here are many but centre on our concern for the increasingly unchecked corporate dominance which defines the world we live in… The WEF includes the richest corporations in the world which have a huge and disproportionate influence not only on government decisions but on the food we eat, the air we breathe, whether we have a living wage or not. The WEF doesn't need to be a 'decision making body' to affect our lives and the lives of people all around the world. The WEF represents corporate interests – not the interests of the people they employ or displace or the land and resources they exploit for their financial gain.*
>
> *We are blockading because people across the world are suffering under corporate-defined globalisation… we have a steadfast belief that we have both the right and the responsibility to take action in the face of corporate disregard for human rights, environmental protection, public health and labour regulation. This is something we – here in Australia and around the world – have stated for many years. While the WEF claims that it is now addressing key issues such as human rights and environmental sustainability, this is not reflected in the behaviour of individual WEF members and we see no evidence of equality in the distribution of global wealth."*

Joshua Karliner from CorpWatch suggest that this problem is caused by having things the wrong way around,

> *"World politics should not be dictated by corporate interests it should be the other way around. The interests of humanity should frame the way a corporate can operate. The market has no morality. Triple bottom line and all this other stuff may be helpful in some cases, but it doesn't necessarily translate into ecological sustainability and social responsibility."*

The problem is that the political system survives on money. Political candidates and political parties need money to fund election campaigns, and the source of real money is corporations. In turn, corporations have particular interests, whether that be mining in an area that is currently closed, deregulation of an industry or the setting of industry standards. If corporations won't receive something in return for their donations, should they donate? Most definitely not. It would be a gross misuse of shareholders funds to donate to a political campaign without an expected return.

In January 2002 the USA Today/CNN/Gallup Poll asked if big business had too much influence over Bush's decisions, and 63% of respondants said yes. Some investigation reveals they have good reasons to feel that way. When Bush ran for President in 2000, Kenneth Lay (former CEO of Enron) served as one of Bush's 'Pioneers' – individuals who raised at least US$100,000 for the campaign. Enron and Arthur Andersen also supported Bush, contributing respectively US$114,000 and US$146,000 via its employees and Political Action Committee (PAC) in 1999-2000.

When Bush became President he named a cabinet where strong corporate connections were the rule rather than the exception. Vice President Dick Cheney was, until 2000, the CEO of Halliburton, the world's largest oil field spare parts supplier. This company, through its European subsidiaries, sold spare parts to Iraq's oil industry despite the US sanctions.

WorldCom also saw a necessity to 'invest' in Washington. Since 1997, WorldCom contributed US $4.1 million to political parties or candidates for federal office. This is in addition to WorldCom's lobbying expenses of just over US$3 million in 2001. Most of this money is spent on television, newspaper and radio advertisements aimed at convincing politicians not to deregulate the long distance telephone business.

Similarly, the big five accounting firms (Arthur Andersen, Deloitte & Touche, Ernst & Young, KPMG and Price Waterhouse Coopers) and their trade association, the American Institute of CPAs, contributed nearly US$39 million in individual, PAC and soft money contributions from 1989 to 2001. Bush himself received more than US $640,000 for his presidential run.[5]

In a 'free market' system, the role of regulators is to ensure the efficient running of the system. But doesn't this require the autonomy of regulators?

Where does that leave us? How should a corporation respond? As a corporation if you don't donate whilst others do then you place yourself and your stakeholders at a disadvantage. But surely that means that the company with the deepest pockets wins?

The answer lies in what David Vidal calls 'the democratisation of power'.

> *"You need to be transparent so your vulnerability is reduced in case someone 'calls' you on your claims. If you think you can get by with a level of omission, then that's your choice. Citizenship is a choice. It's a leadership issue, a risk assessment. The essential question is 'How do we want to be seen?'*

5 Source of all political donations: The Centre for Responsive Politics

But the factors of control are democratised now. They are out of the hands of companies. The real drivers for change are the democratisation of power in the world. Information power, knowledge power, consumer power."

Conclusion

Banning corporate donations to political parties is not the solution. New avenues would be found to channel the money. Instead, the way forwards is through transparency and democratic action. The Internet enables people to gather information about who is donating to whom and why. It also enables the launching of campaigns that expose the true motives of politicians. The key driver for change is Reputation.

As a corporation acting in a socially responsible way the challenge is to be clear about the motives for actions. If the corporation wishes to donate to a political campaign or to lobby a legislative body then it needs to have a clear motive for doing so and it needs to be willing to stake its reputation on this motive. Likewise, a political party or politician accepting funds from a corporation needs to be clear about what is expected in return.

As consumers get better at recognising new ways of 'hurting' companies the market mechanism will deter corporations away from political involvement that is not socially friendly. The Environics 2001 CSR poll found that 30% of opinion leaders and 20% of the general public have already 'punished' a socially irresponsible company.

This is effective for corporations such as Nike or Shell, which are directly exposed to consumer backlash. But what about faceless oil and mining companies?

These companies are never going to be directly vulnerable to consumer action. They rely on governments for their licence to operate and this is why there is so much oil money in Washington. However, they are affected by supply chain pressures and are ultimately at the mercy of societal sentiment via government legislation.

An outstanding example of the impact of societal sentiment can be found in South Africa where the Johannesburg Stock Exchange requires corporations to report on Triple Bottom Line and community involvement issues. In early 2002, Anglo Platinum, a global mining company, discovered how serious the Government is when licences to operate new mines were delayed pending social responsibility issues. Is this a sign of things to come? Only time will tell, but it is clear that corporations need to undertake the risk assessment outlined above, before assuming they are invulnerable to societal sentiment.

Responses

NGOs are effective in exposing corporate political activities. The Centre for Responsive Politics publishes profiles of US Leaders and their corporate links, including the amounts donated to campaigns and private coffers.

At the international level, Corp Watch is the secretariat for the 'Alliance for a Corporate-Free UN', a global network of human rights, environmental and development groups working to address undue corporate influence in the United Nations, and to support UN initiatives to hold corporations accountable.

2.2.4 Terrorism

Since September 11th 2001 terrorism has become a more pressing issue in the minds of people in the developed world. It has changed the broader environment within which businesses operate, and it also has significant ramifications for the movement towards more socially responsible business practices.

Some believe that terrorism will divert the focus from business activities and allow a return to a more profit-orientated approach. Bob Dunn from BSR has this concern,

> *"At the macro level, if we find ourselves in a global cycle of violence and conflict it's a preoccupation that distracts people from what would otherwise be a focus of their attention."*

After the terrorist bombings in Bali and Kenya, one could argue that we are already in such a cycle of violence. So what is the reaction of businesses? Recently, former BHP Billiton chief executive officer Paul Anderson addressed this question while speaking at a business forum in Australia.[6]

> *"One of the best buffers you have against terrorism, the best protection you have for your employees, is to have a community that wants you to be there and actually protects your employees.*
>
> *In my experience, when you're going into a hostile place like Columbia or some place that is known to be difficult and actually poses a safety problem, the best thing to do is to get the community on side.*
>
> *You can do it through helping schools and hospitals and so forth. Communities usually protect your employees and the company itself if they feel they benefit from its existence."*

Anderson added that the rise of terrorism had forced companies to examine closely their overseas operations and the responsibilities they have towards their employees.

> *"It certainly isn't a justification for terrorism… but there is no question that there are probably companies out there that never even knew they had operations in Pakistan."*

Paul Anderson's view raises an interesting and highly provocative question: If the socially responsible activities of corporations are a buffer against terrorism, then does it follow that the rise in terrorism can be partly attibuted to the lack of corporate social responsibility in the past?

It is a proposition that only the bravest of social commentators would dare to support in the current environment. But it does provoke consideration of what the role of the corporation needs to be in future if we are to create a sustainable, global community.

6 Australian Institute of Management 'Business Leaders Forum', Melbourne, Australia, Friday 25th October 2002

However one views this issue, it is clear that terrorism strikes at the heart of the free market system. Retreating from countries because of the activities of terrorists simply increases their power.

But how can a corporation justify sending employees into hostile environments on the basis of free market principles? Surely this is an ideological battle on a global scale that can only be won by governments working hand-in-hand with corporations.

Several participants in this research pointed out that the best defence against terrorism is a strong social fabric founded on a shared set of values and principles. However, as John Gray points out in his book 'False Dawn'[7] the innermost contradiction of the free market is that it works to weaken the traditional social institutions on which it depended in the past – such as the family. Free market capitalism often entices people to move away from family and work in remote locations. It also enables corporations to ignore local markets, export to distant places and exploit local cheap labour and resources.

As governments become smaller and act more like resource managers than social institutions, who will take over the role of acting to strengthen the social fabric?

Surely the most efficient vehicle to achieve this is the corporation? Or, the corporate form with a redefined purpose. This issue is discussed further in the section below on Convergence; however, to close this section consider the following question:

'If the global world we live in is to be socially sustainable, then what role should the corporation be playing?'

7 'False Dawn' by John Gray, Granta Books, UK, 1998

2.2.5 The Effect of Capitalism on the Role of Women in Society

The final issue in the Globalisation category is the effect of Capitalism on the role of women in society. David Vidal from the Conference Board makes this point,

> *"Business is the most influential mechanism for the globalisation of many different things, including expectations about what the role of business is. (But) increasingly I think the biggest issue that's going to happen in this world is that business is going to impact on the relationship between men and women. The role of women in the world changes with business. As business comes in and women work, that changes the role of women."*

As corporations move into developing nations where women traditionally have 'carer' roles, their presence fundamentally changes the social structure. Women are no longer dependent on men for their livelihood; they gain employment and earn their own income.

The first corporations to enter developing countries are typically clothing manufacturers. The proportion of women to men in these organisations is usually extremely high.

Therefore a truly socially responsible company must consider which elements it will put in place to support the societal changes it creates. Childcare becomes a critical issue, as does education in basic financial management.

Additionally, if you are seeking to create economic change, these social changes need to be taken into account. David Vidal explains,

> *"The Grameen bank in Bangladesh works on the premise that the multiplier effect of women earning money is greater than that of men so they focus on women as agents of change."*

Conclusion

Developed countries have been discussing the role of women in corporations since the 1960s. Much of this discussion has focused on the 'glass ceiling' theory and the low proportion of women in senior management roles. There has been little discussion of the enormous impact a corporation can have on the societal roles of women in developing countries.

A progressive, socially responsible corporation operating on a global scale needs to take a position on this issue based on a clearly defined set of values. It is not good enough for corporations to conduct operations in developing countries without considering, and taking responsibility for, the long-term impact of their operations. This is not only for social reasons but also for strategic reasons. Corporations should acknowledge that the countries in which they operate and the people whom they employ will one day play a role in their ongoing viability – whether it be as consumers, employees or suppliers. Therefore a short-term view of foreign activities is ultimately self defeating.

2.3 MARKET ISSUES

2.3.1 Corporate Ethics – short term versus long term focus

There can be no doubt that the events of 2001 and 2002 highlighted the destructive nature of short-termism. As investigators sift through the remains of Enron, Global Crossing and others, they are more often than not finding the carcass is riddled with examples of unmitigated greed. But, how did this happen? How did people with such self-centred values sets find their way to the top of these huge organisations?

Francis Coleman from the ICCR says the market, and ultimately we the players are to blame,

> *"The greed impulse driven by the market saying 'You've got to grow every quarter', pushes people into situations where they make conscious decisions to cut corners. These decisions are conscious, not unintended mishaps."*

As players in the market system we must ultimately accept the responsibility for the proliferation of short-termism and greed in the corporate arena. These days we receive daily reports on the progress of stock markets via normal news channels. For those with greater interest, there is cable television with scrolling share prices and of course, the Internet with up-to-the-minute trades and the ability to buy and sell at the click of a button.

The people who presided over the major corporate collapses in recent times, were not there by accident. They rose to power as a result of a series of decisions made over the past ten to twenty years within the corporations for which they worked. The system rewarded their particular values set and this resulted in their progression through the ranks. Ultimately, the market and its investors (us) have been rewarding a values set which embodies short-termism and a profit-before-principles approach.

So, how can this be changed? You can't create a checklist and then legislate to create ethical corporations. Enron proved that – as Bob Dunn points out,

> *"There was a prominent member in the ethics community who was invited, over a year ago, by Ken Lay to come in and do a study of Enron's ethical practices. Reportedly the person wrote a letter back saying that they had no suggestions to make because Enron was doing everything an ethical company could be doing. This happened because people become distracted and focus on a checklist – Do you have a code of ethics? Yes. Do you have an employee ombudsmen that people can go to complain? Yes. Do you have an annual survey of employees? Yes. Is ethics part of your management training program? Yes. Now all of these things are good but taken together does it add up to be an ethical culture? No. But that is what many corporations have been doing. One of the learnings from the Enron scandal is that even where we have been doing this for a long time with sophisticated systems, we have sometimes failed.*
>
> *We need to rely on people's judgement and intuition, we can't always give quantitative proof."*

If we want to improve the ethical standards of the corporations in our society we must rely on the individuals within those companies. Francis Coleman suggests that we need a different reward system,

> *"I think if you change the dynamic and the criteria by which you evaluate and reward people then people will manage differently. People's internal mechanisms will change. We weren't valuing ethics or values in the marketplace. In the past there has been no check on executive decision-making beyond the share price. That is, the internal ethic or value system that we all have has been clicked off. Not only that, but the corporate culture rewarded turning that switch off which meant that the focus was solely on profitability and shareholder returns – impact on workers, environment and society wasn't even part of the equation. The trick to change is to find a way to turn that moral switch back on."*

So, if there is a 'moral switch' how do we turn it on?

