Tom Cannon

# Corporate Responsibility

## Governance, compliance and ethics in a sustainable environment

Second Edition

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Tom Cannon

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# Dedication

To Anita and Gordon Roddick

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# Preface

Few issues more vividly illustrate the changes and challenges facing modern industrial and industrialising economies than the debates around the social responsibilities of business. In the last edition of this book, I described these responsibilities as a vital issue, it is probably no exaggeration now to call them the vital issue facing business.

Recent events, the media coverage and their economic and corporate consequences provide clear evidence of the importance of corporate social responsibility or CSR, the term most people use. Sadly, however, the evidence would suggest that its importance is highlighted more by the consequences of failure or omission than success or commission.[1]

The global financial meltdown of 2007–2009, the BP Deepwater Horizon oil spill, the Fukushima nuclear radiation disaster, the widening gap between CEO remuneration and that of others, concerns about corporate tax avoidance and a host of other business behaviours can be put down to the lack of socially responsible behaviour by companies.

Much of the significance of CSR comes from the scale and influence of the modern corporation. Some ventures are larger than many nation states. Their influence extends across the globe. Their actions can determine the prosperity of communities and the health of environments.

The world's 10 largest corporations (by turnover) employed almost four million people in 2010. Their combined turnover converted to gross domestic product (GDP) would make them the fifth largest economy in the world. They have power and authority, and demand the right to pursue their interests, generate wealth, innovate and change. With great power comes great responsibility.

Despite, or because of, their wealth most of the firms in the top ten have become embroiled in debates about their standards of behaviour or sense of corporate social responsibility. For Walmart, the debates have centred on its business ethics, community responsibilities and competitive practices. At Royal Dutch Shell, Exxon, BP and Sinopec issues have been raised ranging from their attitudes to indigenous peoples to concern for the environment. The safety record of several Toyota models was the centre of fierce criticism in the USA.

This book attempts to explore some of these responsibilities and the ways they are evolving in the current economic, political and social climate. There is a determined effort to place the current discussion of corporate responsibility in a wider context. In part, this is inevitable given the range of issues which touch on any examination of corporate responsibility. These include ethics, corporate governance, economics, law and science, technological change, management goals and practices, the environment and social justice.

Corporate behaviour raises questions in each of these areas. Each of these topics is examined in the book. There is a systematic attempt to link the practical dilemmas facing executives and their enterprises with a larger body of debate and discussion. This reflects an assumption which permeates the text. That is, that awareness and knowledge of the wider debate is a vital aid to managers facing immediate challenges.

This analysis is influenced by four different strands in the current debates and literatures surrounding CSR. First, and probably inevitably given the crises mentioned, is the cost of failures in CSR to companies, communities and society in general. Second, there are the potential returns from sound and effective CSR practice. Wood[2] is one of a number of authors who have gone beyond analysis of the 'costs of bad behaviour' to study the returns of good behaviour. She concluded that 'there is such a relationship and it is positive . . . good performance results in a better bottom line for the firm'.

Third, there is the effect of CSR on business and management practice in areas as diverse as logistics, marketing, human relations as well as investment, innovation and change – in effect, every aspect of the business that impacts on the wider community. As it is hard to imagine any aspect of a firm's activities that is not designed – directly or indirectly – to impact the wider community, it embraces all the business's activities. One is reminded of the famous comment by Bill Shankly (the football manager) about the off-side rule. If you are not interfering with play, you shouldn't be on the field. If an aspect of a firm's activity is not affecting its environment, it shouldn't be undertaken.

Fourth, the development of CSR 'reflects the influence of different theories, including agency theory, institutional theory, the resource based view of the firm, stakeholder theory, stewardship theory and the theory of the firm'.[3] All too often, however, these diverse roots have created a fragmented approach and a body of knowledge characterised more by incoherence than coherence. This text attempted to draw these strands together in ways that inform the student, influence the teacher or researcher and guide the practitioner. The unity of the topics is emphasised throughout. It is argued that ethics, governance, responsibility to the natural or built environment and justice are facets of the same issue. Here, they are drawn together and related to the notion of the corporate social contract, within an integrated theoretical framework. It is argued that organisations operate with societies on the basis of an implicit or explicit contract which imposes creation duties and responsibilities.

