Tom Cannon

Corporate Responsibility

Governance, compliance and ethics in a sustainable environment

Second Edition

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Dedication

To Anita and Gordon Roddick

Brief contents

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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.

Case study 1 (*cont.*)

John D. Archibold – a one-time critic, then associate and later Rockefeller's successor – said 'Rockefeller always sees a little further than the rest of us – and then he sees around the corner.' Vision, audacity, patience, tenacity, confidence and ruthlessness, these were some of the characteristics that led to the creation of first Standard Oil, then the Standard Oil Trust.

This enterprise – the Great Octopus or the Anaconda – once controlled almost 90 per cent of the US oil industry and around three-quarters of the world market. Standard Oil grew out of a series of decisions made by Rockefeller and his associates in 1872. This *annus mirabilis* for Standard Oil illustrates how power often emerges from a set of decisions or actions rather than a single action.

- the skill with which the ground was prepared;
- the audacity of their execution; (and)
- the brilliance of the follow-up.

They provide a timeless example for business building.

The breakthrough, which established Standard Oil's dominance of the oil industry for at least half a century, was built on three related decisions. The first was that the industry in which Standard operated – oil refining – was in urgent need of consolidation. The second decision was that attention to detail was the key to success despite the industry's turbulence. Third, Standard Oil would use every means at its disposal to achieve a dominant position.

The oil industry that Rockefeller entered in 1862 at the age of 23 seems a strange choice for a Baptist fundamentalist with a head for figures and a love of order. But, he used his financial skills to build up a strong asset base, which he refused to dilute. He preferred, for example, to give stock than pay cash.

He was entering a boom industry, in which natural assets, invention and enterprise had become a magnet for 'hundreds of thousands of working men, who prefer the profits of petroleum to the small rates of interest afforded by savings banks'. Congressman and future President of the United States, James Garfield commented that 'the (oil) fever has assailed Congress'. Rockefeller was drawn into the oil industry by a fellow Baptist, Samuel Andrews, who had developed a system for distilling oil-based kerosene from crude oil. It was, however, an industry famous for turbulence and wild gyrations in price, soaring up to $12 a barrel, collapsing to $.50. It was a market into which Rockefeller was determined to introduce some order and control.

It was the series of events called the 'Cleveland Massacre' that are most closely linked with this effort to introduce some order and control. The central effort was to bring as many of his rival refiners into the *South Improvement Company*. This was the view of one refiner in Cleveland who joined the South Improvement Company and 'in the process ceded its independence to Standard Oil'.

The offer made to most was very simple. One refiner summed it up as 'if we did not sell out, we would be crushed out'. Another quoted Rockefeller as saying, 'this scheme is bound to work. It means an absolute control by us of the oil business. There is no chance for anyone outside.'

The threat, however, was mixed with a promise. There was the prospect of secure prices and incomes, and long-term growth and profits. Rockefeller's planning was meticulous. In his own words, 'I had our plan clearly in mind. It was right. I knew it as a matter of conscience. If I had to do it tomorrow, I would do it again in the same way – do it a hundred times.' He also knew that his control had to extend down the distribution system.

The railway companies were essential allies. Without their support – especially through rebates – new rivals could emerge, get access to markets and undermine Standard Oil's control. The support of the railway companies added further steel to the invitation to join the South Improvement Company. Frank Rockefeller (John D.'s estranged brother) quoted this side of the promise as: 'If you don't sell your property to us it will become valueless, because we've got the advantage with the railways.'

The basic deal with the railways was very simple. Standard and the South Improvement Company would guarantee the railway companies fixed and large orders for shipping their product. In return, there would be massive rebates on the published charges for shipping crude and refined oil: 40–50 per cent off the quoted prices for shipping crude and 25–50 per cent off the prices for shipping refined oil.

The most controversial aspect of the deal was the drawbacks the company was promised on the shipments made by rivals. This meant that when rivals shipped oil by the participating railways, the South Improvement Company was paid up to 40 cents for every barrel shipped (around 25 per cent of the shipping costs). The company agreed to allocate its shipments among the

Case study 1 (*cont.*)

railways to a fixed formula, with the Pennsylvania Railway getting 45 per cent and the Erie and New York Central getting 27.5 per cent each.

There was nothing new about rebates on oil shipments. In 1870, Rockefeller's partner, Henry Flagler, had negotiated a deal with the New York Central Railway that gave Standard Oil a rebate of 35 per cent off the published charges – in return for guaranteed volumes. It was its scale, comprehensive nature and the added twist of the drawback that made the proposals of the South Improvement Company so controversial.

Once it was exposed, and before any oil was shipped, the plans leaked. The oilfields exploded in protest against 'the cruellest and most deadly device against the extinction of competition yet conceived by any group of American industrialists'. Within weeks the 'great conspiracy' was on the point of collapse especially as the New York refiners, who had been left out of the original arrangements, combined with the independents and the producers to put pressure on the railway companies. By mid-April, the South Improvement Company was dead as the Pennsylvania legislature cancelled its charter, Congress attacked the 'gigantic and daring conspiracy' and the rebates were declared void.

The collapse of the company, however, merely highlighted the skill with which Rockefeller had placed himself in a win–win situation. The edifice of the South Improvement Company was destroyed but Standard Oil had won control of virtually all of Cleveland's oil refining capacity. The 'Cleveland Massacre' saw him wipe out local rivals and acquire 22 out of 25 rivals in just over a month. He had achieved control of a major refining centre. He had also learned how to use Standard Oil's economic power to force rivals into submission and suppliers into partnership. He used these lessons to provide focus for his company and leverage for his resources in the next stages of his breakthrough.

Standard Oil was ready to take on the entire oil industry within weeks of the collapse of the South Improvement Company. Standard Oil executives opened negotiations with major refineries in Pittsburgh to absorb their operations while the railways were under new pressure on rebates. The message combined the familiar with the new. The established message was that by acting together they were stronger than as rivals. The new message was that Standard Oil's Cleveland-based operations were now so large, efficient and well resourced that opposition would be pointless. The thrust of all these efforts was to focus the resources generated by scale and control to build up market power. This market power could then be applied to gain maximum leverage for the company's efforts.

After 1872 (the date of the massacre) he saw the experiences of that year as essential preparation for extending his control beyond Cleveland, across the USA and to the world. In his later life, he was not afraid to say, 'the idea was mine'. The idea was persisted in, too, in spite of the opposition of some who became faint hearted at the magnitude of the undertaking, as it constantly assumed larger proportions. His ability and his company's strong balance sheet – he never made a loss – gave him immense power.

Power to take on his former allies – the railway companies: Rockefeller pioneered the use of metal tank cars to replace the dangerous and wasteful wooden barrels used originally by the railways. The company acquired large numbers of these cars, giving it a powerful bargaining counter with the railways, forcing yet more discounts and rebates.

Acquisitions were undertaken with speed and secrecy. Many newly acquired firms retained their name and identity but were firmly controlled from the centre. He moved on to a tactic known as 'turning the screw'. This approach paid massive dividends when the first steps were taken to gain maximum leverage from the control achieved in Cleveland. His initial targets were the leading refiners in the main competing centres of Pittsburgh/Philadelphia and New York. By late 1874, half the refineries in Pittsburgh/Philadelphia and leading companies in New York were acquired.

Increasing control meant that attention could be focused on those who stood out against Standard Oil's market power. The technique known as 'turning the screw' took two basic forms – friendly and unfriendly. The former meant that an opportunity was presented to merge into the company – often with a good salary, shares and a degree of autonomy. Unfriendly led to sharp hikes in freight charges from shippers, new competitors arriving at your doorstep with vastly reduced prices or quiet advice to traders not to stock. The policies were classic examples of game theory applied before the underlying theory was expounded.

Pittsburg, New York, even Oil Creek – the original source of oil and home of the Anaconda's fiercest enemies – were soon dominated by Standard Oil. The

Case study 1 (*cont.*)

new challenge facing Rockefeller and Standard Oil lay in building on this control, retaining the central focus of the company, building on its core competencies and getting maximum leverage from their power and resources. Rockefeller's wealth and power continued to increase until Ida Tarbell, his most fierce critic, wrote that:

> There is no independent refiner or jobber who tries to ship oil freight that does not meet incessant discouragement and discrimination. Not only are rates made to favour the Standard refining points and to protect their markets, but switching charges and dock charges are multiplied. Loading and unloading facilities are refused, payment of freights on small quantities are demanded in advance, a score of different ways are found to make hard the way of the outsider. 'If I get a barrel of oil out of Buffalo', an independent dealer told the writer not long ago, 'I have to sneak it out. There are no public docks; the railroads control most of them, and they won't let me out if they can help it. If I want to ship a car load they won't take it if they can help it. They are all afraid of offending the Standard Oil Company.'

Eventually, the US Supreme Court broke the company into its 38 subsidiaries, leaving John D. Rockefeller the richest man in the world. At which point, he turned his attention to philanthropy. He was not new to this. In his teens, he regularly donated money to his Sunday school and other activities of his Baptist church. As his personal wealth grew, so did his generosity. In 1913, he established the Rockefeller Foundation 'to promote the well-being of humanity around the world'. This was not his first major act of philanthropy. In 1903, he created the General Education Board at an ultimate cost of $129 million to promote education in the United States 'without distinction of sex, race, or creed'.

The Rockefeller Foundation was the first global US foundation. It has supported scientists, scholars and economists. Its grassroots leaders have spearheaded the search for the solutions to some of the world's most challenging problems. Since its inception, John D. Rockefeller's foundation has given more than $14 billion in current dollars to thousands of grantees worldwide.

Despite this, critics persist, with some calling the Foundation's efforts 'a tainted philanthropy' and raising questions about aspects of its activities.

Question

Do the actions of the Rockefeller Foundation justify or legitimate the past actions of John D. Rockefeller and Standard Oil?

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Chapter 2

The corporate and social/economic challenge

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. The continuing financial crisis in Europe and its global effects, concerns about the long term effects of Fukushima, the apparent failure of business leaders to respond to concerns about bonuses, the rewards for failure, £1.3bn a year in inheritance tax and £330m to £500m a year in stamp duty lost to the UK Treasury through the use of tax havens raise real questions about the commitment of firms to social responsibility.

Banking on responsible banking

This critique can go further with the underlying behaviours leading to economically irresponsible behaviour by companies. It is impossible to put a price on the negative economic impact of the global financial crisis, not least because its effects continue into the 2010s and beyond. As governments count the cost, the public are achieving a new familiarity with trillions of dollars, pounds, euros and other currencies as well as terms like toxic debt. In the USA alone, just under 400 banks with assets of US$658 billion have failed since 2007 (see Table 2.1).

Bank failures are not a new phenomenon in the USA, but in Europe they are very rare with only the Bank of Credit and Commerce International (headquartered in Pakistan) and

Table 2.1 US Federal Deposit Insurance Corporation (FDIC) bank failures

Year	No. of failed banks	Total assets of failed banks	Loss to FDIC's DIF
2007	3	$2,602,500,000	$113,000,000
2008	25	$373,588,780,000	$15,708,200,000
2009	140	$170,867,000,000	$36,432,500,000
2010	157	$96,514,000,000	$22,355,300,000
2011	34[1]	$14,851,700,000	$2,500,600,000
Total	**359**	**$658,423,980,000**	**$77,109,600,000**

[1] Failure by May 2011.

Herstatt Bank in Germany counting as major failures in the post-Second World War era until the crash of 2007–2009. The last five years have seen a string of failures or near failures (requiring government intervention) across Europe including Northern Rock (UK), Sachsen LB (Germany) Landsbanki, Glitnir, Kaupthing Bank, Bank of Ireland, Allied Irish Banks, Irish Life & Permanent, EBS Building Society, RBS, HBOS, Lloyds TSB, CajaSur (Spain), Hypo Real Estate and Commerzbank. A number of Germany's *Landesbanken*, most of which are owned by state governments, are said by the financial regulator, BaFin, to hold €816 billion (US$1.1 trillion) in toxic securities.

Besides these a host of other banks such as BNP Paribas (France), Natixis (France), UBS (Switzerland), Dexia SA (Belgium), Danske Bank A/S (Denmark), ING Groep NV (Netherlands) and Banco Espirito Santo SA (Portugal) have been 'bailed out' by governments. The effects were not confined to Europe and the USA as Sumitomo Mitsui Banking Corporation, Mizuho Corporate Bank, Ltd, Syngenta AG, Mitsui & Co Ltd, Mitsubishi UFJ Financial Group and Shinhan Financial Group Co Ltd were among the Asian banks needing to be propped up to avoid the consequences of years of seemingly reckless behaviours and the resulting 'toxic debt'.

There is nothing new about a systemic banking crisis. Laeven and Valencia[1] identified over 100 systemic banking crises over the period of 1970 to 2007. The 'current' crisis is distinctive because of its scale, extent, pervasiveness and wider impact. Even now – five years on – its impact on communities, businesses, institutions and nations remains significant while debate continues, not only on the ultimate solution but the real causes. There is, however, little doubt that part of the causality lay in the irresponsible behaviours of corporations and their executives, allied to the inability of either their internal systems of corporate governance or the external structures of regulation to prevent these behaviours.

The OECD Steering Group on Corporate Governance[2] concluded that:

> The financial crisis can be to an important extent attributed to failures and weaknesses in corporate governance arrangements. When they were put to a test, corporate governance routines did not serve their purpose to safeguard against excessive risk taking in a number of financial services companies.

Charles Ferguson goes even further in his film *Inside Job* describing the movie as being about 'the systemic corruption of the United States by the financial services industry and the consequences of that systemic corruption'. In his eyes, at least as expressed in the film, this corruption – not just in the USA – lay behind the global financial crisis.

Questioning CSR

Equally culpable, according to some observers was the failure of their internal systems of CSR to pick up these failings. As late as 2006 firms like Bear Sterns, were gaining places of honour on CSR rankings like the FTSE4Good. The 2007 *Good Companies Guide* placed HBOS firmly in its top ten most ethical companies just months before it required the biggest bank bail-out in UK banking history to save the institution albeit at the cost of wiping out most of its shareholder value. *Fortune*'s most admired companies for 2007 included Lehman Brothers, Bear Sterns, Merrill Lynch and AIG on the strength of their efforts from investment value to *social responsibility*.

Only months before the collapse of the bank, Northern Rock's board was committing itself to the Financial Service Authority's (FSA) Combined Code on Corporate Governance with this emphasis on:

- prudent and effective controls which enables risk to be assessed and managed;
- the integrity of financial information and financial controls and systems of risk management (that) are robust and defensible;
- formal and rigorous annual evaluation of its own performance and that of its committees and individual directors;
- a sound system of internal control to safeguard shareholders' investment and the company's assets.

All within a framework that purported to regard 'adherence to the principles of good corporate governance to be of the utmost importance'. Despite that the Government Review of the bank's market value when taken over 'immediately before the start of 22 February 2008 . . . is nil'. This despite an apparent market capitalisation just months before of over £7 billion indicating that, despite the fine words, the directors had totally failed to safeguard the shareholders' investment and the company's assets.

Trouble pours on oily waters

Despite the current hostility towards bankers, other key industries face the same problem of matching their public commitment to high standards of CSR with operational practices. The global financial crisis was well established when events at the BP Deepwater Horizon oil platform seemed to match in intensity if not scale (financial) the failures in the banking sector.

BP is a company with well established and public commitments to high standards of CSR especially in care for the natural environment. In Britain, BP was one of the earliest supporters and is a premier member of BiTC, an organisation that prides itself on being the largest and one of the oldest national business-led coalitions dedicated to corporate responsibility. BP was a founder member of the first Corporate Responsibility Index.

For a decade or more, Business in the Environment's Index of Corporate Environmental Engagement has placed BP at or near the top of its rankings. The company's own stated commitment[3] was unambiguous:

> We are committed to the safety and development of our people and the communities and societies in which we operate. We aim for no accidents, no harm to people and no damage to the environment.

With this commitment came external praise. BP was firmly established in the *Fortune* ranking of 'most admired companies' in 2007 with a strong rating for its 'social responsibility'.

The UN Global Compact is the world's largest corporate citizenship initiative and has protection of the environment among its central themes. Signatories to the Compact are expected to:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote environmental responsibility; and
- encourage the development and diffusion of environmentally friendly technologies.

Warnings from the past

Despite this, in 2005, BP Texas City Refinery suffered one of the worst industrial disasters in recent US history. Explosions and fires killed 15 people and injured another 180, alarmed the community, and resulted in financial losses exceeding US$1.5 billion. The *Final Investigation Report*[4] by the US Chemical Safety and Hazard Investigation Board was a searing indictment of the company. It concluded that:

> The Texas City disaster was caused by organizational and safety deficiencies at all levels of the BP Corporation. Warning signs of a possible disaster were present for several years, but company officials did not intervene effectively to prevent it.

Three issues were central to the board's criticisms of BP:

1. 'Procedures did not reflect actual practice.'
2. BP's response to reports of serious safety problems in the previous years had been 'ineffective'.
3. 'The BP chief executive and the BP board of directors did not exercise effective safety oversight. Decisions to cut budgets were made at the highest levels of the BP Group despite serious safety deficiencies.'

The publication of this report coincided with BP's decision to reaffirm its support for the UN Global Compact and support for the 2007 Global Compact Leaders Summit.

The US Chemical Safety and Hazard Investigation Board's description of the BP Texas City Refinery explosion as 'one of the worst industrial disasters in recent US history' in some ways sets the rhetorical scene for an even greater environmental disaster. Within five years of this incident, BP's Deepwater Horizon development in the Gulf of Mexico became the centre of 'the worst environmental disaster America has ever faced' (President Barack Obama addressing the nation from the Oval Office on 15 June).

Measuring the cost of CSR failings

The effects and consequences of the Macondo well blowout at BP's Deepwater Horizon development are, like those of the global financial crisis, still being assessed and debated while some of the impacts continue. Estimates of the amount of oil spilt into the Gulf of Mexico between 20 April 2010, when the initial explosion killed 11 men working on the platform and injured 17 others and 19 September 2010, when the relief well process was successfully completed, and the federal government declared the well 'effectively dead' range from just under 5 million barrels of crude oil[5] to over 10 million barrels.[6]

The National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling[7] set up by President Obama 'to provide a thorough analysis and impartial judgment on the causes of the disaster' drew conclusions with clear echoes of the US Chemical Safety and Hazard Investigation Board's description of the BP Texas City Refinery explosion, especially the finding that:

> The immediate causes of the Macondo well blowout can be traced to a series of identifiable mistakes made by BP, Halliburton, and Transocean that reveal such systematic failures in risk management that they place in doubt the safety culture of the entire industry.

More specifically, the report asserts that:

> Better management of decision making processes within BP and other companies, better communication within and between BP and its contractors, and effective training of key engineering and rig personnel would have prevented the Macondo incident.
>
> The company does not have consistent and reliable risk-management processes.

In evidence to the Commission it was claimed that:

> the focus on controlling costs was acute at BP, to the point that it became a distraction. They just go after it with a ferocity that is mind-numbing and terrifying. No one's ever asked to cut corners or take a risk, but it often ends up like that.

Along with criticism of its performance came immediate, medium and long-term costs. The most dramatic saw its shares slump in value by over US$50 billion in just a couple of weeks. Even a year later, BP shares were down 25 per cent from their pre-Deepwater Horizon oil spill. In January 2010, BP overtook Shell in market capitalisation, now (spring 2011) its value is less than £90 billion against Shell's £130 billion-plus valuation. BP's dividend was cancelled for 2010 while other costs continue to mount. In the immediate aftermath, BP agreed to place in escrow a US$20 billion fund to help address financial losses along the Gulf Coast. In its lawsuit against Transocean, the owner of the oil rig, BP estimated that the total costs were US$40 billion.

That figure could be matched by the costs associated with the impact over time on the Tourism and Fisheries industries along the Gulf coast. The Gulf coast generates an estimated US$19.7 billion of tourism activity annually with some estimates putting the drop in tourists at over 25 per cent in 2011. In 2008, according to the US National Oceanic and Atmospheric Administration, Gulf commercial fishermen earned US$659 million in total landings revenue. The long-term impact of the oil spill on these industries is still being estimated.

Beyond this US$100 billion of costs, there are deeper long-term effects of BP's ability to trade successfully in the world's largest, most important economy. Before the disaster, BP was the largest investor in US energy development. There have been demonstrations in favour of the expropriation of BP's assets in 50 cities while almost a million people have supported a boycott of the firm on Facebook. Although the initial impact of BP's market share of petroleum and related products was small, the medium term seemed to see its market share drop by around 10 per cent in the most visible consumer markets like retail gasoline. Even a small decline in market share of this US$300 billion market will hit the company's long-term prospects which certainly dwarf any gains from controlling costs at the expense of social responsibility.

An earthquake

The scale of the energy industry appears to make both the pressure on costs and the consequences of shortfalls in socially responsible behaviour especially acute. The Fukushima nuclear radiation disaster highlights the latter in especially stark terms. The Tokyo Electric Power Company (TEPCO) which operates the Fukushima nuclear facility is the fourth largest electric power company in the world. It seems likely, however, that the company will largely cease to exist as a public company by being placed under effective state control so it can meet its compensation payments to people affected by radiation leaking. These are expected to reach 2 trillion yen (US$23.6 billion) in special losses in the current business year to March 2012.[8]

Public commitments

TEPCO's public commitment to high standards of CSR is well established. It is, for example, one of the relatively few Japanese companies to sign up to the UN's Global Compact. More immediately, within TEPCO Group's Charter of Corporate Conduct there are clear and, apparently, unambiguous commitments that 'in every aspect of its corporate conduct, the TEPCO Group acts in accordance' with clear CSR principles. These embrace all stakeholders and include ethical behaviour (in spirit as well as by rule), transparency, commitment to local communities, (being) good corporate citizens as well as addressing:

> the resolution of global environment problems, preservation and creation of natural and living environments, and realization of optimum resource recycling, and contribute to the creation of sustainable society.

These commitments reflect, in part, TEPCO's chequered history before and during the Niigata-Chuetsu-Oki earthquake and the resulting problems at the Kashiwazaki-Kariwa nuclear power station. It subsequently emerged that TEPCO division chiefs ordered the falsification of reports relating to structural problems at nuclear plants, according to company sources. The managers involved in the cover-ups, apparently, directly pressured inspectors to falsify reports about the presence of cracks by deleting information and via other means. TEPCO has found false reports for five of the 10 reactors at the plants. Overall, the company was suspected of concealing 29 cases of damage at three nuclear power plants during the 1980s and 1990s.

The parallels are clear between the Niigata-Chuetsu-Oki earthquake and the subsequent leaks and fires at the Kashiwazaki-Kariwa nuclear power station and the current, far greater problems at the quake-hit Fukushima nuclear plant. Although it is still too early to know what sequence of events led to what outcome, it has been suggested that placing a nuclear plant in an earthquake zone inevitably led to the risk of an incident like this. This put at risk employees, the local community and the wider environment. More directly, responses to the crisis are said to be slow and inadequate while Japanese officials have been criticised for issuing statements that seem to underestimate the escalating threat.

Private action

Since the earthquake and its impact on the nuclear facility, the company and the government have been criticised for lacking transparency in disclosing monitoring of radiation levels around the plant, and failing to protect the local communities by 'improperly' raising the limit of radiation exposure levels and consistently underestimating the effects on and risks to 'natural and living environments' from the plant. Again, it seems that the rhetoric of CSR, the publication of CSR rules and guidelines, even their support by top management provided little defence against immediate operational 'requirements'.

The costs to the company, the community and the wider nuclear industry of this combination of operational failures and weak processes continue to grow. The aftermath of the disaster saw the value of the company's stock drop by around 75 per cent or from around US$40 billion before the tsunami to around US$10 billion. Alongside this, it is estimated that handling the disaster and decommissioning the reactors will cost a further US$50 billion while some estimates of the costs of compensation run into the trillions. The Japanese government faces comparable costs, partly to support TEPCO and partly to address wider nuclear disaster related problems that affect communities and industries across Japan. Its immediate act was to create a US$40 billion fund to address the immediate, local needs. The OECD, however, concluded that the impact 'is so large that it is not possible at this point to estimate its economic impact'.

Across the world, companies operating in the nuclear sector and national governments with nuclear strategies have been forced to reconsider their strategies, investments and returns. Countries like China, Germany, India, Korea, the UK, the USA, South Africa, and companies like GE, British Energy, Hitachi, EDF, Arveda, Siemens, BNFL and Westinghouse are obliged to review and, in all likelihood, downgrade their plans for the industry. Some estimates suggest that pre-Fukushima forecasts that saw nuclear accounting for 40 per cent of world energy supplies within 15 years (from a current 22 per cent) are unlikely to be achieved with knock-on effects on global economic output.

Individual failings like those at BP or TEPCO can be explained by individual circumstances, challenging technologies or natural disasters. Even failings such, as those seen in the banks can be viewed as local 'cultural' problems within an industry. As such, the questions raised about CSR more generally can be argued away. It is hard to look at the widening gap between CEO remuneration and that of others in the same way.

Good or greedy?

Few issues raise more anger, especially at times of economic restraint, than executive pay. There are strong reactions to headlines like: 'Barclays' CEO Diamond faces shareholder backlash on pay at AGM', 'Staples' CEO's pay package rises 41 per cent', 'HP's CEO takes $20 million haul', 'Amgen's CEO got $21 million in 2010 compensation', and 'Directors now earn 98 times more than full-time workers, compared with 39 times their pay in 2000, according to new research by Incomes Data Services'.

The complaints extend across industries, sectors and economies. Giants in the financial sector like Barclays are joined by much smaller firms like Scotland's Wood Group in the wave of criticism around remuneration. Concerns are as widespread in a relatively small country like New Zealand as in an economic superpower like the USA.

Several factors have helped to shape the debate on executive pay especially the criticisms made about excess. Much of the early criticism centred on the notion that many executives were taking profits to which they had not contributed. In the 1980s in Britain, this was vividly seen when executives of privatised, neo-monopolies rewarded themselves with massive wage increases. In the USA, books like *Barbarians at the Gate* highlighted the rewards that executives obtained from merger and acquisition activity that was not reflected in true added value. The relatively high rewards for US and UK executives led to much of this debate centring in these two countries.

Scrutiny and voluntary action

In the USA there are at least four parties to the external scrutiny and possible control of executive remuneration. These are government through legislation like the Sarbanes-Oxley Act of 2002, the Securities and Exchange Commission (SEC), the New York Stock Exchange and Nasdaq. In different ways these seek to provide regulation and scrutiny to ensure that shareholder and wider 'stakeholder' interests are protected through internal to the company structures such as remuneration and compensation committees and external rules to either support these processes or provide mechanisms by which stakeholders, mainly shareholders, can protect their interests.

In the UK, a broadly similar framework has emerged after a series of substantive inquires into actual or perceived abuses of executive power. The Cadbury Report was the first in 1992 and was a response to major corporate scandals associated with governance failures in the UK notably at Polly Peck, BCCI and Mirror Group Newspapers. In the mid-1990s, concern about remuneration in the newly privatised utilities led to the Greenbury Report, this was followed by the Hampel Report which suggested that all the Cadbury and Greenbury principles be consolidated into a 'Combined Code'. Subsequent reports by Nigel Turnbull, Derek Higgs, Paul Myners and David Walker eventually led to a Stewardship Code issued by the Financial Reporting Council, along with a new version of the UK Corporate Governance Code. Throughout, however, the focus has been on largely voluntary action and internal scrutiny of executive directors by independent directors largely appointed by these executives.

These debates on corporate governance and CSR with the related interventions on both sides of the Atlantic and elsewhere seemed to have little effect on remuneration itself. In 2010, for example, CEOs of the largest companies received, on average, US$11.4 million in total compensation last year. In the USA, for example, between 1990 and 2005 CEO pay rose by just under 300 per cent while average worker pay rose by just under 5 per cent. In the mid-1970s top executives typically made over 30 times what their workers made but by 2009 the US Institute for Policy Studies[9] estimated that CEOs of major US corporations averaged 263 times the average compensation of American workers. In the UK, the rate of change was slower and the gap less but the late 1970s chief executives of FTSE100 companies earned on average 27 times what their workers made but by 2010 their average remuneration was almost 200 times the average compensation of UK workers.[10]

This surge in total executive remuneration, including salaries, bonuses and stock options, is relatively recent. For both the USA and UK it started in the early 1980s and increased dramatically during the 1990s after being relatively flat for the previous half century.[11] For some,[12] poor corporate governance was a key factor, allowing managers to skim profits from the firm, thereby leading to the considerable increase in the level of CEO pay. This view has informed much of the discussion in both North America and Europe on the contribution that better corporate governance and tighter internal controls can have on executive remuneration.