Dr Mark Albion suggests that the best way is to never turn it off in the first place,

> *"If you want to bring your values to work, the best time to do it is early on in your career. That's when you have the most freedom to say who you are and what you believe in and maybe you don't fit here but you'll fit over there. The further and further you go, the harder and harder it gets because you have more responsibilities, and the less opportunities you have to make change and express your values."*

David Vidal, from The Conference Board, agrees but notes that there is hope,

> *"Some people say first we have to make money then we can start being a good corporate citizen. You can't go back and re-purpose yourself after you start making money, it just doesn't work that that way. But you can have a 'Road to Damascus' experience which causes you to reposition which is a lot of what happens in the marketplace."*

Conclusion

Ethics and moral conduct is an age-old question with which people have been grappling since the beginning of time. It strikes right at the heart of what it is to be human and ultimately rests on the question of the essence of human nature – good or bad? altruistic or selfish?

From the discussions on ethics, we can conclude that if we wish to have ethical corporations in our society, we need to:

- Encourage young people to surface their values set and develop the skills to think through ethical issues.
- Require mechanisms within corporations that encourage ethical behaviour.
- Reward corporations that act ethically and expose and punish corporations that don't.

It is almost impossible to rid our system of short-termism. However, by encouraging transparency and disclosure, corporations will have little opportunity to deceive the market. 'Corporate cowboys' will be exposed. If, as David Vidal suggests, one way of improving behaviour is to encourage 'Road to Damascus' experiences, then we need mechanisms in the market that literally shame corporations into changing.

It is clear that we must rely on the individual to change things; but remember that although an individual is powerless, many individuals linked through the market system can move mountains.

Responses

Business schools provide an excellent opportunity to encourage young people to surface their values sets. It is on this level that many organisations are active.

The Aspen Institute through its 'Initiative for Social Innovation through Business' program works actively with business schools to promote socially responsible business practices by providing case studies and other materials. It also ranks business schools on their performance in teaching socially responsible business practice.

Net Impact links students who wish to work for responsible businesses to businesses and not-for-profits that need MBAs. They also provide information to students and hold an annual conference.

In regard to market mechanisms, the key is to require not only a level of ethics training, but also a form of market review. This is where reporting and transparency become critical. These issues are considered in the next section.

2.3.2 Disclosure and Transparency

Without doubt, of all the issues raised by participants in this research, the one raised over and over again was Transparency. In a free market system if we are to believe that the 'invisible hand' will reach in and set a fair market price, then we as consumers need to have all the available information on hand.

Companies like Enron not only concealed information from the market but acted to deceive the market. The most striking example illustrating the desperation and delusion of the leaders of a company is the fake Enron energy trading room.

As Enron began to fail, US$500,000 was spent setting up a fake 'nerve centre' on the sixth floor of its Houston headquarters – complete with big-screen televisions, state-of-the-art computers and banks of telephones. The aim was to deceive financial analysts into believing that a new energy services division was operational and generating fat fees. When analysts were due to visit, employees were asked to come down and pretend they were working on deals. Enron is now worth next to nothing. Employees, whose retirement savings were held by the company, have been left destitute.

When questioned about the fake dealing room, Enron's former director Joseph Phelan said:

> *"It was a scam, but it depends on how you look at it. You know how Tucker* [the entrepreneur who promoted a venture to make 'the car of the future'] *didn't have an engine in his car when he displayed it, but it was real and just a bit behind schedule. I think that was the way everybody justified it".*[8]

The leaders of Enron who approved this operation definitely had turned off their 'moral switches'. The attempt at justification by Joseph Phelan is an indication of the true level of delusion. The lesson here is that trying to put things right after the event is much more difficult than setting things on the right course in the beginning. The comment by Phelan, *"…it depends on how you look at it"* is an attempt to massage the context of the event and effectively change its meaning. In a rational world of rapid change there are always justifications for any action – the key is to clarify which values provide the interpretative context. In other words, which values embody the expectations of society in regard to corporations?

The way to clarify these values is to require a level of reporting that:

- Ensures public knowledge of corporate actions.
- Enables society to compare corporations and the corporations themselves to compare their standing to others.
- Enables society as a whole to debate and determine reasonable expectations of corporations in the different reporting areas.

8 'Enron faked trade centre to 'sting' Wall Street', The Weekend Australian, 23rd and 24th February 2002, page 11

If this happens, the market can work efficiently to weed out the bad apples. Joseph Badaracco from Harvard University agrees,

> *"The best hope is investors who say 'We are not going to invest in companies with questionable practices'. Then managers will say 'How do we get the share price up?'*
>
> *In the end there will be a premium for honest accounting, transparency and disclosure. That is what will encourage managers to clean things up."*

So what do we want corporations to report on? It's here that the four areas identified previously provide a good starting point; that is:

Workplace

- diversity policies and goals
- labour and human-rights policies and goals
- profit-sharing initiatives
- Corporate strategy for implementation and monitoring

Marketplace

- ethical standards, goals and policies
- corporate governance standards
- strategy for implementation and monitoring

Environment

- resource-use efficiency goals and strategy
- supplier criteria
- impact of goods and services produced

Society

- community involvement goals and strategy
- philanthropic activities
- commercial relationships with community groups

Reporting on a wider range of issues benefits both investors who require greater transparency as well as the companies themselves. Mark Brownlie from the Global Reporting Initiative makes this point,

> *"Part of the rationale for reporting is externally oriented, but a lot of it is internally oriented. Reporting uncovers areas for improvement and weaknesses. It makes you say 'What are our values and how are we performing against them?' When you put a report out for public scrutiny it's just human nature to say 'We want to get better' so people are driven to improve. Another benefit of doing a sustainability report is that you*

have operations talking to finance talking to supply and HR. It's tremendous how you get people interacting who normally don't, so you get discoveries and benefits from that."

David Vidal from The Conference Board reinforces this and points to other ramifications,

"There is a real need for self knowledge, there is a need for an internal structure to generate that knowledge. There's a whole new set of intelligence you have to gather. It's also possibly a way for investors to judge your reliability as an associate. So that's going to have an impact on what's now called sustainable or socially responsible investing and at some point it will affect consumption and every other part of the economic cycle. It's really a brand-new ball game in terms of business."

Conclusion

A free market system aimed at providing equal opportunity for all will not work efficiently unless information is available to the market, enabling market players to make informed decisions.

The changing nature of societal expectations regarding the terms of the 'social deal' means that the reporting and transparency requirements for corporations are also changing.

Corporations can view this as a gross imposition. Or they can take this opportunity to improve the connection between the diverse areas of the business and provide the information to conduct the business more effectively. It also provides corporations with the material to build better relationships with both the community and the investors.

Responses

When the UN Global Compact was released in July 2000, much of the criticism focused on the fact that it was effectively a 'toothless tiger'. The Global Reporting Initiative is the response to these criticisms. It attempts to outline a set of global reporting requirements that will meet the needs of the market.

Social Accountability International also provides a framework for the assessment and accreditation of a corporation's social impact. Corporations meeting the SAI8000 standards can be accredited in the same way accreditation is available through the International Standards Organisation (ISO).

These initiatives reflect the reality of the global environment and provide good indications of the best way forwards in the attempt to create a global market which is transparent and equitable.

2.3.3 The Fiction of Perfect Markets

When listening to proponents of the free market system there is a risk that one can be caught up in the euphoria, and believe that free markets can solve everything. In reality, the perfect market is a fiction.

Unless you placed all the market players in an isolated environment and controlled when and how they received information, there is no way to create a perfect market in our imperfect world. Instead we should acknowledge that the perfect market is something we aspire to create.

If we see the perfect market as an aspirational state then, as Lyuba Zarsky from the Nautilus Institute says, we can focus instead on the interactions of the market players.

> *"There is no such thing as pure market forces. Market forces are always operating in an institutional context, so the key is the way in which the institutions and the market interact. It's not just rules and regulations, command and control, it's also management. There is a wealth of information in the public domain but accessing it is hard. So there is a role for the government in managing the databases and making the information accessible to citizens.*
>
> *Information is a public good and the government's role is to protect the public good. We've already got laws requiring reporting on safety and environmental issues. It's just getting this and making it available to the public because that fuels civic action.*
>
> *The government's role is to nourish and strengthen the relationship between the buyers and the sellers in the market. The government can be a facilitator and a convenor."*

If the government takes this role then more responsibility is placed on the citizens of society to take an active role in defining the type of society in which they wish to live. Mark Brownlie from the Global Reporting Initiative supports this view,

> *"The market can't take care of everything. There's a utopian view that the market's invisible hand is the panacea. There is still a role for government, and the thing that is always forgotten is individual responsibility. We all say governments should take care of this or corporations should take care of that. But look within and ask 'How are you making your decisions?' Can you claim to be environmentally and socially responsible in your actions?"*

The key principle here is freedom – freedom of choice for consumers and corporations but with added responsibilities.

The events of recent times have created the risk that the government, like a parental figure, will step into the market with a heavy regulatory hand.

Bob Dunn from BSR sees this as a significant threat to the CSR movement,

> *"The movement could be threatened if there is a cycle of movement towards greater public authority and the regulatory model, where things are more prescriptive and the floor becomes the ceiling. If governments decide that the only way to influence companies is through law and begin to set standards, then a lot of companies may decide that there is no reason for them to do more than what the law requires. And then corporate social responsibility become translated into mere compliance."*

Conclusion

Considering the development of capitalism from this perspective is best compared to the way people of different ages interact. At pre-school, children often play together under the strict supervision of teachers. If there is a dispute the teacher is the arbitrator. As children grow older they make their own game rules and resolve disputes themselves (often using unsophisticated physical means). The teacher is only called when there is an irreconcilable conflict. Moving further along the scale, adults play together and determine their own rules, resolving disputes by ending relationships or using the system to take legal action. The most mature relationships are those where both parties make a commit to staying in the relationship and resolve disputes through open and honest communication and mutual concession.

Capitalism in its early stages often resembles pre-school children – some players try to get away with everything they can. But the developed world has progressed past this, so the government's role must change, embracing a framework for managing the development of socially responsible relationships. Anything less will return us to a parent-child regulatory environment after passing through the anarchy that a hands-off approach produces. The challenge for corporations and consumers is to take on the responsibility that comes with mature market systems.

2.3.4 How do you measure CSR?

If we are to move forwards, embracing a form of capitalism that features mature players, then we need to be able to value the social activities of corporations. Triple Bottom Line reporting is an attempt to achieve this, but as Jed Emerson from Stanford University points out, in reality there is only one bottom line,

> *"Triple bottom line thinking inherently runs the risk of segregating and marginalising the environmental and social components of valuation from the financial. This allows people from the company to say, with a wink and a nod, 'Look what we are doing', but all they really look at is the financial bottom line. So long as that is a positive valuation you can do as much of the other stuff as you like but there's no way to completely understand or integrate the full value. The fundamental reality is that all firms create blended value with environmental, social and financial components. It operates on these levels but only as part of the whole.*
>
> *Given the many demands being placed on global firms to perform above and beyond simple financial indices of success, unless we can mobilise capital on alternative terms that incents firms to capture their full, blended value, these companies are ultimately going to die."*

Emerson's argument is persuasive. If you stop and think for a moment, clearly we are all 'Social Investors' – whether we act consciously or not. Every time we interact with the financial system we express our values and we impact on the overall makeup of society. This occurs through the way we spend our funds, the way we invest, the corporations for which we work and the companies with which we conduct business. However, the missing piece is a way of placing a dollar value on these activities.

With poor valuation models, CSR funds are unable to document their impact on social value. Foundations are unable to truly value their impact on society, and corporations that act in a socially responsible way are unable to demonstrate the true societal benefit of their actions.

In the 1990s Emerson worked for the Roberts Enterprise Development Fund. This fund provides loans and grants for non-profit companies that employ formerly homeless men and women. By the late 1990s Emerson and his staff were collecting statistical data and attempting to calculate the dollar impact of the Roberts Enterprise Development Fund. They found that in some cases, investing one dollar in the right way generated social and financial returns of 40 times.