These duties and responsibilities extend far beyond the economic functions attributed by writers like Friedman. These obligations change over time as the state takes on more or less roles and activities or delegates these to other members of society. This book has drawn on a wide range of sources of ideas and inspiration. Every effort has been made to trace the holders of copyright material and seek their permission to use their material. If any have inadvertently been overlooked, I hope they will accept my apologies.

Any book as wide-ranging as this depends on the support of many people. Numerous colleagues have played a part, especially Dr Nigel Roome, Sir Howard Newby and Professor Brian Moores. A special thanks is due to the many students at Stirling, Manchester, Buckingham, Liverpool and elsewhere who have challenged ideas, commented and stimulated my thinking.

Much of the agenda for corporate responsibility has been shaped by those business people who have shown the courage and commitment to look beyond the next horizon. My publishers have played a vital part in helping me to develop my ideas and put them together. My wife Fran had the original idea for this book and helped me to shape and develop my thoughts. Robin and Rowan played a special part in formulating my ideas, while Finlay, Oonagh, Jude and Gabriel constantly remind me of the importance of responsible corporations. To these and all those who have helped – many thanks. Naturally, the final responsibility for the book in its final form lies solely with the author.

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Chapter 1

# Corporate social responsibility: the emerging agenda

Few issues in business excite more interest today than the emerging topic of corporate responsibility. In North America, Europe and Asia, in particular, the responsibilities of corporations to their communities are under intense scrutiny. In part, this reflects growing awareness of the impact of their actions on society, the environment, culture and different communities. Elsewhere, the discussion reflects widespread recognition of the changing relationship between companies and communities.

The UN Global Compact makes this connection explicit:

> Never before has there been a greater alignment between the objectives of the international community and those of the business world. Common goals, such as building markets, combating corruption, safeguarding the environment and ensuring social inclusion, have resulted in unprecedented partnerships and openness between business, governments, civil society, labour and the United Nations.[1]

New technologies, developments in markets and new ideas are providing insights into the influence of corporate actions and their potential impact on issues which extend far beyond the conventional remit of firms and their managers. The rolling back of the state especially in the 1970s, 1980s, 1990s and early 2000s created new opportunities and imposes new responsibilities on firms. Despite the setback of the last half decade, corporate leaders continue to seek ways to express and define their role in these changing circumstances. The same shifts place increased responsibilities on firms, entrepreneurs and managers. If, however, the last decade has shown anything, it is that the freedom to act is not the licence to abuse.

## From teapots to hot chocolate

Many of the shifts in political attitudes toward corporate behaviour reflect abuse by specific business leaders. This was true when Rowntree exposed mistreatment of employees by employers. It recurred when the Teapot Dome scandal highlighted abuse of political power. It was highlighted with the Great Crash when the misuse of stock market rules emerged. It was seen when Enron lied about its profits and concealed its debts and most recently in the banks loaded their balance sheets with toxic assets and in the process exploited trustee compliance and executive freedom.

Responsible corporate leaders recognise the link between rights and responsibilities as J. S. Mill[2] commented in the last century: 'There is no natural connection between strong impulses and weak conscience.'

Discussion of the role and responsibility of the corporate entity in society is not new. The comment in the Bible that it is 'easier for a camel to pass through the eye of a needle than a rich man to pass through the gates of heaven' touches on the problems of wedding morality and wealth accumulation.

Chaucer presented his own special view on the issue in the fourteenth century. In *The Pardoner's Tale*, the gullible are relieved of their wealth on the promise:

*Now goode men, god foryive you your trespas,*
*and ware you fro the sinne of avarice:*
*Myn holy pardon may you alle warice –*
*So that ye offre nobles or sterlinges*

Chaucer[3]

It was, however, the industrial revolution which brought the issue of corporate responsibility into sharp focus.

