

CSR Doesn't Matter – Business Profits Do

The Corporate Society

The golf course has been the stage for some truly high-powered moments in business. Andrew Carnegie was on the links when he was persuaded to sell his empire to J.P. Morgan, thus creating the first billion dollar corporation (U.S. Steel). John D. Rockefeller was playing his personal 12 hole course when told of the Supreme Court ruling that broke up Standard Oil.

A game that took place in July 2003 may not match those two games in historic import but it certainly helps demonstrate the raw clout that can be piled into one battery powered cart. The players included the CEO of the world's largest company, the world's most successful investor and the world's richest man. Hold this image, because it helps demonstrate the huge influence that businesses have on our lives (Fortune 2003).

Jim Collins would appear to be following this trend in the rise in influence of big business when in 1999 he asked the following question to a Chief Executive. "If the impact and relevance to the world of the U.S. federal government is 1.0, then what is the potential impact and relevance of your company?" His answer: "Three times that." Think about that for a moment: a single corporation that reckons it has three times the relevance and impact of the US Government (Collins 1999).

Is he right? Perhaps three times is a bit high. But whether it is 3x or 1x or 0.5x, the order of magnitude highlights a profound evolution that has taken place over the last 150 years—namely, the rise of the corporate state as one of the most powerful forces on Earth. This trend will accelerate into the 21st century, to the point where well-managed corporate entities will be the primary pistons not only of economic progress, but for social change. This raises a number of key questions:

- How can businesses deal with the criticism that inevitably comes with increased power and influence?
- What is the purpose of the business organisation in this new era of power?
- Most importantly, what is the best way to harness this unprecedented rise in the power of business for the common good?

The Growth of the Corporate Concept

Whilst we don't know who Collins was talking to it might well have been H. Lee Scott Jr. – President and CEO of Wall-Mart Stores Incorporated. So great is the company's impact on the American economy that 250 scholars, anthropologists, historians and sociologists gathered in April at the University of California for a conference on its dominance - its sales make up an incredible 2.3 percent of U.S. GNP (Vanity Fair, 2004).

In fact, the well-managed corporation is the most significant commercial invention of the 20th century. Yet 100 years ago corporations did only a small fraction of the world's work. Certainly, a few large corporations existed but they were unusual. Family farms, mom-and-pop stores and sole proprietorships dominated the economic landscape. There was no *Fortune* magazine or *Business Week*. The Harvard Business School—the consummate symbol of the corporate state - had not even come into existence. In fact, there was not a single MBA-degreed person on the entire planet.

Now, the ability to manage complex organizations has become a widely distributed skill. People have learned how to apply this skill not only to for-profit corporations, but also to educational institutions, health care systems and just about any other productive activity. Even the pure “non-profit” sector has become corporatised, as its executives eagerly seek to apply the best corporate practices to their work.

As an example of this, in an era where the certainties of religion seem a distant memory the most successful vendor in the spiritual market is the modern “mega-church”, which is rapidly gobbling up spiritual market share. One regional church in America draws 17,000 worshippers a weekend, has a paid professional staff of almost 600, and uses the words “customers,” “value delivery” and “strategic planning” with as much ease as any McKinsey consultant. In fact, its executive pastor is an ex-McKinsey consultant.

Changing Corporate Values

This raises profound questions of executive responsibility. At the turn of the 19th century, corporate entities felt little need to be responsible citizens. By mid-century, a few visionary companies, such as Johnson & Johnson and Merck & Co. Inc., identified Corporate & Social Responsibility (CSR) as an explicit corporate objective—a radical step at the time. By the late 20th century, “stakeholder responsibility” has become an objective for the vast majority of companies and a central tenet taught in MBA programs (although at many business schools, as Sir John Harvey Jones points out, ethics is still an optional extra).