The emphasis has largely been on ensuring that 'directors should familiarise themselves with the associated provisions of the UK Corporate Governance Code'[13] rather than considering alternative structures like the German 'supervisory board' model, questioning the composition of boards or making it easier to requisition an EGM. Despite 20 years of challenge and change, the prevailing view remains that the central proposition developed in 1992 by the Cadbury Committe, that codes of behaviour not the composition of boards or regulation provide the best means to achieve reforms.

The UK Corporate Governance Code itself is not very specific about the means of delivering its two main principles:

1. Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the company successfully, but a company should avoid paying more than is necessary for this purpose.
2. There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

There is little, for example, on the hows of ensuring that companies should avoid paying more than is necessary or that transparency can be delivered and to whom, especially on issues like accommodation and other allowances, stock options and bonuses. These are three of the areas currently subjected to the greatest questioning.

Responsible to whom

In the UK, the organisation perhaps most widely associated with high standards of corporate social responsibility is BiTC with its strap line:

> We stand for responsible business.[14]

Among its premier members are some of the UK's leading companies such as Aviva, Barclays, BAT, BT, Camelot, EDF Energy, ITV, Lloyds, NPower, Royal Mail, Unilever and United Utilities. Their engagement on this level has not led to behaviours on top executive pay which the media, at least, see as different from other businesses. Headlines such as: 'Strike Threat at BT as Boss Gets £3m Pay Package';[15] 'EDF Energy's Chief Sees His Pay Rise After Profits Plunge';[16] and 'Anger over Mail Chief's Immoral Salary'.[17]

Even on the thorny issue of CEO remuneration against average wages in the company, a premier member like BAT seems content to allow its CEO to earn 391 times the average wage in the company.[18] Elsewhere, a company like Reckett Benckiser sees nothing incongruous in saying on its CSR website that it: 'delivers performance in everything it does, including social responsibility. It is deeply committed to sharing some of the wealth it creates with the people who need it most', while paying its CEO over 1,000 times the average wage of its employees.

Taxing affairs

In the UK and the USA corporate tax avoidance has emerged as a major challenge to the apparent gap between aspirations and claims about responsible corporate behaviour and real world business practice. Leading UK companies like Vodafone, AstraZeneca, Fortnum & Mason, Barclays, RBS, Cadbury and Alliance Boots, and in the USA firms like General Electric and Citigroup have been accused of shirking their responsibilities to home countries under financial distress by avoiding tax.

In one of the more substantive analyses of the issue, Christenson and Murphy[19] highlighted the case of 'the media group, News International, which operates through 800 subsidiaries, many registered in offshore tax havens. A trawl through the 101 subsidiaries of Murdoch's UK holding company, Newscorp Investments, covering an eleven-year period, shows that it generated profits of some £1.4 billion. At the present British corporation tax rate, it should have paid tax of over £350 million (Mitchell *et al.*, 2002: 5).[20] In fact, it paid virtually no corporation tax in Britain.'

Few companies have established a more public, long-term commitment to CSR than Boots (now Alliance Boots). Boots was an early member of BiTC, key executives have been on BiTC's boards, it has won awards for its CSR and asserts that: 'Corporate social responsibility is integral to our business and forms a natural part of our culture.'[21]

Despite this, Alliance Boots is accused of shirking a basic responsibility to the UK, the country in which it was founded and which still accounts for the bulk of its turnover and profits. A review of its tax payments noted:

> In its final year with its shares quoted on the London Stock Exchange, Alliance Boots declared that its tax bill, excluding 'one-offs', was £89 million. And now? The Swiss-based Alliance Boots says in its latest accounts that its underlying tax bill was a mere £9 million . . . Boots may be doing well, but the UK Exchequer sees no benefit.[22]

Alliance Boots has challenged this interpretation of their finances and policies but the broader question remains about the extent to which perfectly legal tax minimisation policies or tax avoidance is socially responsible at a time of austerity when budgets for schools, health, social care, policing, defence, security and other parts of society are under threat. More acutely, can firms undertaking these tax policies reasonably present themselves or be presented as champions of CSR?

Friedman and his critics

For Milton Friedman[23] this would not be an issue. For him 'the social responsibility of businessmen is to make *maximum profits for their shareholders*' (my italics) and providing they do this within the law and rules of the society, they are acting appropriately. The difficulties occur when businesses aspire to or claim to go beyond this goal of maximising profits.

Three issues immediately emerge. First, how real is this commitment to go beyond maximising profits. Many critics assert that CSR provides in reality a variety of methods to enhance the image of their business,[24] win power or influence, and even achieve personal status for their leaders.[25] Although there is little doubt that for some these are the real reasons and true motivations, the available evidence suggests that many CSR advocates, managers and leaders aspire to be more disinterested and their motives more selfless.

Second, if these aspirations are real, how can the rhetoric be translated to reality. It is not hard to find quotes from bankers, CEOs of energy and other companies to articulate their commitment to social objectives that go far beyond making money. There is nothing new in that. Henry Ford once said that 'business that makes nothing but money is a poor kind of business' – a view not far from Richard Branson's comment that 'with extreme wealth comes extreme responsibility'.

The challenge for business is to do what organisations do best – create structures to deliver these responsibilities. For most of the last half century, society has de facto accepted Booker T. Washington's view that 'few things can help an individual more than to place responsibility on him, and to let him know that you trust him' by trusting corporations and their executives to act more responsibly. The costs, however, of the failure of these corporations and their executives to deliver are now so high that trust may disappear. Without this trust the 'licence to trade' which underpins business success could easily disappear.

It is sometimes argued that the day-to-day pressures of running a business preclude true corporate responsibility. But, these pressures are shaped by the objectives, targets and behaviours that are rewarded or penalised. These objectives, targets and behaviours have changed over time. Nineteenth-century capitalism was largely shaped by the personal ambitions and aspirations of larger than life entrepreneurs. Building personal wealth was as fundamental to Carnegie in the USA as Northcliffe in Britain or Sweden's Nobel and Iwasaki Yataro in Japan.

Shareholder value

The emergence of corporate or managerial capitalism at the turn of the twentieth century saw different goals and actions rewarded. Managerial capitalism continues to influence managerial practice but the last 50 years saw notions of shareholder value with its emphasis on increases in stock market value dominate management thinking. Short-term financial performance dominated objectives, targets and behaviours at every level.

The banking crisis and environmental disasters like Deepwater Horizon can be laid at the door of executives who espoused shareholder value and embedded it in their organisations. Only a year before the Lehman Brothers collapse, Richard S. Fuld, Jr. – the bank's CEO – was claiming that 'creating exceptional shareholder value' was both his priority and the justification for a US$6.250 million bonus. Not much later this 'shareholder value' had disappeared and the global economy was in freefall. Another champion was Matt Ridley, Northern Rock's then chairman, who said the bank would concentrate on 'rebuilding shareholder value' as the real value of the business collapsed in 2009.

Lord Browne made his commitment to maximising shareholder value clear from his earliest days and in his address to the BP AGM in 2002 confirmed that his core aim was 'to maximise shareholder value'. Nowhere is the case for shareholder value more strongly endorsed than in those boardrooms where increased shareholder value is used to justify inflation-busting wage increases. These were often justified by the notion that it was in the boardroom that products and services were developed and delivered, markets were built, supply chains and talent shaped.

McKinsey and Co., the high priests of 'shareholder value', claimed[26] that 'in Britain and the United States, maximizing shareholder value is universally accepted as management's paramount goal . . . research conducted by the McKinsey Global Institute has shown that a focus on shareholder value is second only to open and competitive product markets in accounting for high productivity'. Within weeks of the collapse of some of McKinsey's clients like Lehman Brothers and Merrill Lynch in the USA, Lloyds TSB in Britain and UBS in Switzerland, the high priests' religion was changing to emphasise the value of broader issues like 'real value'. This is based on areas like sustainability, diversity and issues dismissed before by McKinsey and likened to 'some continental Europeans . . . (who) continue to believe that shareholder value comes only at the expense of other stakeholders, leaving in its wake diminished job security, higher unemployment, poorer products and services, and weaker overall economic performance'.

The next shift in systems and structures requires innovative thinking about organisational and individual objectives, targets and behaviours. This is where the third set of leadership, management and operational challenges exist. In a real sense, this poses simultaneously both an easier and harder task for organisations – easier because the issues, ground rules and priorities are well articulated, hard because implementation requires profound rethinking of the priorities that have dominated the last half century. Articulating these is the central task of this book.

In a real sense, this squares up the question posed by Carroll and Shabana,[27] 'What do the business community and organisations get out of CSR, that is, how do they benefit tangibly from engaging in CSR policies, activities and practices?' At its most basic level, the answer is the licence to trade profitably, while respecting the rights of others operating in the same environment ranging from other members of their community through other species with intrinsic natural rights to the ecosystem itself. That the failure by some to recognise this, the willingness by some to exploit society's tolerance to exploit others, other species and the ecosystem may be profitable in cash terms but this does not legitimise it.

QUESTIONS

1 The maxim that 'no one ever went bust making a quick profit' should be the guiding principle of all corporate leaders – discuss.

2 Describe the dangers and costs to business of the poor image of US or UK industry during the 2000s. Identify the major abuses and put foward ways responsible firms can tackle these – individually or in concert.

3 Outline the economic and social roles of business – identify any potential conflicts and the means by which these might be resolved. Illustrate these from examples drawn from your recent experience or knowledge.

4 'Businessmen have neither the right nor the responsibility to direct corporate resources to serve social goals.' Discuss.

5 Identify the limitations on corporate intervention in tackling the economic and social problems of a deprived inner-city area. Using illustrations indicate ways in which a firm might overcome these limitations.

6 Describe the changing nature of boycotts over the last century. Outline ways in which firms can respond to a consumer pressure group boycott of their products. How might this response changes if the criticisms are supported by a major trade intermediary?

7 Is 'business ethics' an oxymoron?

8 Using the ethics, corporate governance or social responsibility statements from at least five firms (available directly from firms or published in annual reports) draw out the common features and identify any key omissions.

9 Outline the steps needed to build an ethical stance into the policies and operations of a firm and illustrate, where possible, with material used by a national or local firm.

CASE STUDY 2

Mining sector: BHP Billiton

Erik Turner

World's first electric power plant to use coal mine ventilation air as fuel

Methane (CH_4) is a naturally occurring gaseous compound and is the 'natural gas' used globally as a fuel both for industry and in people's homes. One of the places it occurs is associated with underground coal deposits and when the coal is mined the methane is released. Methane gas has been a major source of hazard to coal miners since coal became the energy source for the industrial revolution. Methane is both flammable and explosive and methane gas explosions in coal mines still kill thousands, perhaps tens of thousands of coal mine workers in China to this day.

In most other parts of the world, strict safety regulations are enforced to ensure that coal mines are properly ventilated, thus preventing dangerous concentrations of methane to exist in the working areas. This is done by blowing fresh air from the surface, through the mine galleries and venting the air plus methane mixture back out, into the environment.

Until recently, this practice was considered acceptable both from the safety and environmental perspective. However, with the onset of the climate-change problem facing our world, new thinking and new practices are required. Fires and explosions are not the only hazards posed by methane. It is also a very potent greenhouse gas: in fact molecule for molecule, it has 21 times the global warming effect of carbon dioxide (CO_2)! So, simply blowing methane gas out from coal mines into our small and vulnerable atmosphere is no longer the smart thing to do. In addition, as is stated at the beginning, methane is a valuable energy source so venting to atmosphere is becoming an increasingly unacceptable waste of a valuable resource.

In order for practices to change, however, there needs to be, on the one hand, an economic and regulatory framework which stimulates the required research and development and encourages the investment of capital in the necessary plant and equipment. On the other hand, there needs to be responsible corporations with the vision to see how they can deliver a sustainable solution. Such a combination has come about with the government of New South Wales, Australia, the world's largest mining and natural resources company BHP Billiton and its technology supplier MEGTEC Systems.

The opportunity

In September 2007, BHP Billiton officially opened its West Cliff Ventilation Air Methane Project (WestVAMP) – a world first greenhouse gas reduction initiative. Situated at BHPB's Illawarra Coal's West Cliff Mine in New South Wales (NSW), Australia, the project is the first realisation of commercial power generation solely from the dilute methane in coal mine ventilation air conditioning exhaust. It follows seven years of R&D collaboration with Swedish emission control specialists, MEGTEC Systems AB.

The methane capture and electricity generating plant, costing A$30 million, generates around six megawatts of electricity per hour and reduces greenhouse gas (ghg) emissions by 250,000 tonnes of CO_2-equivalent per year.

The project was assisted by a A$6 million contribution from the Australian Greenhouse Office GHG Abatement Programme and the electricity generated goes into the NSW grid system. The Premier of NSW, the Honourable Morris Iemma, in inaugurating the new plant said, 'This facility will make a significant contribution to ghg reduction in NSW and I applaud the ingenuity of BHP Billiton and its technology providers MEGTEC Sytems.'

The ghg emission reductions are used to claim carbon credits, created under the Kyoto Protocol and the federal government of Australia's ratification of the Protocol.

The technological development

The concentration of methane in the vent exhaust, around 1 per cent by volume, posed a real challenge as it is below that at which the gas will burn in conventional systems.

BHP Billiton worked with MEGTEC from 2001 to adapt and refine a flameless oxidation process which releases thermal energy from the oxidation of the methane, as conventional burning would do. That heat is then used to produce steam which in turn drives turbines which generate electricity in the usual way.

Case study 2 (*cont.*)

In one integrated system the mine extracts the hazardous methane from the mine workers making the air in the mine safe for the miners, prevents harmful ghg with a potency 21 times that of CO_2 being discharged to our atmosphere and lastly turns that hazardous ghg into electricity.

Future potential

The President of Illawarra Coal, Mr Colin Bloomfield, says the plant could be modularised and scaled up to improve its commercial attractiveness. The current plant treats 20 per cent of the total vent exhaust so potential exists to similarly treat the other 80 per cent.

Then there are the other underground coal operations of BHP Billiton and the other coal operations for the global mining corporations.

Then there is the prospect of helping underground coal mining in the developing world; China, India, Columbia, etc. through public/private partnerships of one kind or another to install these systems with their four-way winning formulae: safer, less polluting, more energy and production efficient.

Recognising the significance of the MEGTEC system for treating ventilation air/methane emissions, as well as the actual results of the WestVAMP plant, the United States Environmental Protection Agency (US EPA) on 19 May 2008 named MEGTEC one of its Climate Protection Award Winners. 'Efforts like this to help fight climate change will benefit the planet for generations to come', said Bob Meyers of the US EPA.

Cases like this show clearly that determined team work between companies which are prepared to show corporate responsibility, regulatory authorities who have the power and intelligence to create constructive legal frameworks and technology development organisations with the necessary ingenuity can produce breakthrough solutions. The challenge then is to get wide and rapid take up.

Questions

1 Review the steps taken to capitalise on this opportunity.

2 Examine the extent to which different interests, economic and environmental, are balanced.

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Chapter 3

Defining corporate social responsibility

It is against the challenges posed by rapid change and the widening impact of business on the wider society that definitions of corporate social responsibility have been framed. Dahlsrud[1] provides an invaluable review of different definitions. This analysis weds the historical development of the language of CSR to consideration of the cultural and economic influences of definitions.

One of the clearest definitions of *corporate social responsibility* was articulated by McWilliams and Siegel as:[2]

> actions that appear to further some social good, beyond the interests of the firm and that which is required by law. This definition underscores that, to us, CSR means going beyond obeying the law. Thus, a company that avoids discriminating against women and minorities is not engaging in a socially responsible act; it is merely abiding by the law.

This expands upon Carroll's view[3] that 'the social responsibility of business encompasses the economic, legal, ethical and discretionary expectations that society has of organisations at a given point in time', by emphasising the importance of going beyond legal obligations and differentiating business enterprises from other organisations.

Implicit in the definition by McWilliams and Siegel but explicit in Thomas Jones' definition[4] is the 'notion that corporations have an obligation to constituent organisations in society other than stockholders and beyond that prescribed by law and union contracts'. This bridged the gap between the 'profit maximization view of social responsibility'[5] or the view that the sole, social responsibility of business was 'to maximize profits . . . (within) the legal framework within which the firm operated' and stakeholder theory.

Bridging that gap has consumed the efforts of a range of organisations from Business for Social Responsibility in North America, Business in the Community in the UK, an array of European organisations such as CSR Europe, enterprises in Asia, plus a host of academic institutions.

Stakeholder theory is based on several core propositions that constitute the building blocks of a definition. At the heart of this is the notion that the owners or shareholders of a business are only one of a set of stakeholders on whom the firm depends and who have stakes in the business. These stakeholders include 'suppliers, customers, employees, communities, managers, and shareholders' all of whom have 'legitimate interests' in the firm. In widening the debate beyond shareholders and dividends, Freeman[6] embraces the real world of executives who need to manage in a world of customers, employees, suppliers within an environment shaped by wider societal needs, expectations and requirements.

These wider responsibilities are the basis for definition of and analysis of *corporate social performance* (CSP). Waddock[7,8] (2009) defines CSP as 'the broad array of strategies and operating practices that a company develops in its efforts to deal with and create relationships with its numerous stakeholders and the natural environment'.

Donna Wood[9] refines this to embrace 'a business organisation's configuration of principles of social responsibility, processes of social responsiveness and observable outcomes as they relate to the firm's human, stakeholder and societal relationships'.

Context, content and debate

Debate about the roles and responsibilities of business and the wider corporate entity in society is not new. From the biblical quotes:

> For what is a man profited, if he shall gain the whole world, and lose his own soul?

Or:

> What shall a man give in exchange for his soul?
> [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.

To the observation in the Qur'an of:

> Let those who hoard the wealth which God has bestowed on them out of His bounty never think it good for them: it is nothing but evil.

The great religions of the world have long questioned the relation between the accumulation of wealth, profits and ethics.

The first Industrial Revolution

It was, however, the first Industrial Revolution that vastly increased the scale of commercial activity, the impact of man on his or her environment while eroding the ability of those affected to judge or influence the behaviours of those exploiting the potential of the new technologies.

The power of machine over man raised major issues of responsibility and morality while challenging entrepreneurs, organisations and society to innovate, grow, create wealth and compete. Before the Industrial Revolution great wealth and great poverty could coincide. Ancient Rome's high mortality rate reflected the squalor that co-existed with the wealth of Empire. The poverty and hunger of the poor around the Rue St. Honoré contrasted with the wealth of the royal apartments in the Tuileries in pre-revolutionary Paris. Slums reached up to the gates of the Forbidden City in pre-industrial Beijing. In the southern United States before the Civil War the luxury of the plantation house could not disguise the terrible conditions in many slave quarters.

The first Industrial Revolution, however, transformed the scale, the nature and speed with which both wealth and poverty was created. The growth of cities is perhaps the most stark contemporary example. Before the Industrial Revolution of the early 1800s the largest cities in the world were probably Ancient Rome, Imperial Constantinople and Beijing or London with populations between 500,000 and 750,000 people. By the middle of the nineteenth century, London had a population of 5 million, by the end of the century New York's population was close to 10 million.

Today it is estimated that more than two dozen cities have populations over 10 million, with a quarter of them having populations around 20 Million. These cities are the creatures of industrialisation as without the products, jobs, services and logistics of industry they could not exist. Cities needed railways, lighting, sewage systems and a host of other goods. Jobs, trades and crafts were created even faster than pre-industrial trades and crafts were destroyed. The new cities needed building, policing, managing. The fastest growing urban areas were typically on river systems which were soon supplemented by canal and rail networks. Throughout this, lives were changed as some profited while others suffered because either they were exploited or their environment transformed by the new industries and technologies.

Industrialisation and ethics

Engels was not alone in expressing concern about the way the new businesses, industries, entrepreneurs or corporations were exercising their responsibilities to their fellow man, their environment or the wider society. Scarcely a philosopher, artist, religious leader or politician of the era was silent on the dangers and opportunities these changes provided.

John Stuart Mill was one of the dominant philosophers and thinkers about economic change in the nineteenth century. In his *Principles of Political Economy*[10] he welcomed the wealth produced by industrialisation but saw the dangers in the processes that created that wealth, in particular the changing relationship between workers and their products.

Two comments by Mill in *Principles* illustrate this paradox:

> If competition has its evils, it prevents greater evils [. . .] It is the common error of Socialists to overlook the natural indolence of mankind [. . .] Competition may not be the best conceivable stimulus, but it is at present a necessary one, and no one can foresee the time when it will not be indispensable to progress.
>
> It is questionable if all the mechanical inventions yet made have lightened the day's toil of any human being.

For the artist, this balance was not necessary. Balzac wrote that as the traditional ties of obligation between the landowner and the peasant were broken by industrialisation:

> Virtue is slandered here; innocence is sold here . . . [E]verything is sublimated, is analysed, bought and sold. It is a bazaar where everything has its price, and the calculations are made in broad daylight without shame. Humanity has only two forms, the deceiver and the deceived.[11]

Charles Dickens in *Hard Times* describes one place as:

> It was a town of red brick, or of brick that would have been red if the smoke and ashes had allowed it; but as matters stood, it was a town of unnatural red and black like the painted face of a savage.

More succinctly, Henry David Thoreau said:

> Thank God men cannot fly, and lay waste the sky as well as the earth.

Pope Leo XIII was one of many nineteenth-century religious leaders who in his encyclical *Rerum Novarum* expressed concern about:

> The vast expansion of industrial pursuits and the marvellous discoveries of science; in the changed relations between masters and workmen; in the enormous fortunes of some few individuals, and the utter poverty of the masses.

For politicians the dilemmas were harder to resolve. The wealth and power generated by the new industries gave the leaders first in Great Britain, then the USA, Germany, the rest of Europe and by the end of the century Japan cause to stifle criticism of the negative impacts on people, the environment and wider society.

The view that the 'sole' or primary social responsibility of business was to create wealth was articulated by an array of political thinkers in Britain like Edmund Burke, in North America such as Grover Cleveland and across Europe, reaching Meiji Japan at the end of the century.

William McKinley, the twenty-fifth President of the United States, tempered this by saying:

> Without competition we would be clinging to the clumsy antiquated processes of farming and manufacture and the methods of business of long ago, and the twentieth would be no further advanced than the eighteenth century.

When Theodore Roosevelt raised issues like conservation, he suggested, however, that those wealthy from business activities did have wider responsibilities:

> Here is your country. Cherish these natural wonders, cherish the natural resources, cherish the history and romance as a sacred heritage, for your children and your children's children. Do not let selfish men or greedy interests skin your country of its beauty, its riches or its romance.

By the 1950s corporate leaders like Frank Abrams[12] and Howard Bowen[13] were picking up these themes and emphasising the wider responsibilities – beyond the owner, the shareholder to the employee, the customer and the community.

The impersonal enterprise

Although the scale of change was the most noticeable feature of industrialisation and provided the most vivid images of the impact of business on the wider environment and society, another more subtle change was at least as important. Until the middle of the nineteenth century, the responsibility of the wealthy to others, the environment or society was predominantly personal. The phrase 'the rich man in his castle, the poor man at his gate', from the Anglican hymn *All Things Bright and Beautiful*, probably sums this up. The monarch, aristocrat, clan leader, landowner, merchant or farmer were people capable of being identified and being identified with, while their experiences were personal.

The impersonal venture was a relatively new, generally small and highly localised way of organising economic activities. One form, the joint stock company was largely centred in banking and finance. The second form, chartered companies like the East India Company, the Hudson Bay Company, the Dutch East India Company (Vereenigde Oost-Indische Compagnie, VOC) were traders. Apart from that the vast bulk of business activity was conducted by partnerships or sole traders.

The growth of manufacturing, the expansion of trade and the transformation of the communications infrastructure changed this. Sir Richard Arkwright's textile empire employed almost 2,000 people in factories in Lancashire, Staffordshire and Scotland. Despite the business's profitability, he had a constant need for working capital, finance for new machinery and funds to open up new markets. He could still achieve this out of his own resources and those of a small number of partners.

It was largely the development of the railways that changed the situation. Even the earliest lines, notably the Liverpool and Manchester Railway, required significant numbers of investors. Henry Booth was the main promoter of the company but there were over 300 shareholders, while Booth was a paid employee. Within 25 years, the original 35 miles of track had been expanded to over 8,000 miles in Britain alone. The capital and operational requirements of this network were far beyond the capabilities of the individual entrepreneur.

Incorporation became the dominant organisational model for large ventures. The pattern was replicated across the world and into new capital and management-hungry industries from steel making through oil, to the new consumer markets that emerged towards the end of the century.

Philanthropy

Many of the entrepreneurs who shaped this new phase of business life sought to balance the negative impact of their new industries on their workers or communities. Others sought to use their wealth in other ways to improve the lot of others. In Britain, the development of Saltaire by Sir Titus Salt, Bournville by the Cadbury brothers and Port Sunlight by Lord Leverhulme was a response to the belief that: 'the root of most social evils lay in the bad housing conditions in which too many (including their own workers) lived . . .'

George Pullman reflected this when he sought to build 'the world's most perfect town' outside Chicago where 'all the needs' of his workers could be met. The pattern was replicated elsewhere in the USA in places like the Carnegie Steel Company's town of McDonald, Ohio. In France, the Menier company built a complete 'town' – Noisiel, which is still synonymous with the name 'Menier'. Similar developments can still be found across the world as entrepreneurs and corporations seek to act responsibly to their employees.

Philanthropy took and continues to take many forms. Despite this, it often sits uncomfortably in discussions about corporate social responsibility. In part, this uneasiness reflects questions about the wider business ethics of the philanthropist. Andrew Carnegie was simultaneously one of the greatest philanthropists of his age and a brutal employer with few scruples in his business activities. John D. Rockefeller became notorious for attempts to build and exploit his dominance of the oil industry but created one of the greatest, charitable foundations in history. Even today, criticism of Microsoft's exploitation of its 'monopoly' power stands alongside admiration for the Bill and Melinda Gate's Foundation.

Carnegie articulated a view that has been repeated ever since when he said in *The Gospel of Wealth* that:

> (the man of wealth should) provide moderately for the legitimate wants of those dependent upon him; and after doing so, to consider all surplus revenues which come to him simply as trust funds . . . to administer in the manner which, in his judgment, is best calculated to produce the most beneficial results for the community.

When Warren Buffett announced that he was donating the bulk of his multi-billion-dollar fortune he added (in similar terms to Carnegie): 'A very rich person should leave his kids enough to do anything but not enough to do nothing.'

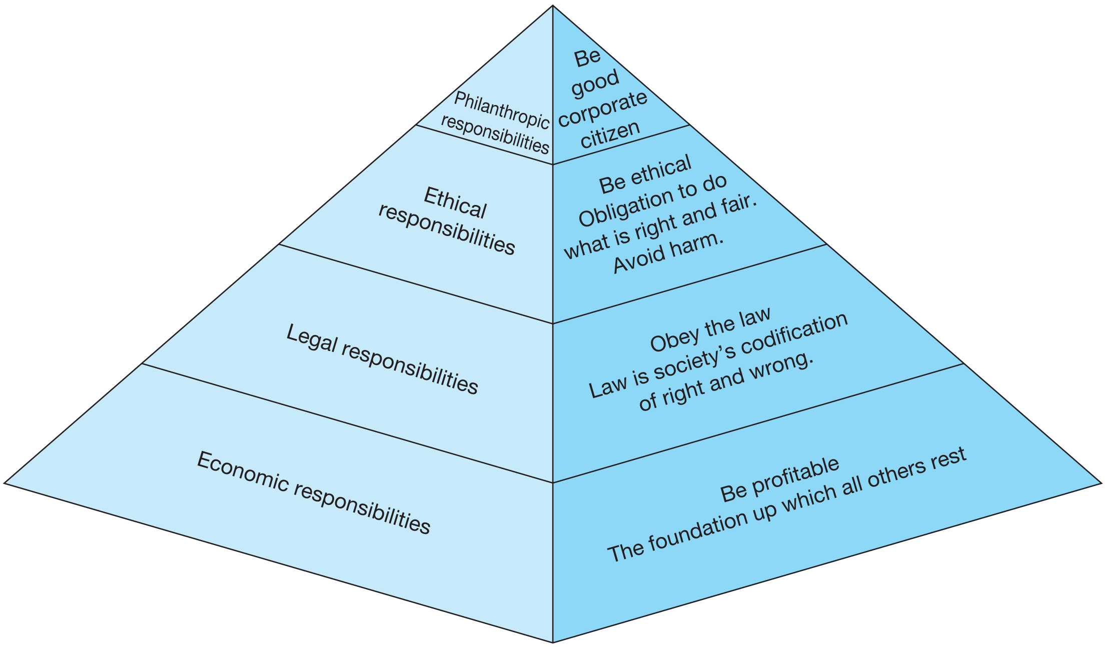

Figure 3.1 Carroll's pyramid of corporate social responsibility

Source: Carroll, A. B. (1991) 'The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders', *Business Horizons*, 34: 39–48.

