

Appiah, Francis; De Geus, Aart; Thiele, Rainer; Wiebelt, Manfred; Khan, Amir Ullah

**Conference Paper**

## Fighting against poverty in the crisis aftermath 2009

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## The Global Society

# Content and Limits of Corporate Social Responsibility 2009

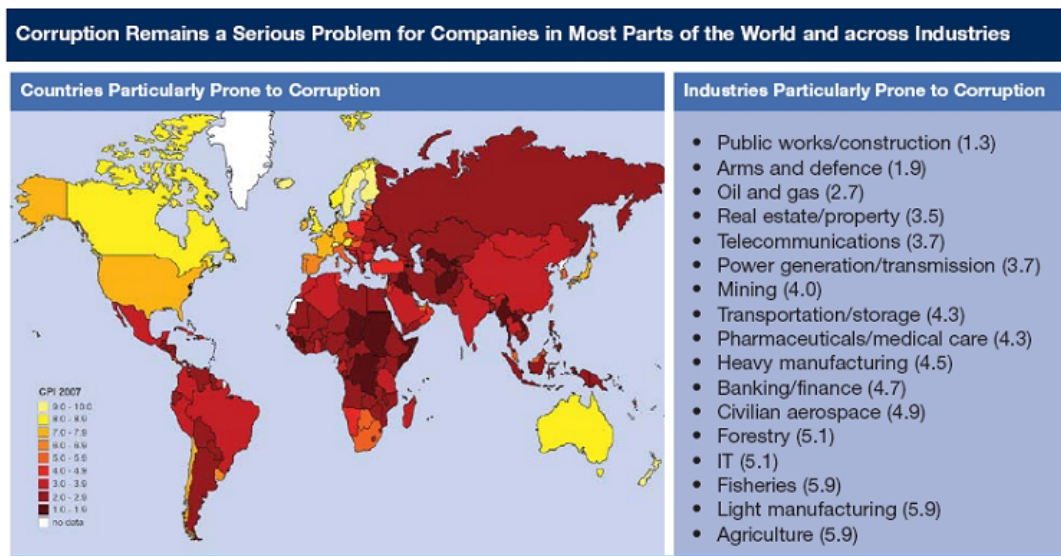
### The Challenges

Corporate Social Responsibility (CSR) represents a company's voluntary commitment to address the ethical, social and environmental factors associated with its operations. Despite its potential for furthering social needs CSR activities may come under severe pressure in an era of increased global competition and during business cycle downturns.



The role of governments in facilitating and supporting CSR still remains unclear.

Do we need joint action of firms and governments to agree on common CSR standards to prevent a race to the bottom where firms that engage in CSR are at a cost disadvantage vis-à-vis their competitors? Should governments help to sustain CSR-activities during business cycles downturns, and if so, how should they do that? Should a company only be responsible for its own activities or should it also take responsibility for eventual actions by their suppliers and customers and, if so, how to make a company's commitment to CSR enforceable against potential misbehaviour by suppliers and customers? How to prevent politicians to neglect their original responsibilities and treat CSR as a substitute for good government policy?



Note: The map is based on Transparency International's 2007 Corruption Perceptions Index. The score relates to perceptions of the degree of corruption ranges between 10 (highly clean) and 0 (highly corrupt). The Industries ranking is drawn from Transparency International's 2002 Bribe Payers Index. The scores, similarly from 0 to 10, reflect the propensity of companies in different sectors to pay bribes.

Source: The International Chamber of Commerce, Transparency International, the United Nations Global Compact and the World Economic Forum Partnering Against Corruption Initiative (PACI), 2008, "Clean Business is good Business".





## **Proposed Solutions**

### **Lord Browne of Madingley**

*Managing Director and Managing Partner (Europe), Riverstone Holdings*

“Corporate social responsibility” is the means by which businesses structure their interaction with society. This means more than simply being a good corporate citizen – it is about investing in society as an integral part of a business. The creation of genuine shareholder value requires business to remain in the game for the long-term and not being solely focused on generating short-run returns on capital. A business’ licence to operate depends on making itself useful to society and that is why CSR is so important.

Keeping a business in touch with society’s values is something which is best provided by good managers – people who can interpret a plan, set targets to meet the plan, measure performance and take action if those targets are not being met. Such people can inspire their employees, set the right tone for the business and make people feel they are fully included in the organisation. Ultimately, they are the kind of people who have long experience with how to actually get things done.