The implications of Emerson's 'Blended Value Proposition' are intriguing, especially when combined with the push for greater transparency in the market. In our current situation, a corporation undertaking socially responsible activities such as involvement in community projects is at a disadvantage to its competitors because the market fails to effectively value these activities. However, if a valuation model was able to take into account all of a company's activities and the market was sufficiently transparent then we would be in a position, as investors, to truly assess the benefit of these activities. In our modern western world, based on rational concepts of valuation, such a model would accelerate social change through the market system without the need for oppressive governmental intervention.

Conclusion

Our current valuation models are inadequate to cope with the current convergent environment. Progressive companies will seek out new ways of valuing their activities and communicating this to the market, because a failure to do so will leave them undervalued and uncompetitive in the open market.

2.3.5 The Power of Reputation

When discussing the case for CSR with corporate representatives it becomes clear that the umbrella under which CSR rests is Corporate Reputation. The four key areas under this Reputation Umbrella are:

1. People
   Corporations wish to attract and keep the best people
2. Consumers
   Corporations wish to have a band of loyal followers that consistently support the brand
3. Investors
   Not only socially responsible investors, but any investors who wish to be able to trust the company in which they invested
4. Business Associates
   Both up and down the supply chain

It should come as no surprise that these four areas align closely to the four areas of CSR: marketplace, workplace, environment and society. More and more surveys are showing that graduates want to believe in the corporations for which they work. As Laura Castellano from Avon points out,

> *"If you really want to attract the very best business people out there and if you want to get the benefit of their intelligence and their ideas and creativity, you need to create an environment within your organisation that not only attracts these people, but also encourages them to stay."*

Dr Mark Albion, former Professor of Harvard University, agrees,

> *"The biggest issue that I've seen in companies is in really trying to get the young people who are the best and the brightest into their companies, stay there and develop. To evaluate companies I ask things like, 'Do the young people have a certain amount of freedom and opportunity to take risks? To try things? To make mistakes?'*
>
> *In addition, different ways of connecting the company in a helpful and sustainable way with society usually come from the young people. This helps companies innovate and grow. There are two reasons these initiatives usually come from young people. One is, hopefully they have been more organically growing into these types of concerns. And secondly they don't have as many responsibilities and expectations already set, strings attached … as more senior executives."*

Because of the nature of CSR activities an interesting thing often happens in the companies that support activities outside their core business. Because these companies attract young people who are passionate about what they are doing, the company often taps into a level of passion that is absent in larger corporations.

Dr Mark Albion again,

> *"We are seeing mega companies, and at the same time a large number of smaller companies. When these smaller companies start kicking at the door and taking pieces of the large companies then one of two things happens – either they acquire them, or they have to take note. And when people in these companies are employing new ideas like social responsibility, because they are bringing their whole selves to work, that can be a big competitive advantage. Everybody dreams of noble purposes, so when a company helps you try to fulfil those dreams, you can end up with a powerful, innovative company.*
>
> *To use a Jack Welsh quote, 'You can only get so much improvement in terms of productivity and reorganisation and automation. If you really want to get 200% increases in productivity, you've got to somehow capture the hearts and minds of the people who are working there'. So when smaller companies are able to do this, they are either acquired, like Ben and Jerry's, or the big companies have to begin to change. This is the typical market response."*

As more information on social and environmental activities is disseminated into the market, consumers seem to be assessing corporations by more than just economic impact. The 2001 Environics CSR Survey[9] showed that,

> *"Social responsibility makes a greater contribution to corporate reputation today than brand image, especially in wealthy countries."*

Avon recognises this and acknowledges its integral place in the community. As Laura Castellano says,

> *"Avon's community involvement goes back to the 1950s, and the Avon Foundation was established to give back to the communities where we do business. It's not just because it's the right thing to do. It's who we are. We're so much a part of local communities that it's a natural extension for us to reach out to those communities and be the company that, as our vision states, best understands the product, service and self-fulfilment needs of women – globally.*
>
> *A lot of people who are unfamiliar with corporate social responsibility issues look at these issues as warm and fuzzy, when in actuality they are really integral to a corporation's long-term survival."*

The rise of CSR funds also places more pressure on corporations to become more socially responsible. In the US, screened investment funds comprise approximately 12% of total funds invested in the share market, while in Australia this figure is barely 1%. However, over the

9 Social Responsible Investments Benchmark Survey, 2002

past six years screened investment funds in Australia have increased by over 700% in terms of total assets under management.[10]

This raises some questions. Most significantly, is this a trend which is likely to continue or is it merely a phase as the market rebalances?

The Environics 2001 CSR Survey identifies 13%-15% of the population in each of the 20 countries assessed that most influence the opinions of their fellow citizens. After comparing the 1999 survey results to the 2001 results, Environics concluded that,

> *"…in coming years companies will come under even greater public pressure to deliver on their broader social responsibilities. …* [and] *ethical consumption and investing will grow as the general public follows the lead of the opinion leaders."*

In addition to the Environics survey, consider the demographic changes currently affecting the western world. The year 2002 marked the first year that the 'baby boomers', the largest demographic group in western society, became eligible for retirement. This group controls the majority of invested funds. As they move into retirement, how will the shift from 'economic driver' to 'economic passenger' affect their risk profile and investment criteria? Remember that this group was the most active in the social change activities of the 1960s. Will the 1960s values set, which was dormant in many baby boomers climbing the corporate ladder, reappear in their retirement?

Only time will answer these questions. But note that, at present, the over 55s account for 21% of the Australian population but their households own 39% of the nation's household wealth and 54% of the nation's financial assets.[11] As the baby boomers retire these figures are expected to increase. If the investment sector is controlled by retired people, how will this affect society's expectations of corporations?

The final point under the Reputation umbrella – that of business associates – has been covered in the earlier section on corporate imperialism. The main point worth reiterating here is that a good reputation takes years to build and provides increasing opportunities to do business; but a bad reputation will bar the door to new business opportunities and provide decreasing opportunities to rectify the situation. The key word is Trust; which is built gradually and consistently.

Conclusion

Increased communication on CSR issues combined with high-profile corporate governance failures feed the reputation issue. A corporation failing to manage its reputation in an effective and transparent manner leaves itself open to a dramatic reassessment by society which can be triggered by the slightest transgression.

10 Social Responsible Investments Benchmark Survey, 2002

11 'Population Ageing and the Economy', Access Economics, Jan 2001

2.4 SOCIETAL ISSUES

2.4.1 Convergence – the breakdown of barriers

As the roots of globalisation take hold and the Internet brings us closer together, we find ourselves in the Age of Convergence. Here, the boundaries between the three traditional sectors of society – government, business and not-for-profit – are dissolving.

Bob Dunn from BSR comments,

> *"I think that what we're seeing in the world at this time is that when people look at public institutions they want to see them operate in an efficient, business-like way. When they look at institutions in the private sector, they want to see them serve a public purpose, not just be focused solely on profits.*
>
> *So what I believe is that the names we assign to the institutions in our society will become less important. So rather than thinking of us as a society or an economy with multiple sectors, we are a society that creates and supports institutions, including businesses that contribute to public well-being. Some of them do that by creating wealth and distributing it, whilst others may do it by ensuring that public safety is attended to, and others may do it by other means. So the distinction between the three sectors begins to break down. For example, Greenpeace is now involved in product development.*
>
> *It is much less clear what a company does, or what a unit of government does or what an NGO might do. This is a very healthy trend and this is my hope for the future.*
>
> *The negative view is that we have a consolidation of power in the private sector, that commercial interests become the most telling influence in our lives. So that, in ten years time, you might identify yourself as being Microsoft rather than as being Australian. I can't believe that will happen – but it is possible because at the moment 51 of the 100 largest economies are companies, not countries.*
>
> *However, there is goodwill around. Recently I met with a group of business leaders in the Middle East. And they said that peace was too important to leave it to government. The private sector must play a role because they have an interest in stability and peace.*
>
> *Ultimately I don't think at our core that we all think of ourselves primarily as consumers, we think of ourselves as human. So ultimately we must create structures in a human society that allow our 'humanness' to be expressed in ways that are most gratifying and that's why I think it's not a bad idea to place a bet on the ultimate success of the corporate social responsibility movement."*

As everything converges, the notion of 'business' as a separate realm to society becomes nonsense. Ken Larson from HP,

> *"The corporation is an integrated organisation. We need to recognise this and we need to engage this way."*

Convergence places more scrutiny on the corporation and challenges its current role in society. Susan Beresford from the Ford Foundation is seeing this change,

> *"There is an increasing field of activity in the US where corporations are using their business activity not only to advance the well-being of the corporation economically but also to serve some sort of social purpose – instead of thinking of their philanthropic works as being done by grant-making which is off to the side somewhere. They are thinking, 'Are there ways where the company's own for-profit activities can serve a social purpose?' And there are a number of foundations that have been experimenting with how to make these bridges work better."*

Francis Coleman from the ICCR agrees,

> *"The company of the future should act as a responsible partner in the community. It should have an ethos and value system that consistently tests its corporate behaviour and activities with the community, whether it be local or global. It has a responsibility to stakeholders – not just shareholders – and it is focused on long-term value creation not just short-term profitability. The role of the corporation in society is to reconnect with its historic role in civil society."*

But the final comment on this issue goes to Joshua Karliner from CorpWatch who points out that major change is needed,

> *"If we are to assume the ecological challenges and social challenges of this century there has got to be something well beyond corporate social responsibility. There has got to be a restructuring of the relationship between corporations and society."*

Conclusion

As we move further into the Age of Convergence, corporations that don't recognise the realm of business as a subset of society will face increasing pressure to reform. Similarly, governments and not-for-profit organisations that cannot meet the efficiency standards of a well-managed business will also face pressure.

It is clear that every organisation needs to be fully aware of its role in our society. Without clarity the organisation will be drawn into areas that it should not enter. It may face challenges to its value system that it will be unable to resolve. Unless it has done the work to determine exactly what it is that it stands for.

Additionally, as we see the failure of many corporations to meet the expectations set by society, a curious opportunity arises for business entrepreneurs to re-invent the modern day corporation. Surely the most efficient vehicle for social change is the corporation? Likewise, the most efficient government agency could be a not-for-profit organisation?

2.5 ENVIRONMENTAL ISSUES

2.5.1 Resource Efficiency

Corporate interests and 'green' interests are often placed in opposing corners. However, if the term 'environmentalism' is changed to 'resource efficiency', corporate and green interests unite.

Michael Sauvante, Chairman and CEO of Rolltronics Corporation, made the following comments in the November 2001 newsletter of the American National Association of Corporate Directors,

> *"Businesses understand that waste reduction represents a direct cost saving to corporations. They should also recognise that waste represents a resource that should be recycled and reused instead of discarded. This approach is often called 'cradle to cradle' to represent a closed loop.*
>
> *Every company that has adopted the cradle-to-cradle philosophy in conducting its business has discovered significant gains on its financial bottom lines."*

Increasingly, as governments sign agreements such as the Kyoto Climate Change protocol, they pass on these environmental responsibilities to business.

For example, in 1998 the European Commission endorsed an agreement with the European Automobile manufacturers which committed them to a 2008 target of 140g/km of CO_2 emissions for the average car sold in the EU. Similarly in the UK, all manufacturing industries must pay a 'climate change levy' for their gas and coal. However, ten energy-sensitive industries including cement making, steel and chemicals will receive an 80% rebate if they can cut 2.5 million tons from their CO_2 emissions by 2010.

The challenge for business is to see this change in the 'rules of the game' as an opportunity, not an imposition.

There are several organisations around the world that are pushing for better resource efficiency in business. These include Amory Lovins and the Rocky Mountain Institute, but the most ambitious is the Zero Emissions Research Institute (ZERI). ZERI was founded in 1994 by former Ecover CEO Gunter Pauli and launched by the United Nations University in Tokyo. Its purpose is to undertake scientific research, involving centres of excellence around the world, with the objective of achieving technological breakthroughs that lead to manufacturing without any form of waste. All inputs must be used in the final product or converted into value-added ingredients for other industries. In this sense ZERI is unique as an environmental organisation because it functions as a programme for improving productivity. Pauli makes a compelling argument based on facts,

> *"What we have realised is that we have probably come to the edge of the levels of productivity for labour. There are few people in Australia or Japan or Europe who would imagine another five-fold increase of productivity of labour. We have already gone so far. There are also few*

who expect that we can go for another ten-fold increase in the productivity of capital. So, we need to turn to that part of our manufacturing systems that have not yet succeeded in reaching high levels of productivity – and that is raw materials.

In terms of raw material usage, I think there is no company around the world, except perhaps the petro-chemical industry, that is on average using more than 10% of their raw materials, 90% is discarded. For example, when we harvest coconuts for their oil, we can only use the oil; the rest is considered waste. When we ferment barley and hops into beer, we only extract 8% of the sugars; the fibres and the protein are considered waste and given almost free of charge to the cattle farmers. So, if we realise that basically we are only using 10% of what we have, there is great room for improvement."