This sentiment is not confined to men and North America. Anita Roddick, of the Body Shop, gave all her money away to charities confirming that when she said 'I told my kids that they would not inherit one penny', she meant it.

These examples of philanthropy largely reflect the traditional view of philanthropy as largely personal. Andrew Carnegie made a personal decision to give away much of his fortune. It was not a decision by Carnegie Steel Company. In fact, most of his philanthropy occurred after his company was merged with US Steel. Corporate Philanthropy has emerged more recently as both an activity and an area of study.

A useful starting point for analysis of the relationship between the phenomena is Carroll's pyramid of corporate social responsibility[14] (Figure 3.1).

The complex relationship between business ethics, with the inevitable corporate dimension and philanthropy described by Charles Eliot in the first edition of *The Yearbook of Philanthropy* in 1940 in terms of actions 'by private individuals'. One of the classic definitions of philanthropy was provided by Robert Payton[15] who defined it as 'voluntary giving of money and/or effort for the public good'. This suggests a link between philanthropy and altruism. The latter emphasises acting for the good of others *without* regard for one's own interests.

An individual philanthropist, whether Carnegie, Rockefeller, Gates or Roddick, can act in this way with no obvious commercial return from building libraries (Carnegie), education for ethnic minorities (Rockefeller), vaccines and immunisation (Gates) and human rights (Roddick). Corporations, by their very nature, are legal entities with clear and unambiguously economic goals. Many have a host of investors seeking financial or economic returns on their investment. The altruism implied by notions of corporate philanthropy faces a series of challenges, several of which are addressed by Burlingame.[16]

Most definitions of philanthropy emphasise the 'voluntary' nature of the giving, as distinct from taxes for example. For the shareholders, however, in a corporation, the giving is not voluntary. The decision by British Land to sponsor the Miro exhibition at the Tate in London (2011) was not something its shareholders could easily endorse or reject.

Similar concerns have been expressed about employee giving, sometimes called Workplace Giving, programmes operated by firms like J. P. Morgan or customer-giving initiatives such as that undertaken by General Mills in the USA. The latter gave 10¢ on behalf of its customers for every sale of its pink top Yoplait yogurt to the Susan G. Komen Breast Cancer Fund.* The Pink Together was linked to an array of General Mills brands in October 2010. This has many similarities with the 'Computers for Schools'† programme operated by Tesco in the UK. Both are well branded for the sponsoring company, raising questions about the commercial/philanthropic balance of interest, without doubting the efforts of either the Susan G. Komen Breast Cancer Fund or the school's benefiting from the equipment.

In the same way, the notion of the 'public good' becomes blurred on two levels when notions of corporate philanthropy are addressed. Friedman, for example, would argue that it is still inappropriate for the firm to undertake these 'public good' tasks. He asks if businessmen do have a social responsibility other than making maximum profits for their shareholders, how are they to know what it is? In a real sense, by diverting resources, time and energy away from their core responsibility through philanthropy they are acting outside their true roles and responsibility. Some would, however, argue that there is an economic or commercial return from these activities.[17] If true, it ceases to be philanthropy.

The second issue centres on the focus of these efforts. Any choices made, e.g. to back one type of 'cause' or another, or to sponsor one event or another are not sanctioned by any agreed system of legitimacy and end up reflecting the interests, prejudices or aims of current corporate leaders. They are not acting in the public good but to further their own interests. It is relatively easy to see the actions of an individual like 'Heather Beckwith . . . a mother, grandmother and former nurse who now supports a number of charities, including Great Ormond Street Hospital' as philanthropic.[18] The balance between the public good and the private good gets more difficult when, for example, Mike Oglesby of Bruntwood (one of the largest office investment companies in UK northern cities like Manchester) directs one of the 'biggest current donations' of his family foundation to Ecocities, a social enterprise which aims 'to make Manchester a more sustainable city'.[19]

Foundations

This debate on the balance between the public and the private good in corporate philanthropy and the role of foundations supported by 'corporate' philanthropy is especially fierce in the USA.[20]

* This is now part of a broader 'Pink Together' collaboration.
† Now 'Equipment for Schools'.

George Soros was ranked number one in the *Chronicle of Philanthropy's* Philanthropy 50 (the biggest donors in the USA) for contributing US$332 million to his Open Society Foundation. Despite that, critics have claimed that the work of the Foundation pursues programmes which reflect his (Soros's) political ideology and deliver economic returns to his businesses. Complementary criticisms of the Koch brothers' foundation (also in the Philanthropy 50) have been made from a different ideological standpoint. In sum, the criticism is that neither has a democratic (or other) mandate to pursue their interests. Scrutiny and accountability are limited while the favourable tax status enjoyed by foundations means that the public makes an involuntary contribution.[21]

In the 1960s, for example, Congressman Wright Patman asserted that 'foundations allowed the wealthy to abuse tax laws, obtain and maintain control over public corporations, speculate in and manipulate the capital markets, and direct public policy'.[22] These are themes which recur in the debate around US foundations but which US legislators have typically played down, seeing the benefits of foundations, notably their ability to act quickly, flexibly and in spheres that government is reluctant to act, as important counter-balances. The size of these US charitable foundations, and their potential to manipulate capital markets, and direct public policy mean that these issues remain on the US agenda. In the first year of his administration, for example, President Obama announced significant changes to the tax treatment of foundations to address some of these issues.

There are thousands of US foundations, with the 200 largest managing assets valued at over US$400 billion and the 10 largest almost US$100 billion (Table 3.1). There has been a noticeable increase in the extent of international giving by US corporate foundations over the last decade, partly reflecting the internationalisation of US business. Despite this, over 80 per cent of all giving and grant making by US foundations is either domestic (US) or to US-based recipients with an international focus.

The five largest foundations illustrate this. Although the bulk of the revenues and profits of Microsoft, Ford, Johnson & Johnson, Kellogg and Hewlett Packard are generated outside the USA, almost 70 per cent of all the grants (funded in part, at least by these revenues and profits) are allocated within the USA.[‡] For Kellogg, the situation is illustrated by twice as

Table 3.1 Top 100 US Foundations by Asset Size

Rank, foundation name and location	Assets (US$)	As of Fiscal Year End Date
1. Bill and Melinda Gates Foundation (Washington)	33,912,320,600	31/12/2009
2. Ford Foundation (New York)	10,881,598,073	30/09/2010
3. J. Paul Getty Trust (California)	9,584,879,219	30/06/2010
4. The Robert Wood Johnson Foundation (New Jersey)	8,490,415,783	31/12/2009
5. The William and Flora Hewlett Foundation (California)	7,377,414,000	31/12/2010
6. W. K. Kellogg Foundation (Michigan)	7,238,160,845	31/08/2010
7. The David and Lucile Packard Foundation (California)	5,699,231,606	31/12/2009
8. The John D. and Catherine T. MacArthur Foundation (Illinois)	5,237,796,061	31/12/2009
9. Gordon and Betty Moore Foundation (California)	5,200,576,871	31/12/2009
10. Lilly Endowment Inc. (Indiana)	5,184,625,647	31/12/2010

Source: The Foundation Center (http://foundationcenter.org).

‡ It is only fair to note that many of these companies have their own philanthropic programmes around the world with, for example, Johnson and Johnson supporting 'nearly 650 other philanthropic programs in more than 50 countries', but typically these are dwarfed by the grant giving by these foundations.

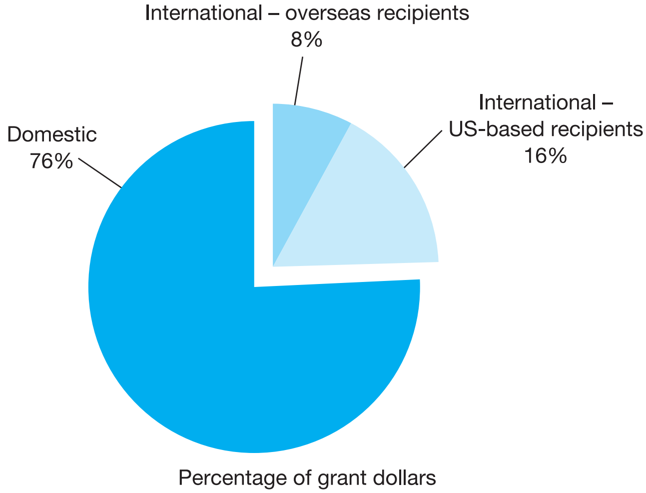

Figure 3.2 International giving accounted for close to one-quarter of foundation grant dollars in 2008

Note: Based on all grants of $10,000 or more awarded by a sample of 1,490 larger foundations representing approximately half of total giving by all US foundations.

Source: The Foundation Center (2010) *Highlights of Foundation Giving Trends, 2010 Edition*, New York: The Foundation Center, p. 3.

many grants being awarded to the US State of Michigan than the whole of Latin America, the Caribbean and southern Africa. The Robert Wood Johnson Foundation is even more unambiguous in its aspirations with its declared goal being 'we seek to improve the health and health care of all Americans'. This is despite Johnson & Johnson having '250 operating, companies in 60 countries employing approximately 115,000 people' and generating over half its revenues from outside the USA (Figure 3.2).

The pattern would suggest these foundations – based on global businesses – are not wholly disinterested when allocating the funds. This pattern is not wholly confined to the USA.

The Stichting Ingka Foundation is said by some[23] to be the largest foundation outside the USA. Its asset base is largely based on the shares donated by the Kamprad family, founders of IKEA. Although the foundation is based in the Netherlands, the family originated in Sweden. Almost all its grants go to Sweden. *The Economist* in 2006,[24] however, suggested that this 'Dutch-registered, tax-exempt, non-profit-making legal entity' appeared to be based in the Netherlands 'because Dutch foundations are very loosely regulated and are subject to little or no third-party oversight. They are not, for instance, legally obliged to publish their accounts.' The implication in *The Economist* is that the foundation exists largely to minimise 'tax and disclosure, handsomely rewards the founding Kamprad family and makes IKEA immune to a takeover'.

The UK's Wellcome Trust allocates over 90 per cent of its grants by number and value to UK based institutions despite the global nature of the pharmaceutical industry in which its roots lie. The Li Ka Shing Foundation, possibly Asia's largest, reflects this pattern of focussing grant making locally in Hong Kong and China. There are exceptions. For many years, Pilkingtons (now part of Japan's NSG Group) reshaped its philanthropic activities as the company had internationalised its business. The USA, for example, became one of the main beneficiaries of its grant giving.

The dominance of the pattern – earn away, spend at home – has produced pressure for intervention by politicians demanding a fairer distribution. Friedman's fear is that this will mean that political pressures mean that firms will 'eventually be entrapped by their own overreach . . . [and] the captain of industry [will] . . . ultimately become a mere public flunky'.[25]

There remains a persistent concern that executive self-interest, 'vanity' or other less honourable motives can become factors in specific allocations. Chen, Patten and Roberts[26] take this argument further by suggesting that corporate philanthropy is a means to fill gaps in the businesses' wider social responsibilities and as such 'legitimise' the business.

Corporations seeking to avoid these criticisms will often establish non-executive committees to determine policy or arrive at a 'bench-mark' strategy against which all requests are measured. The notion of 'enlightened self-interest' has shaped much of the debate on corporate giving. The 'enlightenment' matrix can be used to identify the position of companies or specific endowments. This emphasis on self-interest prompts the criticism that firms concentrate their support in areas that meet their immediate or long-term aims.

New business will be won under the guise of social responsibility. Affinity cards are used by credit card companies, for example, to win new business. It is suggested that the corporate interest lies in recruiting the card holder not helping the charity. Examples include:

- Breakthrough Breast Cancer credit card – an affinity credit card supporting a worthy UK charity.
- National Trust credit card – supports the Trust's essential work at no direct cost to cardholders.
- RSPCA credit card – triggers contributions from the bank for the charity's work in animal welfare.
- WWF credit card – helps fund the WWF UK's work on climate change and conservation projects.

Self-interest does not, of itself, negate the value of either voluntary action, self-regulation or intervention by business.

Voluntary action has a long and honourable history. Voluntary interventions by entrepreneurs or businesses have helped to create universities, hospitals, schools, major charities and a host of other valuable social institutions. Self-regulation, properly implemented, is likely to be the lowest cost and most effective form of regulation. The executive in a community, dealing with people or in a marketplace is often the first to be aware of an issue or problem. It is potentially cheaper and more impactful for the corporation to make judgements or intervene beyond the demands of the current rule system. The alternative may be punitive taxes to finance the regulatory and inspection system to monitor and control commerce.

The view that 'we pay the government well, it should do its job and leave us alone to do ours' contrasts with the approach of the Confederation of British Industry that 'the law establishes the minimum standard of conduct with which a company must comply if it is to be allowed to exist and trade'.

Like all contracts, the arrangement between society and the enterprise has implicit and explicit elements. The cost of attempting to spell out all the 'rules' is said to be so great that it is in the interests of both parties to accept this.

These are genuine dangers, however, which require constant surveillance. One test is whether corporate leaders are able to manage these affairs effectively and in a disinterested way. In 2006, Richard Branson pledged US$3 billion to 'fight global warming'. Half a decade on, evidence on the actual amounts committed to the fight and related issues remains unclear. The same questions can be asked about the disinterest shown by the Virgin Unite Charity that sets as one of its 'core areas' 'Business as a Force for Good . . . starting with the *wonderful* [my italics] purposes of the 200 Virgin Group Business.' In mainstream business activities, promotion is both necessary and desirable but it is not clear about either the appropriateness or legitimacy of it in charitable pursuits.

Simon,[27] however, suggests that industry and its managers do not have the knowledge, skills or competence to tackle the types of social issues which are the centre of much corporate social action. There are – in the words of Thornton Bradshaw (one-time President of Atlantic Richfield) – 'many and varied institutions' which have the skills to undertake this work. Companies may be better seeking to satisfy the demands of their shareholders and the needs of the community by paying their taxes and leaving this work to those organisations and people best able to undertake this work.

Foundations in many cases may provide an 'arms length' intermediary that can link corporate wealth to social need. Beyond this and the development of other intermediaries, there are three central questions:

1 Do corporations or their executives have the right skill sets and level of disinterest to deliver these philanthropic or social aims?
2 How serious is the risk that corporations or their executives will use claimed philanthropic or social aims to cover corporate or personal goals?
3 Do corporations or their executives have the mandate to tackle these philanthropic or social aims?

One of the most glaring gaps in the literature is research into the effectiveness – relative and absolute – of corporate executives or businesses in tackling the types of social issues that they target. The results of an impact assessment of Tesco's 'Computers for Schools' programme has not been published, nor is there an available literature comparing this with government efforts in the area. There is no doubt that charities, NGOs and others welcome the finance but there is no hard evidence widely available on, for example, the effectiveness of more active 'social entrepreneurial' initiatives.

QUESTIONS

1 Williams argues that 'The identification of the technical "can" with the moral should or the blotting out of the former with questions about the latter is endemic in our culture.' What are the implications of this statement and how can ethicists help communities and firms to cope with these issues?

2 Different approaches to relocation can affect the ways in which people cope with change. Compare the ways in which patterns of employment and social arrangement will shape the way groups in the USA and Europe cope with change.

3 What can the socially responsible manager gleam from Niccolò Machiavelli's comments about the management of change?

4 Discuss the relevance of either (a) Locke's concept of natural rights or (b) the utilitarian principles of the 'greatest good to the greatest number', to the debate on minimising the effects of technological change on job prospects.

5 Is there a moral justification for restrictions on entry to a profession? Analyse this in terms of:
(a) a situation in which there may be a direct . . . competence or safety reason, e.g. medicine;
(b) a situation in which there may be no direct . . . competence or safety reason, e.g. teaching business at university.

6 To what extent are the restrictions of membership imposed by a profession like accountancy a legitimate attempt to maintain standards or a systematic effort to restrict trade? Justify your answer in terms of a specific professional body and its codes of practice.

7 'Perhaps the most powerful myth about corporations is that they are ultimately held accountable by the marketplace.' Why is it argued that market accountability is a myth? If this comment is valid, what are the implications for public policy?

8 Define:
(a) innovation
(b) the Protestant work ethic
(c) Luddites
(d) a fair wage
(e) monopoly
(f) prudential obligation
(g) Pareto's law.

CASE STUDY 3

McDonald's and CSR

There more than 32,000 restaurants around the world that carry the McDonald's label and logo. As such, they subscribe to the company values which in turn are summarised in a simple statement:

> We operate our business ethically.

This value is at the heart of all of its CSR activities. To support it, the company has established an array of 'policies and processes, as well as a comprehensive governance structure led by our Board of Directors and spanning all levels of the organization'.

The policies are outlined in full in its *Worldwide Corporate Social Responsibility Report* (www.aboutmcdonalds.com/etc/medialib/csr/docs.Par.32488.File.dat/mcd063_2010%20PDFreport_v9.pdf).

Questions

1 Relate McDonald's CSR activities to the definitions of CSR with which you are familiar.
2 Examine the extent to which either the definitions should be revised or McDonald's policies reconsidered.
3 Review McDonald's practices.

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Chapter 4

The role and function of business in society

Organisations have evolved to perform a number of functions or tasks in society. Broadly speaking, these are:

1 **The economic and production tasks**: these include land maintenance and food production, manufacture and distribution of goods and services and all tasks associated with the creation and maintenance of wealth. Farms, mines, manufacturers, distributors, retailers and the myriad of enterprises which make up the business and commercial world perform these and the related economic roles.
2 **The maintenance tasks**: these exist to hold the society together, maintain its stability and ensure its continuation. Most activities which are involved with transmitting and shaping knowledge and culture fall into this category. Education, religion, health and welfare service and some aspects of the media provide the clearest examples of the institutions which undertake these roles.
3 **The adaptive functions**: these provide the means by which the society responds to change. Research, the creative activities, even the means for shaping and managing debate or conflict undertake this. Universities (their research activities), research organisations and the arts are the clearest examples of this form of venture.
4 **The managerial or political tasks**: any society or community requires institutions and systems to identify and implement policy for the group and related agencies to arbitrate and assess conflicting demands or expectations. The society is likely to interact with other communities; institutions are required to manage these relationships. Government, political parties, the law, and the military perform these tasks.

The evolution of society, especially over the last two centuries, has seen increasing specialisation in the performance of these roles in the West. In a clan- or family-based society all these roles were integrated. Later, the feudal landlord owned the land through a direct relationship with the monarch. Holding this fief imposed many obligations which included key 'maintenance' tasks.

Specialisation has had an especially significant effect on those organisations responsible for the economic functioning of society. This has occurred at two levels. First, they have distanced themselves (or been distanced) from the other tasks in society. This has not occurred to anything like the same extent elsewhere. This specialisation of purpose is matched with even greater specialisation of activity. The politician, academic, churchman, lawyer, artist, even soldier of yesteryear would probably recognise, even understand, the function of their contemporary equivalent.

It is hard to believe that Josiah Wedgewood would recognise the financial analyst, Robert Owen appreciate the organisational behaviour manager or Henry Cavendish welcome a new product development assistant. The builders of ships, railways or iron bridges and the producers of calico or bicycles would find it equally hard to appreciate a business environment in which the 'products of the year' in the UK in 2011 included 'Chilled Munch Bunch Fromage Frais' and 'Chocolate Weetabix' or the 'Google Android Honeycomb' as Innovation of the Year.

This type of specialisation affects the way business has performed its role. The profitable production, distribution and sale of the goods and services is the distinctive function of business in a society. Specialisation has enabled industry and commerce to deliver prosperity in ways and to a level dreamed of before the Industrial Revolution to vastly more people than imagined. Friedman,[1] Hayek[2] and others[3] would argue that the lesson of these achievements is that business should confine itself to its commercial roles. Several reasons are given for this. The most basic is 'specific competence'. Wealth and profit creation is the one area in which the commercial enterprise has a special proficiency. No other types of institutions have demonstrated the same ability to perform these socially necessary tasks.

A commercial enterprise is set up to make money. It will expect to confine its sales to those who can pay. Its investors, specifically its shareholders, will expect to be the beneficiaries of any surplus. These financial returns should be the main focus of management's attention. Benson,[4] for example, argues that 'the social responsibility of accountants can be expressed best by their forbearing from social responsibility accounting'. Otherwise, managers risk failing to deliver their prime responsibility – financial returns – to their primary audience – their shareholders. This, in turn, results from the separation in large corporations between ownership and management.

The social challenge

Society, however, has grown to expect many things of its corporate sector. These include core obligations like wealth and job creation and peripheral responsibilities such as arts sponsorship. Stakeholder analysis is used by some firms to identify and classify these expectations. 'Stakeholders' are those groups with a stake in the firm. There is a massive literature on stakeholders and stakeholding from the groundwork established by Argyris and Schön[5] (1978) and Habermas[6] through to the body of contemporary work. Van Huijstee and Glasbergen[7] note that a study by KPMG[8] among more than 1,600 of the world's largest corporations indicated that '39% of these companies mention structured stakeholder dialogue in their CSR reports'. While stakeholder engagement is typically 'understood as practices the organisation undertakes to involve stakeholders in a positive way in organisational activities',[9] Habermas's emphasis on the mutual nature of 'accountability' is increasingly important in the contemporary analysis of stakeholder relationships.

Table 4.1 indicates some of the demands which the different stakeholders place on firms. These will vary over time and in different societies. The primary expectations centre on the wealth or profit function of the enterprise. The ownership group(s) will anticipate a financial return on their investment usually in the form of profit. Failure to achieve this will lead to finance drying up and the value of the enterprise declining.

Table 4.1 Stakeholders and their expectations

Stakeholder	Expectations	
	Primary	**Secondary**
Owners	Financial return	Added value
Employees	Pay	Work satisfaction, training
Customers	Supply of goods and services	Quality
Creditors	Credit worthiness	Security
Suppliers	Payment	Long-term relationships
Community	Safety and security	Contribution to community
Government	Compliance	Improved competitiveness

These profits are a reward for the risk taken by investors or derive from their ability to innovate or engage in arbitrage. Employees invest their time and effort for payment. The payments will turn on a mixture of their skills and negotiating position. All firms depend on their ability to meet the needs of customers. Survival relies on a capacity to adapt to changing needs and establish a profitable exchange.

The firm can be viewed as a conversion process. Inputs such as money, labour, supplies and services are converted into products and services. Credit is needed to facilitate this process. Banks and other suppliers of credit will support those firms which offer them security for their finance and an appropriate return. Suppliers require payment for the goods and services provided. The enterprise operates within a society. The community expects firms to offer safety and security within its areas of operation. Typically, this will be endorsed and enforced by the state and its agencies. The firm undertakes these primary tasks to perform the core functions of wealth and profit creation.

Society, however, places other demands on the enterprise. Some relate directly to these economic roles. These include: adding value, training the workforce, securing payment and sustaining long-term relations with suppliers. Beyond this, consumers will continue to demand products that are safe, reliable, and useful, services that are responsive to their changing needs, and advertising that is honest and informative.

Communities in affected regions will continue to be concerned about plant relocations and plant closings. The public at large will expect business to help protect the physical environment and the health and safety of all who are exposed to dangerous technologies or dangerous substances. Issues such as corporate power and corporate accountability, corporate ethics and corporate law compliance, corporate activities abroad and corporate disclosure of information will continue to concern more select members of the community.

There is another side to the positive assertion of corporate interest that has a potentially negative social impact. This can occur when industry organises to achieve its economic goals through the political or some other process. Epstein[10] explored this issue in his *The Corporation in American Politics*. He argues that industry is part of 'the highly complex and diversified [power structure]' that is an integral feature of a pluralistic society. Epstein claims that domination of the political system by corporations is impeded by the competition that exists in such systems. Mitnick (1991, 1993) analysed Epstein's arguments and abstracted four types of competition. Mitnick observes that Epstein creates what is, in effect, what Mitnick calls a *theory of competitive constraint*. Competition in the settings summarised below in Table 4.2 has the effect of creating a system of checks and countervailing effects that prevents hegemony from developing, or, at least from creating a stable outcome in which one interest, e.g. corporations, steers the democratic process so that outcomes are consistently biased in favour of that interest.

Table 4.2 Patterns of social and political competition

Intra-firm	Managers in the firm compete over potentially conflicting political or policy interests, as well as over firm governance and objectives. This interferes with implementation of clear firm goals for political action and diverts resources to internal consumption that could go to such action. For example, managers of a conglomerate might compete over whether the firm should produce cigarettes or healthy foods.
Inter-firm	Corporate leaders in different firms and even across different industries have conflicting political affiliations and/or preferences for policy. For example, corporate leaders can back different interest groups, e.g. Barclays Bank might back the Conservatives and the Co-Operative Bank support Labour.
Intra–other social interests and government	Competition can occur within government between agencies, between political elites in government, within poltical actors such as political parties, and/or within and between nongovernmental social actors such as unions. For example, competition can occur within government over energy policies, such as support for fossil vs. renewable fuels.
Inter–other social interests and government	Competition with corporate interests comes from other social interests such as unions, professional groups, agricultural interests, and so on; competition occurs between corporations and government over power in the political system.

Sources: Adapted from Mitnick, B. M. (1991) 'Chasing Elephants Among Chickens on a Tilted Field: Pluralism and Political Contestability in the Work of Edwin Epstein', in Post, J. E. (ed) *Research in Corporate Social Performance and Policy*, vol. 12, pp. 181–206; revised and expanded in Mitnick, B. M. (1993), 'Political Contestability,' in Mitnick, B.M. (ed.) (1993) *Corporate Political Agency: The Construction of Competition in Public Affairs* (Newbury Park, CA: Sage Publications), pp. 11–66.

Participation by industry is an integral feature of the democratic process. But competitive constraint does not always work. Questions are raised about the nature and scale of corporate participation in the political process. This is especially true of the extent to which industry has access to resources and skills which are not available to other groups.

In the UK during 2011, this issue came into sharp focus during the 'phone hacking' scandal surrounding News International and the *News of the World*. During the debates surrounding these events, it was claimed that the companies' leaders had too much access and, ultimately, too much influence over politicians (Figure 4.1).

One response to this concern about 'the level playing field' is the attempt by other groups to use the techniques of persuasion and action traditionally employed by industry. The increased sophistication of public interest groups is a distinct feature of the recent social challenge to industry. Non-government organisations (NGOs) and other pressure groups have emerged to articulate and address concerns about corporate responsibility.[11]

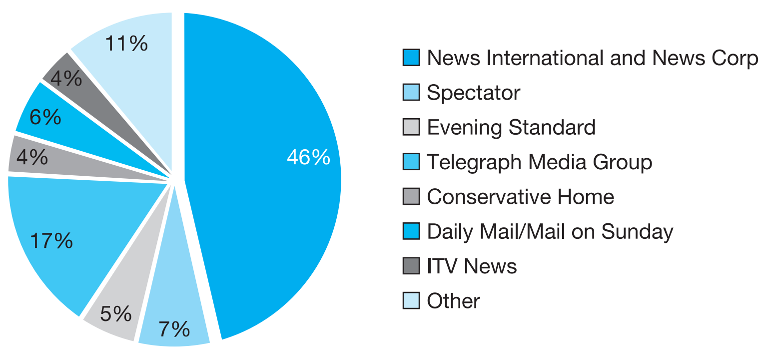

Figure 4.1 Meetings with media by Prime Minister Cameron

Source: Rogers, S. and Sedghi, A. (2011) 'David Cameron's Meetings with the Media and Chequers Guests: Get the Full List, *The Guardian Datablog*, 15 July (www.guardian.co.uk/news/datablog/2011/jul/15/cameron-meetings-media-list-guests-chequers). Copyright © Guardian News & Media Ltd 2011.

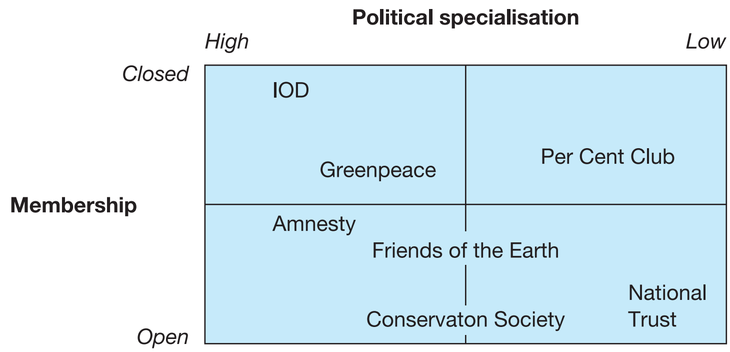

Figure 4.2 Mapping pressure groups and NGOs

Source: Based on Wooton, G. (1979) *Pressure Politics in Contemporary Britain*, Lexington: Lexington Books.

This approach can be used to map different groups. Pressure groups use a range of approaches to achieve their goals. These include awareness building, communicating information, attempting to change attitudes and direct action (Figure 4.2).