The problem is that much of what is passed off as stakeholder responsibility and CSR is merely an exercise in PR in order to keep fractious pressure groups at bay. The emergence of the CSR movement is partly a reaction to the change in values of top

managers. Top managers of the best performing companies in 1979 believed that their overriding goal was to hand the company on in good shape to the next generation (Young & Scott 2004). Twenty years later things are different. The dot.com bubble saw the rise of organisations that were “built to flip” (BTF) rather than built to last (Collins 2004). In these businesses there was no need to build a company – much less one with enduring values. It’s enough today to pull together a good story, and to implement a rough draft of the idea and is if by magic instant wealth appears. The businesses in this era seem fuelled by what might be called the Pink Floyd ethos (Mr. Abramovic take note):

“Money, get away

Get a good job with good pay and you’re okay

Money it’s a gas

Grab that cash with both hands and make a stash

New car, caviar, four star daydream

Think I’ll buy me a football team”

Money - Pink Floyd (1973)

The BTF mindset looks at purpose driven companies like Hewlett- Packard as if they were ancient history, artefacts of a by-gone era. Imagine the founders, who created substantial value by working diligently over an extended period of time, sitting in their garage, sipping lattes and saying to each other, “if we do this right, we can sell this thing off, and cash out in 12 months.”

Businesses like HP, Intel, Motorola and Merck worked hard to create a superb management team, to develop a sustainable economic engine, to build the capability to be best in the world, and to cultivate a culture that could withstand adversity and change. Above all these businesses had, and still have, a purpose, a reason for being that is beyond the goal of shareholder value and wealth creation. In the BTF world you can prosper without any of these mundane fundamentals.

From Heroes to Villains

This BTF mindset is perpetuated by the advent of the internet and the unquenchable source of opportunity it has created. The problem is that this huge font of opportunity has the negative effect of perverting the entrepreneurial mindset from one of risk, contribution and reward to one of wealth entitlement. It has seen the rise of a fast living culture that celebrates the twin propositions that “greed is good” and “more is better, even if there is no point to any of it”.

As a result the pursuit of a corporate career is not one oft celebrated by artists and poets, who tend to think of business as vulgar and morally suspect. The pop-culture commentator, Michael Medved, conducted research into how that most pure of industries, Television, has changed its portrayal of business men since the 1960's (Medved, 1993). He notes that prior to 1965, television portrayed businessmen as good guys twice as often as bad guys. In the 1970's this ratio was reversed – two villains for every good guy. Today, big business has become television's favourite villain. Quoting exhaustive research by the sociologist Richter, Medved highlights that, "the majority of CEO's portrayed on prime time committed crimes." Respected businessmen were by then committing 40% of the murders on television and 44% of vice crimes like drug trafficking and pimping. All this is far removed from Hollywood's Golden Age in the 30's and 40's when Jimmy Stewart played a humane, compassionate and (believe this or not) *likeable* banker.

The Driving Strands of CSR

When we add to the BTF mindset complaints about fat cat pay packets, negativity towards downsizing and the decrease in job security it is perhaps easy to understand the emergence of the movement now know as CSR. It is also a reaction to the literal approach that many businesses appear to have taken to Milton Freidman's famous, and often vilified maxim,

"There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game"

Friedman 1962.

Many have mistakenly taken this to mean that businesses should pursue profits at any price, be it to the detriment of the environment or society in general. In fact one of Friedman's acolytes, Lawrence Summers, has recently rephrased Freidman's perspective in more socially progressive language:

"I think it's now generally appreciated that it's the market that harnesses people's initiative best, it's the market that best takes advantage of people's natural self-interest, gets goods and services produced best. The real focus of progressive thinking now is not how to oppose and suppress market forces but how to use market forces to achieve progressive objectives. Progressive objectives like better healthcare, a fairer income. Progressive objectives like giving everyone a chance to work no matter where they live. It seems to me that the change in progressive thinking is from seeing the market as an end to be debated, which they no longer do, to seeing the question as being about means, and how best to use markets to achieve given social objectives".

Summers 2001

Summer's comments would appear to be an amalgamation of the two key viewpoints on CSR. The first view is in essence a socio-political one relating to the rights and responsibilities of business towards society. This debate is typically, but not totally, framed from the perspective of non-business social actors in terms of the concerns and expectations that society has of business (Frederick 1994, Frederick 1998; Wood 1991; Lantos 2001; Lantos 2002; Carroll 1991). The other is a more economic debate relating to the nature of the business model that firms should adopt. This is typically framed from the perspective of business actors regarding their own interests and needs.

In combining these two view points in a practical rather than an idealistic perspective, we can start to see that perhaps the CSR debate is missing the point altogether. Perhaps social responsibility isn't a high enough standard? With the corporate model becoming the dominant vehicle of human productivity, might corporations need to shift from being socially responsible (adhering to society's values and rules) to socially progressive (consciously shaping societal values)?