Pauli and ZERI are proposing that businesses should see zero emissions as a distinct competitive opportunity, not an imposition. It is being recognised that to be competitive in today's business environment of low inflation and global competition, a business must learn to think creatively and innovate continuously so that it can improve its response to the needs of its customers. Pauli sees the wasted raw materials as hidden assets that have not been capitalised on,

"Any corporation that is not using its hidden assets to their fullest extent to generate better cash flow is a company which is at sub optimal levels."[12]

Conclusion

No corporation would deliberately burn cash and expect to remain in business but the historical failure of the capital asset pricing model to include the environment has resulted in exactly this scenario in regard to natural resources.

Not surprisingly, this situation is now changing. Due to convergence, globalisation and increased awareness facilitated by better communication technologies, environmental abuses by corporations are coming to an end. Leading corporations will recognise this, acknowledge the concerns of the public and see the opportunities to become resource efficient and environmentally aware.

12 Interview with the author in the United Kingdom in 1998

2.6 WORKPLACE ISSUES

2.6.1 Equal opportunity for whom?

One of the most embarrassing and contentious issues for global corporations has been the exploitation of cheap labour in developing countries. The free market argument says, 'Bring them into the market system and they will benefit from the trickle-down effect of wealth'. But facts do not support this theory.

Alan Tonelson, a research fellow at the US Business and Industry Council Educational Foundation, cites a recent survey by the Reston-based consulting firm Werner International Inc.[13] The results of this survey question the notion that trade automatically provides third-world workers with the keys to wealth and happiness.

Werner International compiled data on wages paid to workers in the apparel industry between 1990 and 1998. During this time in Pakistan, apparel exports to the United States rose nearly 400% and nominal wages remained at 24 cents per hour. Inflation over the same period was 137% – the wages of workers actually fell behind the cost of living.

Turkey experienced a similar situation. Between 1990 and 1998 apparel exports to the United States rose 168% and wages increased by 36.3%. At the same time, inflation rose a staggering 1,800%. With similar patterns appearing in the Philippines, Egypt and Peru, is it any wonder that workers in third-world countries are disenchanted by their experiences with western-style free market capitalism?

Free market capitalism will always seek the cheapest source of labour, so how can this issue be addressed? The issue of Poor countries and Rich corporations working together was discussed in the Globalisation section. The question remains – but who benefits from this partnership?

Considering this issue in combination with other issues discussed previously raises some interesting questions. Namely:

- If terrorism breeds in places where there is pain, does exploitative capitalism contribute to this?
- By exploiting cheap labour are global corporations merely transferring wealth from the third world to the first world?
- Should governments be actively supporting corporations that wish to conduct business in a socially responsible manner?

13 'There's only so much that foreign trade can do', The Washington Post, Sunday June 2nd 2002, page B1

Matt Shapiro from Social Accountability International says it all comes back to the timeframe issue,

> *"In the workplace there are win-win situations, but they need to be medium and long term. You tend not to see the benefits short term. And that's really the hard part because you're asking business entities to make investments of time and money with not the most clear-cut horizon and return on investment rationale."*

This situation of inequality is not limited to the third world. The introduction to this report referred to the latest figures on the widening income gap between rich nations and poor nations. But there are similar figures for the widening income gap within developed countries such as the United States and Australia.

How can society encourage corporations to share this wealth? Unfortunately there is no simple answer, except to say that a combination of the actions detailed in this report will skew the playing field in favour of socially responsible corporations and allow a more equitable distribution of wealth and opportunity to emerge.

Conclusion

In the absence of revolutions societal change occurs incrementally and so gradually that, despite living through it, one never clearly sees the impact of change until well after the event. Only now are we seeing the true impact of hard-nosed economic rationalist policies which were first implemented in the 1980s. A whole generation of people have been affected by the globalisation of trade and the proliferation of the free market system. Many of these effects have been positive but there are also cracks appearing in the system which must be addressed now, before it is too late.

We cannot continue building a world where some have incredible wealth while many are struggling to survive from day to day. In this Age of Convergence the time has come for governments and corporations to work together to address issues of inequality with a long-term timeframe based on the goal of an abundant, unified, global world. Anything less will simply send us onto the path of no return.

PART THREE

THE WAY FORWARDS

3.0 INTRODUCTION

If we are moving forwards, what then is the ultimate goal?

Surely it must be to create a sustainable society? One that is socially, environmentally, economically and existentially sustainable. In other words, a society where the social fabric is strong and the gaps between rich and poor not so great as to provoke conflict; where we are working with the environment in a way that ensures the generations to come can still enjoy it; where corporations and other institutions earn enough revenue to enable their longevity; and where the belief systems that underpin our society are globally encompassing and unifying, not dividing.

It is not the purpose of this report to propose a new model for society. The purpose is to consider the role the corporation can play in moving us towards this ideal world. Surely the most profound vehicle for social change is the corporation? The way corporations conduct business and interact with the economic system has such a huge multiplier effect and produces such ripples of change in the world that we cannot ignore its impact. Instead we must seize the opportunity.

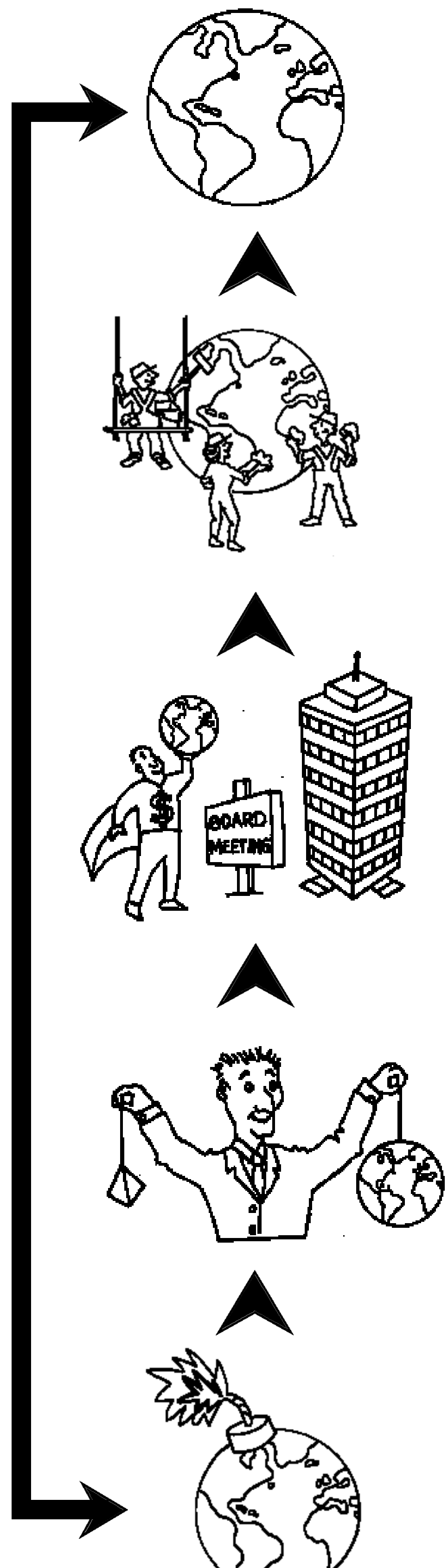
One of the aims of this report is to consider the current and future issues in the CSR area and then provide some recommendations for dealing with the issues – both from a corporate perspective and a regulatory perspective. Since this is such a diverse area, the first step is to take a 'big picture' snapshot and this is the intention of the diagram on the following page.

The following sections consider in greater detail the steps a corporation might take to move forwards.

PATHWAY TO SUSTAINABILITY

TENSION

- Belief system clashes
- Gap between rich and poor
- Environmental deterioration
- Human rights abuses



To Be
A Sustainable World

The Vehicle for Change
Corporate Social Responsibility

- Marketplace
- Workplace
- Environment
- Society

Corporate Courage
A Personal awareness with courage promotes corporate awareness

Personal Awareness
The switch comes on

As Is
Social and Environmental Timebomb

3.1 THE CORPORATE CHALLENGE

> *"One has to be deaf, dumb and blind not to see that we are in the midst of a global institutional failure. Society is in the midst of a millennial change that will dwarf the industrial revolution in one-tenth of the time."*
>
> Dee Hock, founder of VISA International

The words of Dee Hock are prophetic. As Part Two of this report highlighted, in many areas of business operations the old way of conducting business is under attack. The fundamental challenge for corporations is to remake the relationship between the corporation and society, and to address the terms of the 'social deal'. So, how can a corporation make sense of this and move forwards to profitable sustainability?

One way is to consider the social environment and the business environment from a needs perspective.

Let's take the business environment first. Irrespective of all other issues, the first social responsibility of business is to make a profit. If a corporation is not making a profit it cannot service any other social responsibilities or community initiatives.

As Dr Mark Albion points out,

> *"It's not fun working for a company that's not making any money. Money is like blood in the veins. And you've got to have blood in the veins to keep going."*

One could argue that the current environment is the most competitive business environment in history, but what are the basic requirements for being competitive?

With society questioning the corporate 'social deal' businesses need a point of difference, a competitive advantage that will allow the organisation to be successful in a commercial sense. Without this fundamental factor, a business will simply be a clone of its rivals and unable to sustain any type of commercial advantage.

Businesses need the ability to deal with environmental changes and the accompanying regulations in a way that allows them to access markets and continue supplying both the public and their business associates with products and services. They also need the ability to address environmental issues in innovative ways that will, where possible, save money rather than increase expenses.

Businesses need the ability to attract and keep both customers and investors. To achieve this they must maintain a good public image so that individual consumers and corporate clients making purchasing decisions are inclined towards the company's products and services, rather than those of the competitors. There is also increasing evidence that a corporation's image, in regard to social responsibility influences the decisions made by investors. In addition, there is a growing number of both environmentally-friendly and socially-friendly investment funds. These funds are continually wooing both private investors and investment funds to support companies with good track records for social and environmental responsibility.

Businesses must recruit and retain talented people. This reduces the costs of turnover and increases the cohesiveness of the organisation. In today's highly competitive environment, organisations desperately need to encourage and motivate their employees so they are highly productive.

Thomas J. Watson Jr., former IBM Chief Executive was aware of this when he said,

> *"I believe the real difference between success and failure in a corporation can be very often traced to the question of how well the organisation brings out the great energies and talents of its people."*

Finally, there is the issue of rapid change in the business environment and the increasing need to compete on a global basis, constantly realigning the organisation to societal expectations. The only way for an organisation to achieve this is, in addition to recruiting and retaining talented people, to be highly innovative and responsive to changes in the environment. In this way an organisation can stay ahead of the competition and create new markets with new opportunities.

In summary then, for a business to remain competitive the key needs are a point of difference, a good public image, environmental and social responsibility, an ability to recruit and retain talented people, innovation and responsiveness, and highly productive employees.

In contrast to the business environment, recent changes in society have created a reordering of personal value systems resulting in a search for a deeper sense of meaning in life. Individuals have certain basic needs which have been identified and discussed by philosophers for thousands of years.

Socrates believed that, as individuals, we need a reason for being. We have to know that in some way our life matters. Only then do we have a reason to get out of bed in the morning and continue the journey through life.

Hegel identified the need for recognition from others, or, to use his term, 'thymos'. Simply doing things without any form of recognition from our peers is not enough. We need to know that we have been 'seen' and acknowledged by others.

Aristotle said that at heart we are social beings, we need to be able to interact with others in order to grow. Through forming relationships with others we are able to see ourselves in the mirror created by the relationship. This provides us with the opportunity to see our strengths and weaknesses and to change ourselves accordingly. Social interaction also allows us to explore new ideas and new ways of thinking and to see life from a different perspective.

In addition, at our deepest level we all need to use our ability to connect with the creative spirit, to have fun and to play. This happens through the creation of new life in the form of children, or through any number of creative pursuits such as writing, singing, painting and dancing. The ability to create is a fundamental driving force for human existence. Without a connection to the creative spirit the landscape of our lives is dry and desolate.

Finally, as individuals seeking a deeper sense of meaning in life, we all need to make time for a reflective space that enables us to contemplate our journey and nurture our spiritual growth. Without this reflective space we are unable to seize the opportunity that lies between thought and action.

In summary then, individuals have five basic human needs, a reason for being, recognition from others, social interaction, the ability to connect with the creative spirit, and space and time for reflection and contemplation.

3.1.1 Matching Needs

Every relationship involves a matching of need; whether it be a marriage, a business partnership, or a commercial transaction. So it is with the new paradigm for business success. On one side we have the business needs; a point of difference; a good public image; environmental and social responsibility; the ability to recruit and keep talented people; and innovation and productivity. On the other side, we have the individual's needs; a reason for being; recognition from others; social interaction; connection to the creative spirit; and space and time for reflection and contemplation.