The key quality is leadership. Business leaders must understand the nature and purpose of their companies beyond what is expected at the next quarterly filing. They need to understand that only business transactions based on mutual advantage and radical openness are truly sustainable in the long-term. And they need to recognise that markets are products of government regulation, designed to create socially-useful outcomes from the uncoordinated actions of multiple parties.

Bearing these points in mind we can propose a number of practical solutions which should ensure greater compatibility between what businesses see as their core purpose and the values of society.

#### **Solution 1**

Businesses should, where possible, be encouraged to create independent scrutiny panels to assess their impact on society. The reports and the company’s responses to them should be made publicly available at regular intervals.

Experience shows that independently appointed advisory boards are crucial to gaining trust in new areas of operation or – particularly salient at the present time – in regaining trust where it has been lost. BP made good use of independent panels to report on its activities in Tangguh, Indonesia and in the Caspian Basin. These groups had a public presence and ensured that projects were completed without unfair consequences for, or mistreatment of, the local communities involved. With lines of report stretching right to the senior executive team, BP ensured that the scrutiny panels had a bite as well as a bark.

#### **Solution 2**

Governments and NGOs should work together with businesses to create common international standards by which whole industries can be held to account.

A number of such standards already exist – for example, the Extractive Industries Transparency Initiative and the Voluntary Principles on Security and Human Rights – but industry-wide international agreements remain rare. In many cases there are conflicting sets of rules and unclear messages about what businesses should be doing. Yet there is an obvious need for such standards. They provide a benchmark to which companies must aspire, while at the same time helping businesses to deflect undue criticism. Third-party mediation from national governments, large NGOs or transnational intergovernmental groupings can facilitate the creation of new standards with broad support and legitimacy.



### Solution 3

Provide an operating model for a socially responsible business.

Every business has a different impact on society and therefore has different responsibilities with regard to mitigating that impact and improving lives. However, there are general business practices which can be adopted by any business to enable it to more easily achieve its CSR goals. Focused CSR leadership can be brought about through the appointment of specialised senior executives (for example, in charge of diversity or environmental impact) or through the linking of executive pay with meeting specific CSR targets. Employees can be made to feel included with CSR policy through regular classes and workshops which enable them to understand the company's policy and their place within it.

Where something is shown to have worked, best practice needs to be transferred and developed upon. Once again, third-party NGOs and governments can play a constructive role in facilitating dialogue between companies, allowing them to learn from each other.

### Paul Bulcke

*CEO, Nestlé SA*

Our proposed solution to broaden the scope of Corporate Social Responsibility (CSR) and overcome its limits starts with three premises:

1. A long-term approach in all our thinking and actions.
2. Fully integrating a clear and constructive understanding of our role in society into the main-stream activities of day-to-day business.
3. An awareness of the diversity of local situations and, as a result, the complexity of the international business environment, as well as the will to act accordingly. Nestlé, for instance, runs its own business organisations in more than 140 countries, with over 450 factories in more than 80 countries all over the world – about half of them in developing economies (from Argentina to Zimbabwe, from Israel to Syria and Iran, from China to Vietnam, to mention but a few of the host countries). We are producing locally for local consumption in increasingly diversified markets. Typically, our factories are far from major cities, often in communities or in rural areas close to farms which supply critically important raw materials. In other words, the chances of finding standard situations within the Nestlé-Group are probably less than in any other sector or company. What we are confronted with, instead, is a very wide array of diverse challenges to which we must respond.

With this in mind, we are focusing on the concept of shared value (we no longer use the word and concept of CSR). It's a fundamental approach to business that says that if you want to have long-term business success, you have to create value for society. It's not an image-building exercise or philanthropy, but a way of viewing business development by simultaneously reviewing the needs of both shareholders and society. And, as just outlined, the needs of the community in question vary significantly, depending on when and where you are operating.

It is relatively easy to do a few more projects (i.e., be a philanthropist – in the case of a publicly-listed company, with somebody else's money) and to hire a PR agency to publicise it. It is much harder, especially in today's environment, to help people understand the concept of and the need for Creating Shared Value, and about the positive overall impact (also for society) from continuously increasing the value that business contributes to society. All this needs to be done keeping in mind a long-term perspective and going beyond existing legal norms and standards. But at Nestle, we are convinced that, in the long term, this is the better and more sustainable way.





Creating Shared Value and meeting the needs of society include:

- value shared with consumers (it may be nutritional value, but also pleasure and convenience; as well as value for money, i.e., products and services at a lower price, thanks to an efficient industrial structure),
- value shared with suppliers (for example, approximately 600,000 farmers supplying us directly with milk and other products in many developing countries, as also thousands of SMEs all over the world),
- value shared with employees and their families,
- value shared with business partners upstream and downstream,
- value shared with research organisations (within our open-innovation approach), but also voluntary and involuntary spillovers of all types of knowledge from the Nestlé knowledge pool, and
- last but not least, the value created for the wider communities where Nestlé is active for our business, taking into particular account also the natural environment.