It has proved to be extremely difficult to arrive at an agreed classification of NGOs. Salamon and Anheier[12] developed the 'The International Classification of Nonprofit Organizations' in collaboration with a number of international agencies. They concluded:

> Non-governmental organizations (NGOs), are classified according to their major activities. For example, NGOs offering basic health care services in rural areas would be classified in . . . other Health Services; local NGOs providing development assistance by building local infrastructure would be classified in . . . Economic, Social, and Community Development and organizations providing international humanitarian relief would be grouped in . . . International Activities. Following national accounting principles, we would classify NGOs working internationally under their home country, and under their principal economic activity in their host country. For example, OXFAM would be classified in 'International', in the United Kingdom, but its local operations in Peru would be classified under . . . 'Development'.

Environmental groups have proved to be very effective at creating awareness of the effects of certain types of corporate action on the environment. Their use of the media to highlight global warming, ozone depletion and the effects of toxic dumping have created widespread public awareness of the issues. Awareness may not be enough to change behaviour by either producers or customers.[13] More information on the way to tackle an issue may be needed. Although awareness has risen, so have the number and range of threats to the environment.[14]

It is, however, the area of direct action, especially initiatives like consumer boycotts, that have provoked the most fierce debates. The boycott is an ancient weapon. Communities have used it to force changes in taxes, notably the notorious salt taxes in the eighteenth century. Governments used boycotts to put pressure on foreign rivals or domestic dissidents. It can even be argued that the roots of the American Revolution lay in the boycott of British goods following the Stamp Act of 1765. The boycott of the East India Company's tea was to oppose 'a monster that may be able to destroy every branch of our commerce, drain us of our property, and wantonly to leave us to perish in our thousands'. Ghandi's use of boycotts was an important weapon in the efforts to overthrow English rule in India.

The boycott tactic has changed significantly over the last 50 years. It has shifted from being predominantly linked with political action or endorsed by the state to a more spontaneous,

Bluefin Tuna campaign
Source: www.BluefinBoycott.org

specific and tightly directed action.[15] They can range from the boycotting of specific products like Bluefin Tuna to companies like BP in the aftermah of the oil spill in the Gulf of Mexico.

Pressure groups are more aware of the management issues and problems associated with this tactic while firms are more conscious of the options in managing their response. Equally important are the responses by business to boycotts and related action. Spar[16] quotes how the Free Burma Coalition (an American NGO) initiated a boycott of firms that sourced or produced goods in Burma:

> By 2002, at least thirty firms – including Adidas, Costco, Wal-Mart and Levi Strauss – had bowed to FBC pressure and shuttered their Burmese operations. A handful of companies, however, such as Unocal, Suzuki, and France's Total, vowed to remain.[17]

Restrictive trade practices

Discussion of no area of group or corporate behaviour is more likely to deserve the censure that it generates more heat than light than restrictive trade practices. In part, this reflects the pervasive nature of the phenomenon. Restrictive trade practices can be found within the firms, between firms, on the shop floor and in a prestigious profession.

These practices might determine entry into a trade or sector. The restrictions on membership by unions or professional bodies illustrate this. It is seen in criteria or advancement. In universities, the requirement for a doctorate (any) or publications in refereed articles is employed, regardless of relevance, to control entry to certain types of appointment.

On occasion, restrictive practices have been used to control exit from, the sector. The guild system occasionally imposed this limitation. The purpose is usually to reduce the effective working of a market, e.g. for labour. Prices (wages) can be controlled and competition restricted. Most ethical codes find it hard to justify this pattern of behaviour. The utilitarians or Friedmanites see restrictive practices as the few using their power to impose their requirements on the many.

Those embarking on these policies are, de facto, usurping governmental authority without democratic or other forms of legitimacy. One variation of the theme of control of output by the group is when this behaviour is endorsed or defended by trades unions, professional bodies or other parties able to restrict entry into the working group. The rights and power of these institutions vary considerably over time and between communities. The 'closed shop' was a major means of 'defending' the position of work groups in Britain until recently. Many of these 'closed shops' have been outlawed in the UK or their position undermined by corporate or government action.

There remain, however, many comparable situations, e.g. in professional groups or across borders, which are still sustained. For a long time, for example, in the EU the aim of creating an 'internal market characterized by the abolition . . . of obstacles to the free movement [across Europe] of goods, persons, services and capital' was hard to deliver in many professions. In a major report, the National Institute for Health Research[18] noted that:

> Despite the various mechanisms introduced to facilitate the internal market, the EU has continued to fall behind its main global competitors (e.g. USA and China) in terms of overall economic competitiveness. At EU level, this is seen as being due primarily to: (a) Europe continuing not fully to utilize the resources, in particular the human resources, available to it; and (b) the fact that the increased free movement and overall trade achieved for goods and capital has not been matched in the service sector.

These restrictions on the free movement of labour may be justified in some cases by an overwhelming public interest. A chartered engineer may be needed to accept that a newly built bridge is safe. Medicine is generally seen as a field in which the free movement of labour contains risks that may be unacceptable without confidence in the real equivalence in the standards of education, training and professional practices.[19]

There are, however, some areas in which this notion of public interest is less widely accepted. There are also fields in which the evidence that the public interest is genuinely protected is harder to identify. In these circumstances, unions and professional bodies act just like any other monopoly supplier. It is in their interest to force up the price of labour while forcing down the amount supplied. This interference in the working of the market cuts total economic output as well as redistributing pay from those employees whose monopoly power is low or zero.

In recent years, the European Union (EU) has taken a leading role in tackling two specific forms of restrictive practice – the formation of cartels and restrictions on the transferability of skills or trades. In 2008, the EU imposed its highest ever cartel fines of more than 1.3 billion euros (US$1.66 billion) on four companies Asahi, Pilkington, Saint-Gobain and Soliver for fixing the price of glass used in cars. The business services sector in Europe has been at the centre of a series of challenges and court cases designed to break down barriers to entry and open up competition.

These restrictions in the working of the market reduce choice among buyers while eroding the quality and utility of the services supplied. It will always be in the interest of the union or professional body to keep the supply of qualified staff below that needed. Simultaneously, there will be a tendency to adopt approaches to the development of the group which favour its interests rather than the needs of the community.

Three common criticisms of powerful unions and professional institutes are:

1 They restrict entry through lengthy training containing much redundancy.
2 They emphasise extensive often redundant learning.
3 They use their power to eliminate competition. The apprenticeship mode of craft training with its emphasis on serving time rather than practical training is often presented as an abuse of the monopoly power of the crafts. In universities, a similar criticism of the apprentice mode of doctoral study is apt.

Much of the time involves tasks which are not central to the doctorate. Training in important areas, e.g. data gathering and secondary analysis, can be cursory. The high dropout and failure rates act as an effective restriction on entry. In the professions, 'redundancy' in education and training is said to be widespread. This might involve students studying areas they will never use or ignoring the balance of their likely future work. Accountants, for example, studying law or economics they will not use, or legal training which denies that most solicitors will work in a narrow range of areas.

The time and extent of study serves to keep down the number of entrants while reinforcing the power of the institute or professional body. This power can be employed to eliminate competition. The erosion of these restraints would seem to be an integral feature of any attempt to reduce restrictive trade practices and confine them to areas in which there is either:

- an identifiable and sustainable overwhelming public interest; or
- a genuine need to protect a disadvantaged group.

Markets and marketing

The primary justification of the entrepreneur, firm or corporation lies in their contribution to the economic well being of the community. This is intimately linked with the effective working of markets to ensure that goods are allocated and prices charged in ways which create wealth and produce profits. Restrictions in the working of the market through internal restrictions or external impositions reduce the ability of industry to perform its economic function.

The concentration of power in the hands of certain enterprises is, perhaps, the most widely accepted internal restriction. Monopoly is the most extreme example of this distortion in the operations of the market. Every day in our lives monopoly takes its toll. Stealthily it reaches down into our pockets and takes part of our earnings. For many, what is left must be spread more thinly over the necessities of life; for others, some of the amenities must be sacrificed. For some, the concentration and organisational aggregation of the banking sector was a significant factor in the 2008–2009 financial crisis. There were too few banks, so competition was eroded – while their scale made them 'too big to fail . . .'

Excessive prices constitute one important consequence of monopoly. They appear to be the inevitable result of an economy wherein private control has superseded the forces of the market. The key criticisms of excessive prices are:

1 increased prices;
2 reduced opportunities because the monopolist will always restrict output to sustain monopoly profits. To these can be added;

3 less innovation, as the monopolist has no interest in or need for novelty;

4 less pressure for quality improvements;

5 eroded competitiveness, which will make the community vulnerable to rivals from more competitive hence more innovative, lower price economic rivals.

The abuse of market power through monopoly or oligopoly is the ‘classic’ concern about the way markets and marketing operates. Other critics have concentrated their attention on other aspects of marketing. These include: the abuse of purchaser power; restricting opportunities or stereotyping; the promotion of dangerous products and the introduction of suspect values beside specific abuses in fields like advertising to children.

In the UK and North America, the power of the major retailers like Tesco and Walmart has been linked with excess price pressure on farmers and other suppliers. In 2008, National Farmers Union President Peter Kendall accused Tesco of ‘bully boy’ tactics and crippling ‘squeeze tactics’. Walmart has faced a series of protests in cities as diverse as Washingon, DC and East Lakeview, Illinois. Often the focus of these criticisms of Walmart is the impact of its stores on other, smaller local traders. These protests often reflect a social concern that firms use their economic power to affect the ‘maintenance’, ‘adaptive’ or ‘political’ functions in a society.

Internationally, the critique goes further with major US retailers like Walmart criticised for their lack of action against abuses by their suppliers. The US-based Institute for Global Labour and Human Rights has accused major US firms like Walmart, Target, Macy’s, Kohl’s and Hanes of failing to address abuses at the supplier’s factory in Jordan – ‘where employees have been routinely beaten, underpaid and forced to work hours in excess of what the local law allows’. The report[20] added that workers have been forced to live in bedbug-infested

Walmart ‘Not in my neighbourhood’ protesters

Source: Brendan McDermid/Reuters

Table 4.3 The tendency to concentrate

Pareto's law	The top 20 per cent account for 80 per cent of an activity
Capital barriers to entry	Those established in a market will find it easier to fund their activities than new entrants
Technological barriers to entry	Existing firms will understand the technologies better than outsiders
Marketing barriers to entry	Previous investments mean that customers are more familiar with and have more confidence in existing firms
Conglomeration	There is a tendency for systems to conglomerate, i.e. similar entities – even in the natural world – come together to form larger organisms
Failure	Management failure means that some ventures will cease to exist or be absorbed by others
Market widening	Internationalisation and parallel developments mean that intermarket competition through larger ventures increases in importance
Success	Some ventures will improve their competitiveness, hence their market position at the expense of others
Imperfect information	The knowledge used by some firms to gain market advantage will not be accessed by others
Darwinism	The survival of the fittest

dormitories that lack heat and hot water, despite the snow and ice that are a feature of local winters.*

The concern is that industrial concentration – monopoly or oligopoly or monopsony – places power in the hands of relatively few retailers and their suppliers, who act to defend their interests through further restrictions on competition, advocating certain types of consumption and opposition to regulation. Perhaps the most powerful myth about corporations is that they are ultimately held accountable by the marketplace and they therefore must maximise profits to compete for investors. The reality is that their profit maximisation model does not provide an accurate explanation of the way in which large corporations function in our society. Essentially, modern corporations often use their power to reduce risks and transfer costs on to others creating results that were not intended, that are not in the interests of society as a whole, and that have nothing to do with profit.

They can do this because of their ability to exercise market power because of the lack of competition. Tesco, for example, now controls around 30 per cent of the grocery market in the UK giving it power over suppliers, competitors, developers and local authorities. In 2010, the supermarket chain announced profits of £3.4 billion. The evidence on these issues is mixed. Concentration is a feature of most market economies. The pressures in this direction are many and diverse (Table 4.3).

The propensity to concentrate and the apparent strength of the giant corporations must be viewed with some caution. Not too long ago, J. K. Galbraith[21] could comment that:

> Many markets are still fragmented. Farmers, lawyers, cleaners and cobblers, bookstores, musicians and houses of casual pleasure still survive. Here, the market still rules; here consumer sovereignty is still inviolate . . . [but] with increasing size and corporate power the market gives way to planning.

* Quoted from *The Huffington Post*, 21 July 2011.

Table 4.4 The pressures against competition and for fragmentation

Entrepreneurship	Entrepreneurs will spot gaps and exploit market opportunities
Technological change	Large, established firms have a vested interest in existing potentially obsolete technologies or processes
Limits to management	Increased size makes managing the venture increasingly difficult
Market fragmentation	Greater consumer power and wealth prompts buyers to look for differentiated products
Shift to services	Barriers to entry and exit in services tend to be very low
Customer action	In some sectors, buyers attempt to sustain competition
State intervention	Government may act 'in the public interest' to prevent or break up monopoly
Diseconomies of size	In areas like management, logistics, innovation, etc., size produces inefficiencies which undermine the firm's position
Competition	When firms start to make 'monopoly profits' other companies will spot the opportunity and enter the market

In the interim, however, giant agribusinesses have grown up to dominate farming. Mergers in the legal profession mean that a handful of giants like DLA Piper, Linklaters and Clifford Chance dominate the market. According to *Legal Business* magazine, the world's 100 largest law firms saw a 7 per cent increase in profit during the depressed economic conditions of 2009–10. The 21,000 equity partners in the largest firms shared US$29.2 billion (£18.3 billion) in profits in 2010. While revenue was also up at $76.4 billion. In the UK, the profit margins across the largest firms ranged from a minimum 21 per cent to a maximum 49 per cent. In the UK the 'cleaners and cobblers' sector is now controlled by a few giants, while Amazon dominates bookselling.

Even the software, and business services have moved over the last decade or more from being highly fragmented to effective control by a few giants. There are major countervailing forces against concentration (Table 4.4).

The apparent failure of nationalisation or privatisation and government intervention as strategies to bring the corporate giants under control and make them more sensitive to market needs contrasts sharply with the effectiveness of entrepreneurship, technological change and customer action.

These successes cannot blind responsible corporations to the imperfections in the economic system identified above. They impose a duty of self-restraint and highlight the dangers to their venture. The catalogue of products or services which have been introduced into markets despite known or acknowledged dangers is frightening. Each decade sees illustrations of the apparent willingness of firms to put their customers or others at risk; the Pinto in the 1960s, dried baby foods in Africa in the 1970s, Thalidomide in the 1970s and 1980s, IUDs in the 1980s, Accutane in the 1990s, Magnetex Magnetic Building Sets in the 2000s. The EU's Rapex[†] identified 1,963 products which posed a serious risks to the health and safety of consumers (Table 4.5).

These were often not introduced by small 'cowboy' concerns, even by enterprises desperate for survival, but by large, seemingly successful enterprises. Nor were they imports from marginal or poorly regulated countries.

† A European rapid-alert system for dangerous products.

Table 4.5 Rapex dangerous products: number of notifications by country and type

	Number of notifications (percentage of EU total)
Country	
Germany	204 (10%)
Bulgaria	192 (10%)
Hungary	191 (10%)
Cyprus	178 (9%)
Greece	159 (8%)
Item	
Clothing, textile and fashion items	625 (32%)
Toys	488 (25%)
Motor vehicles	175 (9%)
Electrical appliances	158 (8%)
Childcare articles and children's equipment	72 (4%)

Source: RAPEX (2011) *Keeping European Consumers Safe: 2010 Annual Report on the Operation of the Rapid Alert System for Non-food Dangerous Products*. Luxembourg: Publications Office of the European Union.

Blowing the whistle

In many cases,[22] concerns were expressed inside the firm before the problems emerged in the market. In these cases, internal systems of restraint failed to prevent abuse[23] leading sometimes to action by whistle-blowers. King[24] defines whistleblowing as ‘the disclosure by organization members (former or current) of illegal, immoral or illegitimate practices under the control of their employers, to persons or organizations that may be able to effect action’.

Recent years have seen extensive government and other efforts to protect ‘whistle blowers’.[‡]

In the UK, for example, you are protected as a whistle-blower if you:

- are a ‘worker’;
- believe that malpractice in the workplace is happening, has happened in the past or will happen in the future;
- are revealing information of the right type (a ‘qualifying disclosure’);
- reveal it to the right person, and in the right way (making it a ‘protected disclosure’).

A ‘qualifying disclosure’ could be a disclosure about:

- criminal offences;
- a failure to comply with a legal obligation;
- miscarriages of justice;
- threats to an individual’s health and safety;
- damage to the environment;
- a deliberate attempt to cover up any of the above.

[‡] The official name for whistleblowing is ‘making a disclosure in the public interest’.

There are some disclosures that can't be qualifying disclosures. You won't be protected for whistleblowing if:

- you break the law when making a disclosure (for example, if you signed the Official Secrets Act as part of your employment contract);
- the information is protected under legal professional privilege (e.g. if the information was disclosed to you when someone wanted legal advice).[25]

In the USA since the introduction of the Sarbanes-Oxley whistle-blower requirements, companies listed on a United States stock exchange must establish a method for employees to anonymously report concerns about financial and accounting matters (a 'whistle-blower system') and implement a code of ethical conduct which should support the reporting of breaches of the code of conduct.

The development and implementation of whistleblowing schemes at an EU level faces substantial difficulties. 'These difficulties are largely owed to cultural differences, which themselves stem from social and/or historical reasons that can neither be denied nor ignored.'[26] Besides, these whistleblowing schemes raise specific difficulties in some EU countries with regard to data protection and labour law 'while in the majority of EU countries no specific legislation or regulation exists on this issue'.

Even when 'whistleblowing' occurred, it was often the 'whistle-blower' who suffered, not those acting irresponsibly.[27]

> Blowing the whistle on serious types of wrongdoing, particularly through external channels, has been found to have severe negative consequences for the whistleblower . . . (they) may also be exposed to formal reprisals, such as plain notice, selective downsizing, and unfavourable job evaluations.[28]

Consumer action

Consumer action is taking many and often new, creative forms. The Tescopoly Alliance is a largely internet based effort set up:

> to highlight and challenge the negative impacts of Tesco's behaviour along its supply chains both in the UK and internationally, on small businesses, on communities and the environment. The campaign also advocates national and international legislation needed to curb the market power of all the major British supermarkets. The Tescopoly Alliance represents a diverse group of organisations from large international NGOs to unions and small pressure groups, embracing a range of issues from worker's rights to the decline in small independent retailers. Members are Banana Link, Friends of the Earth, GMB London, Labour Behind the Label, NEF and War on Want.[29]

These initiatives, with their use of the internet and other new technologies, pose real challenges to established rules and dialogues.

The dilemma facing society is whether the costs and benefits of imposing and sustaining an external system of rules outweigh the costs and benefits of internal systems of regulation. There is a notion that you cannot 'trust' industry to act ethically therefore it must be closely regulated or (increasingly) face the type of direct action made easier by newer information and communication technologies.

This is countered by the argument that these are exceptional cases and hard cases make bad laws. Beside this, it is often claimed that only the firm has the knowledge, resources and capacity to regulate its affairs effectively. The hostility to industry prompted by these cases has made business keenly aware of the 'costs' of failure.

An oxymoron?

When even the *Wall Street Journal* asks whether business ethics is an oxymoron, business leaders will get the message. A poor image for business makes it easier for the state to penalise firms through increased regulation, fines, taxes, etc., while the standing of executives in the community affects recruitment, retention and job satisfaction.

Surveys in the USA and Europe consistently highlight public concern about the honesty and ethical standards of managers. Even self-interested corporate leaders recognise the dangers to their position in this climate. Self-regulation of the marketing activities of firms is now seen by many corporate leaders as both right and efficient.

Internal systems are being reinforced through sub-committees of boards often made up largely of independent directors. Perhaps the most conspicuous failure in these cases lies in the inability of professional institutes or societies to ensure 'ethical' behaviour of their members in firms. There is a burgeoning debate on the balance between the loyalty of the members of a professional body to their institute or society and their employer when abuses are identified. Intermediaries such as these have an important role in voluntary systems of self-restraint. In the market, they are joined by consumer action groups.

The collapse of Enron, however, exposed substantial weaknesses in a system that relied so heavily on the codes established by the accountancy profession in the face of powerful commercial pressures. In a series of reports[30,31] the US Congressional Research Service raised concerns about the relationship between the 'independent' auditor and the client firm especially where the auditing company undertook other services, notably consultancy, for the client.

> The SEC (Securities and Exchange Commission) believes there is an inherent conflict between the public watchdog function of the independent auditor and the role of the consultant, who stands to benefit if the client firm prospers.[32]

Bryer[33] argues that the problems at Enron and other large firms like MCI, that faced similar crises, came from deeper weaknesses in the client/auditor (or other 'professional' partner) relationship as 'the FASB's (Financial Accounting Standards Board) "asset-liability accounting" conceptual framework invites and encourages creative accounting'. Bryer highlights not only this central weakness by the failure of the profession to heed the warning signs of potential problems. Quoting Coffee, he notes:

> a general erosion in the quality of financial reporting during the late 1990s. During this period, earnings restatements, long a proxy for fraud, suddenly soared . . . (having) averaged 49 per year from 1990 to 1997, then increased to 91 in 1998, and finally skyrocketed to 150 and 156, respectively, in 1999 and 2000.[34]

The failure of Enron and others was swiftly followed by the collapse of their accountants – Arthur Andersen. At the time Andersen was among the 'Big 5' accountancy firms in the world. The others being PricewaterhouseCoopers, Deloitte Touche Tohmatsu, Ernst & Young and KPMG. This left a 'Big Four' of broadly based firms embracing services ranging from auditing to consultancy relying on 'Chinese Walls' to protect them from the type of criticism of the profession that followed the Enron collapse.

'Questions regarding the Enron audits have received widespread publicity. Perhaps the most important for the accounting industry is whether Andersen's extensive consulting work for Enron – US$27 million in its last audit year alone – compromised the independence it should have maintained throughout its work.[35]

Voluntary action and consumer action – a partnership

This pattern of voluntary action by groups is an integral feature of democratic society. Consumer groups have an important part in the process of monitoring and regulating market behaviour. The value of their contribution relies on a combination of four factors. These are:

1. recognition of their role by all parties;
2. freedom and skill to organise;
3. disclosure of information;
4. access to media.

In a series of recent cases, some corporate leaders have responded quickly – perhaps winning commercial advantage – to concerns raised by consumer groups. Others have moved slowly, losing market position.

Innovations like the 'Green Consumer Guide' create new opportunities for competitive advantage through ethical marketing while developments like Mumsnet in the UK create new voices for consumers:

On a babybuggy –

> Clicking wheels and a brake that gets stuck on – you need to dismantle the wheel to get the brake off.

On a baby monitor –

> Purchase with caution.

On a toy –

> Forget it. One of the most disappointing things I have ever purchased in my life, which is a shame considering it's from xxxxx.

There is even evidence from market research that consumers take a broad view of ethics, i.e. relating their concerns to wide-ranging views about the firm or its products rather than a narrow – how does it affect me? – view.

Some aspects of this are illustrated in Table 4.6.

Underpinning this pattern of self-regulation and consumer action is the system of legislation, monitoring and enforcement imposed by the state. Ideally, this operates on

Table 4.6 Consumers widen the agenda

Consumers' view on business values
Consumers are interested in corporate behaviour even beyond areas that affect them
They do not expect firms to be altruistic but expect to see companies making a contribution to society
Consumers are attracted by companies and products that help them feel good about their values, relieve guilt or make a positive difference on issues of governance or ethics
Consumers take a wide view of the firm's behaviour. They take into account environmental performance and community involvement when making purchase decisions as well as specific product-related issues
Companies can gain a competitive advantage by being seen as innovative in areas like the environment, fair trading, employee welfare, community involvement and ethical marketing

Source: Dragon International, quoted in Mazur (1991).

minimax criteria. These are the minimum of redundancy in processes or bureaucracy and the maximum of responsiveness or action against transgressors.

The debate on the alternatives of condign, compensatory and conditioned power as the alternative approaches to enforcement has sharpened in recent years. There is a case for introducing aspects of the market into this process.

The means employed by firms to communicate with, reach and influence markets are the subject of considerable criticism (Table 4.7).

Together, these raise a series of dilemmas for those interested in the working of markets. In some cases, personal or corporate restraint plays a part in regulating behaviour. Elsewhere, voluntary codes operate within industries to establish and maintain certain standards. NGOs and pressure groups may intervene to criticise particular promotions or patterns of behaviour. Elsewhere, the state imposes requirements or standards.

These provide the structure of influence and system of rules within which the firm must operate. The balance of debate lies between those who argue that the market, the ethical standards and other corporate values provide sufficient implicit or explicit restraints on abuse or that the community is obliged to protect itself through intervention.

Table 4.7 Marketing practices and social criticisms

Values	Firms undermine the social values of society by promoting consumption rather than restraint and self-interest rather than community needs
Targets	Companies try to reach groups who are unable to exercise proper judgements, e.g. the young
Misrepresentation	Communications distort or misinform, e.g. hearing-aid advertisements which wrongly imply that hearing is restored
Exclusion	Some groups are excluded from 'acceptable' images of society, e.g. ethnic minorities or physically disabled
Distortion	Advertisements exploit or encourage exploitation of groups, e.g. women
Danger	Some products, e.g. cigarettes, are dangerous and should not be promoted
Offence	Some forms of marketing offend against wider concerns, from pyramid letters to the Benetton Aids advertisement

QUESTIONS

1 Identify the sources of legitimacy for (a) shareholders and (b) senior management. What rights and responsibilities does this form of legitimacy impose on these groups?

2 Outline the duties and responsibilities imposed on directors. Indicate the extent to which the recommendations of the corporate code are a sufficient or adequate attempt to ensure that directors meet these obligations.

3 Is there any evidence to support the proposition that excessive corporate governance can 'chill innovation'? Outline this evidence if it exists and indicate what can be done to achieve a balance between appropriate levels of scrutiny and necessary levels of risk-taking.

4 List the problems faced by accountants in industry who attempt to balance the demands of their profession and their employers. Indicate the role, if any, of the internal audit committee in resolving these problems.

5 Use the annual report and accounts of five plcs to identify the remuneration packages available to their top managers. Indicate the extent to which these meet the reasonable expectations of shareholders for disclosure in the terms discussed by the Greenbury report.

6 Hayek argues that:

> So long as the management has one overriding duty of administrating the resources under their control as trustees for the shareholders and for their benefit, their hands are largely tied; audit will have no arbitrary power to benefit this or that private interest.
>
> But once the management of a big enterprise is regarded as not only entitled but even obliged in its decisions whatever is regarded as the public or social interest, or to support good causes and generally to act for public benefit, it gains indeed an uncontrollable power, a power which could not be left in the hands of private managers, but would inevitably be made the subject of increasing public control.

How would you answer this proposition and present the case for boards acting in the public interest even if it conflicted with, the interests of shareholders?

7 Discuss the strengths and weaknesses of disinvestment as a means of shareholder control and influence on corporate behaviour.

8 Outline the system of setting top management salaries in:
(a) a plc;
(b) a large, semi-autonomous public agency, e.g. a university;
(c) a department of state, i.e. Department for Education.
How far do these meet the requirements of a fair, open and publicly accountable system? Do you believe they need reform? If so, put forward your proposals.

9 Define:
(a) stewardship
(b) disclosure
(c) greenmail
(d) condign power
(e) golden handcuffs
(f) due diligence
(g) conditioned power
(h) the ethical contract.

CASE STUDY 4

ABC Textiles

The clothing dilemma

In the late 1990s ABC Textiles – a major European manufacturer of clothing (largely supplied to major retailers like M&S, C&A) – completed a comprehensive analysis of its production capacity across Europe. It operated twelve plants in six countries. A productivity/market index, i.e. unit costs of production linked to market access, highlighted wide variations in 'productivity'.

Productivity index by country

Country	Productivity/ Plant	Productivity/ Market index	Capacity index
UK	Merseyside	55	10
	Humberside	62	10
	Reading	45	11
France	Lyons	70	8
	Amiens	57	9
	Bordeaux	61	9
Germany	Cologne	72	8
	Hamburg	69	10
Belgium	Antwerp	59	8
Netherlands	Rotterdam	35	8
Spain	Barcelona	71	10

The report noted that currently there were just over 25 units of excess capacity using the firm's standardised capacity-index measure. This measured the capacity of the plants using standardised measures. Plans were put in train to close the three 'least productive' plants: Merseyside, Reading and Rotterdam. New developments in haulage and distribution meant that the firm could continue to service all its market needs from this reduced capacity.

Renewed price pressure by major customers allied to the acquisition of the company by a hedge fund, however, changed the situation and coincided with these internal reviews. Initially, these seemed to have little significant implications for the firm's operations.

This changed with the meeting of the new board appointed by the hedge fund and requests from the CEO of its international operations that the company acquire, take over and expand the operations of the two plants operated in Vietnam and concentrate production in low-wage areas and, hence, low-cost areas in Asia.

