# Corporate Social Responsibility and Business Success

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One of the core beliefs of the European Bahá'í Business Forum is that business has a social responsibility as well as an economic mission. This proposition is not new - - Peter Drucker argued that companies have a social dimension as well as an economic purpose in his second book, The Future of Industrial Man, in 1942. During the late 1960's and 1970's, corporate social responsibility emerged as a top management concern in both the United States and in Europe, only to seemingly "wither on the vine" during the 1980's. Today, it is back on the agenda of many CEO's. This time it is also on the agenda of governments, both national and local, as well as NGO's, consumer groups, investors, and other actors in civil society. This article seeks to articulate and communicate what social responsibility means and why it makes good business sense to integrate it into business strategies and practices. It does this by:

- Outlining some forces at work and trends affecting corporations
- Explaining six key dimensions of corporate social responsibility
- Making a case for integrating CSR into sustainable strategies
- Describing how CSR can be built into management practices
- Looking beyond social responsibility

## FORCES AT WORK

Most business leaders would agree that they are managing in times of turbulence and accelerating change. They would also find a consensus about most of the trends and forces which are challenging their traditional views of competitiveness and of the success factors for survival and profitability. These forces include the following:

- Globalisation of markets, consumer preferences, supply chains and financial flows. Some business leaders consider globalisation to be a revolution, not simply a trend, since it is having momentuous effects on the economies of all countries and on corporations in most sectors.
- Increasing intensity of competition. Peter Veill used the expression "managing in white water" to express the challenge of meeting the turbulence and instability which global competition has created. There are few signs of ever returning to the comfortable 1970's.
- Rapid technological changes are transforming markets, alleviating burdensome tasks, enabling greater customisation of production, and contributing to high labour displacement. Modern information technology makes it possible to decentralize decision-making without losing 'control' and to introduce more flexible and less hierarchical structures.
- A shift from an industrial economy to a knowledge and information - based economy. Human capital is replacing financial capital as the most important strategic resource. Traditional concepts of work, of jobs, and of motivation are being challenged.
- Demographic changes not only threaten the sustainability of our planet but create a mismatch between jobs and suitably-trained workers, and between present educational systems and the needs of a knowledge and information-based economy.

- Environmental challenges caused by pollution and resource depletion test the sustainability of our planet earth. Business leaders are called upon to play an important role in meeting these challenges.
- Changing value systems are finding expression in different life styles and expectations on the part of employees, customers, and communities as a whole. Tomorrow's Company referred to this phenomenon as the "death of difference."

As the world business environment changes, so do the requirements for success and competitiveness. Because of the forces at work, building deeper and more strategic relationships with customers, suppliers, employees, communities and other stakeholders (the corporate eco-system) can become central to competitiveness and even survival. Building these relationships can form the foundation for a new, progressive and people-centered corporate strategy which attacks the sources - not the symptoms - of challenges facing business today. This brings us to the increased importance of corporate social responsibility (CSR).

## SIX KEY DIMENSIONS OF CSR

In Western Europe, Japan, and North America, an increasing number of companies are finding that it makes good business sense to fully integrate the interests and needs of customers, employees, suppliers, communities, and our planet - as well as to those of shareholders - into corporate strategies. Over the long term, this approach can generate more profits and growth. Sometimes referred to as the "stakeholder concept", it implies that management's task is to seek an optimum balance in responding to the diverse needs of the various interest groups and constituencies affected by its decisions, that is by those that have a "stake" in the business. By including societal actors - - not just financial interests - - the stakeholder model assumes that enterprise has a social responsibility.

What observations can be made about the concept of social responsibility?

- There is no common definition. Each company responds in its own unique way, depending upon its core competencies and stake-holders interests. Country and cultural traditions also influence how companies respond.
- Social responsibility is fundamentally a philosophy or a vision about the relationship of business and society, one requiring leadership to implement and sustain it over time. It is most effectively treated as an investment, not a cost, much like quality management. It is a process of continuous improvement, not a fad, which begins small and grows and expands over time. It has been referred to as "caring capitalism" in contrast to "financial capitalism" or "cowboy capitalism" and other more aggressive forms of free enterprise.
- It is inextricably linked to profitability, as there can be no social responsibility without profits. As Joel Makower points out, "One of the most socially responsible things most companies can do is to be profitable." Profits are essential not only to reward investors but also to provide sustainable jobs, pay fair wages, pay taxes, develop new products, invest in services, and contribute to the prosperity of the communities in which business operates. There are six key responsibilities or dimensions of corporate social responsibility. The following paragraphs describe these dimensions, give examples of best practice, and indicate how management attention to these elements can enhance growth and profitability. CSR is really about how to manage these six responsibilities.

### 1. Customers

According to Rosabeth Moss Kanter, globalisation has set in motion forces that shift power from producers who make goods to customers who buy and use them. The outcome of the cold war was not so much a victory of capitalism over communism as it was a victory of market-based decision making over centrally planned economies. In market economies, if any single factor distinguishes the successful company or business it is putting the customer first. Successful companies build lasting relationships with customers by focusing their whole organization on understanding what the customers want and on providing them superior quality, reliability and service. Tom Peters refers to this as "having a passion for customers." This means building a customer perspective into all activities, including research, engineering, production, and finance, as well as selling and marketing. A major cultural transformation is required to develop this customer focus particularly in Central and Eastern European companies and in state-owned enterprises in Western Europe now being privatized. It is thus not surprising that many companies in Eastern and Central Europe are finding it difficult to refocus their priorities on their customers. Probably the most important reason western companies are capturing markets in the former centrally planned economies is the priority which they give to developing close and responsive relationships with their customers.