In part, this was a reflection of the power of the new industrial processes to reshape age-old relationships. Feudal, clan, tribe or family based systems of authority and responsibility were dismantled. Simultaneously, the new techniques and technologies gave 'corporations' vast power and wealth and created the first billionaires. The landscape could be reshaped, cities built.

> Ephraim Tellwright could remember the time when this part of it was a country lane, flanked by meadows and market gardens. Now it was a street of houses up to and beyond Bleakridge, where the Tellwrights lived.
> A. Bennett[4]

The power of the machine over man raised major issues of responsibility and morality. The wealth which was accumulated by the new industrial classes gave added emphasis to the debate. It enhanced their power while standing in sharp contrast to the difficulties of the new, industrial proletariat.

> One day I walked with one of these middle-class gentlemen into Manchester. I spoke to him about the disgraceful unhealthy slums and drew his attention to the disgusting condition of that part of the town in which the factory workers lived. I declared that I had never seen so badly built a town in my life. He listened patiently and at the corner of the street at which we parted company, he remarked: 'And yet there is a great deal of money made here, Good morning, Sir!'
> F. Engels[5]

The impression is sometimes given that the industrial revolution marks a sharp break with the systems, structures and concerns of the past. This was not the case. Chandler[6] points out that the 'managerial revolution' occurred relatively late and showed itself in a number of ways. The family, relationship or trust basis for allocating roles in the firm persisted through the nineteenth century. Notions of professionalism, i.e. that qualification or skill should dominate appointment criteria came to dominate only in the twentieth century. This broke the link between ownership and control.

It undermined the paternalism which characterised many of the great business empires of the nineteenth century. Lord Leverhulme saw Port Sunlight as a personal charge and responsibility. He[7] explained his mission in developing Port Sunlight as a model village as:

> It would not do you much good if you send it down your throats in the form of bottles of whisky, bags of sweets, or fat geese at Christmas. On the other hand, if you leave the money with me, I shall use it to provide for you everything that makes life pleasant – nice houses, comfortable homes, and healthy recreation.

Versions of nineteenth-century paternalism do survive but often through enterprises which have survived since the last century or as part of a more open and highly personalised way of undertaking or promoting business. Breaking the bond between entrepreneurs and their workforce often coincided with a process of severing links with a community.

This 'local' connection was once a key feature in the character and identity of the enterprise. The Pugh family in Philadelphia, the Rockefellers in Cleveland and Ford in Detroit took their interest in the community far beyond the confines of the firm. It encompassed their church, the community, the arts and education. Lever Bros in the North-West of England, Rowntree in York and Cadbury in Birmingham symbolised the bond between a firm and a locality.

Growth, relocation and acquisition have eroded this relationship. The Rockefellers soon set up their corporate base in New York City. If Unilever has a corporate core, it probably lies on Blackfriars Bridge near the City of London. Nestlé took over Rowntree. In 2010, Cadbury was acquired by Kraft under controversial circumstances. Although much of the controversy centred on Kraft's decision to close the 75-year-old Somerdale factory in Keynsham, near Bristol, despite making a firm commitment during the acquisition to keep the factory open, it was the breakdown of trust that had the deepest consequences.

Investment policies look more closely at goodwill in finance houses and the City than goodwill in the community.[8] The 40 per cent uplift in the Cadbury share price was compensation for the previous owners, but meant little to the Somerdale workers.

Roger Carr, the outgoing Chairman of Cadbury, was especially critical of the role played by hedge funds in the takeover. He commented: '(It seems) unreasonable that a few individuals with weeks of share ownership can determine the lifetime destiny of many.'

## New institutions and novel challenges

The acquisition of large UK and US corporations by hedge funds is often seen as a factor in widening the gap between the firms, their communities and employees. Concern about their control of long-established UK companies like Boots and United Biscuits, utilities like Thames Water, health providers such as Circle Health and US corporations like AON, Vaicom and Xerox by hedge funds is increased by the fact that as private, lightly regulated entities, hedge funds are not obliged to disclose their activities to third parties.