This would secure their market position, allow them to reduce prices to their retailers and generate the profits needed to service the loans taken out by the hedge fund to acquire the business.

There was a great deal of concern about this as their current plants had been in the company for decades and were often in areas of high unemployment. They were highly efficient with loyal local workforces.

The new facilities would initially require substantial investment especially if their workforces were to reach the minimum standards of wages, conditions of employment and rights accepted elsewhere.

The CEO of their European operations was under considerable pressure from the hedge fund to cut costs, shift production and ensure that the loans to acquire the business can be serviced – 'nothing else matters'.

As the CEO commented, 'it is, in effect, making the workers of Merseyside pay with their jobs for the jobs in Vietnam with no real justification'.

Questions

1. Review the options open to the company.
2. Propose ways forward that can resolve these dilemmas.
3. Can this be done fairly for all parties?

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Chapter 5

Business ethics

The growing awareness of the impact of business decisions on the wider community, the natural environment and the nature of the society has prompted a re-examination of the ethics, standards and values used in business. The rules laid down in the company handbook, the prescriptions of professional societies, even the underlying ethics employed by individuals elsewhere, are seldom adequate guides for executives. In part, this is because the implications of some key decision have consequences that cannot be predicted.

Besides this, the interaction between decisions may mean that the 'right' action is neither obvious nor easy to square with other equally moral outcomes. The predictability issue is perhaps the most widely understood. Firms make decisions about technologies, investments and developments which have consequences which may be impossible to predict.

Firms like ICI developed the use of CFCs for use in refrigeration systems, aerosols, etc., with little knowledge of the long-term environmental impacts. Other developments in chemicals, biotechnology, nanotechnology, etc., may seem beneficial in the predictable future but the long-term consequences cannot be guessed at. The dilemma lies in wedding the need to develop the enterprise and capitalise on new technological opportunities with the imperative to protect the environment or other groups in the community.

A two-legged creature

Two hundred years ago in a famous passage on the nature and source of human values John Locke commented that 'God has not been so sparing to man to make them barely two-legged creatures and left it to Aristotle to make them rational . . . He has given them a mind that can reason without being instructed in methods of syllogising'. Lillie[1] adds that 'a similar remark might be made about man's powers of distinguishing right and wrong . . . (the moralist) lives himself in a social environment where certain moral standards . . . are accepted and these standards serve as the data or material'. The study of ethics is the study of these 'standards' and the criteria used to judge which conduct is right or wrong – good or bad.

Business ethics does not stand outside this study. It is part of the wider field. Implicit in this study is the notion that 'values, moral and non-moral, can be handled systematically, and that business and industrial practices can be objectives evaluated from a moral (ethical) point of view'.

It would be wrong to attempt to summarise this vast field in this book. The roots of the subject are so deep and the evolution of the argument so important that primary sources and their current interpretations call for individual study by the serious student. The aim, here, is merely to provide a perspective and place current thinking on corporate responsibility into context. The contrast between the material success of the mixed or free-market economy and its main rivals, the command or communistic economy calls for an even closer examination of its underlying values and the ways they are translated into action.

The challenge

This is vividly illustrated in the debate about Alfred P. Sloan's decision not to fit safety glass to Chevrolet cars in the 1920s. Mintz and Cohen describe this as 'one of the single most important protections ever devised against avoidable automotive death, disfigurement and injury'. Despite this, and regardless of the apparent success of the introduction of safety glass into Cadillacs, Sloan decided that its use 'would have reduced the return on our capital'. This decision reflects Sloan's wider concern at the time to maximise profits.

His general letter to the General Motors organisation from which this quotation is taken spells out the GM goals for the future. It deals with a range of issues but never mentions safety.

The challenge of the genuine, ethical dilemma is less well understood. Fred Friendly tackles this in the video *Doing Business, Doing Good*. A firm can face a problem with two outcomes, each of which breaks one moral principle but is justifiable on the same grounds. The case of equality of opportunity versus health and safety illustrates this problem. In the example, the firm has a strict policy of non-discrimination on the grounds of gender and produces a product like batteries.

In the product process certain chemicals are used. Research suggests that some of these chemicals can have a harmful effect on the unborn child. The company faces a dilemma. Does it abandon its equal opportunities policy on health and safety grounds or stick with equality of opportunity despite the health risk? Managers will face this type of conundrum with increasing frequency as the implications and interactions of their decisions become more evident. Perhaps the only way to deal with this type of conundrum is to develop value-based standards or criteria that can balance the different peer and corporate pressures on managers, strengthening the 'reinforcing' pressures and weakening the 'undermining' pressures (Figure 5.1).

The role of business in society requires systems which reflect a willingness to internalise that responsibility, not externalise it. The most popular and pragmatic guides to implementing corporate responsibility programmes posit different ways to 'developing' or 'maintaining' an ethical position. Much management thinking acknowledges this responsibility. Current notions of enterprise or corporate and managerial freedom, especially in the development of markets, assume that freedom is not licence. Action by the state or other organisations to liberalise behaviour is part of an implicit contract which assumes a licence to behave responsibly.

Freedom of action and managerial discretion raise important questions for executives and test their knowledge and competence to tackle decisions arising from options which pose ethical dilemmas. Business schools have a special responsibility in this area. In

Undermining	Reinforcing
Rewards for quantity over quality	Emphasis on quality
Bottom-line pressure for profits at any cost	Clearly formulated ethical standards
Closed-door practices and emphasis on secrecy	Fully articulated standards
Punishments for reporting policy violations	Openness
Uncertainty about ethical standards	Frequent and public endorsement of standards
Patterns of deception throughout management	Clear channels of communication on breaches of standards
Emphasis on 'group' loyalty even at expense of others	Standards committees
Group think	Follow through
Reluctance to act where problems identified	Reward and recognition systems which emphasise standards
Social bullying	Prompt non-adversarial remedial action
Fear	

Figure 5.1 Peer and corporate pressures for and against standards

part, this is because they have tended to emphasise short termism, instrumentalism and functionalism. These understate the long-term issues and interdependencies which are highlighted by questions of values and standards. Four substantive areas of discussion have emerged. These go to the heart of the activities of entrepreneurs and managers and the work of their organisations. These are:

1. building systems of corporate ethics and values into the enterprise;
2. tackling questions of compliance and governance;
3. meeting the needs of the economically and socially disadvantaged;
4. satisfying responsibilities to the environment.

These issues can be tackled in several ways. In education, there is a need to explore the individual and corporate strategies which enable firms to acknowledge and meet their responsibilities. In society, opportunities can be created for groups with different experiences, demands and perspectives to gain access to management. This can be through better career opportunities for outgroups, e.g. women, the disabled or minorities and improved lines of communication for those with concerns.

There is an increased coincidence of interest between the call for the individual to behave responsibly, create opportunities and behave morally and the needs of the firm to tap new pools of talent, cope with a changed environment and prosper through freedom. The values and standards that are adopted provide the lubrication for the virtuous circle of opportunity, enterprise and responsibility. Some of the most successful firms are those which acknowledge these responsibilities.

Ownership and control

The consequences of separation of ownership and control has been examined in depth since Berle and Means' classic work, *The Modern Corporation and Private Property*[2] (originally published in 1932, revised 1991). Even Friedman[3] acknowledges that 'individual proprietors' can follow their own goals with their own assets. He, however, articulates a clear divide between the owner or proprietor and the employed or paid executive, who acts as 'an agent serving the interests of his principal':

> In a free-enterprise, private-property system, a corporate executive is an employee of the owners of the business. He has direct responsibility to his employers. That responsibility is to conduct the business in accordance with their desires, which generally will be to make as much money as possible while conforming to their basic rules of the society, both those embodied in law and those embodied in ethical custom.

There is, however, considerable evidence that attitudes about and support for the core Friedman proposition vary around the world (Figure 5.2).

Friedman clearly did not close the debate on the appropriateness of expenditures on CSR in publicly (as opposed to privately) owned companies. Some authors have claimed that investment in CSR can improve the returns to shareholders – in effect, the agents are acting in the owners' best interest. Waddock and Graves[4] found that 'controlling for industries . . . financial performance also depends on good social performance'. Other studies, however, have found either no relationship (McWilliams and Siegel, 2000),[5] or a negative relationship (Wright and Ferris, 1997).[6]

As old as business and trade

This would still raise questions of business ethics and their role in organisational behaviour. Debate about what is and what is not ethical in business behaviour is as old as business and trade. Cicero in his *De Officiis* complains about profiteering by merchants, a theme developed by Thomas Aquinas who developed this theme around the notion of the 'just price' in ways that probably existed before Cicero and have certainly been repeated since.

> If someone would be greatly helped by something belonging to someone else, and the seller not similarly harmed by losing it, the seller must not sell for a higher price: because the usefulness that goes to the buyer comes not from the seller.[7]

The study of business ethics centres on three core propositions that:

1. In business, there is, or ought to be, a morality that shapes behaviour.
2. Executives and owners should not only act in ways consistent with this morality, but equally that they can be held to account for actions inconsistent with this morality.
3. Business ethics is a special applied branch of ethics which focuses general ethical principles and analytical approaches upon a particular field of endeavour – business.

Equally important today is probably the notion that effective corporate governance relies upon an understanding and active implementation of a system of business ethics. This was vividly illustrated in the United Kingdom in 2011 in the 'phone hacking' scandal. Ultimately, this scandal revolved around several of these core principles.

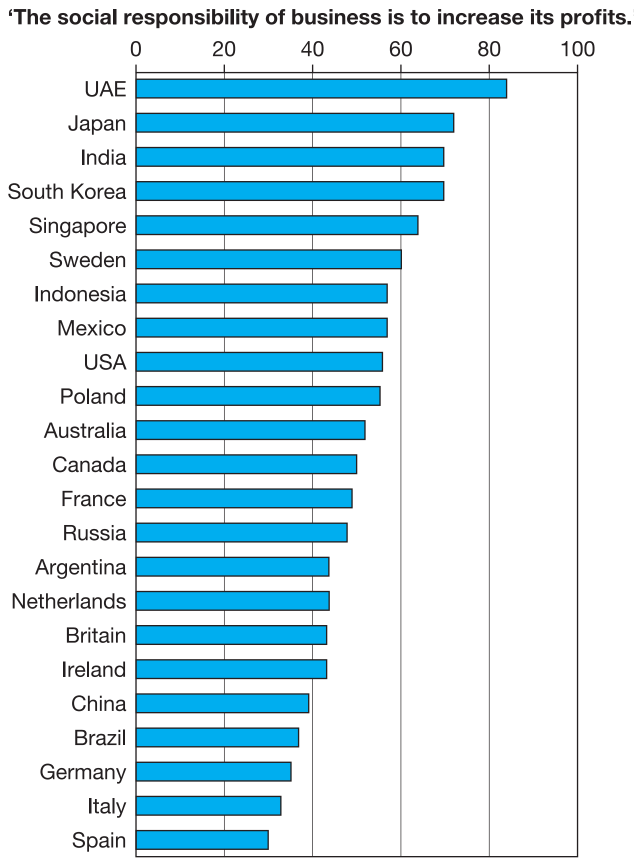


Figure 5.2 Forget CSR, make money: percentage of informed public (ages 25–64) who 'strongly agree' or 'somewhat agree' with this Milton Friedman quote

Source: Edelman (2011) *2011 Edelman Trust Barometer*®, Chicago: Edelman.

First, what were the moral values at News International that were supposed to shape the behaviour of its employees or associates. In effect, was it explicitly or implicitly acceptable for private investigators in the employ of the *News of the World* to gather data from hacked phones or journalists to use this data?

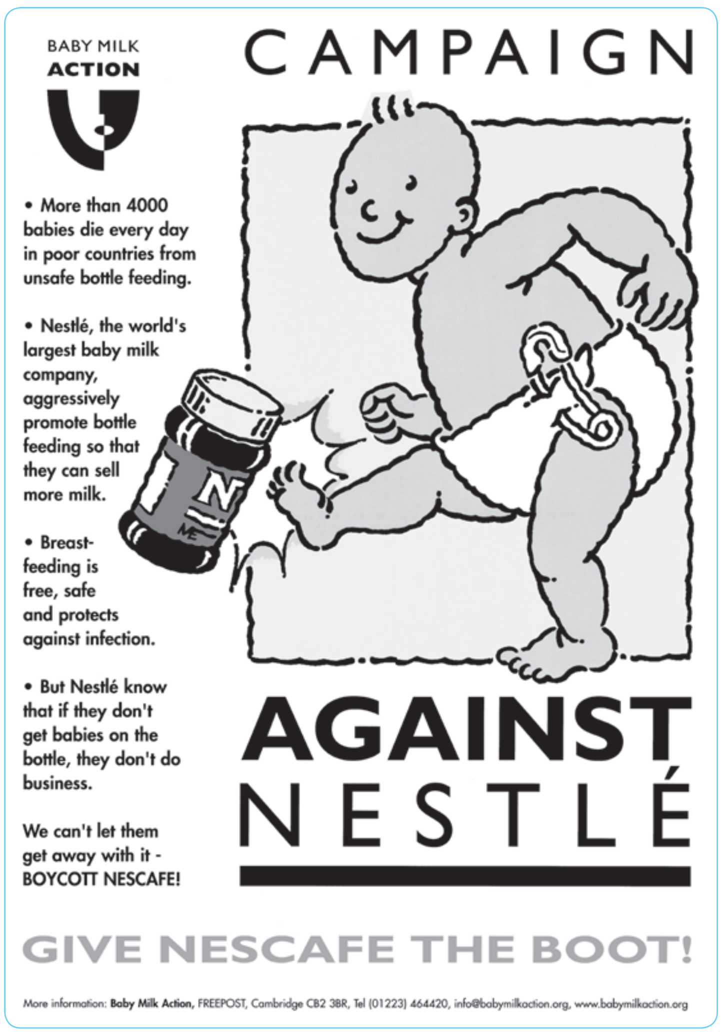
Second, what systems of management, scrutiny and control were in place to ensure that unethical, immoral or (even) illegal behaviours were identified, discouraged, prevented or punished? In organisations it is generally assumed that individual actions are in part at least the responsibility of the organisation and its leaders. Those in charge have a responsibility for the actions of their subordinates.

The term 'willful blindness' has been coined to define the behaviours of these executives who do not exercise this responsibility. Courts, however, around the world have generally rejected this defence, with the US Supreme Court most recently (2010)[8] deciding that 'wilful blindness' will not save a defendant from charges.

The ethical challenges

Ethical issues pervade business life. The board that considers moving production off-shore, leaving local workers unemployed are making an ethical choice between the needs of different stakeholders. Engineering directors who have to decide whether to introduce a new technology face a moral dilemma. They know it might put loyal employees out of work because the new equipment needs fewer people or their skills are redundant.

Likewise, the trade-union officers who want to 'embargo' cheap imports from a poor developing country know that this country desperately needs the foreign exchange. They must decide whether to put the needs of their members before those of Third World peasants. In the Uruguay Round of GATT negotiations, US demands for licence fees for software



Safe milk action: campaign against Nestlé

Source: Baby Milk Action

products were ranged against the calls for easier access to northern markets for southern agriculture. The current Doha Round is dealing with issues of labour standards, environmental policies, competition rules, investment, transparency and patents, each of which will pose ethical dilemmas for organisations and people.

The marketing policies of firms raise a host of ethical issues. These range from the kinds of images used in advertising, with the exploitation of women in advertising a recurrent theme of many critics of the fashion industry, to the types of products offered to the market. Few products and promotional campaigns have generated more sustained criticism than Nestlé's promotion of its breast milk substitutes to health workers with the claim it 'protects' babies. Nestlé uses a 'protect' logo and the slogans 'Start healthy, Stay healthy' and 'Strengthening the immune defences and reducing the incidence of diarrhea in the crucial first year of life'. The evidence is, however, that babies fed on baby milk are proven to be more likely to suffer diarrhoea and short- and long-term illnesses than breastfed babies.

In recent years, the ethics of a host of firms and industries from banks and utilities to newspapers and retailers have been questioned as seldom before. The most recent (2011) Ipsos MORI Veracity Index showed that only politicians and journalists enjoyed less trust than business leaders.

A matter of trust

To the question, who would 'you generally trust to tell the truth', less than one in three people 'trusted' business leaders to tell the truth (Table 5.1).

The decline in trust for business is especially marked in the USA and northern Europe. The data in Figure 5.3 give some indication of the decline in trust for business. Although there was some recovery between 2009 and 2011, the broad pattern of decline in trust persists.

This decline in trust is especially noticeable in the banking sector. In the USA and UK there was a collapse in trust between 2007 and 2011 (Table 5.2), with banks being transformed from being some of the most trusted organisations to some of the least trusted.

Table 5.1 Who is trusted?

Doctors	89%
Teachers	86%
Professors	77%
Judges	75%
Scientists	67%
Clergyman/priests	75%
The police	61%
Television news readers	68%
Ordinary man/woman in the street	56%
Civil servants	43%
Trade-union officials	36%
Business leaders	28%
Journalists	17%
Government ministers	19%
Politicians generally	14%

Source: IPSOS MORI Trust in Professions 2011.

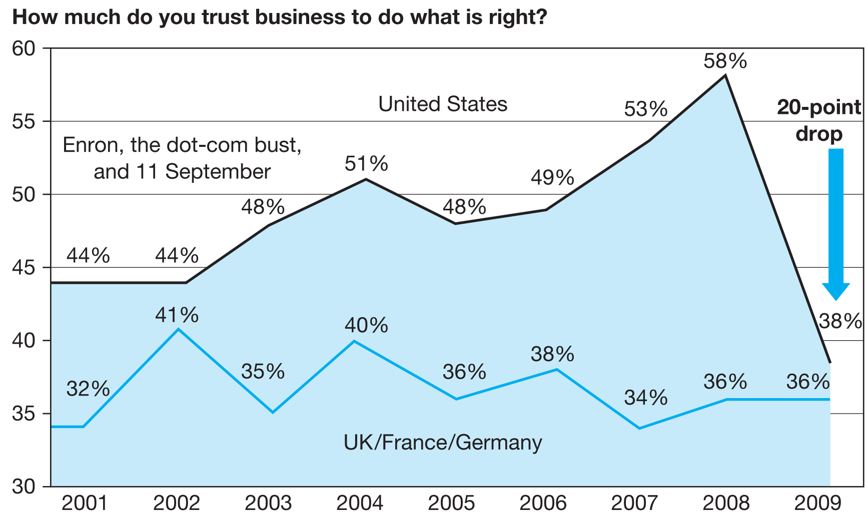


Figure 5.3 Decline in trust in business

Notes: Informed public aged 35 to 64 in the USA, UK, France and Germany; responses 6–9 only on a 1–9 scale; 9 = highest.
Source: Edelman (2009) *2009 Edelman Trust Barometer®*, Chicago, Edelman, Figure 2, p. 3.

Table 5.2 Decline in trust for banks

	Percentage of those who trust banks				
	2011	**2010**	**2009**	**2008**	**2007**
US	24	29	36	69	68
UK	14	21	31	47	41

Source: Adapted from Edelman (2011) *2011 Edelman Trust Barometer®*, Chicago, Edelman.

The traditional view of ethics and morality in banking was well summarised by Charles Green, one-time deputy group chief executive of National Westminster Bank:

> The financial community has a history of placing moral considerations above legal or opportunistic expedients. But we are often exposed to moral dangers and the dangers of contamination are increasing. Deregulation and the technological revolution are sharpening ethical conflicts. Bankers' role is one of stewardship based on trust. We are trusted by those who ask us to look after their money.

This was not a universally held view of the ethics and values of bankers. Thomas Jefferson claimed that 'banking institutions are more dangerous to our liberties than standing armies'. Until the banking crisis of 2008, however, majorities in most countries trusted the ethics of their bankers.

The building blocks of these moral codes, values and ethics highlight many of the wider issues and analysis of business ethics in general. At the same time, the apparent erosion of these codes, values and ethics illustrates not only other aspects of business ethics but the challenges those seeking to study, understand or implement business ethics face.

Firms and managers try to resolve ethical questions in a host of ways. Traditionally, it was assumed that a general social ethic permeated the society. In the West this was generally seen as a mixture of individualism and Christianity. Smith[9] summarises the first of these with his observation that 'it is not from the benevolence of the butcher, the brewer and the baker, that we expect our dinner, but from their regard to their own best interest'. The Christian tradition was closely linked to the rise of capitalism in the work of Weber. He saw a powerful link between Protestantism and capitalism. The increasingly secular nature of society in the West and the successful industrial development of communities with powerful corporatist or communal traditions has created a more eclectic base for business values and morality.

The shift in economic power and business activity to Asia, the Middle East, Latin America and beyond has reinforced the range of challenges facing those trying to understand and shape business ethics. Domènec Melé[10] notes that 'each of Judaism, Christianity, Islam, Hinduism, Buddhism, Confucianism, Taoism and Shinto has its own organized system of beliefs, ceremonies and worship, and each offers prescriptions for positive endeavour in both life – and in business'.

Sabahuddin Azmi[11] points out, for example, that:

> Islam has its own distinctive value-based ethical system for business dealings. It prescribes certain specific guidelines for governing business ethics. It (i) enumerates the general ethical rules of business conduct, (ii) identifies ethically desirable forms of business, and, (iii) specifies the undesirable modes of transactions . . . (with specific injunctions about) truthfulness, trustworthiness, generosity and leniency, adherence to business commitments and contracts, fair treatment of workers, avoidance of evil practices (such as fraud, cheating, deceit, hoarding of foodstuff, exploitations, giving short measures etc.).

Confucianism with its millennium-long history has developed a foundation for business ethics that 'stresses character formation or personal cultivation of virtues (*de*); first the basic, interdependent virtues of *ren* (love and care for one's fellows), *li* (a set of rules of proper conduct), and *yi* (reasoned judgment concerning the right thing to do); then the dependent virtues of filiality, respectfulness, trustworthiness, and others. It emphasises the Golden Rule of "What I don't want others to do to me, I do not want to do to others"'.[12]

The diverse underpinnings of business ethics help to shape the ways in which both the study and implementation of value or ethical-based behaviour in businesses. Growing awareness of these underpinnings coincides with greater recognition of how economic, social and cultural change influences business ethics. Enderle[13] notes how 'business ethics is an emerging and dynamic field, depending strongly on economic factors, but also on political changes and a growing awareness of value conflicts and ethical and environmental demands'.

Enderle[14] highlights several issues as especially important in shaping the local approach to business ethics around the world. These are that:

1. Ethical issues in business are not merely 'rational problems' but deeply rooted in emotions and cultures.
2. Business environments and some specific issues across national borders play a crucial role in shaping priorities.
3. Corruption, leadership, and corporate responsibility attract particular attention.
4. Among the most common themes in the business ethics/business and society literature especially in North America is about stakeholder obligations and 'stakeholder theory'.

Noland and Philips[15] suggest that 'ethical, that is honest, open and fair engagement of these stakeholders is necessary for a business to function properly'. Noland and Phillips go on to explore the different perspectives that emerge from Habermas's[16] analysis of the moral basis on which businesses engage with stakeholders. They appear to posit two extremes: first that stakeholder engagement should develop 'without considering whether it aligns with my (business) strategy'. At the other extreme is that the core of business ethics lies in 'including honest, open, respectful engagement as *a vital part of a firm's strategy*'.

The challenges managers face and their awareness of the limitations on their ability to predict or control outcomes has made them increasingly aware of the nature of the ethical challenge facing them.

Several key decision areas illustrate the 'rational problems' that raise powerful ethical questions. Among these are:

- innovation and change
- climate change
- taxation.

Innovation and change

No aspect of business raises more questions of ethics and values than innovation and change. This challenge may occur because of the threat that change poses to individuals and communities or because the failure to innovate poses a threat to the enterprise itself.

Communities can be blighted by economic and industrial changes which transform their ability to compete. The changes in the mining and steel industries in Europe and North America demonstrate this. Production in these sectors was typically concentrated in communities with few alternative sources of employment locally. This was as true in industrial communities on the East Coast of the USA like Pittsburgh and Baltimore as in the Wallonia, South Wales and the North-East of England. Closing the mine or steelworks could mean killing the community. The greater the change, the more widespread is the effect. Often, the skills, working methods and environments that underpinned past economic success are inappropriate or unattractive to new industries.

In sharp contrast, firms which are skilful at innovation – the successful exploitation of new ideas – consistently secure a competitive advantage in a rapidly changing world market, while those which are not will be overtaken. In a series of reports the OECD has highlighted the importance of innovation across industries and communities[17] while highlighting the challenges that innovation poses to existing industries, communities, competences and skills.[18]

This is not a new ethical dilemma. The best cultures, systems and plans do not remain static for long. Economic conditions, competitor's behaviour, market dynamic technological advances and the political environment demand changes. Drucker[19] has gone as far as saying that 'innovation' is one of the two basic functions of business. Deane[20] argues that change is the key characteristic in industrial society.

The challenge was recognised from the first by Luddites and other machine wreckers who sought to stop the introduction of the new technology. It is seen every day in the firm that seeks to extend the life of a declining product or resists the pressure to use new technologies and novel techniques. Schumpeter[21] called 'creative destruction' the way innovation and change continually raises questions which affect society, the economy, culture and the environment.

Dock workers in Liverpool
Source: TopFoto

The most common social and, hence ethical, issues around innovation centre on the nature and location of employment. The pressure for change prompts companies to invest in new equipment and plant. It is seldom possible to arrive at an exact fit between the skills available to the current workforce and the skills needed by the new technology.

Sometimes, the innovations require changes that those affected are reluctant to accept. Relatively low-skilled, poorly educated male manual workers have been especially hard hit when an economy moves from 'traditional' heavy industries to high skill, knowledge-based or service industries. Often these workers could learn new skills but the new technologies fundamentally changed the nature of the work they expected or to which they aspired. Elsewhere, those affected were unable to change.

The changed nature of cargo handling on the docks with the advent of containerisation, for example, eliminated many jobs while changing the character of the rest of the work. Ports like Liverpool handle vastly more trade than in the past, but with far fewer workers. Even the type of work changes, and dockers with long service were seldom able to compete with new entrants with more appropriate skills.

A growing and efficient economy must somehow solve the problem of shifting people from declining to growing industries, from low-productivity to high-productivity jobs: it must be able to absorb the consequences of technical change. At a very minimum, this involves overcoming complex problems of education, retraining and relocation.

The ethical challenge to managers and firms exists on two levels:

- Should we make the change?
- What responsibility do we have to minimise the impact?

Seaforth Container Port, Liverpool
Source: Colin McPherson/Corbis

Often, the pressure for change leaves the firm or community with no option. There have been attempts to stand against the pressure of new products and processes. Ghandi's attempt to return to handmade cloth did not reverse the demand for the machine-made product. Clinker-built boats were relegated to a small niche in the market after the introduction of glass reinforced plastic boats. Integrated transport planning has hardly slowed the move from rail to road transport.

Examples abound of firms that tried to resist technological change. It is hard to identify any which have succeeded. The accumulated evidence is a powerful case against resistance. The threat to the enterprise, the industry or community is often a sufficiently strong argument to end any debate about the necessity of change. The UK's Strategy for Sustainable Growth[22] uses a language that is echoed across the world: '(new) skills, science, research and innovation are essential investments for the UK economy, because the introduction of new products, services and processes is the major source of growth in the long term'.

The social cost of change

The social cost of change, however, is seldom paid by the promoters of innovation and novelty. The jobs lost are seldom those held by the advocates nor are the communities destroyed those in which they live. Commerce is a major source of change and has a clear responsibility to address its social consequences. This is especially true when the changes affect the social values which bind communities.

There are several fundamental contradictions in some commonly held propositions. An example is the conflict between:

- Proposition A: that the family is the 'cornerstone' of the community or community care for the elderly or the weak; and
- Proposition B: that in the face of shortages of employment, labour – often heads of families – should get on their bikes and seek work, if necessary away from the family.

There is evidence that geographical mobility in search for work is significantly higher in the USA than in western Europe, but some commentators suggest that this is, also, linked with weaker inter-generational links especially familial support for the aged.

These debates touch upon wider aspects of the debates around business ethics. Implicitly or explicitly, many business leaders embrace the utilitarian notion of 'the greatest good for the greatest number' in justifying changes that have negative impacts on individuals, groups or communities. The work of Jeremy Bentham and John Stuart Mill is seen to justify an approach to business ethics based on the core proposition that 'correct moral conduct is determined solely by a cost-benefit analysis of an action's consequences'.[23]

Hence, if General Motors' factory in Flint is closed with local employment falling from 80,000 in the late 1970s to under 8,000 in 2010, but the company survives, employing over 200,000 in 120 countries and likely to become the world's largest car maker – the greatest good for the greatest number may be achieved.[24] This calculation, however, turns ultimately on more complex questions about whose happiness and the balance of outcomes between the cost of lost jobs in a city like Flint with few alternatives and the (perceived) alternative that, say, executive salaries or dividends are cut to keep jobs in Flint. This challenge, calculating outcomes and balancing interests, poses the greatest difficulty in applying the utilitarian approach to business ethics.