We are at the same time ambitious in what we want to achieve, and modest in what we are actually able to do. No company, no organisation, should believe or give the impression that they can do everything everywhere. Nestlé, therefore, concentrates on three priority areas for further strengthening the creation of shared value:

- water,
- rural development, and
- nutrition.

For strengthening our efforts, we require partners and networks – and wherever possible, local networks. We also need to demonstrate results locally that, in the very first place, convince our local stakeholders and local partners. Global reporting of Creating Shared Value may help in spreading best practices and learning from others; however, if the reporting becomes excessive and mandatory, it will end up at best as a box-ticking exercise and, at worst, as a flood of paper and information where the cost of collection and circulation will be higher than the actual impact of what is being described.

In order to achieve meaningful results, the principles underpinning the creation of shared value must be fully embedded in corporate culture and strategy and, ultimately, in the minds of the people – and not in regulations (it is not possible to regulate either “thinking” or “ethics”). And if you do it right, you do not need protection vis-à-vis competitors by worldwide globalised standards, for if you manage your business efficiently both for the benefit of shareholders and society, you will actually run a growth model that is extremely powerful and robust (i.e., sustainable) over time, both in periods of prosperity as well as during an economic recession. In this sense, Creating Shared Value is not a “voluntary or desirable commitment”, but indeed a part of strategic orientation. Nestlé’s 140 years of successful company history seems to be a solid indication that this approach actually works.

## **Raymond Fisman**

*Professor of Social Enterprise, Columbia University*

I recently heard a prominent social enterprise consultant say that social responsibility is as basic to business as double-entry accounting. If only it were so. It’s certainly possible to do some good for the world and make money (or at least break even) at the same time.

We need to move beyond the recognition that responsible, sustainable enterprises can exist to understanding the trade-offs that do exist in the world of social enterprise practice. (In serving low income customers, for example, there is a very obvious trade-off in deciding how low to



set prices.) How, given economic constraints, can we maximize impact on society and in the marketplace?

Unfortunately, much of this conversation takes place in an informational vacuum – we really know so little about the impact of corporate citizenship on employee productivity, customer loyalty, or any other outcome that may feed into profitability. Much of the difficulty in finding answers stems from the fact that – in contrast to double-entry accounting – corporate social responsibility usually isn't part of the DNA of a corporation. In large companies, corporate citizenship groups are usually separate departments (often within marketing). This both limits their ability to evaluate their impact, and also leaves them with a sense of insecurity of what they might find – if corporate responsibility can't be shown to contribute to the bottom line, how long will it be until the axe falls?

Companies can and should behave responsibly even if there isn't a positive impact on the bottom line. Companies need to work to ensure that they are making the right trade-offs – maximizing social impact and assessing the net effect – positive or negative – on profitability.

Only armed with deeper knowledge about what works and what doesn't at the intersection of business and social needs can we develop more effective models of CSR.

## **Edward Lazear**

*Professor of Human Resources, Management and Economics, Stanford University*

Corporate social responsibility is defined as a company's voluntary commitment to address the ethical, social, and environmental factors associated with all aspects of its operations. The key word is "voluntary," which means that firms choose to do this of their own volition.

What is the problem that we are trying to address? In general, it is that the incentives of the firm, embodied in its managers, workers, shareholders, and creditors, may differ from those of society as a whole. The two most apparent manifestations of conflicting incentives are outright malfeasance, e.g., fraud, and undertaking actions that create systemic risk for the economy. The latter is generally a function of firm size, but business strategy also affects the likelihood of harm to the system as a whole.

The financial crisis has provided a number of examples of firms that have engaged in practices that create systemic risk to an economy, but the issue is not confined to the financial sector. Automobile companies today and the airlines in the aftermath of 9/11 were deemed to be sufficiently strategic to warrant special attention by the US government.

Society's desired actions may differ from those undertaken by the firm primarily for one of two reasons. First, socially undesirable actions that benefit firms may be difficult to observe by outsiders. Second, even if the actions are observed, the punishment associated with those actions may be insufficient to deter the firm from taking them.