As government continues to lose moral authority and practical effectiveness, the corporate state will increase its value-shaping role. Some of us may not like this, but it is likely nonetheless. So those with executive responsibility face two options. On the one hand, they can choose to ignore the potential for a wider role of their companies and forego the opportunity to rethink the very purpose of their corporations. And many—perhaps most—will choose this first option, for in every revolution there are those left behind.

For others, there is the second option: to replace the tired debate about “CSR” with invigorating dialogue about what the role of their corporations should be and can become in the 21st century. They will choose to embrace the opportunity for a more progressive role—to see their corporations explicitly as value-shaping entities of the world they touch, while simultaneously keeping their economic engines well tuned and powerful. What we must now consider is how to encourage businesses to embark on such radical changes in purpose.

The Need for a Philosophy of Business

Before outlining a possible solution it is important for us to consider the characteristics of the business corporation. It is by its very nature a voluntary and part-time association, with no pretensions of being a total community. So what type of institution is it? By what standards ought it to be judged?

The political philosopher Michael Oakshott distinguished between two different types of association, the civic association and the enterprise association. The civic association aims at something larger than any particular end, interest or good e.g. the protection of a

body of particular rules (the Police) the protection of a way of life (the Church). The state is a civic association (or at least it should be). By contrast, the enterprise association is built to attain quite particular purposes. Enterprise associations are focused, purposive and executive: they fix a purpose and execute it.

Moral standards still apply to the enterprise association, “There is honour even amongst thieves” – but not enough. On other counts publicly held businesses are not at all like states, and their self governance is not at all like national governments. One of the key problems is that the word governance naturally leads the mind to think of government and as a result discussions of corporate governance and CSR tend to be conducted in the language of political philosophy, which was worked out for the government of nations (Novak 1997). Such discussions lead to a substantial mistake of logic and language, and a way of thinking not at all appropriate to the governance of businesses. The problem of business governance is not a problem of political philosophy – it is a problem of business philosophy and should be seen as such (For each type of human activity, its own proper philosophy – Aristotle).

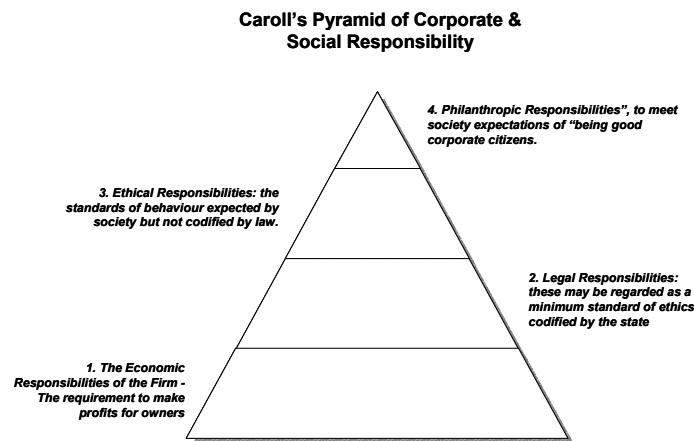
A key issue, as Peter Drucker has suggested, is that the philosophy of business “is a field waiting to be born” (Drucker, 1946). A philosophy of business is needed, because it is important to keep clear about what a business is and is not. A business corporation is not a church; not a state; not a welfare agency. As the markets continually impress upon managers, their overriding purpose is to create value for shareholders, and, in the short term anyway, there is no getting away from this imperative.

It follows that those wishing to promote a socially progressive role for business must first of all acknowledge the fundamental nature of the business organisation and the imperatives this nature prescribes. If socially progressive activities do not contribute to the profitability of the business, they are unlikely to be sustainable. The promotion of a socially responsible agenda for business must be led first and foremost by the economic imperative, not the ethical imperative.