But does it really pay to spend so much time and money on customers? Experience shows that companies which spend time and money on identifying what the customers want and on quality, reliability, and service are much more profitable. Armand Feigenbaum, one of the pioneers in quality management, says companies which have successful quality programmes have a 10% cost advantage over competitors: "fewer defects mean less rework and wasted management time, lower costs, and higher customer retention". Motorola estimates that progress on quality between 1982 and 1992 saved it $700 million in manufacturing costs alone. Leaders in quality management are also growing faster than companies that are less conscious of this aspect of their business. Superior quality correlates closely with market share as well as with return on investment. It implies qualityrelationships with customers. Whereas five years ago a survey by McKinsey & Company of the reasons for success in the machinery industry showed that factors such as cross-functional teams, single sourcing, and group work differentiated the best performing companies from the weaker ones, a more recent survey concluded that what differentiates the leaders from the laggards is their relationships with their customers and their suppliers. Today the leaders concentrate on understanding their customers in order to improve the company's value proposition and to identify new markets. They spend more time with customers (three and a half times as much for key accounts) and investigate thoroughly the reasons for lost orders. Marketing findings help to focus R&D priorities and activities.

Another reason for focusing on customers is the increasing evidence that the ethical conduct and environmental and social consciousness of companies make a difference in purchasing decisions. This evidence is supported by research of the Council on Economic Priorities (CEP), a non-profit, USA-based, public service research organization founded in 1969 to carry out accurate and impartial analysis of the social and environmental records of corporations. The CEP information on over 700 companies and its availability empowers consumers, investors, and activists to cast their economic vote with knowledge of corporations' performance on such factors as environment, community outreach, quality of life in the workplace, information disclosure, and the advancement of women and minorities. The reputation of companies in these and other areas does influence consumers' choice of brands and producers and often leads to changing brands even if there is a price differential. Similar organisations which performenvironmental and social screening exist in Germany, United Kingdom, Switzerland, Sweden, India, and Japan. A Global Partners Working Group has been formed to disseminate and exchange company information and screening approaches.

This intense focus on customers has also been referred to as "the marketing concept", which simply means that the purpose of a company is to serve customers and to satisfy their needs and desires. Under this concept, profit is a by-product, a reward for serving customers well. To achieve this, every activity of the company must be aimed at serving customers. This concept, which has been discussed in management literature for nearly fifty years, is becoming a real competitive advantage today. There is something even spiritual about this service-centered concept and the organisational implications of making it work. Clearly it implies a different degree of ethical behaviour, of honesty in respecting specifications, in describing the product and services, in advertising and in all dealings with customers.

**2. Employees**

We spend a large percentage of our waking hours at work. Our work experience strongly shapes our identities, our sense of self-worth, and the extent to which we can contribute to community life. The quality of life in the workplace and on the job affects our whole life as well as that of our families. Socially responsible businesses are doing more to provide work which is meaningful and which helps employees develop and realize their potential. They are seeking to provide fair wages, a healthy and safe work environment, and a climate of respect. Management practices and human resource policies often include empowerment of middle management and employees; better information throughout the company; better balance between work, family, and leisure; greater work force diversity; continual education and training; and concern for employability as well as job security. Companies are also finding that profit sharing and share ownership can enhance motivation and productivity and decrease employee turnover.

There is increasing evidence that those practices which provide more meaningful work and higher quality of life in the workplace have a very direct impact on profits through increased productivity, greater innovation, higher quality and reliability, and more skillful and committed people at all levels. Furthermore, many companies find that caring for employees results in greater customer satisfaction. One survey in the United Kingdom concluded that employee loyalty contributes to customer loyalty. Several studies have examined the relationship between good human resource policies and practices and financial performance. One of the most interesting is a study by the PIMS Group (Profit Impact of Market Strategy). Over the years, this group has gathered data on 3,000 "strategic business units", half of which are in Europe. These units were divided into those considered good or poor in the management of their human resources. The criteria used included the following: feeling of belonging, equitable compensation, absence of conflict, sense of accomplishment, participation in decisions, sharing of information, and willingness to change. The comparison of the financial results of these two groups - -those rated high on management of human resources and those rated low - - was quite revealing. For those enterprises operating in complex and turbulent environments, the difference in return on investment of good practices was 16.7% - - a difference which is enormous by any standard. It was also interesting that the difference was much less significant (+3.5%) for companies in stable environments. But with increasing globalisation, privatisation and deregulation, stable environments are disappearing.

Another study of high performance work practices was based upon a survey of 700 publicly held corporations (in the United States). The practices covered included personnel selection, job design, information sharing, performance appraisal, promotion systems, attitude assessment, incentive systems, and labor-management participation. The upper quartile of firms - - those using the best practices - - had a return on capital of 11%, more than twice as high as the remaining firms. The California Public Employees Retirement System (CalPERS) decided recently to take workplace practices into consideration in investing its $108 billion pension fund. Their experience has shown that companies which have pushed responsibility down the line, flattened hierarchies, empowered front-line workers to make decisions, trained and educated them, shared information, and treated employees as partners trade at a premium on the stock market. Over the five year period 1990 to 1994, these companies outperformed the S&P 500 by about 16 percent, or about 3 percent on an annual basis. Profit sharing is an increasingly widespread practice. The popularity of profit sharing varies widely around the globe, varying from 6 to 27% of workers in the developed countries. France, where one in four workers benefit from profit sharing, leads in worker participation since firms with 50 or more employees must, by law, share some of the profits with workers through a deferred profit sharing plan. In most other OECD countries including the United States and Japan, only one in eight workers benefit from profit sharing. Many economists cite three major benefits: it increases productivity, it stabilizes employment by making wages more flexible, and it may raise the total level of employment to the extent that it reduces the marginal cost of taking on one additional worker. An OECD study, which draws on the conclusions of nineteen different studies in France, Germany, Italy, United Kingdom and the United States, concludes that sharing profits significantly increases productivity. Surveys of employers report that employees benefiting from such plans are more receptive to change. The other potential benefits cited above may be real, but are less conclusively supported. In the Bahá'í Writings, profit sharing is strongly encouraged to improve worker motivation and employer-worker relations and to make compensation more just. There are innumerable examples of what companies are doing to improve the quality of life in the workplace. One member of The European Bahá'í Business Forum runs a chain of hotels in the United States and recently placed all managers, including himself, and employees through an intensive training program to enhance teamwork through better understanding of cultural diversity among employees. Following this, a profit sharing plan was introduced together with an educational campaign to teach employees how to read and understand financial statements. He asserts that these efforts have fostered greater collaboration among employees, enhanced the quality of life in the workplace, and increased the profitability of his hotels.