Nowhere was this more vividly illustrated than in the case of the Ford Pinto. It seems that Ford discovered fairly early in its production that there was a significant risk to life from a rear-end collision. Faced with the massive costs and corporate risks of closing production, recalling vehicles and re-tooling, the company appears to have concluded that it was cheaper to accept the cost of compensating for fatalities (at US$200,000 per death).[25]

Innovation and change

Similar issues affect most debate on innovation and change. The imperative for change is now linked with the notion that these changes contain, within them, the benefit of increased choice or wider options. Most of these propositions derive from the positivist view of social and economic change and the resulting emphasis on the tangible, measurable and verifiable benefits. There is, however, greater awareness now of the price of change to the community, the economy and the environment.

Alongside this, the intangible costs are viewed as increasingly relevant to any debate. In sum, the processes which produce economic and business growth without considering the value implications are inevitably unable to recognise the crises and value consequences because the ideologies attached to the techniques forbid it.[26]

The social challenge to the demand for innovation and change comes from many sources. The most basic is the attempt by a society or community to stand outside the process. Japan, between the middle of the sixteenth century and the Meiji Restoration of the 1860s, was a vivid example. The Khmer Rouge terror in Cambodia was an especially vicious attempt to stop certain forms of innovation. In the Islamic world there is widespread concern about the effects of change on values and social systems which are held very strongly.

Havel[27] – with his concern about the automatism of technology and the industrial consumer society, Suggate[28] through his Christianity, Williams[29] and others share this concern about the social and moral case for innovation and change. Williams says:

> If all important problems are technical, they are in principle soluble without risk to our sense of ourselves, our moral self perception. The identification of the technical 'can' with the moral 'should' – or the blotting out by the former of questions about the latter – is endemic in our culture. We are largely incapable of asking ourselves what human purpose technology in such areas serves.

Those businesses and individuals which seek to advocate and introduce change have a responsibility to these communities and their enterprises to acknowledge and address these concerns. Simple advocacy of the benefits of change 'to the greatest number' is unlikely to be sufficient, for those not members of this greatest number.

Corelli Barnett[30] bases much of *The Audit of War* to the thesis that the attempt to create a 'New Jerusalem' in Britain after the end of World War II was partly an attempt to replace the imperatives of change and innovation with social engineering:

> If Britain after the war was to earn the immense resources required to maintain her cherished traditional place as a great power and at the same time pay for New Jerusalem at home, she had to achieve nothing short of an economic miracle. Such a miracle could only be achieved through the transformation, material and human, of her essentially obsolete industrial society into one capable of triumphing in the world markets of the future.
>
> Had all the most powerful groups and institutions in that society been willing to throw themselves behind the process of transformation, it would still have been difficult enough to achieve, given the scale of the inherited problems. But instead of such willingness there existed the massive internal resistance to change which was so manifest in the history of Britain as an industrial society; a resistance that not even the shock of war had proved strong enough to budge more than a little.

Managers in steel, shipbuilding, aerospace and mining were as resistant to new techniques, novel technologies and innovative products as artisans, riveters and miners (Table 5.3).

The extent of this opposition indicates a society in which the pay-offs from economic change are not seen to be sufficient compensation for the risks. Resistance to those changes which affect the vested interests undermines the process of change. Again, there is nothing new in that; 400 years ago Niccolò Machiavelli[31] observed:

> It must be considered that there is nothing more difficult, more dangerous or more apt to miscarry than an endeavour to introduce new institutions. For he that introduces will make enemies of all those who do well out of the old institutions, and will receive only cool support from those who would do well out of the new ones. This coolness is caused partly by fear of their opponents, who have the old laws on their side, and partly from the natural scepticism of mankind, who have no faith in new arrangements until they have been confirmed by experience.

Table 5.3 Resistance to change: the real British disease?

Management	Workers	Policy makers
No to:	**No** to:	**No** to:
Mechanical coal loading and other innovations	End of small pits	Training for mining and other engineers
Specialist technical staff	Productivity agreements	Industrial strategy
Process innovations	Proper apprentice training	Investment allowances
Modular and batch production	End of demarcation disputes	Priority for vocational training
Systematic replacement of obsolete equipment	No to 'dilution' of 'skilled' by trained	Redirection of science to industry
Management education	Training centres	Design education
Re-investment	End of 'slack' time	Concentration
Air conditioned, properly lit plants	Rationalisation of unions	Universal primary education until 1880s
Retooling by choice not necessity	End of restrictive practices	Trade strategy
Agreed delivery and quality standards	Qualifications	Large-scale investment in industrial modernisation

Source: Based on Barnett, C. (2001) *The Audit of War: The Illusion and Reality of Britain as a Great Nation*, new edition, Pan Books.

Climate change and the needs of the natural and built environments

These pose another set of ethical challenges for business. In the face of a global, scientific consensus about the impact of carbon emissions on CO_2 levels in the atmosphere, those firms whose production processes or whose products produce the most carbon face real dilemmas. Oil companies, car makers, chemical companies, utilities and many others can, in theory, cease production and distribution or challenge or ignore the risks. In 2001, Lee Raymond, then CEO of Exxon, summarised the position from its perspective:

> Although the science of climate change is uncertain, there's no doubt about the considerable economic harm to society that would result from reducing fuel availability to consumers by adopting the Kyoto Protocol or other mandatory measures that would significantly increase the cost of energy.

The cost, in Exxon's eyes, of restricting or changing its systems were simply too high for the company and the economy. The taxes that were advocated to reduce US fuel consumption were opposed directly by the company and indirectly through its trade bodies. A utilitarian approach is unlikely to resolve or help to resolve the ethical dilemmas posed by change partly because the evidence (data) can be disputed and partly because of the long-term impacts of climate change.

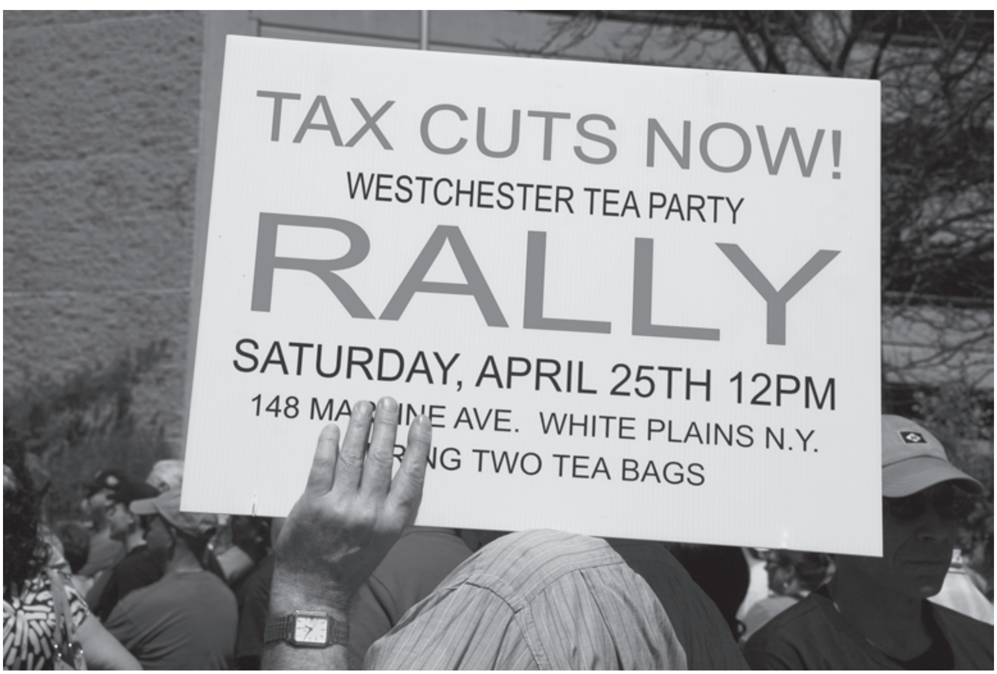
Caney[32] argues 'that a human rights approach provides an appropriate way in which to evaluate the effects of climate change' and resolve the ethical dilemma faced by business. In his analysis, Caney argues that 'climate change, so I shall argue, jeopardizes three key human rights: the human right to life; the human right to health; and the human right to subsistence'. As such, the human rights approach resolves in many ways the ethical dilemma as actions that violate human rights cannot be counter-balanced by arguments about economic benefits for some in most recognised moral codes.

Taxation

Like death, taxes are 'always with us', the divisions about the who, what, where and why of taxes are equally pervasive. For some, all taxes discourage enterprise and lead to excessive government. For others, taxes, as the minimum, ensure a safe and healthy society and, at the maximum, redistributive taxes ensure a fair society. Taxation raises other issues for business. At one extreme, the core 'economic function' of business requires that taxes are an essential means by which business delivers this economic function, while at the other extreme taxes take resources that might be better employed in dividends, jobs or research.

The vigour of the debate is vividly illustrated in public protest on both sides of the debate. In the USA, for example, Tea Party protests complain about the scale and nature of taxes. In Britain, however, it is tax avoidance by business that stirs emotions and protests.

Advocates of both positions often defend their argument with a version of Kant's categorical imperative. He states that an ethically or morally sustainable position is one 'whereby you can, at the same time, will that it should become a universal law'.[33] Broadly speaking, that means that if you are willing for everyone in the same position to behave in the same way, it is moral.



Tea Party protesters in the USA

Source: Katharine Andriotis Photography, LLC/Editorial/Alamy

UK Uncut protesters picket a shop
Source: Guy Bell/Alamy

It is, therefore, ethical for a firm to seek to reduce the amount of tax that is payable by all means that are within the law, if it accepts that this is universalisable or equally applicable to every relevantly identical situation. A firm, therefore, that avoids taxation cannot complain that other firms adopting the same position means that: new employees are poorly educated, because schools are inadequately funded; crime goes undetected because police resources are limited or roads are poorly maintained when local government is short of finance. Equally, executives who bribe potential customers to win business, should accept that others have the right to do the same, to take business from them.

The central problem with the categorical imperative for business ethics is that two contradictory positions – like too much and too little taxes – can be seen as equally universalisable.

Innovation and change, climate change, taxation are clearly not the only areas that raise issues of business ethics. Some of the greatest dilemmas can be found elsewhere in finance such as insider trading, in marketing around the use of product or service claims, in health and safety around who can do what, where and in human resources around equality and diversity. The complexity and diversity of the challenges and dilemma's faced lends support to Williams's view that the complexity and diversity of the challenges requires complex and diverse responses. He asks[34] 'why should it be conceptually simple, using only one or two ethical concepts . . . rather than many?'

For Arnold, Audi and Zwolinski,[35] 'Moral reality is complex, and any attempt to force that reality into the mold of a single overarching theory will inevitably omit or misinterpret some aspects of it.' They use Ross's notion[36] of intuitionism to appeal to ethical standards that thoughtful educated people find intuitive. Arnold *et al*. identify nine such principles or standards of particular relevance to business:

1 justice: including the positive obligation to prevent and rectify injustice as well as the negative duty not to commit injustice;
2 non-injury: roughly, the obligation to avoid harming others;
3 fidelity: promise-keeping and avoidance of lying (both are cases of fidelity to our word), honesty;
4 reparation: the obligation to make amends for wrong-doing;
5 beneficence: the obligation to do good deeds, in particular, to contribute to virtue, knowledge, or pleasure in others;
6 self-improvement: the obligation to better oneself;
7 gratitude: the obligation to express appreciation for good deeds towards us, where these include good work done under our direction as well as beneficent deeds towards us;
8 liberty: the obligation to preserve and, where possible, enhance freedom and autonomy;
9 obligations of manner (roughly, of respectfulness): these concern how we do what is obligatory as opposed to what we must do in some way or other – our obligations of matter or respect for others such as employees.

This sense of complexity, even powerlessness (in defining absolute principles), is not a basis for denying the ethical and corporate implications of actions. It emphasises the importance of exhaustive attempts to construct 'what if' scenarios and understand the type of social contracts that shape the relationship between the firm, its executives and the society in which they trade.

John Rawls,[37] along with Habermas, is perhaps the most influential recent writer on the 'rules' and 'relationships' which shape behaviour within and between organisations. His theory of justice, deals with 'the way in which the main political and social institutions fit together into one system of social cooperation, and the way they assign basic rights and duties'.

He explores the nature of the social contract that shapes relationships including those in business. He is interested in the consequences of actions rather than their initial purpose or motives but in doing so highlights the importance of fashioning an economic system that generated both wealth and fairness through individual, corporate and regulatory (government) action. These notions of fairness and justice have been developed by a number of writers to define and prescribe ethical behaviour by businesses and their executives in areas as diverse as employment, investment, internationalisation and strategy.[38]

Defining business ethics

One of the most comprehensive attempts to arrive at a definition of business ethics was undertaken by Lewis.[39] After reviewing 158 textbooks and arriving at 38 sub-categories ranging from principles to 'golden rules' he concluded that 'business ethics' is (the) rules, standards, codes, or principles which provide guidelines for morally right behaviour and truthfulness in specific situations.

His analysis went on to conclude that the building blocks include such elements as social responsibility, honesty and fairness, values that are in accord with common behaviour or with one's religious beliefs, obligations, responsibilities, and rights towards conscientious

Table 5.4 Key sources for the study of business ethics

Category	Key work(s)
Primary sources	Hobbes, T. *The Leviathan* (1651) Hume, D. *A Treatise Concerning Human Nature* (1739) Rousseau, J. J. *The Social Contract* (1762) Smith, A. *The Wealth of Nations* (1776) Kant, I. *Groundwork to the Metaphysics of Morals* (1785) Bentham, J. *Introduction to the Principles of Morals and Legislation* (1789) Paine, T. *The Rights of Man* (1791) Mill, J. S. *Utilitarianism* (1861) Spencer, H. *Essays* (1891) Moore, G. *Principia Ethica* (1903)
'Radicals'	Hayek, F. A. *The Road to Serfdom*, London: Routledge (1944) von Mises, L. *Human Action*, London: William Hodge (1949) Galbraith, J. K. *The New Industrial State*, Harmondsworth: Penguin (1967) Medawar, C. *The Social Audit Consumer Handbook*, London: MacMillan (1978) Friedman, M. and Friedman, R. *Free to Choose*, London: Seeker and Warburg (1980)
Modern commentators	Post, J. E. *Research in Corporate Social Performance and Policy*, Annual Series, London: JAI Press Silk, L. and Vogel, D. *Ethics and Profits*, New York: Simon and Schuster (1976) De George, R. *Business Ethics*, New York: Macmillan (1986) Conference Board *Corporate Ethics*, Washington: Research Report No. 900 (1987) Mahony, J. *Business Ethics: Oil and Water*? London: Kings College (1988) Donaldson, J. *Key Issues in Business Ethics*, London: Routledge (1989) Craig Smith, N. *Morality and The Market*, London: Routledge (1990) Freeman, R. E. *Business Ethics*, Oxford: Oxford University Press (1991) Donaldson, T. J. and Freeman, R. E. *Business as Humanity*, Ruffin (1995) Badiou, A. *Infinite Thought. Truth and the Return of Philosophy*, London: Continuum (2005) Crane, A. and Matten, D. *Business Ethics. Managing Corporate Citizenship and Sustainability in the Age of Globalization*, Oxford: Oxford University Press

work or enlightened self-interest. It embraces a philosophy of what is good and bad, the ability to clarify these issues in decision making, a focus on one's individual conscience and/or legal system, and a system or theory of justice questioning the quality of one's relationships. This requires understanding of the relationship of means to ends, concern for integrity, emphasis on virtue, leadership, character, confidentiality, respect for the judgement of others.

The *Blackwell Encyclopedic Dictionary of Business Ethics*[40] offers a more succinct definition but with a hint of circularity, 'Business ethics aims to specify the principles under which (business organizations) must operate to behave ethically'.

Other writers on the study of business ethics are listed in Table 5.4.

QUESTIONS

1 Identify the key features of a meaningful and easy-to-implement code of ethics. How might a firm convert these principles into practice?

2 Describe the corporate social responsibility programmes of a major corporation with which you are familiar. Illustrate how these programmes reflect wider aspirations of the firm.

3 Discuss the proposition that the major determinant of a firm's pattern of corporate philanthropy is the composition of the board.

4 What mechanisms does the community have to shape the attitudes and behaviour of managers and firms? Illustrate with examples of endorsement and censure.

5 Discuss the ethical implications of Friedman's statement that 'capitalism is a – necessary condition for political freedom'.

6 'Scientific management' is fundamentally exploitative and inhumane – outline the arguments for and against this proposition.

7 Using the arguments of a 'school' of philosophy, e.g. utilitarianism, construct an ethically, sustainable case for a developing country refusing to pay its debts to a British or US bank.

8 Define:
(a) Stakeholders
(b) Social endorsement
(c) Peer group pressure
(d) Utilitarianism
(e) Positivism.

CASE STUDY 5

Nurse Margaret Haywood and *Panorama*

Nurse Margaret Haywood was at the centre of one of the UK's most prominent cases of 'whistleblowing' when she helped the *Panorama* BBC TV programme expose serious failings in the care of the elderly at one NHS hospital.

Her concern was that nursing basics were being ignored such as pain control, toileting and even ensuring some terminally ill elderly patients were getting enough to eat and drink.

She failed to get her concerns addressed through normal 'internal means' – she voiced her concerns through her immediate line manager 'but nothing was really taken on board'. After this she agreed to go public, helping the BBC TV programme feature the conditions leading to attempts to have her struck off the nursing register ever since.

She had hoped for some protection from government legislation. A Department of Health spokesperson said:

> Whistle-blowers already have full protection under the Public Interest Disclosure Act passed by this Government.
>
> We expect that any member of staff who reports concerns about the safety or quality of care to be listened to by their managers and action taken to address their concerns.

Despite this, she was struck off by the Nursing and Midwifery Council which said she failed to 'follow her obligations as a nurse'. This initially led to a war of words with a spokesperson for the Nursing and Midwifery Council saying in an email response:

> Margaret Haywood was struck from the register because she failed to gain the consent of the patients prior to secretly filming them and not, as reported by some media, for whistle blowing.
>
> A patient should be able to trust a nurse with his/her physical condition and psychological wellbeing without that confidential information being disclosed to others.
>
> Only in the most exceptional circumstances should the cardinal principle of patient confidentiality be breached. Based upon the evidence it heard, the independent panel did not believe that this was the case and although the conditions on the ward were serious, it was not necessary to breach confidentiality to seek to improve them by the method chosen. The panel believed that the method was unlikely to benefit the

Case study 5 (*cont.*)

patients that were on the ward at the time of filming and under Margaret Haywood's care.

In contrast, her union said:

We can't have a culture where 'whistle blowers' feel intimated into not legitimately reporting wrong doing and bad practice in the NHS. We need a safe environment for 'whistle blowers' who feel that they can complain without losing their livelihood.

There appears to be a number of extenuating circumstances in the case of Margaret Haywood and the NMC could have imposed a lesser punishment than that of being struck off.

The NMC exists as a regulatory body to protect patients and clients first and foremost, and not the alleged failings of members of the nursing profession in caring for the elderly.

After years of debate, the Royal College of Nursing and the Nursing and Midwifery Council settled on a softer punishment for the 59-year-old at the High Court. The striking-off order was replaced with a one-year caution.

Questions

1. Do whistle-blowers act ethically?
2. On what ethical basis can a whistle-blower justify his or her actions?
3. Was Margaret Haywood acting ethically in assisting *Panorama*?
4. Is it possible to say that the Royal College of Nursing and the Nursing and Midwifery Council were acting ethically in striking her off?

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Chapter 6

Codes of behaviour

The value, content and embedding of management codes of practice

Despite Enron, MCI and News Corporation, hardly a week seems to pass anywhere in the business world where the ethics, values and behaviours of managers and business leaders are not questioned. In the USA, the Justice Department is questioning executives, while in Britain politicians complain against corporate greed as CEOs walk away with massive bonuses while shareholder value and jobs are destroyed. As the criticisms have mounted, organisations have attempted to respond by introducing codes of practice for managers. The aim of this chapter is to review the nature of these codes, explore the roles of different agents who play a part in advocating, introducing and embedding these codes.

The current body of knowledge

For much of the last 100 years, society responded to criticisms of the values, ethics and behaviour of business and management by extending the role of the state. Government intervened through nationalisation of major industries, strict controls on industrial behaviour through regulation and various other direct interventions. By the mid-1970s, however, there was growing awareness of the costs of these interventions. Nationalised industries were struggling to compete or cope with change. The regulatory burden imposed by an avalanche of legislation in North America, Europe and the UK was imposing increasing costs with little evidence that the returns matched the costs.

In 16 months, for example, between 1 April 2006 and 21 August 2007, US Federal Agencies produced 6,473 final rules (or regulations) governing aspects of life in the USA. Hopkins estimates the costs of compliance with federal regulation at around $700 billion.[1] Even the more conservative estimate of the Federal Office of Management and Budget puts the annual costs of compliance at $370 billion.[2]

While there are no equally reliable figures for Japan, Europe or the UK, there is no evidence that the costs in these countries are materially lower than in North America. This data has prompted communities to look for other means of ensuring that managers perform their economic roles while acting ethically, socially and environmentally responsibly. Personal codes and codes of professional or corporate practice are prominent in these non-regulatory responses.

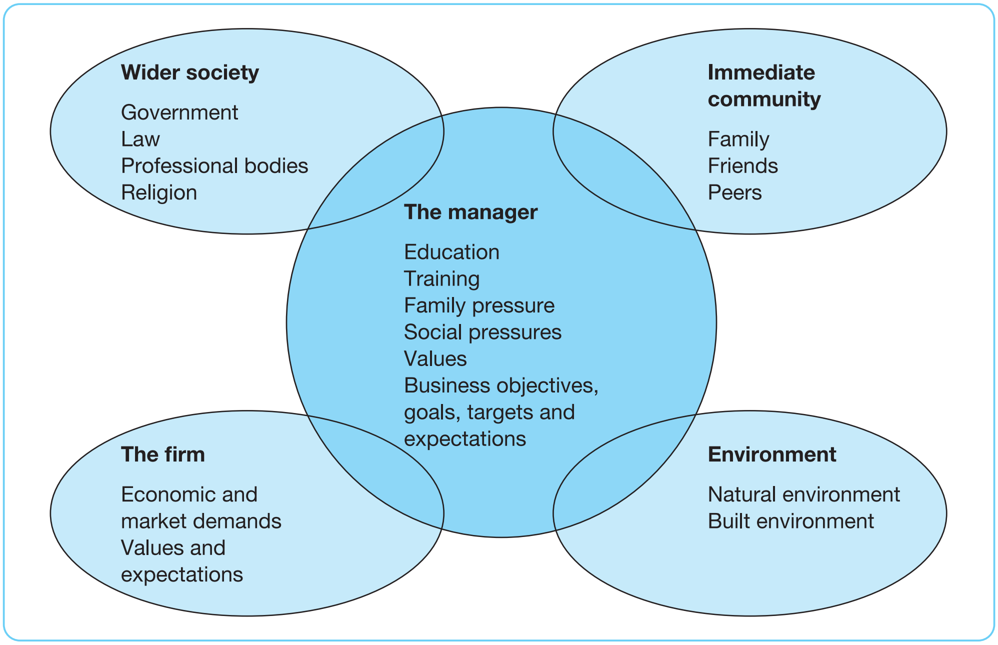

Figure 6.1 The pressure on managers

Managers are under a host of pressures that help to shape their behaviour. These range from societal pressures like the law and religion, through their immediate community, while the built and natural environment influence their actions. In the corporate context, the firm's values and expectations are part of a wider set of influences on managers. These in turn are mitigated by the executive's personal ethic which is influenced by the manager's education, training and the ways they interpret the business' goals, objectives and targets. The way these pressures and others interact is illustrated in Figure 6.1.

The pressures on executives

The nature of codes

Codes of behaviour have guided the practices of economic agents for as long as there have been transactions between individuals or organisations. In 50 BC, Cicero observed that 'justice is indispensable for the conduct of business'. These codes have covered the ethics of the agents involved and their wider responsibilities, if any. There are many different definitions of a code in this context.

Andrew Olsen of the University of Illinois Codes of Professional Behaviour project defines a code as 'a means of uniquely expressing a group's collective commitment to a specific set of standards of conduct while offering guidance in how to best follow these codes'. Codes define 'permissible standards of conduct which members of a group make binding on themselves'. Craig Nordlund, Associate Counsel and Secretary at Hewlett Packard comments that 'codes specify actions in the workplace and codes of ethics are general guides to decisions about those actions'.

The Toronto Resolution of Scientific and Professional Societies identified eight general principles to guide codes of ethics or behaviour. These principles are that a code should:

1. articulate as far as possible the underlying assumptions and guiding principles;
2. indicate specific measures designed to ensure that signatories adhere to its principles;
3. be sufficiently general to encompass scholarly work and basic, applied and technological research as well as the actions of practitioners engaged in the discipline or profession;
4. oppose prejudice and other anti-social action, such as bullying with respect to sex, religion, national or ethnic origin, age, sexual preference, colour, or physical or mental disability;
5. take into account that, while it is difficult to anticipate all the consequences of their actions, scientists, scholars and practitioners have a responsibility, individually and collectively, to try to foresee the results of their behaviours;
6. encourage adherents to comply with established procedures;
7. urge adherents to identify and report violations of its terms to code enforcers or regulators;
8. be widely disseminated.

Some professional groups have adopted a less tightly defined approach to defining the form and nature of codes of behaviour. The information professions, for example, have identified five basic canons to underpin their international codes. These canons are:

- integrity
- competence
- individual responsibility
- professional responsibility
- human concerns.

The SIGCAS analysis, however, concluded on the pessimistic note that 'codes, like laws, tend to keep the honest persons honest and have little impact on those who chose to ignore their precepts or who have never been exposed to their tenets'.[3]

The types of code

There are codes which individuals adopt personally, those linked to occupations, organisational codes and those imposed by society, for example, through the law. Sometimes these codes are formally expressed while elsewhere they operate informally. Education and training can play an important part in communicating, embedding or reinforcing these codes. It is possible to identify four different types of code: individual, occupation/profession, organisation, societal/legal. Table 6.1 shows the range of issues covered by these codes.

The issues covered can range from responsibilities to (other) individuals, through to responsibilities to the natural or built environment. These responsibilities vary by culture and society. Some cultures, for example, embed within individuals a high level of responsibility for, say, the natural environment. Elsewhere, specific individuals place a high personal priority on the quality of the built environment.

The link between individual ethics, values, social and environmental responsibilities, and management is, in many ways the most complex of the relationship outlined in Table 6.1. This complexity was vividly illustrated a century ago in the person of John D. Rockefeller. He was described on the one hand as 'the supreme villain of his age' but gave

Table 6.1 Codes and coverage

Issue	Individual	Occupation/profession	Organisation	Societal/legal
People (internal, external)	*	*	*	*
Organisation	?	*	*	?
Market/customer	?		*	?
Partner/collaborator	?	*	*	*
Finance	?	?	*	*
Products/production	?	?	*	*
Built environment	?		?	*
Natural environment	?	?	*	*
Profession/occupation	?	*	?	?
Self	*	?		
Society	*	*	*	*

Codes for chart: * indicated generally good coverage; ? shows a mixed picture with good coverage in some earlier; is very limited coverage.

over US$1 billion to charity and was an especially powerful supporter of charities to help black Americans to win advancement through education. He was, for example, the first and largest supporter of Spelman College one of the first higher-education institutions in the USA that catered to the needs of African Americans. More recently, Britain's Sir James Goldsmith wedded a fierce commitment to laisser-faire capitalism with strong environmental concerns.

I swear by Apollo

There is a clearer link between occupational or professional codes and behaviour. These codes are usually employed to impose a condition of compliance on membership. In some cases, compliance with the code confers a licence to trade. Occupational and professional codes attempt to assure high standards of competence in a given field, strengthen the relationships among its members, and promote the welfare of the whole community. An occupational and professional code does not automatically achieve these goals, but it does serve to guide and remind people of them. The occupational and professional code sometimes makes provision for dealing with members who violate the professional ethics of the group.

Some professional codes have a long history. Doctors, lawyers and ministers of religion have always worked according to careful and exacting standards. One of the best known codes is the Hippocratic oath, in which the Greek physician, Hippocrates, pledged the medical profession to the preservation of life and the service of humanity.

A small number of occupations and professions such as medicine and law control entry or the right to practice by requiring compliance with the code. Elsewhere, acceptance or compliance is linked with a specific status. The Institute of Directors in the UK confers its chartered status on members on condition that they meet the requirements of its professional code of conduct. The Institute cannot, however, prevent companies from appointing as directors individuals who do not meet the requirements of its code.