When observability is an issue, economic theory tells us that the punishment must be scaled up, to a first approximation, by the reciprocal of the probability of detection. But punishments this severe may be difficult to implement, and governments may find it difficult to commit to such punishments. The market has no problem with commitment, but this requires that the action that the firm has taken not only hurts society, but affects the profitability of the firm. Excessive risk taking provides an example. When firms have created systemic problems and they are discovered, the firms suffer major consequences (witness Bear Stearns and Lehman Bros.) But the market can only be counted on to redress these problems when there is little difference between social and private incentives, which negates the whole problem, or when the firm loses profits as a result of government induced punishment, which brings us back to the first issue: How do we get the government to see infractions and to commit credibly to punishing the violators?



To elaborate, suppose that we want firms to internalize the harm that they do to others from taking an action. For example, consider a firm that advertises inaccurate information about its competitor. That information has a social cost, but the market would reward the firm for a successful, albeit fraudulent, ad campaign as long as the firm is not found out. When the firm is caught, the market will punish the shareholders of the firm to the extent that the new estimate of product quality affects profits, but the market punishment will not blow up the losses to the firm by the reciprocal of the probability of detection, which is necessary for optimal deterrence. Indeed, there may be no punishment relative to announcing the accurate quality of the firm's output at the start, because then the present value of discounted earnings would be the same as the ex post estimate.

In other cases, it is necessary to have government imposed penalties that exceed the actual cost to society of the action because the probability of detection is less than one. In the US, Constitutional restrictions on cruel and unusual punishment may limit the ability to do this effectively. The same restrictions, sometimes implicit, prevent deterring punishments from being levied in other countries. Indeed, conflicting goals manifested in limited liability firms, may work against this. The desire to facilitate the formation and transfer of capital may prevent doling out optimal punishments.

If the market does not provide the appropriate punishment to deter inappropriate action when detection is imperfect, and if government cannot be relied on to levy sufficient fines to provide optimal deterrence, then is the situation hopeless? I believe not. An additional penalty might be borne by the firm to the extent that firm credibility has suffered, and this penalty may be substantial. In some businesses, this may be a very powerful deterrent. For example, the accounting firm Arthur Andersen, which saw its demise as a result of its auditing treatment of Enron, would likely have behaved differently had it accurately forecast the realization of damage to its shareholders from faulty auditing.

The market may act as a source of leverage for increasing punishments as investors become more wary of firms that have received government scrutiny in the past and as consumers shy away from products of firms with uncertain futures. In addition to the Arthur Andersen example, the auto industry is a case in point, where consumers become reluctant to buy the products of firms that have uncertain futures.

So what should we do?

First, just as some governments commit credibly to refrain from negotiating with terrorists, governments must also commit to be ruthless in punishing legal infractions by firms. It is better to have few regulations that are enforced to the letter than to have a myriad of regulations that are rarely enforced. Bailouts, which undermine the market in disciplining firms, should be avoided and, for the most part, they have been. Government bailouts are extremely rare, given the number of bankruptcies that occur. Firms should not be able to count on government help for support. Even the auto industry, which received a bailout, suffered huge losses in the process and surely would not have chosen that path voluntarily. Again, the key is to pass limited regulation that addresses the central issues and to enforce the regulation without exception.

Second, the market should be allowed to operate. Government impediments to the well-functioning of punishment strategies should be avoided. For example, preventing short-selling reduces the effectiveness of the market in dealing with firms that have deviated from their private and social mission and limits the transmission of information.

Third, to the extent possible, ethical values should be instilled in individuals before they reach the business world. This is easier said than done. Furthermore, there is substantial danger in encouraging the state to play an active role in moral education. Governments change and can be captured too easily, even if only temporarily. History provides horrifying examples of state conducted persecutions justified on moral grounds. Traditionally, the production of a moral society has been in the purview of the family and the church. Although clearly imperfect,





competition among religions and beliefs is more likely to lead to beneficial value creation than that of a monolithic state. Furthermore, the diversification provided by having families rather than the state in charge of moral education reduces volatility in what is defined as socially appropriate, and works against the establishment of socially detrimental values that may reflect the agenda of a few.

## **James P. Leape**

*Director General, WWF*

In its early years, Corporate Social Responsibility was seen by many as essentially charitable – comprising voluntary commitments to contribute to local communities or to adopt better practices than required by law. There is a growing recognition, however, that corporate responsibility should be thought of in much broader terms.

In the area of environmental sustainability, there are clear drivers of this expansion. WWF estimates that humanity's global footprint already exceeds the Earth's capacity to regenerate by about 30%. And we are seeing the early signs of resource constraints that will dominate this century, including increasing demand (and thus prices) for oil and other commodities; water scarcity; impending limits on carbon emissions. Those challenges will be compounded by the upheavals caused by climate change – exacerbating water shortages, disrupting agriculture, and displacing millions.