The frequency with which they are domiciled in off-shore 'tax-havens', like the Cayman Islands, reinforces this fear that their links with the communities which have given the businesses life is limited. Only a minority of the non-UK registered hedge funds, for example, have signed up to the UK's stewardship code setting out the duties of investors. The collapse of the care-home provider Southern Cross, a few years after the American private equity group Blackstone made an estimated profit of £1 billion from its sale,


Former Buick factory in Flint, Michigan
*Source*: Carlos Osorio/AP Wide World Photos

reinforced these concerns about the ways different types of venture view their corporate social responsibilities.

The mission statements of firms like Marks and Spencer and the Co-Operative Bank contain a clear commitment to their communities. The notion that 'good relations means good business – the equation is as simple as that' has a different meaning when the aim of the acquisition is to load debt on the firm, sweat the assets and sell at the earliest opportunity. It takes a longer-term perspective to view the most important task as encouraging the good relations that will create good business in the future.

The film *Roger and Me* vividly illustrates the changing relationship between Flint, Michigan, the home town of General Motors, after the firm laid off 30,000 workers, closed plants and moved production to Mexico.

Corporate responsibility as an area of study and management action is evolving in response to these changes and the demands of managers for guidance and students for insight and understanding. The subject is being shaped by business, government, academia and the wider society.

## QUESTIONS

1 Draw out the parallels and differences between the ways in which any of the corporate leaders named in the sets below developed their personal business vision:
- Henry Ford and Sir Richard Branson;
- Lord Leverhulme and Anita Roddick;
- Lord Sugar and Bill Gates.

2 Gather information from press and other sources. Use this data to discuss the ethical position adopted by General Motors (as described in the film *Roger and Me*). Explore the extent to which the firm had any choice in its decisions and outline practical ways in which the effects might have been lessened.

3 Describe the effects of migration and religious diversity on the evolution of corporate social responsibility in Britain or the USA. How did forms of social action reflect the different experiences of nineteenth-century industrialists?

4 Discuss the extent to which 'the new deal' highlighted the failure of laissez-faire capitalism to resolve the problems posed by rapid economic and industrial change.

5 Can 'Victorian values' make a significant contribution to balancing current demands for economic growth and corporate social responsibility?

6 Value-driven businesses are easier to manage and are more relevant to current environments than traditional firms. Discuss the implications of this statement for company development.

7 '"Economics of Austerity" for the economy may have hurt, but it has worked.' Outline the ethical implications of this statement for policy makers on a national and local level.

8 Define or write brief notes on:
(a) paternalism
(b) corporate responsibility
(c) urbanisation
(d) Owenism
(e) Fordism.

9 Comment on the claim that 'if the past teaches anything about corporate social responsibility, it is that the risks of doing nothing, far outweigh the risks of doing something.'

## CASE STUDY 1

### John D. Rockefeller, the Standard Oil Trust and his philanthropy: does the latter legitimise the former?

A Baptist fundamentalist with a head for figures, John Davison Rockefeller (1839–1937) was probably the richest man in history, with a fortune estimated at around $150 billion, at its peak at current values.

Born in Richford, near Ithaca, New York, he made his fortune in the oil business during the Cleveland oil boom. His Standard Oil Company at one point dominated almost all United States oil production, refining and distribution, and much of the world's oil trade. He saw the oil industry shift from a producer of lighting fuels (kerosene) to the main source of energy during the twentieth century.

Standard Oil's control of the oil industry was ultimately so great that the US Supreme Court forced the company to dissolve. During his ascendancy at Standard Oil, ]ohn D. Rockefeller's associates, rivals and critics attributed to him superhuman powers as a business builder and manager. Edward T. Bedford, a Standard Oil executive commented that:

> Mr Rockefeller was really a superman. He not only envisaged a new system of business upon grand scale but he also had the patience, the courage and the audacity to put it into effect in the face of almost insuperable difficulties, sticking to his purpose with a tenacity and confidence [that were] simply amazing.