Another member of EBBF was responsible for developing a large $1 billion greenfield (that is, a brand new industrial site) multi-product site with a series of plants for his company in northern Spain. He designed high performance work systems around autonomous teams, little hierarchy in the structure, wide use of consultative decision making, no job titles or perks for managers, open office arrangement, and a share ownership plan for all employees and managers. Today the plant is said to have the highest productivity and the lowest turnover and absenteeism of any of the eighteen plants of this group in Europe. With women such an important factor in the workplace today, companies are increasingly adopting programmes and policies to make work and the workplace more family-friendly. Companies are providing or helping employees to find day care centers and kindergartens. More generous parental leave policies are being developed. In addition to these policies and practices, some leading companies are finding that by changing work practices, work structure, and work culture in order to improve work-family integration, they can reap significant benefits in terms of productivity, employee commitment, innovation, lower turnover, and better quality. In other words, work-family integration can become a competitive advantage.

### 3. Business partners

In sectors characterized by intense global competition such as automobiles and consumer electronics, relationships with business partners such as suppliers and in some cases even competitors can be critically important to competitive success. As noted above, in the machinery industry, erasing the company-supplier boundary is one of the two factors which differentiate the most successful companies. By developing long-term relationships and working closely with business partners, leaders are able to reduce complexity and costs and increase quality through joint engineering projects. Selection of suppliers is no longer exclusively through competitive bidding. A new division of labor between suppliers and customers is reinventing some industries. The nurturing of relationships with alliance and joint venture partners and with franchisees, and considering them as extensions of the company, can be equally important. This change in the strategy or policy of procurement is of great significance because many companies in Eastern and Central Europe are suppliers - - actual or potential - - for western companies. Western companies have considerably reduced the number of their suppliers and are carefully selecting those upon whom they rely. They are learning to consider their core suppliers as true partners in their business. They offer reasonable prices to ensure profitability for suppliers, they are fair in the terms and expectations, and they even involve suppliers in the new product development process. Rather than negotiating the lowest prices possible, they seek to offer fair prices. In exchange, they insist upon and receive quality and reliable delivery, and they benefit from another source of innovation. Rosabeth Moss Kanter, in her book "World Class", has offered a warning to suppliers, " As concerns suppliers and joint venture partners, being best in the neighborhood isn't good enough anymore. Companies (as suppliers) must look good against the best in the world just to survive in the neighborhood."

A legend in Hewlett Packard, a company noted for its good supplier relations, is about a purchasing agent who told the President that he had just negotiated a great contract with a supplier with prices reduced by 20%. The President questioned whether the supplier could make a fair profit at that price, and eventually called in the supplier to renegotiate a fairer (higher) price. Not surprisingly, the supplier became a very loyal and valuable partner to Hewlett Packard.

An excellent example of what not to do is the case of a large car manufacturer some years ago. In an attempt to cut costs, they made unreasonable demands on suppliers to reduce prices to the point that many could no longer earn a profit on their business with that company. As a result, suppliers let quality decline and put their best engineers on work for other customers. Employees of suppliers' companies quickly learned not to give that customer priority. As a result, the quality of its cars declined as did its share of the automobile market. This was an expensive lesson for one of the world's largest corporations on how not to handle suppliers. On the positive side, TWIN is a trading organization in the United Kingdom which imports products from Africa. But it does not seek to maximize profits short term. TWIN pays "fair prices" and works closely with suppliers such as producers' cooperatives in Africa to develop their know-how and capacity to produce and process raw materials in a way that enhances stable employment and value added in developing countries. It stands out as a model of "fair trading" with these countries.

Another issue in developing partnerships with suppliers is human rights. Suppliers in some areas of the world violate fundamental human rights in such areas as child labor and working conditions. With increasing pressure from consumer groups, some companies are acting to insist upon respect for human rights on the part of their suppliers and are taking action to monitor performance in this area. Levi Strauss has been a leader in this area by publishing rules of conduct expected of suppliers throughout the world and monitoring them to ensure compliance. A number of companies participated in a workshop organized by Business for Social Responsibility recently in Hong Kong on this subject of monitoring child labor practices in Asian suppliers.

**4. The environment**

Paul Hawken has defined sustainability as "an economic state where the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to provide for future generations. . . Leave the world alittle better than you found it, take no more than you need, try not to harm life or the environment, make amends if you do."

"As we enter the next century, industry will be the most important engine for change in the drive for sustainable solutions to the worlds environmental problems." So said Maurice Strong, Chairman of the Earth Council. The Earth Summit held in Rio de Janeiro in 1992 was an unprecedented environmental milestone which alerted the world to the threats to the world's climate and non-renewable resources and to global biodiversity. The major voice for business at Rio, now the World Business Council for Sustainable Development (WBCSD), in its Declaration and in its lengthy report, Changing Course: A Global Business Perspective on Development and the Environment, accepted that "business will play a vital role in the future health of this planet. . .(that) economic growth and environmental protection are inextricably linked . . . (and that) new forms of cooperation between government, business, and society are required." While the responses of business to the environmental challenge have been mixed, responsible business leaders are providing clear evidence that sustainable environmental management makes good business sense. What is business doing?

The first level of action has been in promoting and practicing eco-efficiency, which means creating value by doing more with less over the full life-cycle of the product by:

1. reducing the energy inputs;
2. reducing toxic dispersion;
3. enhancing material recyclability;
4. maximizing sustainable use of renewable resources;
5. extending product durability;
6. enhancing the functionality of goods and services.