To meet these challenges, we're going to need leadership from the private sector, in particular, the unmatched capability of the private sector to innovate and to adapt. There are huge new opportunities – including new markets for carbon and other waste products, and the new products and services that will be the building blocks in a global shift to a greener, lower-carbon economy. There is also greater responsibility.

### ***A broader concept of “good business”***

Thought of as charity, CSR has limited potential. But many companies now see that an expansive vision of corporate responsibility is good business in many different ways. Commitments to environmental sustainability can offer direct returns to the bottom line – reducing costs by driving efficiencies, for example, or leading to new products and new markets. They can also lead to more fundamental rewards. CEOs of major global companies report that a leadership commitment to action on sustainability is central to the overall perception of their companies, to the recruitment and retention of staff, and, in some cases, to their social license to operate.

### ***A broader understanding of a company's impacts***

On environmental performance, corporate responsibility efforts have naturally focused first on the impacts of a company's own operations. That's a good start. But leading companies increasingly recognize that often their biggest impacts are at other points of the value chain. The greatest “water footprint” of a litre of cola is not the 3–4 litres used in the bottling plant, but the 200 litres used to grow the sugar. The biggest carbon impact of a mobile phone is not in the manufacturing, or even often in use, but in the constant draw on power of chargers left plugged in. A “responsible” company looks at all these impacts, and thinks creatively about how it can help drive sustainability across its value chain.

### ***A broader vision of potential roles***

Thinking more broadly about impacts helps a company think more creatively about the roles it can play in supporting sustainability. Companies have huge opportunities to engage their consumers – educating them about sustainability or offering lower-impact products (such as



cold-water detergents). They can also engage their suppliers – helping to develop and promote less water-intensive agriculture, for example, shift to certified forest management, or reduce energy use. Companies who have taken on these issues have found they can also have broader influence in their sectors, either by enlisting other companies directly, as has happened on water issues or by setting an example that prompts others to step up.

### ***Broader thinking about the possibilities for collaborations***

As companies take a more expansive view of corporate responsibility, partnerships with NGOs can help in many ways. NGO engagement can give credibility to a company's efforts. NGOs may have technical expertise that helps to identify issues and solutions, and they can challenge internal thinking. More generally, NGOs bring complementary strengths and capabilities – to educate consumers, to identify sustainable suppliers, to engage policymakers. For a company serious about making a difference, a partnership with an NGO can offer new possibilities.

### **Arun Maira**

*Member of the Planning Commission, Government of India*

### ***“CSR” in search of a new paradigm***

We should have realized by now that we cannot carry on with business as usual. We acknowledge that the climate is changing due to human activity, and that unless we change the pattern of our activities very quickly, the Earth will soon become a very unpleasant place for all human beings. As Einstein said, we cannot solve the problems we face with the same thinking that brought us the problems: we need new models and new paradigms. We need new models to grow economies in ways that put far less pressure on the environment than have the models that brought the rich nations their prosperity. The adoption of the ambitious Millennium Development Goals at the turn of the century was also a call to change our course. The prevalent models of economic development and growth, the Commission on Growth and Development pointed out, do not meet the requirements of equity that humanity has begun to aspire to in recent times with ideas of human rights and democracy that are gathering strength. Therefore we need new models of economies that are not only more sustainable, but also inclusive of all people.

Market economies have brought the rich countries their prosperity, and these models of market economies are what the rapidly developing countries are emulating. Business is the engine of growth in these market economies. Therefore while rethinking prevalent models of economies to ensure sustainability and inclusion, prevalent paradigms of business must be re-examined too. The re-examination must begin with a fundamental question: What is the responsibility of business corporations to society? In other words, what should be the content of “corporate social responsibility?”

The prevalent paradigm of corporate social responsibility (CSR) is that CSR is something that corporations do on the side; something for which they set aside some portion of their profits; something in which their employees are allowed some time to participate. (Hence a current concern – in this Summit as well – with how the economic down-turn which has affected business' profits will affect their CSR activities.) No doubt corporations make some contribution to improvements in communities and to restoration of the environment by such CSR activities on the side. They are good; but they are grossly insufficient to meet the urgent needs that climate change and demands for more rapid inclusion of all peoples are imposing on our societies.