Needs Analysis

Business

- Point of difference
- A good public image
- Environmental and Social Responsibility
- Recruit and retain talent
- Innovation
- Productivity

Individuals

- Reason for being
- Recognition from others
- Social interaction
- Connection to creative spirit
- Reflective space and time

Success in the new paradigm requires the marrying of these needs.

Before looking at how to bring about this marriage, consider the key issue now confronting business leaders: How can innovation and productivity be encouraged? A point of difference, a good public image and environmental and social responsibility will keep an organisation in business, but they won't necessarily make it successful. To be successful, an organisation must be both innovative and productive.

This in itself highlights the fundamental shift required for the new paradigm – a change in leadership style from control and fear to trust and empowerment. Innovation and productivity are not possible under a strict regime of control and fear.

In order to be innovative, employees must feel free to experiment with new ideas and concepts. In order to be productive, employees must be self-motivated, inspired to look for new ways of doing things, and encouraged to use their own initiative. These things do not happen when there is someone telling employees exactly what to do, looking over their shoulder to check up on them, and potentially threatening some form of punishment if they make mistakes.

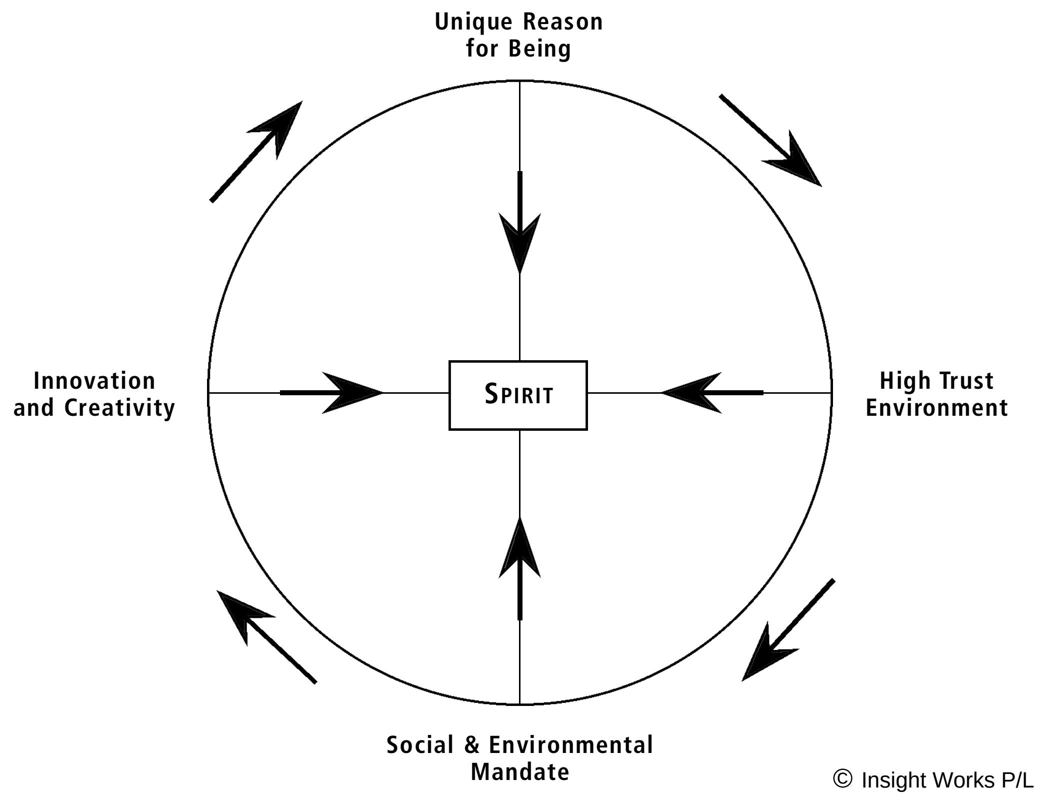
The old management paradigm of control and fear will not work in this new environment. Managers and leaders need to adopt the new paradigm of trust and empowerment. This requires a level of personal awareness that enables leaders to engage with the people in the organisation, not just treat them as human resources.

Given that, how does a business marry the two sets of needs?

STEP 1 WHERE ARE WE NOW?

Where are we now? Determining this is the first rule of orienteering and the first step in beginning any journey. The Unity Model below can be superimposed on an organisation and, by asking a series of questions, used to determine where the organisation is now and what is missing.

THE UNITY MODEL



In order to address the corporation's relationship with society, the first step is to revisit the corporation's *raison d'être*. What is the corporation's Unique Reason for Being? The corporation should be able to justify its existence so that it can involve society in its journey. If a company cannot define how it is different to other companies that provide the same product or service, then it has no right to exist. Similarly, why would any discerning person work for an organisation that has no clear Vision?

Given two minutes, could you clearly explain why your organisation is unique and what you are trying to create?

Once there is a clear 'Reason for Being' a successful company needs a clearly defined culture that is high in trust and ethical behaviour. In this day and age, it is not enough to have people come to work and leave their brains at the door. Low-trust cultures result in poor productivity because employees waste their energy playing petty office politics and trying to second-guess the motives of others. By clearly defining how the people in the organisation are going to 'play the game', an organisation provides a foundation where trust can grow. In this way people feel safe to engage emotionally with others in the organisation. It also creates an environment where people have the confidence to speak out against unethical conduct. This is where the 'moral switch' needs to be turned on.

Does your organisation have a clear set of Values? Are these values lived by people in the organisation, or seen as just more wallpaper? Does your organisation train people in ethical dilemma resolution? How do your clients and suppliers rate your conduct?

The third area is the Social and Environmental Mandate. That is, the organisation needs society's approval of the way it conducts its business. This is important for three reasons:

1. People in the organisation will feel good about who they work for and be happy to tell people about it.
2. The company will continue to have access to markets and willl not be penalised for poor social or environmental performance.
3. Socially responsible investors will continue to invest in the organisation and allow it access to funds.

There are now more and more organisations 'rating' corporations on social and environmental criteria as well as on reputation indices. How did your organisation rate? Do you survey your stakeholders for their feelings about you? Do you have environmental supplier criteria? Do you have corporate environmental goals?

The fourth area of the Unity Model feeds off the other three areas and is key to the continuing survival of the organisation. It is the ability to have all the people in the organisation continually asking, 'How can we do this better?' – whether it be a new system, product or service. Such is the nature of the global market that the most effective way to increase revenue is through finding new ways of doing things, producing new products, and ultimately creating new categories of goods. Innovation and creativity directly feed off the other three areas because, let's face it, a person who has negative feelings towards their organisation, or who is scared to fail, will not be able to take the risks required to find new ways of doing things. However, lack of a clear and commonly-shared vision may result in spurious and misdirected innovation which will fail to benefit the organisation.

Does your organisation have an Innovation unit? How many ideas come from the people at the coalface of the business? What percentage of revenue does your company generate from new products? How does your organisation react to failure?

Finally, the central area of the Unity Model looks at 'Spirit' – that indefinable aspect of successful companies that one feels as soon as one enters the building, manifesting itself as a certain *esprit de corps*. An aspect noticeably absent from those organisations that try hard but always seem to fail. 'Spirit' is the intangible quality lifting a team above the sum total of its members. It is a quality that results from the people in the organisation possessing a clear sense of purpose, a high level of trust in their colleagues, a 'feel good' aspect to what they are doing, and a sense of fun and play that allows them to experiment with the new.

Pause for a moment the next time you walk in the office door and you will know the vibrancy of the spirit of your organisation.

STEP 2 TAKE A POSITION

> *"Where there is no vision, the people perish"*
>
> Proverbs 29:18

Once the Unity Model has been used to complete an initial analysis, the next step is to make a declaration. Where do you want your organisation to be? How do you want to be seen by the community? Do you have a long-term focus or a short-term focus? What position are you going to take on this issue?

As the participants in this report pointed out, CSR is a strategic issue which needs to be addressed by the Board. You don't have to address it right now but at some point in the not too distant future it will become a critical strategic issue. If it is not addressed, it will cause the downfall of the organisation. Where that 'tipping point' is will be different for different organisations but its existence is beyond question. The challenge for the Board is to determine where it is and how and when the corporation will act.

It has been suggested that a company is at risk if it pursues a CSR agenda while competitors maintain a profits-only focus. Then at the eleventh hour your competitors – who have been making better profits as they ignore their social responsibilities – suddenly switch sides and begin to benefit from a CSR agenda. But is this really possible? The views of Dr Mark Albion and David Vidal among others would refute this possibility due to the long-term timeframe required to build a reputation based on CSR and ethical business practices.

The real question simply comes back to: When? Whichever position your company does take, given the rising public awareness of CSR issues, you will have to justify that position to the ever-increasingly inquisitive market. If you do decide to take a leading position on CSR issues, it is now that the organisation needs to put a stake in the ground and make a declaration by adopting The Global Compact, The CERES Principles, The Global Sullivan Principles and/or The Caux Roundtable Principles.

STEP 3 BUILD THE FOUNDATION

> *"I firmly believe that any organisation, in order to survive and achieve success, must have a sound set of beliefs on which it premises all its policies and actions. Next, I believe that the most important single factor in corporate success is faithful adherence to those beliefs... Beliefs must always come before policies, practices, and goals. The latter must always be altered if they are seen to violate fundamental beliefs."*[14]
>
> Thomas J. Watson, Jr., Former IBM Chief Executive

Assuming you decide that you want to engage with CSR issues, building trust and culture is the next step. How do you turn on the 'moral switch' that Francis Coleman alluded to?

It's not good enough to simply have the public affairs department compose a code of ethics. Enron had an extremely detailed Code of Ethics. It was part of the induction program but it didn't encourage people to stand up and be counted when overtly unethical decisions were being passed down the corporate ladder.

Codes of Ethics and Values must be converted into behaviours and then demonstrated through policies and actions. People don't see Values, they see Actions. Leaders need training in Transformational Leadership skills and the resolution of ethical dilemmas. Internal communication and training in how to use the Vision, the Mission and the Values must be undertaken. It requires a commitment by leaders to fundamentally re-invent the business in a new, ethical and socially responsible mode. Anything less will be seen simply as window dressing.

STEP 4 ENGAGE THE COMMUNITY

> *"There is more to our investment decisions than the expectations of profit... Today, a corporation must attend, not only to a single bottom line, but to multiple bottom lines – the social, environmental, political and ethical end results of a firms actions and decisions. For a corporation has multiple roles to play in society as employer, user of resources, producer of goods, stimulator of consumption. Beyond its physical presence, it has social power and impact. Hence it must accept that there is a public responsibility to being a private corporation."*
>
> Andreas Soriano III, CEO, San Miguel Corporation[15]

One of the crucial lessons in corporate failures of the last few years is that business does not operate in a vacuum. The decisions and actions of businesses impact on many different areas of our society – affecting individuals in the community, the environment, employees and other organisations in the marketplace.

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14 'A Business and it's Beliefs', Thomas J. Watson Jr, Columbia University Press, 1963, pp.5-6

15 As quoted in 'Business as Partners in Development', Jane Nelson, The Prince of Wales Business Leaders Forum, 1996, page 58

The fundamental shift required is a move from the current focus of managing for shareholders to managing for stakeholders. An organisation managing for shareholders alone will see only one area of responsibility – the investors. This is like strip farming – great in the short term, diabolical in the long term. In contrast, organisations with a stakeholder mentality will see that they have a responsibility to consult with society to determine the expectations of the 'social deal'.

Royal Dutch Shell provides an excellent example of how serious a company needs to be to undertake this exercise. After the shocks of the Brent Spar Oil Storage debacle in 1995, Shell undertook an extensive audit called 'Society's Changing Expectation' in which Shell sought the opinions of peer companies, employees and young people. The research was worldwide and included a series of roundtable debates between opinion formers and Shell employees on the developing nature of societal expectations of multinational companies.

In all, Shell listened to 7500 members of the public in 10 countries, 1300 opinion leaders in 25 countries and 600 staff in 55 countries. Shell then committed itself to greater engagement and dialogue. The company revised its 'Statement of General Business Principles' first published in 1976, and set out to communicate its values and prove that it lives up to them in practice. In 1998, Shell launched the report 'Profits versus Principles: Does there have to be a choice?' and invited the public to comment.

In April 1999, Dr Roland Williams, Shell Australia Chairman, commented in 'Company Director' magazine,

> *"Shell learned the hard way that it must listen, engage and respond to every one of its stakeholder groups. No longer can we be accountable solely to our shareholders or customers. Now other companies around the world are having to accept this reality too. It is apparent to large companies and institutions everywhere that society now demands a 'Show me' approach rather than the conventional 'Trust me' or 'Tell me' model of the past."*

STEP 5 DETERMINE GOALS

Every journey requires the setting of Milestones along the way. This allows the organisation to monitor the degree of success for the overall journey. Additionally, milestones provide the opportunity to celebrate successes and recognise people's contributions. Goals should include Social Involvement goals, Environmental goals and Cultural goals. They could include: a higher rating by business associates on conduct issues; better resource efficiency measures; improved staff satisfaction measures; and an increase in social engagement activities such as volunteer work.