These business practices highlight the positive connections between economic and ecological efficiency. An example of the compatibility of eco-efficiency and corporate profits is reported in the October 1996 issue of The Green Business Letter. The cover story is devoted to how General Motors, which purchases $70 billion each year, is working with thousands of suppliers in the world to achieve significant cost savings by increasing energy efficiency and reducing pollution. This massive process, referred to as "greening the supply chain," is being carried out in partnership with government, NGOs, and university resources as well as suppliers. GM is one of some 120 large corporations which belong to Climate Wise, a government initiative in the United States to implement energy-efficient and pollution-prevention projects that lower operating costs while reducing emissions linked to global climate change. WBSCD, which seeks to be the pre-eminent spokesperson for business on environmental matters, has sponsored workshops and publications describing the application of the concept of eco-efficiency drawing upon numerous examples from its member companies. In a very recent publication, Environmental Performance and Shareholder Value, WBCSD challenges the financial markets to recognize how environmental performance of companies enhances their short- and long-term financial performance. Of particular significance are the benefits of eco-efficiency, better management of environmental risks, and new business opportunities. There is growing evidence, the publication states, that companies which rate highly on environmental criteria also provide better-than-average returns to shareholders. Furthermore, insurance companies and pension funds, which control immense resources and invest with a long-term focus, are beginning to study carefully the relationship between environmental performance and shareholder value. Another organization helping companies improve their environmental performance is the International Network for Environmental Management (INEM), a world federation of non-profit business organizations for environmental management and sustainable development. INEM, with 35 member associations from 30 countries, focuses on small and medium-sized companies and developing countries and Eastern Europe.

There are also a number of environmental management tools and concepts being developed and introduced by business throughout the developed world. These tools include life cycle assessment and costing, environmental management standards, eco-labeling, and recycled-content standards. Multinational corporations are also encouraged to apply the same environmental criteria to investments abroad as to those in their home country. An emerging concept to link economic and environmental interests and thus make the market system work for the benefit of the whole of society is the definition of pricing tools such as environmental taxes and permit systems to more accurately recognize and reflect the environmental costs of their production, use, recycling and disposal. In some companies accounting methods are being revised to make this possible. Advocates of such environmental accounting insist that replacement costs of natural resources and the social costs of consumption (ex: tobacco) should be included in the cost of goods sold and in selling prices. An exemplary model of voluntary industry action is "Responsible Care," a programme of the Chemical Manufacturers' Association in the United States. This programme launched in 1990 was aimed at continuously improving performance in health, safety, and environmental protection. Results have been impressive. An example: toxic chemical emissions were reduced by nearly 50 percent in six years. Another economic benefit from such measures is stakeholders' preference for environmentally progressive companies which make it easier to recruit top talent and to increase the loyalty on the part of employees and suppliers. These initiatives of business also make good economic sense. A recent study in the United States by Vanderbuilt University and the Investor Responsibility Research Center (IRRC) found that in more than 80 percent of comparisons, "low polluters" performed better financially than "high polluters". They also found that firms with a larger number of environment-related lawsuits compared with their industry peers earn a lower level of return on assets and return on equity. Surveys have repeatedly shown that customers will favor products whose manufacturer has a reputation for environmental stewardship. CEP has gone further in its Campaign for Cleaner Corporations by annually identifying some of the worste environmental offenders and working with them to change their poor policies and practices. Voluntary action particularly when it is undertaken in partnership, is nearly always more effective and favorable for business than arbitrary government regulation.

**5. Communities**

Business operates in neighborhood, local, regional, national, and global communities. Companies can make no more important contribution to these communities, and especially to local communities, than to provide meaningful jobs, fair wages and benefits, and tax revenues. But, as 89 percent of participants in a survey of business leaders in the United States confirmed, this is not enough. The success of business is linked to the health, stability, and prosperity of the society and of the communities in which it operates. If education is neglected, or not relevant to the needs of business, as is too often the case, companies cannot have a competitive work force. Community-focused businesses like banks, retailers, and newspapers cannot prosper in declining localities. So the problems of education, health, crime, unemployment, and drugs dramatically affect business. While business has traditionally considered these to be the exclusive domain of government, today more and more busi ness leaders are accepting part of the responsibility to improve the communities in which they do business. Companies relate to communities in various ways, as shown in the diagram below.

- **Charity:** Charitable contributions are only the tip of the iceberg, but are nevertheless important. These can be from the company itself or through facilitation or matching of employee contributions. Employee volunteerism for community-building projects enhances employee loyalty and can contribute to the personal development of some employees. Leadership potential and other valuable skills are sometimes discovered outside the company on such projects. In the United States, corporate support of the arts and private education is critically important. In Europe, corporations have contributed importantly to such causes as the preservation of the architectural heritage.
- **Social investment:** At another level, companies support initiatives in the areas of education and social problems such as unemployment, exclusion, and homelessness, often in partnership with government authorities and non-governmental organizations. Corporate involvement in the Brussels-based European Business Network for Social Cohesion and in projects to alleviate social exclusion is exemplary, as is the support of hundreds of the largest companies in the United Kingdom for the notable achievements of such associations as Business in the Community, the Prince of Wales Business Leaders Forum, and Common Purpose

- **Partnerships:** At a third level, corporations contribute to communities through direct support to activities which enhance their commercial success, including cause-related marketing. These activities are often in partnership with other social partners. "Being a good citizen in our communities is one of our core corporate values" says Harvey Golub, Chairman of American Express Company. He notes two trends in community involvement. The first, which American Express pioneered, is cause-related marketing. One example is a recent bold commitment of $5 million to the World Monuments Fund to help restore and preserve some of the world's endangered cultural sites. The link with the core travel and financial services activities of the company is obvious. The second trend is linking charitable contributions to employee involvement. American Express created the Volunteer Action Fund in 1994 to award grants to eligible organizations (worldwide) at which its employees regularly volunteer their time.
- **Business basics:** Finally, and most importantly, business contributes to communities and to society through its fundamental mission of providing products and services which society needs and wants in an efficient and ethical manner and in a way that respects and balances the interests of all stakeholders. Examples of corporate community involvement in these four areas abound. One of the leaders is Grand Metropolitan, one of the world's leading consumer goods companies, specializing in branded food and drink businesses (Pillsbury, Green Giant, Haagen-Dazs, Burger King, Smirnoff, Cinzano, Heublein). GrandMet has just published a remarkable Report on Corporate Citizenship 1997 describing its commitment and philosophy in this area. This report describes seven specific case studies of its community involvement in the United Kingdom, the United States, India, and South Africa. It also describes an innovative reporting and measurement process, including benchmarking and feedback, for assessing achievements of their community relations objectives.