The truth is that business corporations affect the environment and communities by the products they produce and the processes they use to produce revenues and profits. Indeed, it may be their own products and processes (or products and processes of other corporations) that have inadvertently caused the harm that they then wish to ameliorate by their CSR



activities. CSR with a small fraction of their profits cannot have the same impact on communities and the environment that the processes of producing the revenues (of which the profits are a fraction) can have. Hence the prevalent approach to CSR is like rearranging the deck chairs on the Titanic, whereas it is the course of the Titanic itself that must change to avoid disaster and take humanity towards a more sustainable future.

The conclusion we come to is that the discharge of a business' responsibility to society cannot be measured by assessing its CSR activities. Business responsibility must be measured by the contribution the business makes by its products and processes, not merely to its investors and owners, but to the environment and the community also. This fundamental change in the definition and content of business responsibility is essential for the survival of the earth and human society. It requires changes within business corporations and the institutions that surround them.

Business corporations operate within frameworks of regulations imposed on them by governments as well as the norms and expectations of the societies in which they operate. Thus they work within a system and cannot go too far in autonomously changing themselves even if they have the intention. Because they must be in synch with what society expects of them, what they are measured by, and what they are rewarded and punished for. Therefore the norms and practices of other institutions that surround business corporations must change too. Hence the seven 'solutions' I propose to accelerate the change in the paradigm of business responsibility and make it sustainable are changes in the larger eco-system of business-related institutions.

## 1. Expand reporting frameworks

The financial performance of business corporations is subjected to great scrutiny to ensure that financial investors get the information they need. Financial reporting requirements are mandated. Financial accounts must be audited by independent professionals. Business analysts pore over these accounts, and the financial performance of companies is publicly and authoritatively dissected in the business media.

If business corporations must be held accountable for their impact on the environment and the community also, then they must be required to report their performance against a 'triple bottom line': impacts not just on profits, but the planet and people too. Some corporations have begun to do this voluntarily. However, for the reports to have value they should conform to agreed standards – so that the performance of corporations can be compared as with financial reports. And for the information they provide to be trustworthy, it should be independently audited as with financial reports.

It is unlikely that standards will develop and compliance come about through voluntarily action by a few corporations, or even by the actions of voluntary associations of businesses of which there are several already. Indeed the competition amongst these associations for recognition of their versions of standards results in more noise and less useful signals for concerned citizens to rely on. Therefore there is need for a process of convergence in which governments will have to play some role for the sake of providing citizens with reliable and comparable information.

## 2. Develop analysts and “valuers”

The demand for better reports will create a need for professionals to help corporations prepare the reports. It will also create a demand for analysts to scrutinize these reports and make evaluations to guide the public. The media can propagate this information.

The development and engagement of professionals (and analyses in the media) need not be only a response to the demand from the public. Professionals and the media can stimulate the demand too. Thus a movement can be accelerated towards business responsibility in 21st century terms, rather than the old paradigm of “CSR” and philanthropy.



### **3. Build pressure from the investor community**

Business corporations that do not anticipate the changing needs and norms of society run great risks. What was acceptable once can become no longer acceptable. Asbestos, cigarettes, polluters of water and air, users of child labor...Corporate reputations have been ruined; licenses to operate have been withdrawn; financial value has been destroyed.

Corporations that track the changing needs of multiple stakeholders outside the investment community and respond to them, ultimately protect the interests of their investors. Therefore investors should value corporations that demonstrate strong capabilities for responding to demands for sustainability and inclusion, and that measure their performance on a triple bottom line. Indeed enlightened investors are pro-actively demanding that managers build these capabilities. Demand from investors is always a good reason for managers to change their behavior, especially those whose philosophy is that the prime purpose of a business is to produce results for its investors.

There are a few investors who, for ethical reasons, have focused their investments on socially and environmental businesses for many years. However such investors were very few and they could not influence wide changes in corporate behavior. Recently movements have stirred within the mainstream investor community recognizing the demands from society for sustainability and inclusion and the risks from these for their investments. Investment managers overseeing several trillion dollars of investments have come together to develop norms for responsible investments, such as the Equator Principles, and the Principles of Responsible Investment.

### **4. Strengthen consumer movements**

Managers who subscribe to the philosophy that the business of business must be only business may not see the need to respond to the needs of the community. But they do know they must deliver the needs of their investors. They also know that they must deliver what customers want or they will be out of business. Therefore, strong consumer movements that demand that a company's products are good for the environment and society, and that rate companies on their performance against these requirements, can broaden managers' attention beyond the narrow focus on the financial bottom line.

While such movements can and have arisen autonomously within civil society, and can sometimes become very powerful, the question is how they can be supported and given more strength, and by whom, so that the movement towards more responsibility across all businesses can be accelerated. This is a solution with great potential that requires more examination.