STEP 6 BE TRANSPARENT

Transparency is probably the biggest hurdle for businesses. For many years one of the underlying principles of business has been to play your cards close to your chest. Turning that around can be very confronting. However, it is THE key issue that lobby groups, social investment funds and regulators identify when assessing corporations in the new environment.

Not only do analysts want to know what companies are doing, they also want to know what the corporation's goals are in regard to CSR issues and what activities are being undertaken to achieve these goals.

Recently there has been a marked increase in the number of investment houses and other groups wishing to know more about a corporation's CSR activities. More and more organisations are responding to the increased number of requests by appointing a CSR manager and then centralising all CSR information so that there is a consistent message broadcast to the market.

Once CSR information has been collated, it is advisable to sign on to the standards proposed by Social Accountability International in their SAI8000 standard or the Global Reporting Initiative. Although both of these groups have onerous responsibilities attached to their membership, once the initial work has been done to come up to speed, the minimisation of duplication of information through the production of one report is of great benefit to a company. Additionally, being SAI8000 accredited or producing a GRI report is increasingly being seen by the market as a positive step forwards.

STEP 7 ACT

> *"Those who dream by night in the dark recesses of their minds wake in the day to find that all was vanity; but the dreamers of the day are dangerous people, for they may act their dreams with open eyes, and make it possible."*
>
> Lawrence of Arabia

In many ways CSR issues are like a one-way lobster trap. If an organisation addresses one area of CSR activities, two things seem to happen. One, it is impossible to go backwards. How often have you seen a company announce that it is scrapping an environmental initiative or an ethics education program? Two, once an organisation addresses one CSR issue it will be drawn inexorably into other areas of CSR. For example, a company that involves itself in community issues will find itself under scrutiny on environmental issues and will act to remedy any shortcomings.

STEP 8 RESULTS

Once the results of CSR activities start rolling in, the final step is to collate these results and release them to the market. Some corporations have come under attack by activists accusing them of 'greenwashing', however, if a corporation's activities and intentions are legitimate they should be made available to the public. The reasons for this are two-fold: One, what is happening in the free market capitalist world at present is nothing short of an ideological battle. A battle that pits old-style, profits-only capitalism against new-style Neocapitalism – which is all about CSR issues and business playing a productive role in society. For Neocapitalism to triumph, the players in the market need to know what their options are in regard to the support of CSR activities. For this reason it becomes a marketing battle which first needs to be engaged if it is to be won. Two, the exchange of ideas among corporations that have engaged in a CSR agenda will promote innovation through the competition it fosters.

CONCLUSION

The Corporate Challenge is in essence a leadership challenge: Can corporate leaders move beyond self-interest and engage the power of their corporations for the public good?

There is plenty of evidence to support the argument that this does not mean a reduction in profits. The real shift is a mind-set shift from the scarcity approach to one of abundance and creation.

This report has detailed a number of key issues – any one of which could cripple an organisation. Combined, these issues point a clear way forwards. Which path will your organisation take?

3.2 THE CHALLENGE FOR GOVERNMENT

The challenge for governments around the world is best summarised by Joshua Karliner from Corp Watch,

> *"Corporations, through the process of globalisation, are in many respects transcending the state. At the local level, national level and globally, government needs to be able to reassert itself and its prerogative over the profit imperative."*

However, gaining entry into government is an expensive exercise and the real source of campaign funds is the corporation. Often a government gains power with the significant support of corporations or industry groups which have specific interests – sometimes these interests are at odds with the interests of the general public.

How can this be resolved?

Re-regulation is not the answer. Bob Dunn from BSR points out that this will simply reduce the incentive for corporations to go the extra yards and be innovative with CSR issues. Re-regulation also contravenes the fundamental principle of free markets – freedom of choice.

A more effective approach is to empower the markets, as Lyuba Zarsky recommended. Have faith that if the markets have sufficient information and the government acts as an effective facilitator then society will be empowered through the democratisation of power. But governments must develop an integrated policy on Corporate Social Responsibility.

There are numerous examples in the world of governments acting to promote the social responsibility of corporations, but none come close to the actions of the South African government and the King Report. After a review of the conduct of corporations, the South African government made significant changes to the listing requirements of the Johannesburg stock exchange. Now, corporations are required to report on CSR issues including community involvement, ethics and corporate governance.

The King Committee has made two attempts to encourage CSR in South Africa. The King Code was released in 1994 and was followed in March 2002 by what is commonly referred to as King II. King II is a non-legislated code applicable to all companies listed on the JSE Securities Exchange, corporations falling in the South African Financial Services Sector and enterprises that perform public functions. Furthermore, all other corporations are encouraged to adopt the principles outlined in King II.

The King II Report is based on the concept of interlocking responsibilities. Nigel Payne, a member of the King Committee on Corporate Governance, explains

> *"Shareholders have responsibilities, primarily to attend company meetings and to cast their votes. External auditors have responsibilities to the company, to shareholders, and in certain circumstances to other third parties. Management and every employee have responsibilities in relation to risk management and internal controls in the area in which they work.*

The State is responsible to ensure appropriate legislation, efficient functioning of the Registrar of companies, and an effective criminal justice system."

The King Committee believes that these responsibilities rest on a foundation of key values: fairness, responsibility, accountability, discipline and transparency. Nigel Payne continues,

"Each individual whose life touches that of a company must choose every day whether those interactions will be characterised by the principles of good corporate governance, or by the personal greed, dishonesty and disregard for the rights of others which epitomise all corporate governance and insider trading scandals. Our value systems within companies and society at large are called upon to guide us every day."[16]

16 Nigel Payne in 'The King and I', Accountancy SA, Nov/Dec 2002

3.2.1 Strategy not battery

Given that the free market system lends itself to the encouragement of smaller, more efficient governments, the South African response is a logical one. Re-regulation is not the answer. Governments simply do not have the resources to keep looking over the shoulder of every corporation. The responsibility for good corporate governance needs to be placed completely in the hands of the corporations themselves. Governments need to ensure that the market receives enough information to enable them to respond to corporate governance failings in a timely and appropriate manner. In turn, corporations need to recognise this and empower their managers and employees to act in an ethical manner.

Given this, the framework for corporate governance regulation needs to be built on the concept of the government as the facilitator of an efficient market.

Government should:

- Help make explicit the terms and expectations of the 'social deal'.
- Ensure that market players have adequate information to make informed decisions.
- Provide a properly resourced and fair corporate regulatory system.

Governments can fulfil these objectives by strengthening market mechanisms through:

- Facilitating public dialogue on the expectations of corporations. For example, encouraging public input and debate into CSR and Corporate Governance issues.
- Setting standards to which corporations must adhere; such as the South Africa King Report.
- Promoting and requiring transparency in corporate activities; for example, requiring corporations to report on CSR issues and requiring investment funds to report on their ethical investment criteria.
- Ensuring the ongoing independence and proper resourcing of organisations such as the Securities and Exchange Commission in the United States and the Australian Securities Commission in Australia.

The South African example is too recent for its impact to be able to accurately gauged. However, it is clear that governments need to adopt a long-term strategy for encouraging CSR, a strategy based on a clear set of principles. Swinging from heavy-handed legislation in the bad times to *laissez-faire* government in the good times merely ensures the continuation of the boom-bust cycle.

PART FOUR

CONCLUSION

4.0 CONCLUSION

As this research was conducted it became abundantly clear that the world has changed. Globalisation, combined with advances in communication technologies, has triggered the metamorphosis of the Information Age into the Age of Convergence. This is a time when different cultures and value systems clash on the world stage, often with catastrophic results.

In such an environment, two distinct courses of action are possible – put your head in the sand, pretend nothing is happening and hope that it will all go away; or engage and play a role in creating a unified future.

Corporations and governments now face this choice. The former choice is seemingly the easy option. However, as more corporations and governments choose to engage, research is showing that public sentiment is shifting. Recent global surveys show that opinion leaders are expecting more from corporations in regard to honouring their social responsibilities and expecting more from governments in regard to setting and encouraging adherence to these standards.

The participants in this research believe that it is not a question of 'if' a corporations should engage in CSR issues, but 'when'. CSR is now a strategic issue which needs to be given as much consideration as is currently given to quality and productivity. A corporation failing to recognise this will find itself struggling to catch up at some point in the future. Most industries are not yet at that 'tipping point', but the majority of the participants believe that day is coming soon.

Corporations that choose to engage now need to confront CSR issues with an integrated and values-based approach that will allow them to take a position on the key issues identified in this research. These issues are summarised below.

Globalisation Issues

- Poor countries + Rich corporations versus the Middle Class
- Corporate imperialism
- Corporate influence on governments and the UN
- Terrorism
- The effect of Capitalism on the role of women in society

Market Issues

- Corporate ethics – short term versus long term focus
- Disclosure and Transparency
- The fiction of perfect markets
- How do you measure CSR?
- The power of Reputation

Societal Issues

- Convergence – the breakdown of barriers between government, business and not-for-profit sectors

Environmental Issues

- Resource Efficiency

Workplace Issues

- Equal opportunity for whom?

The advantages of addressing these issues now are based on the positive benefit to a corporation's reputation,the resulting impact on employee morale and motivation and the corporation's credibility in the general community. For corporations choosing to engage there are many avenues of support. A range of non-government organisations, business associations, academic institutions and government bodies are all offering resources that will aid a corporation in addressing CSR issues. In addition, there are a number of global forums for the discussion of emerging issues.

At the root of all of these issues is leadership. This is the challenge now faced by the individuals who lead corporations around the globe. Now is the time for people to step forwards and take up the responsibility of contributing to the creation of a sustainable future. The corporation is only a vehicle, one that needs to be steered and directed. One that can cause great pain and hardship when used for narrow-minded means, as in the case of Enron and many others. A vehicle that can be the source of great and embracing social change.

The challenge for governments is similarly grand. Progressive governments should be acknowledging that their role can be enhanced by working with corporations and their leaders on social issues. South Africa has set an inspirational example by developing an integrated framework for CSR regulation. Other governments should take note. A reactionary approach to CSR issues based on patching the holes as they appear is not good enough. A good policy framework for CSR issues is based on transparency and reporting, and will feature interlocking legislation and regulations administered by the Stock Exchange, the Securities Commission and the Judiciary. All of this takes time to develop and implement and will be met with the howls of protest of those corporate leaders who decided to put their heads in the sand and look backwards rather than looking forwards. In this environment governments should remember for whom they govern and be principled enough to resist the pleas of those who often provide election funding.

Finally, it would be foolish not to acknowledge that ultimately the success of the corporations addressing CSR issues and governments that support them rests with individuals. The choice is ours to make now. But the ramifications of our choices will not be felt for many years to come. This is the real challenge for the citizens of the developed world: Can we cast aside the blinkers, escape from our narrow, short-term thinking and commit to a bigger and better future?

APPENDICES

A1 BACKGROUND ON PARTICIPANTS

Robert H. Dunn

Chief Executive Officer, Business for Social Responsibility

Business for Social Responsibility (BSR) is a global non-profit organisation that helps member companies achieve commercial success in ways that respect ethical values, people, communities and the environment. BSR member companies have nearly US$2 trillion in combined annual revenues and employ more than six million workers around the world.

Since 1992, Business for Social Responsibility (BSR) has helped companies of all sizes and sectors achieve business objectives and efficiencies. A leading global business partner, BSR provides tools, training, advisory services and collaborative opportunities in person, in print and online to equip companies for making socially responsible business practices an integral part of business operations and strategies.

BSR actively assists:

- Corporate boards with policy and oversight responsibilities.
- Senior executives on CSR imperatives, standards, goals and strategies.
- Operating management and staff groups to anticipate and solve problems, communicate with internal and external audiences, implement policies and measure and report results.
- Suppliers and global business partners to align with customer requirements and improve social and environmental performance.

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Jamey Edgerton

Manager, Corporate Communications, GAP Inc.

Based in San Francisco, the clothing company GAP operates around 4175 retail outlets under the names Gap, GapKids, BabyGap, GapBody, Banana Republic, and Old Navy. Each brand also has its own web storefront. All of The Gap's merchandise is private label, including its maternity wear (only available online).

Gap attracts shoppers in many price segments; ranging from its Old Navy stores which target families on a budget to the sophisticated Banana Republic brand which has zeroed in on urban chic.

Donald and Doris Fisher opened a small store in 1969 near what is now San Francisco State University. The couple named their store The Gap (after ‘the generation gap’) and concentrated on selling Levi's jeans. Eight months later the couple opened a second store in San José, California and by the end of 1970 there were six Gap stores. The Gap went public six years later.

The Fisher family, including founders Donald and Doris, still owns 33% of the company.

Gap Inc. currently employs approximately 160,000 people and has a turnover of almost US$14 billion.