There is a considerable difference in approaches between cultures and companies. In France, a number of leading groups such as Lafarge, Saint Gobain, and Schneider have developed innovative approaches to job creation to avoid layoffs during necessary restructuring. To alleviate high unemployment, some of these same groups have entered into partnerships with national, regional, and local government authorities in apprenticeship and education programmes to facilitate insertion of youth into the workforce.

**6. Investors**

Many economists, business leaders and investors say that the purpose of business is to maximize shareholder wealth. It is beyond the scope of this article to develop a conclusive case against this proposition. However, we would note that an increasing number of business leaders and investors recognize broader responsibilities than to those investors who seek the highest instant returns.
A few examples:

- Tomorrow's Company - the extensive research carried out by the RSA Inquiry with more than 8,000 business leaders and opinion formers in the United Kingdom concluded: "We believe that only by giving due weight to the interests of all key stakeholders can shareholders' continued value be assured."
- Built to Last - This book is based on research carried out over a six year period by James Collins and Jerry Porras of 17 "visionary companies", those that have prospered throughout a long history and enjoy a wide reputation as leaders in their respective sectors. "Contrary to business school doctrine, we did not find maximizing shareholder wealth' or profit maximization' as the dominant driving force or primary objective through the history of most of the visionary companies. . . Visionary companies have had a core ideology to a greater degree than the comparison companies in our study.

- The World Bank - According to Ismail Serageldin, Vice President, Environmentally Sustainable Development, The World Bank, "The Bank invests $20 billion each year . . . We need to ensure that the entire $20 billion goes to environmentally friendly and socially responsible investments. With government contributions and cofinancing, this represents half a trillion dollars (over the next ten to fifteen years)."
- Ford Motor Company- Former CEO Don Petersen, in commenting on "The Company's Mission, Values and Guiding Principles", said that "There was a great deal of talk about the sequence of the three P's - people, products, and profits. It was decided that people should absolutely come first, products second, and profits third."
- Marriott International - CEO J. Willard Marriott, Jr. said "By taking superb care of employees and providing outstanding customer value (treat them as guests), 'attractive (not maximum) shareholder returns will follow as a natural result'.

Swiss pension funds - Two large Swiss pension funds have just recently created a foundation with 100 million Swiss francs to invest in shares of companies with a record of environmental and social awareness. Skeptics may ask if community activities enhance business success or are at the expense of shareholders. In a worldwide community survey carried out by GrandMet, over 80% of executives interview-ed felt that bottom line benefits included higher achievement of corporate strategy goals and increased productivity. Further over 90% felt they contributed to building teamwork skills, improved morale, attracted better employees, and improved retention thus reducing recruiting and training costs Part of the problem in the controversy about shareholder value vs. environmental and social responsibility is that economists and academics often think in terms of maximizing something. They also tend to feel that it must be "either ... or" rather than "both." Business leaders seek to balance conflicting interests and concerns. Truly world class companies are generally able to show well above average returns and be environmentally and socially responsible. Furthermore, they are more conscious of the need to invest for future growth and profits and for the sustainability of their enterprises. They are also aware that satisfying the other stakeholders can be a source of competitive advantage. This brings us to an emerging group of shareholders referred to as ethical investors, or as socially and environmentally conscious investors. Ethical investors are, first and foremost, investors. But at the same time, they factor ethical and moral considerations into their investment making process. They are thus contributing to a more just society while not necessarily compromising the returns on their investments. These investors include individuals, pension funds and trusts, endowments, religious and educational organizations, and financial institutions. Modern ethical investing began in the United States in 1969, centering at that time around issues like the war in Vietnam and Ralph Nader's attacks on poor safety of automobiles. Today, nearly $3 billion are invested in the United States in over 40 environmentally and socially screened mutual funds. Much more important though is that well over $600 billion is dedicated to responsible investing when pension funds, trusts, endowments, religious institutions, annuities and other investment vehicles are included.

Of course, one of the questions frequently raised about activities and strategies in social responsibility is whether they detract from a company's financial performance. There is increasing evidence, though perhaps not conclusive for skeptics, that social responsibility correlates positively with financial performance. One encouraging bit of evidence for this proposition is the performance of the shares of companies which have passed social and environmental screens. The "Domini 400 Social Index" is an index of the share prices of 400 common stocks of American companies which were chosen based on their performance on environmental and social performance screens. The criteria or screens defined by Kinder, Lydenberg, & Domini (KLD), founders of the "Domini 400 Social Index" (DSI), include several issues:

1. The Environment Screen: Waste disposal, environmental degradation, emission of ozone-depleting chemicals, toxic chemicals, production of agricultural chemicals, recycling.

2. The Product Screen: Product liability suits, revenues from alcohol, tobacco, firearms, and gambling, marketing controversy, price fixing or fraud.
3. The Community Screen: litigation, community relations, controversial policy issues, charitable contributions, programmes for the economically disadvantaged.
4. The Employee Relations Screen: Union relations, safety, layoffs, benefits plans, profit sharing, information sharing, hiring of disadvantaged. In addition, there are screens for the hiring and advancement of women and minorities, animal testing, and human rights.