Even where the licence to trade is not formally conveyed by the occupational or professional body, membership may confer significant career advantages. In the human resource profession in the UK, membership of the Institute of Personnel and Development conveys significant career-related advantages. The Institute's disciplinary procedure underpins its code of professional conduct. Failure to meet the Institute's standards of professional conduct can lead to reprimands, a requirement for training, even expulsion. Even where the link between the licence to trade and membership is weaker, professional or occupational groups can initiate internal disciplinary action or expulsion from membership. Despite these systems, the Enron crisis exposed the weaknesses of professional codes even in well-established professions.

Preliminary analysis of the codes in these management or management-related areas highlights some common features and significant differences that are related to the ways codes apply to managers' ethics, social and environmental responsibility and commitment to lifelong learning. Virtually all assume or state a requirement for members to act with 'integrity' or specify specific behaviours, which imply an ethical underpinning, e.g. 'remove unfair discrimination' or 'respect the truth'. There are less overt references to the wider social, community or environmental responsibilities of manager/members except in the context of legal compliance.

Most occupational or professional codes related to management place a high premium on maintaining 'high standards of education and training' or keeping 'abreast of current good practice'. This emphasis, however, is typically related to the individual manager's own education, training, competence or learning. It is rare to see this responsibility extended to those people for whom the manager is responsible. Even where there is a specific requirement to engage in 'continuing development of personal competence', this is seldom linked to an expectation that the director/manager/professional ensures that others are kept abreast of good practice.

Internationally, there is growing interest in the ways that codes affect behaviour and the extent to which voluntary action can replace or supplement regulation. Voluntary action is both a key element in any partnership-based approach besides offering tangible gains in its own right. Voluntary action can:

> avoid the practical difficulties of government regulation . . . In particular, because the costs of regulation are not external to the regulatory bodies, the tendency towards over-regulation which exists in state systems is avoided. Furthermore, a voluntary system is more readily adaptable to changing circumstances than state regulation normally is . . . One of the principle costs of state regulation (though an invisible cost) is the dampening effect on entrepreneurship and innovation which stems from the rigid rules usually associated with government regulation. The greater flexibility of private systems is a major advantage.[4]

Corporate codes

Organisation codes of values, responsibilities and development have changed significantly over the years. The earliest codes largely concentrated on worker discipline. Where they communicated ethics or values, these usually reflected the values of the proprietor and were designed to impose these on employees.

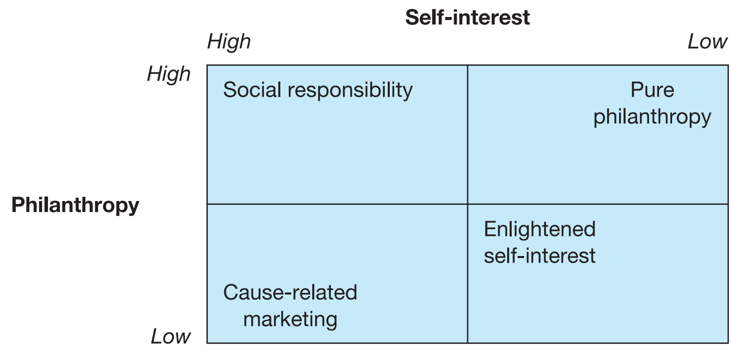

Figure 6.2 Profiling responsibilities

These codes declined into disuse over the last century. Shifts in the relationship between the state and business during the 1970s saw the emergence of a new form of company code that placed clear and specific demands on organisations to express their ethical, social and environmental responsibilities and commitment to development.

The creation of the US Business Roundtable in 1972 was a public confirmation of the determination of business leaders to accept wider responsibilities for the ethical positions adopted in the management of their enterprises, the social and environmental responsibilities of the organisation and their role in developing capabilities. In the UK, Business in the Community was a complementary effort to accept a wider role in their communities.

Organisations engage in this type of activity for reasons that range from pure philanthropy to cause-related marketing (see Figure 6.2).

As awareness grows of the impact of management decisions on the wider society, the environment and the capabilities of their communities, the underlying values and role of business come under increased scrutiny. Central to these discussions is the ethical values adopted by managers in their workplace. Four substantive areas of discussion emerged that go to the heart of the activities of entrepreneurs and managers in the workplace. These are:

- the systems of corporate ethics and values in the enterprise;
- the form and nature of compliance and governance;
- responsibilities to wider communities especially the disadvantaged;
- responsibilities to the natural and built environment.

Firms and managers try to resolve these issues in a variety of ways. Traditionally, society assumed that general and shared social ethics permeated the enterprise and guided the actions of managers. In the West, this was generally seen as a mixture of individualism and Christianity. The increasingly secular nature of society allied to the growing diversity and respect for other cultures and values has created a more eclectic base for values and morality. Just as the ethical reference points have become weaker, the pressures on enterprises from change, complexity and internationalisation have grown while the impact of business on the wider community has increased.

Some organisations have responded by articulating the values and ethics they expect their managers to follow. Company codes typically place an obligation on managers to adopt them personally and implement them in areas for which they are responsible. News Corporation, for example, has had since 2006:

> a Code of Ethics applicable to its Chief Executive Officer and senior financial officers to promote honest and ethical conduct; full, fair, accurate, timely and understandable disclosure; and compliance with applicable laws, rules and regulations.

But, like many such codes it is heavily focused on financial matters and the requirements of related regulatory bodies. In its 'Commitment to the Public', the opening reference is to 'providing truthful and complete information in financial records'. In the company's commitment to the global community the references are less focussed on financial regulation but retain a relatively narrow focus on being 'truthful and accurate when dealing with government entities or officials' and compliance 'with the environmental laws'. The lack of reference to being truthful and accurate when dealing with the general public or extending beyond compliance reflects the narrow focus of many corporate codes.

Some company codes place a greater emphasis on social and environmental responsibility. The Dow Jones* company code, for example, acknowledging 'the impact of our work on the work of others, and on their lives and fortunes, places special responsibilities upon all Dow Jones employees' and requires that:

- our facts are accurate and fairly presented;
- our analyses represent our best independent judgments rather than our preferences, or those of our sources, advertisers or information providers;
- our opinions represent only our own editorial philosophies; or
- there are no hidden agendas in any of our journalistic undertakings.

Others place relatively little emphasis on the need for managers to commit themselves to either lifelong learning or continuing personal or professional development. In some cases, corporations complement their own codes by committing themselves to shared statements of principles or values such as the Ceres or the Caux Principles, the UN Global Compact or declarations such as those emerging from the Johannesburg Summit in 2002.

Embedding codes

Occupational or professional codes are typically embedded in behaviour through a mixture of education, control over entry (to the occupation or profession), control over the licence to trade or be a member, or internal discipline. Organisational codes are embedded primarily through the management control or information systems. Both types of code are strongest in well-established professions and in larger organisations. They are weakest in large, diffuse occupational or professional groups like managers and in smaller firms. In these groups, society may wish to embed specific sets of values or ethics, approaches to social and environmental responsibility or commitment to lifelong learning.

* Dow Jones is, of course, a subsidiary of News International.

The alternatives open to the wider society or the state to embed these values or patterns of behaviour include:

- advocacy
- education and training
- leading by example
- partnerships
- encouraging voluntary action or self-regulation
- market based intervention
- regulation.

Education linked to voluntary action and self-regulation seems to offer a way forward in reaching those groups not reached by existing codes. A common framework can, also, highlight the opportunities for achieving more consistent coverage and filling gaps in existing codes.

The Steadman study of ethics in occupational standards, NVQs and SVQs[5] highlights both the opportunties for using education and training to underpin a code and the pitfalls in this approach. Steadman focused specifically on ethics 'the moral principle or set of values held by an individual or groups' and did not address issues of social and environmental responsibility or lifelong learning.

Steadman identified the steady growth in the number of organisations with written codes but noted that penetration was still relatively small and confined to large organisations – 'only 18% (55) of 300 firms surveyed in 1987 claimed that they had written codes; 28% (113 out of 400) of the largest corporations claimed to have them in 1991'. Steadman, however, highlights the difficulties of issuing unsupported codes. These are 'unlikely to do more than promote lip service to the standards implied in the code'. He was, however, more confident of the ability to embed ethical codes in education, training and development.

Steadman noted that it was possible to 'identify the broad ethical principles . . . identify and classify the competences necessary for complying with the standards . . . (specify) the range in which the competences are expected to operate . . . supply evidence . . . (and) assess'.

Elsewhere in business and management education similar issues have emerged. Leading business schools such as London, Manchester, Harvard, Stanford and Insead have established centres for work on business ethics, social and environmental responsibility.

Together, these seem to indicate that the potential exists to derive or define a management code, relate it to corporate or occupational codes or practice, widen their scope and reach new groups especially through education, training or voluntary action.

Coverage and priorities

Codes of management (or business) practice take many forms and cover a range of issues. Some strive to integrate a range of different aspects of corporate or management issues in a single code, while others seek to tackle issues of ethics, sustainability and social responsibility separately. These differences were reflected in the broad patterns, which emerge from preliminary research into professional or occupational codes and company codes.

These seem to place different priorities on specific issues with only the commitment to 'acting with integrity' or according to an ethic (widely defined) in common. Company codes, for example, tend to emphasise social and environmental responsibilities while occupational codes place a priority on the development of occupational or professional skills or competencies.

These patterns are not static. Textual analysis of occupational and corporate codes over time highlights significant shifts in both the priorities and balance. There is, for example, every indication that progressive companies see the type of commitment to learning (for either self or colleagues) which has traditionally been a characteristic of occupational codes as a key feature of their business future in the knowledge economy. At the same time, occupational or professional groups are increasingly aware of the social and environmental responsibilities of their members.

Wider issues are raised by the issue of how the code(s) could be embedded in behaviour. There is a growing view that education, training, voluntary action or self-regulation have many desirable features over regulation or direction in the current environment. Traditional forms of public policy intervention pose many problems. Rapid economic, social and technological change have forced governments to acknowledge the limits on their power to act and to review the ways open to them to achieve their goals. This does not mean that states will not intervene to achieve their economic, social or environmental goals. This environment, however, forces governments to review the available options and the role of regulation as a means of achieving ends.

In Britain, the former Prime Minister, Tony Blair, argues that 'Whitehall, also, needs to be far more discriminating in its intervention'.[6] Elsewhere in Europe, the European Commission's White Paper on *Corporate Social Responsibility* advocated approaches that are:

- **market based –** promoted with commitment and compliance; identified and disseminated for adoption voluntarily;
- **partnership based –** with companies and/or occupational and professional groups collaborating in framing and integrating codes into practice;
- **education, development or training based –** with codes embedded, say, in all management education, training and development.

In the USA, President Bush announced a 'Ten-Point Plan to Improve Corporate Responsibility and Protect America's Shareholders', based on three core principles: information accuracy and accessibility, management accountability, and auditor independence while Congress passed the Sarbanes-Oxley Act which provides new standards of corporate responsibility, enhances disclosure requirements, provides for heightened criminal penalties, creates rights of action and sets up strict disclosure standards for public companies.

Despite this, current business thinking tends to argue against further regulatory methods of embedding management codes. Even here, however, it is possible for the state to embed a code through advocacy, adoption and requirement while reserving the right for government and its agencies to act directly against abuse. Advocacy means government promoting the code publicly. Adoption involves requiring its own officials and officers to agree to and act in line with the code. Requirement involves, for example, building compliance into public purchasing agreements.

The willingness to use other powers was illustrated in September 2011 when the US Federal Housing Finance Agency (FHFA) took action to sue 17 firms to recover losses to

Fannie Mae and Freddie Mac after the banking crisis. The FHFA accuses companies like Barclays, HSBC, RBS and J. P. Morgan of 'misrepresentations and other improper actions' that were key contributors to the losses that Fannie Mae and Freddie Mac incurred on private-label mortgage-backed securities (PLS). One estimate puts the potential cost to the institutions involved, if the suit is successful, at US$2 billion.

This chapter links analysis of the current body of knowledge with reviews of the different types and coverage of codes and the attitudes of managers to an assessment of the value of external intervention to encourage or enforce the introduction or compliance with codes. The case, for example, for drawing up a code to be embedded through education, training or development might highlight first the apparent consensus that business and management education should address issues of ethics, social and environmental responsibility and learning in a more formal and structured way as part of the core curriculum. This consensus, however, does not seem to be reflected in practice with relatively few Business Schools, for example, including these issues in their core curriculum although most include elements through options or electives.

Despite this, the research largely confirms Steadman's conclusion[7] that progress in establishing and embedding codes is uneven. There remain significant gaps in penetration especially among smaller companies.

Codes and their coverage

Content analysis of occupational and corporate codes stands alongside coverage of codes and programmes in business and management education plus cognate areas notably accountancy. These are summarised in Tables 6.2 and 6.3.

Table 6.2 addresses the extent to which the issues of ethics, integrity, corporate social responsibility, the environment or sustainability, diversity and respect for others are addressed in codes which are designed to guide or inform the individual manager's own behaviour.

Coverage of the areas identified for a code is very uneven. Some issues have reasonably consistent coverage. Ethics and related issues are consistently addressed. There is a reasonable degree of coverage of issues of personal integrity and the values or ethics that should guide members of professional or occupational groups and members of companies. Business schools typically include business ethics at some point in the curriculum, albeit generally as an elective or minor.

Alongside this generally positive picture, there are two points of concern. First, many large organisations are moving away from centralised or standardised, corporate management

Table 6.2 Self

Issue	Occupational	Corporate	Education
Ethics/integrity	*	*	*
Social responsibility		*	?
Environmental responsibility		*	*
Sustainability		?	?
Diversity and respect for others		?	

Codes for chart: * indicated generally good coverage; ? shows a mixed picture with good coverage in some earlier; is very limited coverage.

development programmes. During the early phases of research in the early 2000s, corporations generally talked in terms of a 'single' corporate code. Even to the point of having statements of 'business' or 'corporate' principles distributed to all employees. Enterprises are devolving responsibility to operating units or line management. This shift coincides with a move towards more directly functional or instrumental topics, which typically do not address ethics.

Second, education and training programmes for small and medium-sized firms contain virtually no coverage of ethics, corporate social responsibility or sustainability. This was as true of publicly sponsored programmes as commercial initiatives. Analysis of a range of development programmes – from start-up courses formerly operated by the UK's Small Business Service and the publicly funded Small Firm Standards – identified virtually no cover of ethics, values or integrity. This is especially worrying when small and medium-sized firms are an increasingly important part of the economy.

Social and/or community responsibility addresses such issues as the role of businesses in their communities to the contribution managers can make through volunteering, etc. to the wider society. Corporate codes generally provide substantial coverage of these issues. Members, for example, of Business in the Community or The Hub initiative seem to have not only accepted their responsibilities but have articulated them in their codes of practice.

Environmental concerns have grown rapidly in recent years. This has coincided with recognition of the potential – positive and negative – impact of large organisations. Bhopal, the Exxon Valdez, Deepwater Horizon and other environmental disasters have reinforced these concerns. Many large companies have responded by including clear statements of environmental responsibility within their corporate codes. There are, however, some notable exceptions to this coverage. A simple example is the failure of the UK's Civil Service Code to include any reference to environmental responsibility.

Educational programmes for managers typically include environmental issues. Again, these are usually provided as electives. These large enterprise, integrated programmes are facing the same challenges as those covering corporate social responsibility. This is leading to less participation as line management sees little direct return from involvement. Programmes for small and medium-sized firms typically have no coverage of environmental issues. In a sense, the most surprising gap is the very limited coverage of environmental issues in occupational codes. Few codes include any overt reference to the environmental responsibilities of managers.

The pattern of limited coverage especially in codes addressed at the public sector and small and medium-sized firms is even greater on the issue of sustainability. A small number of corporate codes and slightly more educational programmes addressed at managers covered these issues while few occupational codes tackled the subject overtly.

Diversity and respect for others has emerged as a major issue and challenge to organisations and their management. As a challenge to management, diversity and respect for others exists on several levels. These range from using diversity and respect for others as a positive force inside and outside the organisation to identify and use talent to reach new external groups. Alongside these positive returns from managing diversity and respect for others, there is the wider responsibility to root out prejudice and other anti social action such as bullying and unfairness. Despite the importance of these issues, there is very little coverage of diversity and respect for others in either occupational codes or education, training or development. Some large companies, especially those with North American links, have tackled the issue but these remain the exception not the norm.

Table 6.3 Responsibility for others

Issue	Occupational	Corporate	Education
Ethics/integrity	?	*	
Social responsibility		*	?
Environmental responsibility		*	
Sustainability		?	
Diversity and respect for others			

Codes for chart: * indicated generally good coverage; ? shows a mixed picture with good coverage in some earlier; is very limited coverage.

Managing others

One of the oldest definitions of management sees 'management as getting things done ***through*** others'. This description usefully highlights the distinctive responsibilities that managers have within organisations for the activities of others. The examination of codes must address the extent to which codes in use specifically address this 'responsibility for others' dimension as outlined in Table 6.3.

This analysis shows the limited, overt coverage of this responsibility especially in occupational or educational codes. There is more coverage in corporate codes. Even here, however, the coverage is largely restricted to large businesses.

From principles to practices†

Despite the range of opinions expressed on corporate social responsibility and the potential for codes of corporate or occupational practice, there has been relatively little research into the experiences and attitudes of managers themselves.

Sectors and the importance of codes

There was a general perception that codes were equally important for managers in the private, public and third sector. Research indicates that there is no significant difference between those with expert or general opinions. The level of experience also played no role in the importance with which codes are viewed across the sectors (Figures 6.3 and 6.4).

There is relatively little shift in attitudes over the intervening years, with those in the voluntary sectors seeing codes as more important and those in the public sector seeing them as less important. The differences in sample size, however, might explain such small changes.

Codes that are admired

Intermediary bodes, such as professional associations, are the most cited examples when respondents are asked to cite codes addressing ethical behaviour that they admired. Of

† Key elements of this work are based on collaboration with Richard Boele, Professor David Wheeler and Professor Charles Jackson, Centre for Stakeholding and Sustainable Enterprise, Kingston Business School, Kingston University, UK; and Professor Wesley Cragg and Dr Mark Schwartz Schulich, School of Business, York University, Toronto, Canada. Professor Wheeler is also based at the Schulich School of Business, York University, Toronto, Canada.

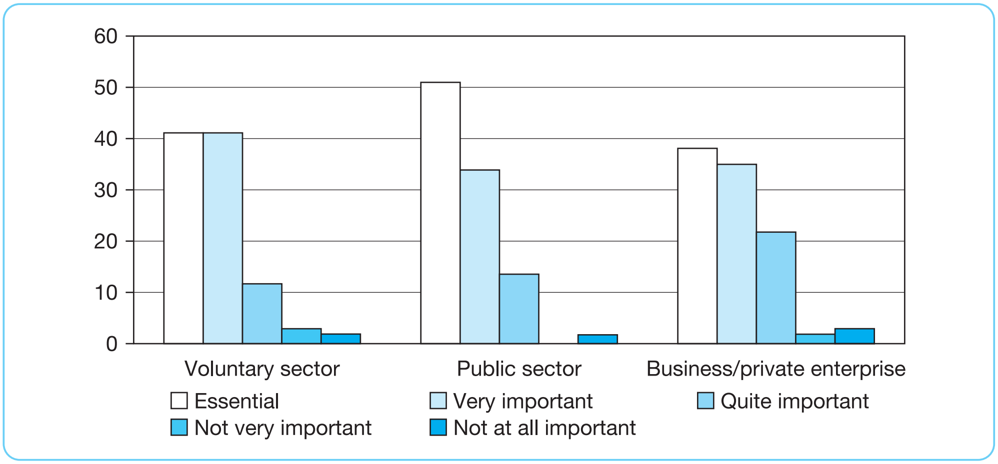

Figure 6.3 Sectors and the importance of codes (%) 2001

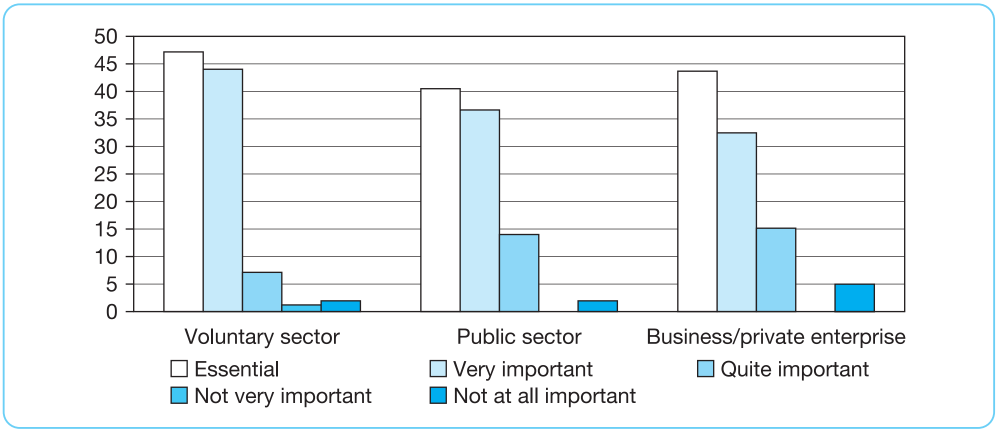

Figure 6.4 Sectors and the importance of codes (%) 2010

these institutions, the Institute of Personnel Development was the most cited in UK research. In terms of private enterprise business, The Body Shop is the most often named example of best practice. In the public sector, it was the NHS and local government codes that were most often cited.

Success factors of codes that are admired

There were five key factors that emerged from what respondents perceived as the success factors behind the codes that they admired. The top eight issues for inclusion in codes, in order of most frequently mentioned are listed in Table 6.4.

There is a strong view that management codes should cover the areas of ethics, social and environmental responsibility with around 80 per cent of respondents feeling it was essential or very important that these areas were covered. In an earlier study this was an unprompted question but in the later study respondents were asked to rank from a list of prompted

Table 6.4 Content of codes

2005	2010
Integrity	Integrity
Honesty	Transparency – accountability
Probity	Honesty
Transparency – accountability	Environmental responsibility
Fairness	Probity
Environmental responsibility	Social responsibility
Social responsibility	Fairness
Explicitly stated approach and service towards employees and customers	Explicitly stated approach and service towards employees and customers

points about the content of codes. There is broad consensus about the importance of leadership and consultation in getting codes accepted, while sanctions and benefits were accepted as an inevitable part of ensuring behaviours reflected in codes.[8]

Corporate codes[‡]

The last two decades (1991 to 2011) saw a series of corporate failures and related scandals that provoked regulatory bodies and governments across the world[§] to seek ways to codify the behaviour of companies. In the UK, 1991 saw the creation of the Corporate Governance Committee by the Financial Reporting Council, the Stock Exchange and the accountancy profession. The committee chaired by Sir Adrian Cadbury produced a report on the financial aspects of corporate governance often called the Cadbury Report. In the ensuing 20 years, a series of reports – usually presided over by corporate leaders – has sought to codify appropriate corporate or business behaviour, typically in response to public concern about aspects of corporate action or failures in corporate governance. Some of these reports are listed in Table 6.5.

Similar initiatives have occurred in most advanced industrial economies (Table 6.6).

> By mid-2008, 64 countries had issued 196 distinct codes of good governance. Additionally, there is a large variety of issuers of codes, which include not only stock markets or its regulators, but also investor associations, employer associations, professional associations, and even governments.[9]

Despite the proliferation of such codes and the frequency with which they are revised, there is relatively little substantial research into their effectiveness. In part, this lack of research reflects substantial dispute about their purpose. For some, their key role is to improve the effectiveness of companies through better governance. In this context effectiveness can mean 'as commercially successful firms'. For others, success is reflected in the composition of boards, for example in greater diversity, or the ways boards spend their time. Elsewhere, the priority is to make companies and their boards more responsive to public concerns about their social, cultural and environmental responsibilities.

[‡] The issue of corporate governance is discussed at length in Chapter 7.

[§] The European Corporate Governance Institute website is an invaluable source of information on these codes: www.ecgi.org/codes/all_codes.php.

Table 6.5 Codifying the behaviour of companies (UK)

Report (title)/issue	Chair	Sponsor(s)	Year
Women on Boards	Lord Davies	Department for Business, Innovation and Skills (BIS)	2011
UK Corporate Governance Code	(Based on Higgs)	Financial Reporting Council	2010
Corporate governance of UK banking industry	Sir David Walker	Treasury and BIS	2009
Combined Code on Corporate Governance		Financial Reporting Council	2008
Recruitment and Development of Non-Executive Directors	Lara Tyson	LBS	2003
Independent Review of Non-Executive Directors	Derek Higgs	Financial Reporting Council	2003
Committee on Corporate Governance	Ronnie Hampel	Financial Reporting Council	1998
Directors' Remuneration	Sir Richard Grenbury	Confederation of British Industry (CBI)	1995
Internal control and financial reporting	Paul Rutteman	Various	
Financial aspects of corporate governance	Sir Adrian Cadbury	Financial Reporting Council	1993

Table 6.6 Codifying the behaviour of companies (other countries and internationally)

Country	Sponsor	Year
USA		
Commission on Corporate Governance	New York Stock Exchange (NYSE)	2010
Principles to Strengthen Corporate Governance for US Publicly Traded Companies	National Association of Corporate Directors (NACD)	2008
The Breeden Report on Corporate Governance	US Securities and Exchange Commission	2003
Japan		
Principles of Corporate Governance for Listed Companies	Tokyo Stock Exchange	2010
Germany		
German Corporate Governance Code	Government Commission on the German Corporate Governance Code	2010
France		
Recommendations on corporate governance	Association Française de la Gestion Financière (AFG)	2011
International		
Guidance on Good Practices in Corporate Governance Disclosure	United Nations	2006
OECD Principles of Corporate Governance	OECD	2004

Wymeersch[10] identifies five different types of corporate code with very different origins and priorities. Using his criteria such codes can be:

1 private initiatives;
2 directly linked with the securities markets;
3 initiated by the public authorities;
4 established with the legislation where company law contains an express reference to the governance code;
5 embedded in law and supervised by a government body.

Despite the proliferation of such codes, the frequency with which the issues covered recur and prompt revisions of the codes suggests that their effectiveness is limited, especially in changing the behaviour of managers and executives.

Changing behaviours

Education is the most preferred alternative approach to changing management behaviour. There is enormous potential in integrating ethics into management education and training. There were two key approaches to management education reflected in the research in this area. The first was the training, guidance and development of managers. This was an area where there could be clear opportunity for working with lifelong learning. The second area was specifically formal management education, such as degree courses and MBAs. Sharing best practice was another popular alternative. The suggestions in this area mostly focused on the staging of conferences and workshops to encourage debate around the issue (see Figures 6.5 and 6.6).

Although the changes over the period are relatively small, three stand out. First, the increase in support for embedding codes and, hence, better corporate governance and corporate social responsibility in law, the endorsement of sanctions and fines and, somewhat surprisingly, the increased role for NGOs.

In conclusion

Perhaps the clearest conclusion is that no existing code or type of code provides a wholly comprehensive and integrated coverage of the areas of ethics, social and environmental responsibility. This apparent gap is even greater if the additional issues of sustainability, diversity and respect for others identified as important during the course of the research are included. There is no clear reason why the apparent gaps in coverage of the issues of ethics, social and environmental responsibility, equality, fairness and diversity in occupational and corporate codes exist. There is considerable support among managers for ‘national’ or ‘international’ codes at least as frameworks, sources of guidance or common codes for those responsible for developing personal, corporate or occupational codes.