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Jed Emerson

Senior Fellow, William and Flora Hewlett Foundation and Lecturer, Stanford University, Graduate School of Business

Jed Emerson began his career as a social worker in New York and San Francisco. He created a large not-for-profit that reached out to street youths in the roughest districts of the cities. In 1989 he started up a foundation to help homeless people. This foundation was financed by investment banker George Roberts, a partner in the infamous leveraged buyout firm KKR. In 1990 Emerson was put in charge of what eventually became the Roberts Enterprise Development Fund. This fund gave loans and grants to non-profit companies that employed formerly homeless men and women. Emerson began tracking the fund's 'performance' by collecting data that could be used to determine the social and financial returns on 'investments'; for instance, how much a grant was saving taxpayers in governmental assistance costs.

At the end of 1999 Emerson took up a two-year teaching fellowship at Harvard Business School. When the fellowship ended he returned to California to become a senior fellow at the Hewlett Foundation and a lecturer at Stanford Business School. His main focus now is the development of the 'blended value proposition' – the idea that money and resources that are not dedicated to social purposes can still create social value, regardless of whether you are a multi- billion-dollar company or a teacher earning $40,000 per year.

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Lyuba Zarsky

Director, Globalisation and Governance Program Nautilus Institute for Security and Sustainable Development

The Nautilus Institute for Security and Sustainable Development is a policy-oriented research and consulting organisation. Nautilus produces reports, organises seminars, and provides educational and training services for policy-makers, media, researchers and community groups. Core staff are based in Berkeley, with associates in several locations throughout the world. Research is drawn from many disciplines including environmental economics and science, energy and resource planning and international relations. Nautilus Institute's mission is to solve interrelated critical global problems by improving the processes and outcomes of global governance.

Its Vision is to be a recognised leader in global problem-solving using a strategy of cooperative engagement. To this end, its Mission is to apply and refine strategic tools of cooperative engagement to solve fundamental problems undermining global security and sustainability:

- the danger of nuclear war and global insecurity
- unregulated global markets
- coastal ecology and urbanisation

The Globalisation & Governance Program identifies and promotes innovative policies and business practices to enhance social and environmental ethics in global markets. The Nautilus Institute believes that public policy, consumer information and better corporate governance are powerful tools in strengthening environmental protection, human rights, and economic inclusion. The Program also explores opportunities for California's corporations, investors, and legislators to exert leadership and leverage over ethical market governance in the global economy.

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Benjamin Klasky

Executive Director, Net Impact

Net Impact is a network of emerging business leaders committed to using the power of business to create a better world. It is also the most progressive and influential network of MBAs in existence today. Originally founded as Students for Responsible Business in 1993, Net Impact has developed from a great idea shared by a few business students into a mission-driven network of 5000 new leaders for better business. Through the central office and 50 local chapters, Net Impact offers a portfolio of programs to help members broaden their business education, refine their leadership skills, and pursue their professional goals while building their network.

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Joshua Karliner

Executive Director, CorpWatch

CorpWatch's Mission is to counter corporate-led globalisation through education and activism. CorpWatch works to foster democratic control over corporations by building grassroots globalisation – a diverse movement for human rights, labour rights and environmental justice.

For the past four years, San Francisco-based CorpWatch has been educating and mobilising people through its website and a variety of campaigns including the Climate Justice Initiative and the UN and Corporations Project. In addition to the vast array of resources available on the website, the organisation's accomplishments include playing a role in pressuring Nike to improve the conditions in its overseas sweatshops by releasing a confidential independent audit that exposed the conditions at a Vietnamese sweatshop. The release of the audit garnered significant media attention, including a front-page story in the New York Times. CorpWatch has also co-produced five live one-hour radio broadcasts from the WTO Ministerial meeting and protests in Seattle that aired on 135 stations. CorpWatch broke the story of the UN's growing entanglement with corporations in 1999 and have campaigned about this issue ever since.

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Ken Larson

Corporate Social Responsibility Manager, Hewlett-Packard

In 1938, Stanford engineers Bill Hewlett (1913-2001) and David Packard (1912-1996) started Hewlett-Packard (HP) in a garage in Palo Alto, California, with $538. Hewlett was the ideas man, and Packard the manager; the two were so low-key that the first official meeting ended with no decision on exactly what to manufacture. Finding good people took first priority. The first product was an audio oscillator. Walt Disney Studios, one of HP's first customers, bought eight to use in the making of Fantasia.

Today, California-based Hewlett-Packard is the world's second-largest computer company, behind Big Blue. Its computing and print system operations each account for around 40% of sales. Its products include PCs, the servers that link them in corporate networks, storage products, and printers and other peripherals. Almost 60% of sales come from outside the US.

CEO Carly Fiorina has transformed HP's steady-as-she-goes corporate mind-set, encouraging rapid technical innovation and aggressive sales goals. Her efforts to streamline the expansive hardware company included scaling back operations, a push toward services, and a complete overhaul of the company's structure that consolidated more than 80 units into four groups.

In perhaps its boldest move to date, HP took over rival Compaq Computer in 2002 for about US$25 billion in stock. Before being passed the deal met with opposition from many of HP's shareholders, including members of both the Hewlett and Packard families. The families of co-founders David Packard and Bill Hewlett collectively control around 18% of HP. HP employs approximately 86,000 people and has a turnover of approximately US$45 billion.

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Fran Teplitz

Managing Director, Social Investment Forum

The Social Investment Forum is a national non-profit membership association dedicated to promoting the concept and practice of Socially Responsible Investing. The Forum is made up of over 500 financial professionals and institutions. Membership is open to any organisation or practitioner wishing to participate in the field of socially responsible investment.

The Forum has five major areas of activity:

- Networking and Continuing Education
- Research
- Direct Member Services & Information
- Industry Growth and Client Services
- Industry Advocacy

The Forum has a joint membership program with the Co-op America Business Network. This program provides direct services to members including a newsletter, networking, conferencing, the Forum's Mutual Fund Performance chart, media programs to increase the SRI field, and research to expand and credentialise SRI.

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Todd Larson

Managing Director, Co-Op America

Co-op America is a national non-profit organisation founded in 1982. It provides the economic strategies, organising power and practical tools for businesses and individuals to address today's social and environmental problems. Co-op America is the leading force in educating and empowering people and businesses to make significant improvements through the economic system.

Co-op America helps consumers find those businesses that create jobs, care about their communities, engage in fair trade and protect our environment. It also provides technical assistance to help those companies succeed and expand. Co-op America programs include:

- *Green Business Program*: starts and supports small socially and environmentally responsible businesses; publicises the success of these businesses and provides people with access to the growing green business sector.
- *Consumer Education and Empowerment Program*: educates people about how to vote with their dollars to effect change; helps people use their purchasing and investing power to create a more just and sustainable future.
- *Corporate Responsibility Program*: encourages corporations to become socially and environmentally responsible; provides information about boycotts and shareholder resolutions against irresponsible companies.
- *Sustainable Living Program*: provides information about practical measures people can take to make their personal, community, and work lives more meaningful and sustainable.

Co-op America has nearly 50,000 individual and 2,000 business members.

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Matthew W. Shapiro

Marketing Director, Social Accountability International

Social Accountability International (SAI) is a charitable human rights organisation dedicated to improving workplaces and communities by developing and implementing socially responsible standards. The first standard to be fully operational is Social Accountability 8000 (SA8000), a workplace standard that covers all key labour rights and certifies compliance through independent, accredited auditors. In broad terms, SAI's mission is to enable organisations to be socially accountable by:

- Convening key stakeholders to develop consensus-based voluntary standards
- Accrediting organisations to verify compliance
- Promoting understanding and encouraging implementation of such standards worldwide.

In order to develop SA8000, SAI convened an international advisory board which includes experts from trade unions, businesses and NGOs. SA8000 is based on the principles of international human rights norms as delineated in International Labour Organisation Conventions, the United Nations Convention on the Rights of the Child and the Universal Declaration of Human Rights. SA8000 has nine core areas:

1. child labour
2. forced labour
3. health and safety
4. compensation
5. working hours
6. discrimination
7. discipline
8. free association and collective bargaining
9. management systems

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David J. Vidal

Director of Research, Global Corporate Citizenship, The Conference Board

The Conference Board creates and disseminates knowledge about management and the marketplace to help businesses strengthen their performance and better serve society. Working as a global, independent membership organisation in the public interest, The Conference Board conducts research, convenes conferences, makes forecasts, assesses trends, publishes information and analysis, and brings executives together to learn from one another.

The Conference Board is a not-for-profit organisation and holds 501 (c) (3) tax-exempt status in the United States. The Conference Board was born out of a crisis in industry in 1916, when declining public confidence in business and rising labour unrest were severe threats to economic growth and stability. A group of concerned business leaders, representing a variety of major industries, concluded that the time had arrived for an entirely new type of organisation. Not another trade association. Not a propaganda machine. But a respected, not-for-profit, non-partisan organisation that would bring leaders together to find solutions to common problems and objectively examine major issues having an impacting on business and society.

The Conference Board' now has 2500 members in 61 nations and its stature and credibility have grown far beyond its founders' imagining. But it has remained faithful to its original ideals and mission.

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Claire Preisser

Program Manager, Initiative for Social Innovation through Business, The Aspen Institute

The Aspen Institute is a global forum for leveraging the power of leaders to improve the human condition. Through its seminar and policy programs, the Institute fosters enlightened, morally responsible leadership and convenes leaders and policy makers to address the foremost challenges of the new century.

Founded in 1950, the Aspen Institute is a non-profit organisation with principal offices in Aspen, Colorado; Chicago, Illinois; Washington, DC and on the Wye River on Maryland's Eastern Shore. The Aspen Institute operates internationally through a network of partners in Europe and Asia.

The Mission of Aspen's Initiative for Social Innovation through Business (ISIB) is to increase the supply of business leaders who understand and seek to balance the complex relationship between business success and social and environmental progress.

Aspen ISIB is concerned with the education of current and future business leaders. They invest in educators to develop a more effective response to issues at the intersection of business needs and wider societal concerns – social impact management – through classroom discussion and research.

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Francis G Coleman

Executive Vice President Christian Brothers Investment Services Inc. and Board Member of the Interfaith Centre for Corporate Responsibility

Christian Brothers Investment Services, Inc. (CBIS) was founded in 1981 by the brothers of the Christian Schools, widely known as the Christian Brothers, because they sensed the need for an organisation that combined faith with finance. Realised as a unique embodiment of the Christian Brothers' educational mission in the world, CBIS has grown steadily because it struck a responsive chord with Catholic organisations seeking to optimise the return on their assets through conservative investment philosophies, while incorporating ethical standards into the investment management process. CBIS shareholders are the six districts of the Christian Brothers in the United States, each of which has a representative on the Board of Directors. It operates as a for-profit corporation.

Unlike other traditional consultants, CBIS provides investment consulting services in tandem with its full breadth of investment programs and socially responsible investment guidelines. It is an investment adviser registered with the Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940. CBIS Financial Services Inc. a wholly-owned subsidiary of CBIS, is a broker-dealer registered with the SEC under the Securities Exchange Act of 1934.

As of December 31 2001, CBIS had approximately US$3 billion in assets under management working for over 1100 Catholic institutes worldwide. CBIS acts as adviser and advocate exclusively to Catholic institut-ional investors. The participant base represents all areas of the Catholic community including dioceses, religious institutes, hospitals, colleges, schools, retreat centres, and youth care facilities located throughout the United States and overseas in places such as Latin America, Ireland and Rome.

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Interfaith Centre on Corporate Responsibility (ICCR)

For thirty years the Interfaith Centre on Corporate Responsibility (ICCR) has been a leader of the corporate social responsibility movement. ICCR's membership is an association of 275 faith-based institutional investors, including national denominations, religious communities, pension funds, endowments, hospital corporations, economic development funds and publishing companies. ICCR and its members press companies to be socially and environmentally responsible. Each year ICCR-member religious institutional investors sponsor over 100 shareholder resolutions on major social and environmental issues. The combined portfolio value of ICCR's member organisations is estimated to be US$110 billion.

The priorities of ICCR members include:

- eliminating sweatshops and corporate involvement in human rights abuses
- reversing global warming
- halting the proliferation of genetically-modified foods until safety is proven
- guaranteeing equal employment opportunity for all
- ending the use of racially offensive images as logos and advertisements
- making pharmaceuticals and healthcare safe, available and affordable to all
- ending tobacco product advertising
- ending foreign military sales
- preventing the militarisation of outer space
- achieving international debt forgiveness for the world's poorest countries
- making capital available to all on an equal opportunity basis.