The DSI has been in existence since May 1990. As shown in the graph on page 25, during the six year period ending December 31, 1996, the total return of the DSI has been 187 percent. This outperformed the 165 % increase in the S&P 500 index as well as the 170% increase in the Russell 1000 index. The companies in the DSI have also outperformed those in the S&P 500 and the S&P Midcaps in sales growth, in book value, in return on equity, and in earnings. It is also significant that the average price/earnings ratio of DSI companies is higher: they command a premium. While the differences have been small, this comparison is nevertheless evidence that socially responsible investors do not sacrifice profits; to the contrary, the efforts and policies of companies in which they invest tend to create more productive and profitable partnerships with customers, employees, suppliers, and investors. Ethical investors are made aware of company performance through a variety of services. The most comprehensive service of research and analysis of company environmental and social responsibility is offered by The Council on Economic Priorities (CEP). CEP maintains up-to-date information on 700 companies, including some British and Japanese companies. It publishes Shopping for a Better World. Similar efforts are developing in most major European countries. In Germany, the Institute fur Markt-Umwelt-Gesellschaft (IMUG) evaluated and ranked 75 major food companies on six criteria: disclosure of information, consumer interest, employee issues, women's advancement, workers with disabilities, and environmental concerns. These external surveys and studies will be increasingly important as an encouragement for top management to act responsibly since their results are influencing buying decisions of consumers as well as investment decisions of pension and mutual funds and individual investors. Ethical investing exists in Europe but it has not developed as fast as in the United States. A number of socially responsible mutual funds exist in all countries, but there is little information published on their number, size, and performance except in the United Kingdom. The first ethical unit trust in the United Kingdom was started in June 1984, and the number has grown to 49 funds with over 1.300 million invested. According to Pensions Investments Research Consultants, at least 360 billion is now invested in the UK in pension funds and trusts with some environmental or social concern.

In addition to socially responsible investing, some banks carefully screen loans to avoid lending to certain categories of customers. For example, the Cooperative Bank in the UK matches money and morals by screening loan demands for abuses in such areas as human rights, environment, animal testing, currency speculation, weapons sales to countries with aggressive regimes, and intensive farming.

## SUSTAINABLE CORPORATE STRATEGIES

The responsibilities discussed above represent the early stages of business conduct in the scenario of societal needs. In a recent article in the Harvard Business Review, Stuart Hart discusses the challenge to develop a sustainable global economy and the responsibility of corporations to make it their business to develop and sell profitable solutions to the world's environmental problems. Few companies, he says, integrate sustainability into their strategic thinking. Most are at best in stage one, that of pollution prevention, and focus on continuous improvement efforts to reduce waste and energy. The leaders are moving to stage two, which the author calls product stewardship, and focus not only on minimizing pollution from manufacturing but also on all environmental impacts associated with the full life cycle of a product. Some companies in this stage like Dow Chemical and Xerox are reaping enormous rewards in the hundreds of millions of dollars in annual profit improvement by reconceptualizing their businesses and reducing costs. The third stage is that of developing and commercializing clean technologies which contribute to the solution of both environmental and social problems.The table below "Toward Sustainable Strategies" attempts to define how these stages in the evolution of corporate consciousness of social responsibility might be defined for the corporation's relationships with its partners.

## MANAGING FOR SOCIAL RESPONSIBILITY

Many companies are making significant improvements in their environmental and social management practices. Whether driven by changes in consumer behavior, by pressure from shareholders and employees, or by enlightened leadership, business is becoming more responsible. This tranformation typically begins with changes in the way companies are governed. That is, at the top. Thereafter, such practices as credos, organizational alignment, audits and accounting practices, and education can contribute to managing for more effective environmental and social responsibility.

### 1. Corporate Governance.

Governance is a term about which we hear a lot, especially in times of crisis. For corporations, when confronted with a hostile take-over bid, an ecological disaster, or the untimely death of the president, the governance role of the Board of Directors becomes a real and meaningful one. When all is going well, too little seems to be done about crisis prevention and influencing the overall direction of the corporation. Perhaps this is one of the major reasons why social responsibility has not been high up on the agenda of many managers until now. But what does corporate governance mean? Definitions vary greatly by country, culture, and company. In general, governance is about how power, privilege, and wealth are distributed and how and by whom they are exercised. In a corporate sense, governance involves defining a vision and the overall direction of the firm, setting standards, overseeing the allocation of financial and human resources, and balancing the interests of stakeholders or constituencies. It is increasingly recognized that governance must also be concerned with the sustainability of the enterprise and the values that guide decision making and the articulation and communication of the core ideology of the firm. It is concerned with the relationships between shareholders, management, and the Board of Directors and increasingly with other key stakeholders or constituencies. Corporate governance is thus the starting point for putting environmental and social responsibility into practice. There is clearly a need in many corporations for a new debate on corporate governance to address such issues as:

- What are the responsibilities of the firm to various stakeholders?
- Can competitive advantages be gained by building relationships with stakeholders?
- What standards of performance and behaviour are expected of the organization?
- What incentives are needed to encourage more socially and environmentally responsible results?
- What information and measurements are needed to set goals and to evaluate corporate social and environmental performance?

The fruits of this debate will help to define what is expected of management:

### 2. Credos

The extensive research carried out by Collins and Porras found evidence in nearly all of their visionary companies of a credo or a core ideology that existed not only as words but as a vital shaping force. These credos defined the core values and a sense of purpose well beyond just making money. Furthermore, their carefully selected excellent companies have had a core ideology to a greater extent than the comparison companies in their study, the latter being also well known and successful companies by most standards. The study also showed that the visionary companies have generally been more ideologically driven and less profit-driven than the comparison companies. Whether in the form of a mission statement, code of conduct, or credo, the authenticity and consistent alignment with the ideology is more important than the specific content. Yet the content of excellent companies' credos generally emphasizes all or most of the "stakeholders" discussed earlier, for example, the credo of Johnson & Johnson, a leading global manufacturer of health care products, emphasizes a hierarchy of responsibilities: first to customers (doctors, nurses, hospitals, mothers), second to employees, third to managers, fourth to society at large and communities, and fifth to stockholders who "should receive a fair return." Hewlett-Packard has condensed its guiding principles into what Bill Hewlett called the "Four Musts":

- The company must attain profitable growth.
- The company must make its profit through technological contributions.
- The company must recognize and respect the personal worth of employees and allow them to share in the success of the company.
- The company must operate as a responsible citizen of the general community.