### **5. Rethink business and management teaching**

The first four solutions – in the arenas of reporting requirements, analysts and media, investors, and customers – are demand-side solutions for business responsibility. The fifth is a supply side solution.

Many managers within businesses including those at the top of their firms, many managers within investment firms, most consultants who advise businesses, as well as many business analysts, are all products of business schools. Many have got degrees from these schools, and many others have been to the school's executive development programs. Thus concepts that business schools teach are pervasive in the business world. Therefore any paradigm shift in the concept of business responsibility can be reinforced or retarded by what business schools teach.

Recently there has been much debate about the responsibility of business schools for the financial crisis that has shaken the world. And there have been suggestions about what they should teach to improve the world. Courses in ethics are often mentioned. These may do some good but they will not make much difference if the core curriculum of the schools remains wedded to the prevalent theory of the responsibility of businesses viz. the business of





business is only business. Teaching ethics on the side while the core of business teaching is unchanged has the same limitation as the prevalent paradigm of CSR – something done on the side while the main thrust of business is unaltered. The damage or the good to the world is done by the core concepts on which the schools' courses are founded.

The philosopher Karl Weick said there is nothing as practical as a good theory. Business schools need a new theory of management to enable the change that has now become imperative in the pattern of human activity. The prevalent theory guiding business practices is based on two premises: that a business manager's prime, and perhaps only responsibility is to produce better returns for investors; and that human beings are motivated mostly or entirely by material incentives. Management teaching and practice must be informed by new theories that reflect the nature of humans more accurately as well the systemic nature of the world in which each part is embedded. In this interconnected world, those who wish to lead – and often claim they are the leaders – must be responsible for the condition of the whole and for the consequences of their actions on the whole system. This must be the ethics of business leaders and theories and practices in business must be consonant with this ethics.

## 6. Create networks

While the best business schools admit the need for change, they say that they are part of a larger system, and that they must respond to what their best customers, principally corporate recruiters, want and are willing to pay for. The question then is who must change first: the schools or businesses. The same question of who first can be asked in the relationship between businesses and their investors, and between businesses and customers. There is inter-dependency amongst all of them.

Outside Pune in India, visitors experience the power of working together at a Sufi shrine. There is a large boulder in its courtyard which even a huge man cannot lift alone. But ten visitors, whether young or old, men or women, can lift it by putting one finger each on to it and breathing and lifting together. Similarly, change in the pattern of human activity, and in the impact business corporations have on the world, will come about by many institutions working together.

Networks are forming, seeded by the UN Global Compact, the World Business Council of Sustainable Development, and others. Into these networks many organizations are plugged. They include those developing reporting standards such as the Global Reporting Initiative; networks of investors (such as the Principles of Responsible Investment); and networks of business schools pursuing change (such as the Principles of Responsible Management Education). Each is independent, but working together they may accomplish what none will alone.

## 7. Finally, new leadership

Who will initiate the change? And who will wait for others? Leaders are those who move first: followers wait. Leaders are those who take the first steps towards that which they deeply care about and in ways that others then wish to follow. Thus they initiate a movement of change, all the time mindful of interdependencies, and within which they are changed too, but never losing their own aspiration for a better world for everyone.

We live in a networked world with great interdependencies which we ignore at our collective peril. This is the most profound realization that the threat of climate change, and the need and desire for inclusion of all in the benefits of economic progress, has brought us. We must work together. Therefore we need new paradigms of leadership to bring about cooperation. Cooperation cannot be imposed by a leader: the imposition will itself beget lack of cooperation. (Recall the unhappy consequences of 'If you are not with us, you are against us'.) Cooperation has to be enlisted and inspired. Gandhi's "Be the change you want to see in the world" may be a more appropriate model of leadership.





In the corporate world too, we must rethink the paradigm of leadership that we teach and celebrate. The model of the strong CEO presented in many business cases, which has also been much celebrated in the media recently – a leader who is high above the rest, whose writ prevails, and to whom is attributed the success of the corporation, and for which she or he is rewarded outlandishly – is not the solution the world needs. Indeed, it may have contributed to the selfishness and fragmentation of the world that must now be changed.

The seven solutions reinforce each other. It is tempting to analyze which is primary and could be a stimulus for all others. Perhaps reporting frameworks may induce change in the rest; or demands of investors, or customers, will do it; or changes in the concepts and theories of management. If one must yield to this analytical temptation, then change in the paradigm of leadership may be the most central and pervasive requirement. Leaders who see the big picture, and who can work collaboratively and less egotistically with others, are required in all communities – business, academia, government, and civil society to together shape a better world for all.