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Shari Berenbach

Executive Director, Calvert Foundation

The Calvert Social Investment Foundation was established with a simple goal: to help end poverty through investment. It serves as a facility for individuals and institutions, seeking to place capital on softer terms to finance homes, fund small and micro businesses and to make available essential community services. Calvert Foundation works in disadvantaged communities with local partner non-profits that use common sense and compassion to provide investment capital for people to work themselves out of poverty. Calvert Foundation's broader objective is to create ‘community investment’ as a new asset class in the financial services industry. It employs a range of innovative financial instruments, web-based information services and philanthropic products including the Calvert Community Investment Note, the Community Investment Profile Database, the Calvert Giving Fund, the Community Giftshare. Associated with the Calvert Group mutual fund company, Calvert Foundation is an independent 501(c) 3 non-profit dedicated to building homes, creating jobs and transforming lives.

Calvert Foundation should not be confused with Calvert Group, Ltd. Calvert Group, one of the pioneers of socially responsible investing, has been in the mutual fund business for 25 years and manages approximately US$7 billion in assets in 27 screened and non-screened portfolios for over 220,000 shareholders. In the year 2000 the Calvert Foundation doubled its total assets to US$38 million. This growth was fuelled by over 1200 investors, the aggressive marketing of Calvert Community Investment Notes, and the demand for community development financing. The Calvert Foundation community investment portfolio now includes approximately 140 organisations that work in communities from Arizona to Zambia.

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Timothy J. McClimon

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AT&T is among the premier voice, video and data communications companies in the world, serving businesses, consumers, and government. The company runs the largest, most sophisticated communications network in the US, backed by the research and development capabilities of AT&T Labs. A leading supplier of data, Internet and managed services for the public and private sectors, AT&T offers outsourcing and consulting to large businesses and government. The company is a market leader in local, long distance and Internet services, as well as transaction-based services such as prepaid cards, collect calling and directory assistance. With approximately US$40 billion of revenues, AT&T has relationships with about 50 million consumers and 4 million business customers, who depend on AT&T for high-quality communications. AT&T has garnered several awards for outstanding performance and customer service.

The AT&T Foundation invests globally in projects that are at the intersection of community needs and AT&T's business interests. Emphasis is placed on programs that serve the needs of people in communities where AT&T has a significant business presence, initiatives that use technology in innovative ways, and programs in which AT&T employees are actively involved as contributors or volunteers.

The Foundation bestows grants of approximately US$40 million each year.

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Susan V. Beresford

President, The Ford Foundation

The Ford Foundation is a resource for innovative people and institutions worldwide. Its goals are to:

- Strengthen democratic values
- Reduce poverty and injustice
- Promote international cooperation
- Advance human achievement.

This has been the Foundation's purpose for more than half a century. A fundamental challenge facing every society is to create political, economic and social systems that promote peace, human welfare and the sustainability of the environment on which life depends. The Foundation believes that the best way to meet this challenge is to encourage initiatives by those living and working closest to where problems are located; to promote collaboration among the non-profit, government and business sectors, and to ensure participation by men and women from diverse communities and at all levels of society. In the Foundation's experience, such activities help build common understanding, enhance excellence, enable people to improve their lives and reinforce their commitment to society.

The Ford Foundation is one source of support for these activities and it works mainly by providing grants or loans that build knowledge and strengthen organisations and networks. Since the Foundation's financial resources are modest in comparison to societal needs, it focuses on a limited number of problem areas and program strategies within its broad goals.

Founded in 1936, the Foundation operated as a local philanthropy in the state of Michigan until 1950, when it expanded to become a national and international foundation. Since its inception it has been an independent, non-profit, non-governmental organisation. It has provided slightly more than US$10 billion in grants and loans. These funds derive from an investment portfolio that began with gifts and bequests of Ford Motor Company stock by Henry and Edsel Ford. The Foundation no longer owns Ford Motor Company stock, and its diversified portfolio is managed to provide a perpetual source of support for the Foundation's programs and operations. The Trustees of the Foundation set policy and delegate authority to the president and senior staff for the Foundation's grant-making and operations. Program officers in the United States, Africa, the Middle East, Asia, Latin America and Russia explore opportunities to pursue the Foundation's goals, formulate strategies and recommend proposals for funding.

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Farha-Joyce Haboucha

Chair of the Social Venture Network and Fund Manager for Rockefeller & Co.

The Social Venture Network was founded in 1987 by some of the nation's most visionary leaders in socially responsible entrepreneurship and investment. It is a non-profit network committed to building a just and sustainable world through business.

SVN promotes new models and leadership for socially and environmentally sustainable business in the 21st century. It champions this effort through initiatives, information services and forums that strengthen the community and empowers members to work together on behalf of their shared vision.

Through SVN, members have launched new enterprises, taken stands on public policy issues and improved their own 'triple bottom line' performance for people, planet and profits.

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Laura J. Castellano

Manager, Corporate Affairs, AVON

In the 1880s, book salesman David McConnell gave small bottles of perfume to New York housewives who listened to his sales pitch. The perfume was more popular than the books, so in 1886 McConnell created the California Perfume Company and hired women to sell door-to-door. (He renamed the company Avon Products in 1939 after being impress-ed with the beauty of Stratford-upon-Avon in England.) Through the 1950s these women, mostly housewives seeking extra income, made Avon a major force in the cosmetics industry.

Avon is now the world's number one direct seller of beauty products, has 3.4 million sales representatives, 43,000 employees and a turnover of almost US$6 billion.

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Dr Mark Albion

Former Harvard University Business Professor

Mark Albion spent nearly 20 years at Harvard University and its Business School as a student and professor. He is the author of the New York Times Best Seller, *Making a Life, Making a Living*, which is based on his seven-year-old monthly ML2 E-Newsletter, subscribed to by several million readers in 87 countries. His work has been praised by global leaders as diverse as Ronald Reagan and Mother Teresa, prompting Business Week to name him "*the saviour of business school souls.*"

www.makingalife.com

Professor Joseph Badaracco

John Shad Professor of Business Ethics, Harvard Business School

Joseph L. Badaracco, Jr, is the John Shad Professor of Business Ethics at Harvard Business School. He has taught courses on strategy, general management, and business ethics in the School's MBA and executive programs. Badaracco is a graduate of St Louis University, Oxford University where he was a Rhodes scholar, and Harvard Business School where he earned an MBA and a DBA. He has served as the course head for two required MBA courses, General Management and Leadership, Values, and Decision Making. He now teaches a second-year elective, The Moral Leader, and serves as Faculty Chair for the MBA Elective Curriculum. He is also the past chairman of the Harvard University Advisory Committee on Shareholder Responsibility.

Badaracco has taught in executive programs in the United States, Japan, and several other countries. He is a director of Excelon Corporation and faculty chair of the Nomura School of Advanced Management in Tokyo. In his first book, *Loading the Dice*, Badaracco compared business-government relations in five countries. His next book was a study of ethics and business leadership, entitled *Leadership and the Quest for Integrity*. Badaracco's subsequent research focused on international strategic alliances, and his findings are reported in *The Knowledge Link*, which *Fortune* magazine selected as one of the outstanding management books of 1991. His most recent books are *Business Ethics: Roles and Responsibilities* and *Defining Moments: When Managers Must Choose between Right and Right*. His most recent book is *Leading Quietly: An Unorthodox Guide to Doing the Right Thing*, published in February 2002. These books have been translated into nine languages.

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Mark Brownlie

Interim Secretariat, The Global Reporting Initiative

The Global Reporting Initiative (GRI) was established in late 1997 with the mission of developing globally applicable guidelines for reporting on economic, environmental, and social performance. Initially it focused on corporations but soon expanded to include any business, governmental, or non-governmental organisation (NGO). Convened by the Coalition for Environmentally Responsible Economies (CERES) in partnership with the United Nations Environment Programme (UNEP), the GRI incorporates the active participation of corporations, NGOs, accountancy organisations, business associations, and other stakeholders from around the world.

The GRI's Sustainability Reporting Guidelines were released in exposure draft form in London in March 1999. The GRI Guidelines represent the first global framework for comprehensive sustainability reporting, encompassing the 'triple bottom line' of economic, environmental and social issues. Twenty-one pilot test companies, numerous other companies, and a diverse array of non-corporate stakeholders commented on the draft Guidelines during a pilot test period during 1999-2000. Revised Guidelines were released in June 2000.

By 2002, the GRI will be established as a permanent, independent, international body with a multi-stakeholder governance structure. Its core mission will be maintenance, enhancement, and dissemination of the Guidelines through a process of ongoing consultation and stakeholder engagement.

The Vision of GRI is to make sustainability reporting as routine and credible as financial reporting in terms of comparability, rigour, and verifiability. Specifically, the GRI's goals are to:

- Elevate sustainability reporting practices worldwide to a level equivalent to financial reporting
- Design, disseminate, and promote standardised reporting practices, core measurements, and customised, sector-specific measurements
- Ensure a permanent and effective institutional host to support such reporting practices worldwide.

A generally accepted framework for sustainability reporting will enable corporations, governments, NGOs, investors, labour, and other stakeholders to gauge the progress of organisations in their implementation of voluntary initiatives and their progress toward other practices supportive of sustainable development. At the same time, a common framework will provide the basis for benchmarking and identifying best practices to support internal management decisions.

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CERES is

- The leading US coalition of environmental, investor, and advocacy groups working together for a sustainable future
- Companies that have committed to continuous environmental improvement by endorsing the CERES Principles, a ten-point code of environmental conduct
- A common ground where groups with widely different backgrounds, assumptions, and visions find concrete solutions to today's environmental challenges.

The CERES Coalition is a network of over 80 organisations including:

- Environmental groups
- Investors, advisers, and analysts representing over US$300 billion in invested capital
- Public interest and community groups.

The 70-plus companies endorsing the CERES Principles include:

- Large companies and multinational corporations
- Small and medium-sized companies.

CERES began its work in 1988 when the Board of the Social Investment Forum, an association of socially responsible investment firms and public pension funds, decided to form an alliance with leading environmentalists to find ways that investment dollars could promote a healthy environment. After about a year of careful negotiations, the Coalition for Environmentally Responsible Economies, or CERES, was formed, named after the Roman goddess of fertility and agriculture.

Late in 1989, CERES announced the creation of the Valdez Principles (later renamed the CERES Principles), a ten-point code of corporate environmental conduct to be publicly endorsed by companies as an environmental mission statement or ethic. Embedded in that code of conduct was the mandate to report periodically on environmental management structures and results.

A2 OTHER SOURCES OF INFORMATION

Corporate Information

- Starbucks Coffee Company
  www.starbucks.com
- Rolltronics
  www.rolltronics.com
- Levi Strauss
  www.levistrauss.com
- Nike
  www.nike.com
- McDonalds
  www.mcdonalds.com

Foundations

- Soros Foundation
  www.soros.org
- Jessie Smith Noyes Foundation
  www.noyes.org
- The Abel Foundation
  www.abel.com
- The Roberts Foundation
  www.redf.org

Other

- The Global Sullivan Principles
  www.globalsullivanprinciples.org
- The UN Global Compact
  http://65.214.34.30/un/gc/unweb.nsf/
- The Reputation Institute
  www.reputationinstitute.com
- Environics
  www.EnvironicsInternational.com
- The Centre for Corporate Citizenship at Boston College
  www.bc.edu/bc_org/avp/csom/ccc/index.html
- World CSR
  www.worldcsr.com
- Robert A.G. Monks
  www.ragm.com
- The Zero Emissions Research Institute
  www.zeri.org
- The Rocky Mountain Institute
  www.rmi.org
- Tomorrow Magazine
  www.tomorrow-web.com
- The International Institute for Sustainable Development
  http://iisd1.iisd.ca
- The World Business Council for Sustainable Development
  www.wbcsd.ch

A3 ABOUT THE AUTHOR

A. C. Ping is a Corporate Re-invention specialist who focuses on Corporate Governance, Social Responsibility, Ethics, Leadership and New Ways of Doing Business.

He has worked with leading organisations in Australia, the United Kingdom and Africa. These include the Prince of Wales Business Leaders Forum in London, the global company United Distillers and Vintners, The KwaZulu-Natal Department of Health in South Africa, and Transfield Services in Australia.

In addition, he conducts courses in Ethical Leadership at the Mt Eliza Business School, RMIT University and the University of Ballarat. He is the author of four books:

- Sensitive Chaos – A guide to business ethics and the creation of trust in the new millennium
- The Second Coming of Capitalism – and the secret to business success in the third millennium
- Be
- Do

He also writes regularly for The Australian Institute of Company Directors and 'Management Today' on corporate governance issues. His articles have been reprinted by 'The Australian' newspaper and also by journals in Canada and India.

A. C. Ping holds a Masters Degree in Business Administration, a Graduate Diploma in Finance and is also a licensed facilitator in Edward De Bono's 'Six Hats' and 'Lateral Thinking' techniques.

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"Corporate leaders, now more than ever, have the opportunity to redefine the role of the corporation on a world stage, and to leverage our ability to improve the lives of individuals, companies, communities and nations, for the better."

Carly Fiorina, CEO, Hewlett-Packard

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