Of course it is of limited benefit to articulate values and responsibilities unless steps are taken to educate employees, select managers who embrace the core ideology, and attain consistent alignment in organisation and processes.

**3. Organisational Alignment**

Leading edge companies, those that have prospered and survived over time, have shown more than a clear sense of purpose and core values. They have also translated them into action and ensured that they are reflected consistently throughout the organisation in everything the company does. They achieve this "alignment" through:

- their goals, strategies, tactics, and systems,
- the way they organise (structures, building, office layouts),
- their human resource policies and practices, and
- their day-to-day decisions.

There are many, many examples of best practice in these areas. Some companies have appointed "social controllers" to oversee plans and budgets and evaluate corporate performance in these areas. Others have created "community advisory committees". Environmental and social responsibilities are built into performance evaluation and compensation decisions and into continuing education programmes.

A newly appointed Manager of the Londonderry plant of DuPont in Northern Ireland, established a Community Advisory Committee grouping a cross section of leaders of the community in which the plant was located. Grouping some of DuPont's friends in the community but also some of its critics, this committee meets quarterly to review and consult on issues of concern to the community. Once each year a draft of an environmental report is submitted to and discussed in this committee. This practice is becoming widespread in industry. There are some 240 community advisory committees in the chemical industry in the United States. Some companies are also forming Corporate Environmental Advisory Committees which offer a voice for missing stakeholders.

**4. Audits and Accounting Practices**

During the past ten years, a number of business networks and companies have engaged in environmental and social accounting. The recently created "Institute for Social and Ethical AccountAbility", located in London, is pioneering the development of standards, terminology, and accreditation procedures for social and ethical accounting and auditing. There are a number of pioneering efforts on the part of socially responsible companies to implement social and ethical auditing. The retailing group Migros in Switzerland was involved in this process in the 1960's. Further pioneering work was carried out in Denmark in the 1980s with the Danish Bank Sbn, a regional cooperative bank, which began five years ago publishing annual social reports on results against social objectives and past performance in a number of areas considered important by each of the stakeholder groups. Companies like The Body Shop in the United Kingdom and Ben & Jerry's in the United States publish audited social reports each year and have pioneered in these efforts. These innovative approaches are based on relatively sophisticated efforts to determine what is considered to be important for each of the stake-holders and to define specific objectives and action programmes for priority areas of performance improvement. The annual social reports evaluate performance against these plans just as the annual financial reports show financial results compared to prior years and sometimes objectives.

**5. Educating for Social Responsibility**

There is reason for some optimism about the increasing recognition of the need to build business ethics, environment, and social responsibility into educational programmes for business students and managers. A recent article in The Financial Times on March 20, 1997 mentioned that "Ethics and entrepreneurship are the two hot topics on the executive education agenda. Both are creeping into courses." Harvard Business School now requires students to complete a not-for-profit section before graduation (81% of HBS alumni are currently involved with a not-for-profit organisation.) 42% of the MBA students at Dartmouth's Amos Tuck School of Management signed up last year for a course in how to run non-profit making organisations. The experience of The European Bahá'í Business Forum (EBBF) in several Eastern and Central European countries indicates clearly the need for a widespread effort to introduce the next generation of managers to the principles of ethical and socially responsible behavior. One experience in which a member of EBBF developed and taught a one semester course at the University of Economics in Prague, Czech Republic on the theme of "Emerging Values for a Global Economy" was very successful. It was considered by students as one of the best courses in their programme.On a larger scale, a Master of Science Degree programme in Responsibility & Business Practice is now offered in the United Kingdom by the New Academy of Business in collaboration with the University of Bath. Topics covered include globalization, new economics, ecology and sustainable development, sustainable corporate management, humanity and enterprise, corporate citizenship, and diversity. A similar degree programme is offered at Boston College in the United States.

## BEYOND SOCIAL RESPONSIBILITY

The underlying model of a business enterprise as an economic engine designed for and functioning to produce wealth is evolving. In this writing we have focused on the transition of business from an economic engine to a social system, i.e. the purpose of a business is still to produce wealth, but it does so as a social organisation, having to meet and respond to the pressures and responsibilities of society and its citizens.

A further stage of business' evolution is its entering into the political sphere, the domain where people's interests are expressed, debated, and mediated. Business is becoming an even more complex activity which addresses not just economic and social needs, but political needs as well. This concluding section aims to paint a broad-brush picture of this emerging reality. Borrowing from current work of Charles Handy and the current research of Mandag Morgen of Copenhagen in cooperation with Progressio Foundation, two theses stand out:

1. Business is a human community and therefore a political institution vis a vis its internal stakeholders.
2. Business enterprises are becoming more active politically vis-a-vis external stakeholders. In a recent article, "Will your company become a democracy?" in The World in 1997 published by The Economist, Charles Handy intriguingly compares today's largest enterprises with nation states. He shows that of the world's 100 largest economies, 50 are corporations. When corporations are bigger than nation-states, he asks, we must ask who governs them and for whom. Dealing with corporations as political institutions implies, therefore, applying the same rules as we would apply to a nation-state, that is, matters of human rights, free speech, the right to be informed, to a share of the proceeds on one's own work, and the responsibility of the governors to the governed. Democracy starts with rights, Handy says, and although cumbersome, as Winston Churchill once observed, it is the least bad of all the alternatives. "Corporate dictatorship, for instance, becomes the alternative, but it is increasingly expensive because it treats the staff as mercenaries, not as citizens, and mercenaries owe loyalty only to the highest bidder and cannot be trusted. Yet trust becomes more and more vital, now that we have increasingly to manage people whom we do not see and seldom meet. It is dangerous to try to manage mercenaries by e-mail. "Corporate citizens" or "company members" will be the new in-words, replacing "human resources" or "employees". Unlike human resources, citizens cannot be owned by other people. The change may, therefore, ultimately lead to a redefinition of the role of the shareholder and to the idea of 'corporate constitutions. Businesses will, belatedly, be recognized as what they have always been, communities of living people, not machines with human parts." Handy's writings focus largely on the internal organisations of business. The notion of 'political companies', on the other hand, concerns the business enterprise with its surrounding eco-system, the external stakeholders: shareholders, customers, the community, interest groups, standard-setting organisations, society at large. The background of 'political companies' stems from the evolution of a new market reality, = one in which private enterprise is in the process of assuming a dominant role in society. To quote from the draft report. "Struggling to reorient their financial, social, environmental and industrial policies, the welfare states of the Western world are experiencing a fundamental waning of power of their traditional jurisdiction: their national economies and citizens. Transnational corporations and large, nationally-based enterprises are rapidly filling the political vacuum being previously occupied by the nation states". Enter the political company. 'Political companies' act politically in the sense that they exercise their economic power in areas which, for the past 150 years, have been regulated by a politically monopolistic state: ecology and the environment, social issues, such as education, housing, local community involvement, human rights, animal welfare, gender issues, etc. 'Political companies' are neither solely politically correct nor socially responsible companies. Rather, they are a synthesis of these two dimensions, i.e. consciously or unconsciously, they use their increasing sovereignty to create new business and competitive standards and proactively affect their business environments as a means to generate value and profits.

## CONCLUSIONS

In summary, the concept of corporate social responsibility embraces multiple stakeholders or partners (employees, customers, suppliers, the environment, local authorities, governments and others) in addition to shareholders and other investors. Corporations can no longer be isolated economic actors operating in detachment from society and working solely for shareholders. Rather, they are inextricably linked to the social, ecological and human fabric and they are therefore responsible in varying degrees to all stakeholders. The overall health of corporations affects that of the other parts of society, just as the health of one organ or part of the human body can affect one's overall health. It is increasingly evident that corporate environmental and social responsibility is now on the agenda of business leaders as well as other opinion leaders in society. Whether in the Harvard Business Review, at Davos, or at the State of the

World Forum, world leaders are concerned about these issues and are convinced that corporations and their leaders have the capacity and resources to contribute importantly to a more just and a more civilized society and to a cleaner and safer planet. Increasing evidence is emerging that environmental and social responsibility makes good business sense. Companies with good social and environmental records perform better in the long run than those that do not behave responsibly.

Environmental and social criteria are increasingly influencing the investment decisions of individuals and institutions both as consumers and as investors. These external pressures can be expected to exercise an increasing influence as better information on corporate performance becomes available. There is also increasing recognition of the importance of partnerships and of the 'civic economy' in addressing many societal problems. Private enterprise is beginning to reach out to other members of civil society such as non-governmental organisations, the United Nations, local governments, and foundations, in forming partnerships which are better suited to meet the interests of different stakeholders and the community as a whole in an increasingly complex global economy.

This article has focused on making a case for the compatibility of corporate social responsibility and business success. There is a convergence of the interests of shareholders and the other stakeholders and constituencies in the business. Thinking even longer term about the emerging relationship between business and society, we are reminded of the words of the late Willis Harman who wrote nearly a decade ago: "Business has become, in this last half century, the most powerful institution on the planet. The dominant institution in any society needs to take responsibility for the whole - - as the church did in the days of the Holy Roman Empire. But business has not had such a tradition. This is a new role, not yet well understood or accepted."

## ABOUT THE AUTHORS

Marcello Palazzi, Bsc, Msc, MBA, graduated in economics, European studies, and business management from the University of Buckingham, London School of Economics, and London Business School. In 1985, he started his own business, Marton Diagnostics, to manufacture and market equipment for environmental control. After achieving product quality recognition and market presence in 20 countries, the business was sold in 1992. Since 1993 he has focused on Progressio Foundation activities: first as Director of Social Venture Network Europe, a network of 120 socially responsible leaders. He co-organized a session and best-practices report on 'business as a partner in social development' for the UN Social Summit, Copenhagen; was Head of Development at the New Academy of Business; organized and served as chair at the World Business Forum for the UN Habitat II Conference, Istanbul; co-organised the "Business & Municipality - New Partnerships for the 21st Century" Conference in Bremen. He is a member of the Board of Directors and Treasurer of the Society for International Development, Rome. Fluent in English, Italian, and Dutch. Speaks and writes on corporate social responsibility, entrepreneurship, and the civic economy.

George Starcher received a Bachelor of Arts Degree, Magna Cum Laude, in Mathematics from Yale University and an MBA Degree from Harvard Business School, with Distinction (Baker Scholar). After twenty years with McKinsey & Company, a leading international management consulting firm where he was Senior Partner in the Paris and Milan offices, he founded his own management consulting practice. He is a member of the Board of Directors of, and consultant to, the European Centre for Continuing Education (CEDEP) at Fontainebleau, France since 1972. He was a member of the National Spiritual Assembly of the Bahá'ís of France from 1970 to 1990, and its President from 1985 to 1988. He is co-founder and presently Secretary General of the European Bahá'í Business Forum, a network of 250 socially responsible business people in 46

countries. He is author of several articles and publications on business ethics, corporate social responsibility, and entrepreneurship.

Despite the high relevance of corporate social responsibility (CSR) in current business practice and the considerable research on CSR outcomes in consumer markets, investigations of its influence on organizational business relationships are scarce. Relying on instrumental stakeholder theory, the authors develop and empirically test a framework of the influence of a supplier's CSR engagement on organizational customer outcomes.