Towards a New Concept

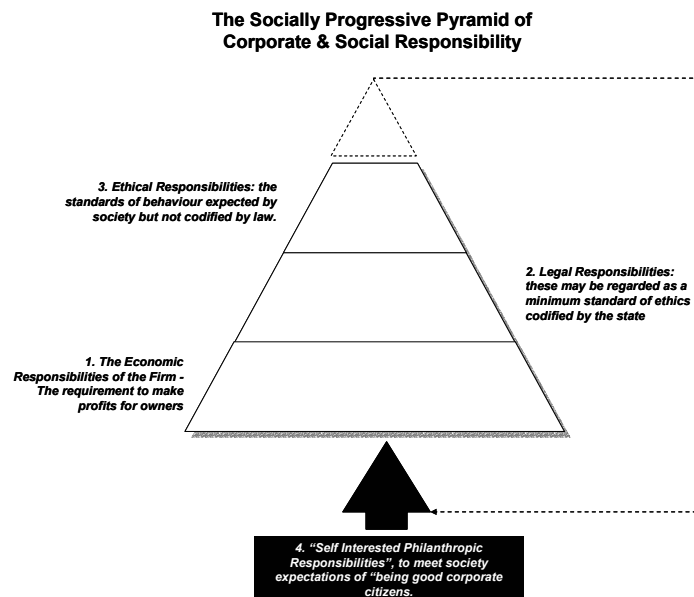
The fundamental question can now be seen to be, not how we make businesses more ethical but how can we encourage businesses to pursue socially progressive activities in its own interests - not as things that are ends in themselves? A simple model, based on Caroll's concept of the Pyramid of Corporate and Social Responsibility can help demonstrate the concept.

Diagram 1



Caroll's pyramid is a sort of Maslow's hierarchy of needs for the business corporation in that the pursuit of higher level needs can only be met once the fundamental needs at the bottom of the pyramid have been satisfied. Based on this logic it would not seem possible to think about tackling ethical issues until economic needs have been satisfied. This line of thought misses however one key point. The ability to deliver profit is ultimately dependent on the market. All businesses are predicated on satisfying the evolving needs of society, which give rise to the entrepreneurial inventions on which all businesses depend. *As the demands of society are increasingly for products and services that satisfy their moral and ethical values the economic responsibilities of businesses are becoming increasingly tied to their performance as corporate citizens* (Diagram 2).

Diagram 2



The Payback

There is an emerging body of evidence that companies who look at CSR in this way have lasting prosperity. Collins and Porras' study of "Built to Last" (BTL) companies shows a correlation between the pursuit of socially progressive policies and long term success. The BTL companies they identified performed better for shareholders in financial and market terms and they also carried less debt and demonstrated better treatment of stakeholders.

The BTL findings have been confirmed in research by academics at DePaul University who examined the overall financial performance of the 2001 "Best Citizen" companies according to Business Ethics magazine. The Best Citizens scored 10 percentile points higher than the mean ranking of the remainder of S&P 500 companies. A comprehensive review of academic research on both sides of the Atlantic for the insurance company CIS, showed that a clear majority of studies since the 1970's had found a positive link between CSR and corporate performance.

We should also consider the negative consequences of failing to be socially progressive. McDonald's represent the most up to date example. The London Evening Standard on 28th September 2004 reports "McDonald's Profits Dive – McDonald's has been left reeling by the most dramatic profits failure to hit the company in Britain in 30 years. Nutrition experts show people are heeding warnings about the dangers of fast food diets. The results also follow a series of public relations disasters. The global success of the protest film Super Size Me and renewed legal action from the McLibel Two have created unfavourable headlines for the company". The sad fact for McDonald's is that it was all so easily avoidable - had they listened to the market's demands for corporate citizenship.

Whilst it can be argued that the "McDonald's" effect is still far away for many businesses it is clearly something that they ignore at their peril. Evidence increasingly suggests that a progressive approach by big business, and their smaller counterparts, is not only good for business but also makes more sense than waiting for the tide of public opinion to turn.

Summary

Today's leading social force is not the state but the business corporation. Whatever steps are taken to reform corporate governance and to counteract the views of those who do not see business as a morally serious calling, it is necessary to recognise the business organisation as a unique form of social organisation with prescribed purposes. Corporate leaders often lose sight of the fact that the most important secondary effect of what they do – not what they aim at but what their actions lead to - is the promotion of a socially progressive society through the market imperative. As barbarians gather at the gate it is essential, now more than ever, that they acknowledge the key role they play in meeting not just the product and service needs of the market but the markets growing need for business to deliver these in a socially progressive way. Above all they must realise that CSR is not an end in itself, but is increasingly a key driver of long term business success.

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