## **Birgit Sander**

*Kiel Institute for the World Economy*

## **Harmut Wolf**

*Kiel Institute for the Word Economy*

### **1. Governments and organizations of the “third (i.e., not-for-profit non-governmental) sector” should work together with companies to identify the need for CSR-activities, to motivate the development of CSR strategies and to help realizing these strategies.**

In essence, CSR means corporate self-regulation integrated into a business model whereby business commits to adhere to social norms and international standards that are not subject of regulation by law. Although at first sight it may seem that CSR is only a matter of business companies, in fact it will only be sustainable in the long run (and especially during times of economic crisis) if it is understood as a concept of improved cooperation between business companies, governments and organisations from the “third sector”, all taking specific responsibilities within a broader CSR strategy: (i) Companies have to develop a wider sense about what constitutes their core business while taking into account the effects of their activities on society. They have to develop and implement their individual CSR-strategies. (ii) Participants from the third sector have to identify urgent social problems and fields for action while helping corporations to generate more social worth. In doing so they should see themselves as partners, not as opponents, to the business sector. (iii) Also governments have to act in a sense of partnership: They have to motivate, stimulate and help business companies to build appropriate CSR-networks.

### **2. Make corporations becoming aware of the benefits they can reap from CSR activities.**

CSR activities may in many ways generate benefits for companies that devote resources to adhere to ethical norms beyond law and to serve social needs beyond their core businesses. The benefits to be reaped may include the reputation of caring about social needs which, in an era of increased public awareness and sensitivity for social needs, may help to get access to untapped markets, to generate competitive advantages on sales markets and to get better acceptance for their core business models by stakeholders. It may also be an aid to recruitment and to increased identification of employees with the company they work for. Other benefits may stem from less taxation and/or regulation by law which may transform into substantial cost savings to firms. The more companies treat CSR activities as a rational investment and part of their business strategies the more sustainable CSR activities will be.



### **3. Governments and third sector organizations should help corporations to communicate their CSR activities to the broader public by taking responsibility for fostering transparency in the field of CSR.**

The reaping of private benefits by corporations from CSR activities depends on the awareness of such activities by stakeholders and the broader public. Public transparency of CSR strategies and actions is a precondition for public awareness. Especially, transparency helps stakeholders and the broader public to identify those firms that commit themselves to ethical norms and social standards and, thus, may help to avoid a race to the CSR-bottom (where firms which are not engaged in CSR may benefit from a cost advantage vis-à-vis competitors that do).

Governments and third sector organizations should take responsibility for fostering transparency: Governments should make CSR reporting mandatory by companies. Governments should also develop and provide CSR reporting guidelines which help companies to identify key indicators to which they can align and manage their CSR activities. The business companies as well as organizations of the third sector should help the government in partnership to develop such guidelines and to act as watchdogs against unduly restraints on reporting. In addition, in order to help corporations to communicate their CSR activities to the public, NGO's and governments should develop appropriate rankings and promote honours for outstanding CSR activities. Both would help the public to compare CSR activities and to generate public awareness to outstanding devotion to CSR. This will help to create a win-win-situation for corporations which actively participate into CSR on the one side and the social environment within which they operate on the other.

#### ***Background***

CSR is nothing new but has a long tradition. However, in an era of rapid globalization and of the crisis of traditional welfare state models CSR may have some potential to compensate for the loss of national governments' scope of action in balancing conflicting interests and in sustaining a reasonable reconciliation of interests within their own societies. Furthermore, CSR may help to define and implement a set of rules that may govern transnational relationships between firms and stakeholders. The growing importance of CSR not only on a national, but also on a global level recently found its expression in two transnational initiatives: Within the UN "Global Impact Initiative" about 4,500 business participants committed themselves to align their operations to ten universally accepted principles in the areas of human rights, labor and, environment and anti-corruption. Within the "Extractive Industry Transparency Initiative" major companies of 24 states worldwide committed to fight against corruption by establishing transparency for royalties to be paid to countries that export natural resources.

At the national level governments of different countries treat CSR differently. While some actively support CSR-activities (e.g., the Netherlands, Sweden and the UK), others are rather passive in this respect. Support ranges from awarding honors to corporations that engage in CSR (e.g., Belgium), making CSR activities mandatory for firms that bid for public procurement contracts (e.g., Italy), the financing of private CSR networks or even think tanks (e.g., Denmark), to the explicit appointment of a Minister for CSR (UK). However, it still remains unclear how to best allocate responsibilities between the governments, the third sector, and corporations.