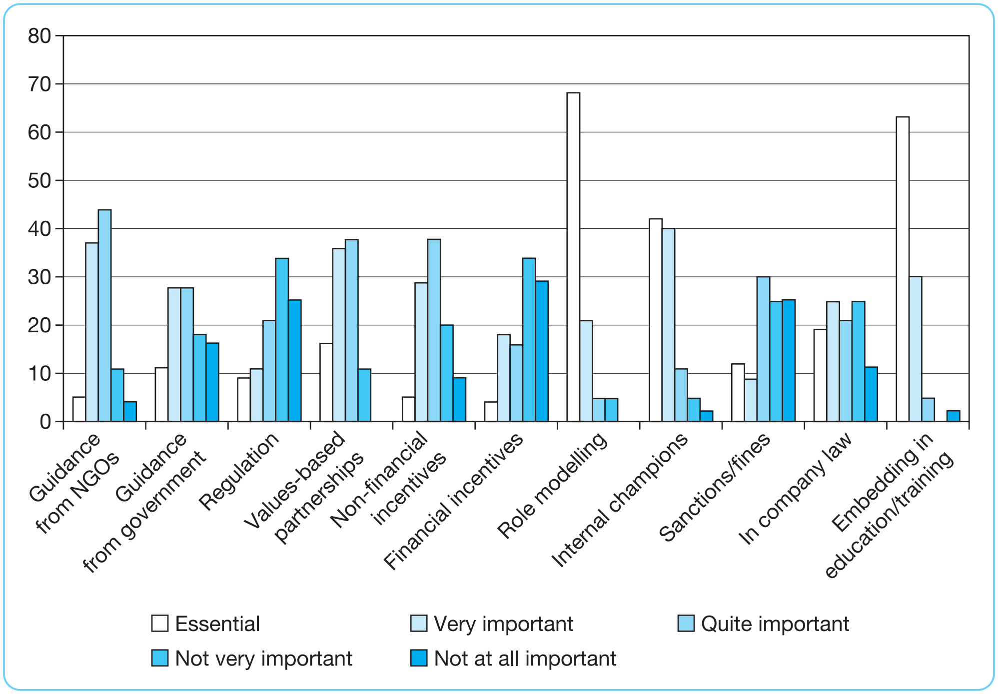

Figure 6.5 Making codes work (%) 2001

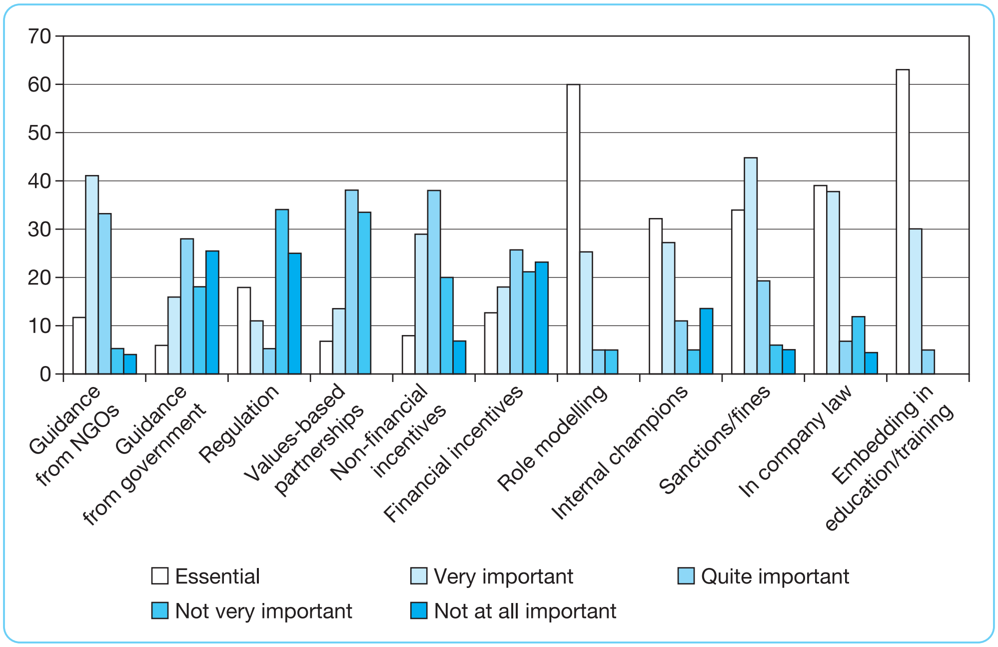

Figure 6.6 Making codes work (%) 2009

QUESTIONS

1 Discuss the proposition that the expansion of shareholder rights is incompatible with improved business performance.

2 'The real barbarians at the gate are financial institutions trying to exploit the real economy for short term gains.' Use material from several sources to explore and evaluate this proposition.

3 What were the dominant characteristics of the 'managerial revolution' described by Chandler – how did it change the relationship between owners and managers?

4 Andrew Large, former chair of Britain's Securities and Investment Board, argues that the four main aims of a regulatory system for corporations are:
1 It should act in the public interest.
2 It should catch and deal with fraudsters.
3 It should deal with sharp practice.
4 It should provide effective investor protection.
Do you believe that these constitute an adequate set of goals? Justify your position with reference to specific illustrations.

5 'Either you do it right or you get eliminated.' Is this an effective prescription for successful corporate governance?

6 'Occasional imprisonments, fines and reprimands do not prove that regulators are doing their job. More often than not they are merely ways to flatter the regulators' performance.' How far are these comments justified in the light of the treatment of corporate criminals?

7 Do the recommendations of the Corporate Code go far enough in providing a framework for effective corporate governance?

8 Withdrawal of support by shareholders – through share disposal – remains the only effective form of shareholder sanction. Discuss.

9 Describe the role and precise meaning of the phrase 'true and fair' in audited company accounts.

10 Define:
(a) governance
(b) investor rights
(c) poison pills
(d) stewardship
(e) innovation
(f) remuneration committees
(g) insider dealing.

CASE STUDY 6

Leadership and responsibility

Over the last 20 years there has been a series of corporate scandals and, subsequently, reviews of corporate governance. Most recently, this has led to the UK Corporate Governance Code, with some key principles as set out below.

The UK Corporate Governance Code*

Comply or explain

The 'comply or explain' approach is the trademark of corporate governance in the UK. It has been in operation since the code's beginnings and is the foundation of the code's flexibility. It is strongly supported by both companies and shareholders and has been widely admired and imitated internationally.

The code is not a rigid set of rules. It consists of principles (main and supporting) and provisions. The Listing Rules require companies to apply the main principles and report to shareholders on how they have done so. The principles are the core of the code and the way in which they are applied should be the central question for a board as it determines how it is to operate according to the code.

The main principles of the code

Section A: leadership

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business.

No one individual should have unfettered powers of decision.

The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.

As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Section B: effectiveness

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.

There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.

All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Section C: accountability

The board should present a balanced and understandable assessment of the company's position and prospects.

The board is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives.

The board should maintain sound risk management and internal control systems.

The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management in an appropriate relationship with the company's auditor.

* This is an extract from the Corporate Code not the full code.

Source: Financial Reporting Council (2010) *The UK Corporate Governance Code*, London: FRC. Reproduced with permission.

Question

News Corp is a listed UK company and James Murdoch is its chairman and chief executive. On a number of occasions Mr Murdoch indicated that he was not aware of key issues in the phone hacking scandal, for example, concerning the fees for Mr Mulcaire's lawyers, Mr Murdoch was asked who signed off the legal payments. 'I don't know', he said.

Later he admitted that he was 'very surprised' to hear that News International is still paying the legal fees of the private investigator, Glenn Mulcaire, and the royal reporter Len Goodman. Both were jailed for phone hacking.

Was Mr Murdoch failing in his duties as both chairman and a director of a listed company? If yes, what does this teach us, if anything, about the value of these codes?

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Chapter 7

The nature and evolution of corporate governance

A series of events over the last two decades served to place the issues of the nature and evolution of corporate governance and its corollary the stewardship of assets at the centre of the policy agenda.

> Corporate governance is traditionally defined as the system by which companies are directed and controlled and as a set of relationships between a company's management, its board, its shareholders and its other stakeholders.[1]

Proper stewardship is a responsibility placed explicitly on all those responsible for the goods or funds of others. In a corporate context, the board serves as 'a guardian of assets'.

Proper corporate governance and stewardship imposes a duty to exercise due diligence, i.e. care, rigour and attention, in the management and disposal of all those assets for which the officer is given responsibility.

The challenge

Many of the cases which have hit the headlines over the last quarter century illustrated the scope which existed for those managing corporate resources to deploy them for their personal benefit. In Britain, Barlow Clowes, Maxwell International, Guinness, Bank of Credit and Commerce International, Stanford International Bank, HBOS, European Home Retail (Farepak), Northern Rock and MG Rover were among the most blatant cases. In the USA, most recently Lehman Brothers, AIG, Madoff, Beazer Homes, Westar Energy/Tyco; in Europe, Glitnir Bank, Kaupthing Bank, Anglo Irish Bank, Clearstream and Parmalat present related issues; while in Asia, the likes of Satyam Computers reflect the global nature of stewardship problems.

These are not new issues. Chaucer's Reeve provides a model:

Ther koude no man bringe hym in arrerage.
Ther nas bailj ne herde, nor oother hyne,
That he ne knew his slieghte and his covyne
. . .

He koude bettre than his lord purchace.
Ful riche he was astored prively,
His lord wel koude he plesen subtilly
To yeve and lene him of his owene good
An have a thank, and yet a cote and hood

Chaucer: Prologue

His cunning (sleighte) and fraud (covyne) and his acquisition of private wealth (riche) at the expense of his employer (his Lord) highlight issues which recur more recently in such familiar characters as Uriah Heep. He added a sense of hypocrisy ('umble) while reinforcing an overall image which has echoes today.

Nick Leeson, who helped to destroy Barings Bank, is now, according to his website[2] 'one of the world's most sought-after speakers'.

The proliferation of recent cases seems to highlight the apparent, widespread collapse of the notion of responsible stewardship which extends from sweetheart deals, which covered every part of the private life of corporate executives from homes to holidays, to remuneration packages, which take little note of either competitive conditions or corporate performance.

Elsewhere, the notion of abuse of trust recurred. In the USA, the banking crisis continues to threaten the stability of the US economy while bankers' bonuses continue (Figure 7.1). The same year that the USA lost its triple A credit rating, the *Wall Street Journal* found that pay and benefits at the top 25 financial institutions on Wall Street hit a record of $135.5 billion.

This combination threatens President Obama's presidency in the same way that the savings and loan scandals threatened the stability of the Bush, Sr. administration.

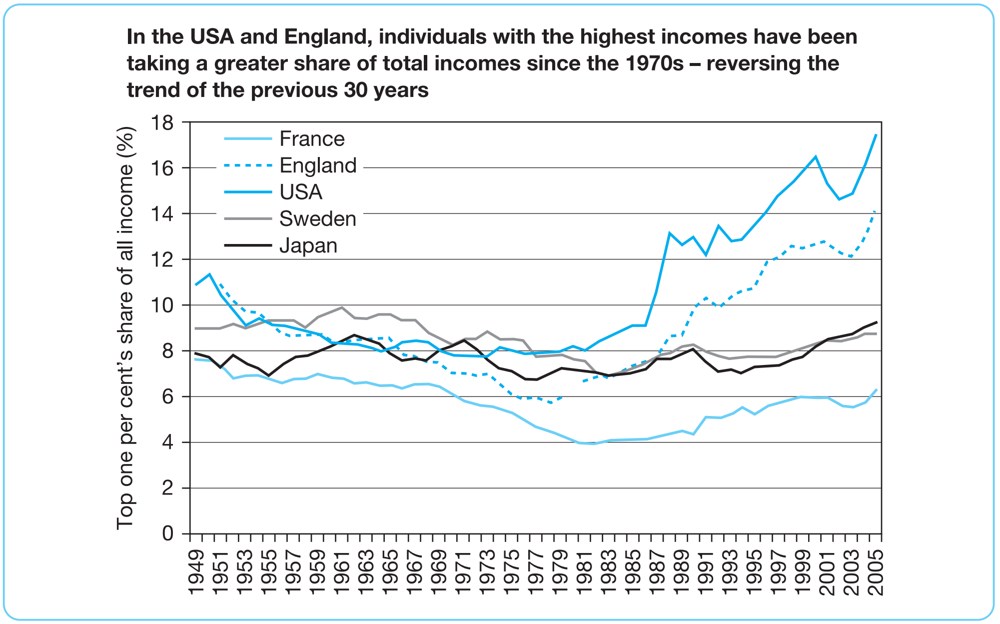

Figure 7.1 The share of total pre-tax incomes received by individuals within the top one per cent income bracket, in selected developed nations

Source: Atkinson, A. B., Piketty, T. and Saez (2010) *Top Incomes in the Long Run of History*, Oxford: OUP.

> His failure to push back against the financial sector, sparing it any responsibility for the economy it tanked, empowered it to roll over his agenda with its own. He has come across as favoring the financial elite over the stranded middle class even if, in his heart of hearts, he does not.[3]

Criticism of the present approach to stewardship has come from the reformist left, those within firms and related agencies and the radical right. The reformers argue for a reform of company law allied to a strengthening of the supervisory agencies such as the Securities and Exchange Commission in the USA, and the Bank of England and FSA in Britain. Bebchuck's claim[4] that his 'analysis and empirical evidence indicate that shareholders' existing power to replace directors is insufficient to secure the adoption of value-increasing governance arrangements that management disfavors'.

Shareholders

In many ways the current debates on the role of shareholders has echoes of Gordon Gekko's famous speech in the movie *Wall Street* to the AGM, 'I am not a destroyer of companies. I am a liberator of them.' Gekko's language might have changed in *Wall Street: Money Never Sleeps* (2010) but the tensions he expressed in 1987 are as real today.

Others[5] assert that, in the USA at least, 'investor activism has not – and cannot – prove a panacea for the pathologies of corporate governance'. This, in part, reflects wider aspects of the US approach to corporate governance. Hutton[6] points out that in the USA companies are 'seen as no more than vehicles for the expression of individual property rights, and as such essentially unassailable'. Smaller stockholders, employees and their unions, and other members of the 'stakeholder' community had few rights other than those granted by the dominant owners.

In the USA and elsewhere, stakeholders within firms are demanding a clearer say based on better information about policies and rewards. Demands range from the right to approve remuneration packages to greater scrutiny of environmental and ethical policies. The radical right argue that imperfections in markets allied to external restraints on entry and exit create an environment for abuses to proliferate especially as regulatory interventions increase complexity and undermine enterprise.

The creation and evolution of organisations like PRONED following the Cadbury Report in the UK highlighted the challenges facing those 'independent' (often called non-executive) directors, i.e. those outside the executive team. This, in turn, prompted organisations like the Institute of Directors to launch substantial training programmes and wider networks to recruit independent directors.

In several countries, notably the UK and USA, associations of shareholders have emerged to seek ways to ensure that private investors (as opposed to institutional investors) are afforded equitable treatment in corporate governance. The US United Shareholders Association was an influential voice for those who want to 're-assert that directors of companies are fiduciaries representing the interests of the owners'.

The available evidence[7] of the United Shareholders Association Shareholder 1000 (USA) suggested that by targeting under-performing corporations: 'The USA was successful in influencing corporate governance and in enhancing shareholder wealth.'

A later study[8] of the wider 1,000 largest publicly traded firms in terms of market value of equity found that 'USA shareholder rights . . . are positively correlated with corporate performance levels'.

However, as implied by the title of the former paper, the Shareholders Association and its 1,000 were relatively short lived – operating only from 1989 through 1993. Since then several attempts have been made to revive the organisation while other shareholder groups have emerged such as AmericanShareholders.org in the USA and similar organisations across Europe like Germany's Schutzgemeinschaft der Kapitalanleger (SDK) and elsewhere. Euroshareholders (the organisation of European shareholders association) lists 25 national bodies across its membership.

The global financial crash saw the emergence in the UK of shareholder groups linked to specific firms like Northern Rock and Bradford and Bingley. These typically seek specific redress against directors or government.

The advocates of legislative action and strengthened statutory agencies highlight the failures of the voluntary systems of supervision and control. These 'mechanisms to constrain behaviour' operate to control the interest groups while claiming to assert the wider corporate, public or community interest in responsible stewardship. This is especially true given the increasing distance between the point of ownership and the point of control.

In many large firms the genuine 'point of ownership' is the subscriber to a pension scheme or financier of institutional investors. He or she can only exercise ownership power through a long line of trustees, investment advisors, fund managers and corporate officers. At this distance, it is hard for some to see how genuine 'ownership' can be exercised without the support of the state.

Critics of this approach highlight:

- the high costs of legislative reform and intervention;
- the technical difficulties;
- the scope for voluntary control and internal reform.

Internal and voluntary reform is the key to sound stewardship in the eyes of many of those who acknowledge the problems. They see government action as likely to impose high costs on all – the responsible and the irresponsible – while addressing the wrong problems in a cumbersome way.

Europe

The European Shareholders Rights Directive of 2007, however, acknowledges that 'effective shareholder control is a prerequisite to sound corporate governance' and proposed a series of rights specifically in terms of engagement, transparency and such as:

- the possibility to put items on the agenda of the general meeting;
- to ask questions related to items on the agenda;
- getting in good time information relevant to the general meeting.

In the UK and USA policy has largely concentrated on establishing voluntary and internal systems and voluntary codes of practice, such as the the UK Corporate Governance Code of the Financial Reporting Council.

> Corporate governance is the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's actions are subject to laws, regulations and the shareholders in general meeting.[9]

This clearly limits the power of shareholders to appointing directors and the auditors and ensuring that an appropriate governance structure is in place. In the same vein, directors are expected to 'follow the spirit of the code as well as its letter' notably in being:

- collectively responsible for the long-term success of the company, with non-executive directors constructively challenging and helping develop proposals on strategy;
- willing to allocate sufficient time to the company;
- in a position to present a balanced and understandable assessment of the company's position and prospects;
- engaged in a dialogue with shareholders;
- all with the related assumptions that they cannot profit from their position of trust and act within the law.

Initiatives in the North and South America, Asia and Europe have developed along broadly common lines. They emphasise:

Direction

- clearer and stronger leadership;
- clearer requirements and tighter controls of top management notably the CEOs;
- better access for shareholders to senior management especially before major resource disposal or acquisition decisions;
- better training for directors.

Representation

- greater diversity on boards;
- more 'shareholder' directors or clearer voice in board-level appointments;
- better organised and more full representation of shareholders including, but not only, institutions.

Information

- greater transparency;
- better information for shareholders;
- identify and communicate local, national and international interests.

Monitor and control

- more explicit role(s) for independent directors;
- role of senior independent director;
- greater control on executive remuneration;
- more use of 'independent' committees, e.g. audit and remuneration.

Investigation

- closer but more strategic scrutiny by government agencies;
- systems of legislative compliance under closer scrutiny.

Other

- more emphasis on adding value to shareholder assets;
- less short-termism.

In its recent Corporate Governance Green Paper[10] the EU adopted a broadly similar 'comply or explain' approach to implementing corporate governance codes as the UK. The Green Paper, however, paid far more attention to minority shareholder engagement especially on remuneration.

In this Green Paper, however, the EU sought to address a wider concern about the value and effectiveness of corporate codes and regulatory intervention. For some, the apparent failure of these codes and related regulations simply means that some boards, as presently constituted and composed, will continue to be open to types of abuse of position seen in the 1980s, 1990s and 2000s. The Green Paper explicitly criticises the proportion of women on the (supervisory) boards of listed companies in the EU (12 per cent) and calls for more diversity in the members' profiles. This is broadly in line with the conclusions of the Davies Review,[11] *Women on Boards*, which noted that 'in 2010 women made up only 12.5% of the members of the corporate boards of FTSE 100 companies. This was up from 9.4% in 2004. But the rate of increase is too slow.' See Table 7.1.

Anger in the City of London

Source: Tinite Photography/Alamy

Table 7.1 International comparison of women on boards

Country	Percentage of women on boards
Australia	9.9
Hong Kong	76
Japan	0.9
New Zealand	11.4
Singapore	5.7
Industrialised Asia-Pacific	**3.6**
Austria	6.7
Belgium	6.5
Denmark	12.1
Finland	21
France	8.2
Germany	9
Greece	9.5
Iceland	14.3
Ireland	7.1
Italy	3.6
The Netherlands	10.3
Norway	35.9
Portugal	0.4
Spain	6.6
Sweden	23
Switzerland	8.4
UK	7.8
Industrialised Europe	**9.6**
Canada	11.3
USA	11.4
North America	**11.4**

Source: 'Women on Boards: A Statistical Review by Country, Region, Sector and Market Index', *Governance Metrics International*, March 2009.

Chandler[12] has highlighted the importance of the creation of new structures: 'to make possible continuing effective mobilisation of resources to meet both changing short term market demands and long term market needs'.

The era of managerialism was part of this process but not the final stage. There is every indication that the current stage in the evolution of the market economy will call for the creation of new structures if mangers are to work effectively, opportunities are to be developed, community needs satisfied, sustainable economies and environments managed and ownership rights respected.

There is already a shift from traditional, mainly financial, measures and criteria for performance to wider corporate responsibility indicators as firms seek to enhance the quality of management while linking new measures like 'double bottom line' to earnings (Figure 7.2).

Failure, for example, to acknowledge these issues risks undermining business's primary sources of support and raise questions about its legitimacy.

The 'Main Street' versus 'Wall Street' debate in the USA has echoes across the industrial world.

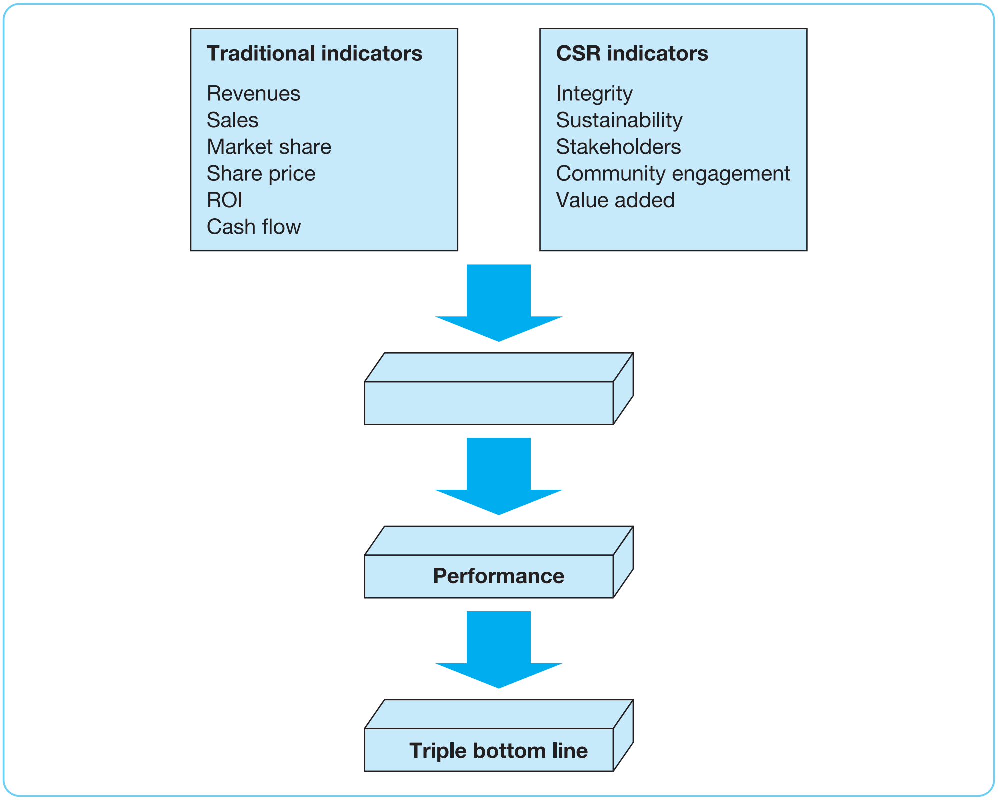

Figure 7.2 Corporate responsibility indicators

Remuneration

These concerns are reinforced by apparent abuses, like dramatic increases in salaries for directors and CEOs, especially where there seems to be little in the way of justification.

The private sector

The UK's High Pay Commission[13] highlighted not only the sharp increases in executive remuneration, from 69 times average wage in 1999 to 145 times average wage in 2011, but projected it to increase to 214 times executive pay in 2020. These sharp increases do not seem to be linked to any of the more conventional measures of corporate performance notably increased competitiveness, profits or the market capitalisation (value) of the business of which they are stewards (Figure 7.3).

Even allowing for differences in forms of remuneration, salaries against benefits or bonuses versus stock options, top management in the UK and USA generally received in absolute terms far higher remuneration than their peers in other major economies like Germany and Japan. Despite that, the authorities in many of these countries are intervening to

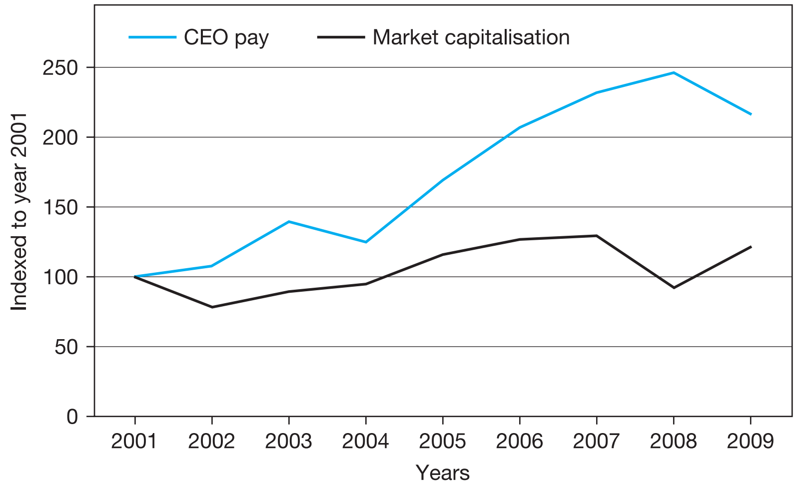

Figure 7.3 Remuneration of chief executives at FTSE 100 firms compared to firms' market capitalisation (indexed, 2001 = 100)

Source: High Pay Commission (2011) *More for Less: What Has Happened to Pay at the Top and Does It Matter?* Interim report of the High Pay Commission May 2011, London: High Pay Commission, page 54, Fig. 8.

control executive remuneration. In Germany, for example, the 2009 German Corporate Governance Code introduced new requirements, while firms seeking to take advantage of the Liquidity Fund created to help address the economic downturn had to accept executive wage restraint.

Hutton's critique[14] of these inequalities has, if anything, gained more power in the post-financial crash environment:

> The case linking inequality and the economy is simply put. Inequality between classes and regions adversely affects both demand and supply. Demand becomes more volatile and unbalanced while supply is affected by underinvestment and neglect of human capital.

The debate on compensation is driven by a number of forces. These include:

- the apparent injustices in the process of determining levels of pay;
- the latitude allowed directors and other institutional or corporate leaders;
- the lack of a clear relationship between organisational performance and pay;
- the proliferation of 'packages' or hidden supplements;
- the weakness of the systems of supervision.

The combination of the factors prompted Crystal[15] first to ask: 'Is the system [of top management remuneration] rotten around the core or is it rotten to the core?', and eventually to conclude: 'I'll take choice B.'

These are not issues confined to the private sector although there is a tendency to focus attention on business leaders. The contrasts in the public sector can be stark.

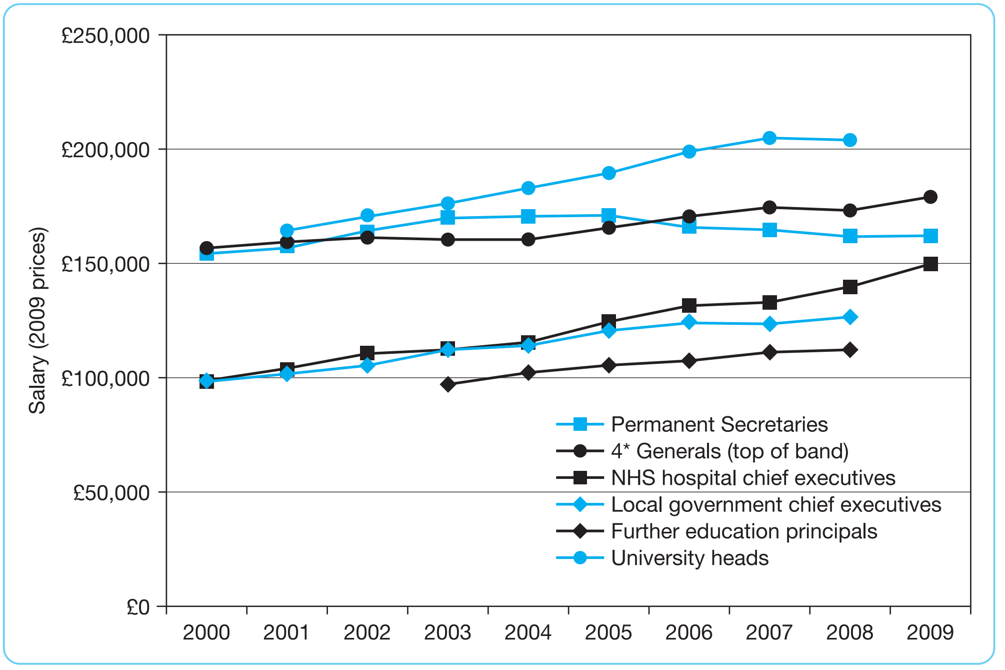

Figure 7.4 Real average salaries of top public sector managers 1999–2009 (2009 prices)

Source: HM Treasury (2010) *Hutton Review of Fair Pay in the Public Sector* (Interim Report). London: HM Treasury, Chart 2.1, p. 45. © Crown Copyright 2010.

The public sector

Pay at the top end of the public sector has grown faster than all pay in the public sector, but not at anything like that in the private sector (Figure 7.4).

The contrasts in the public sector can be stark, especially between those at the bottom of the salary scale being paid the minimum wage of £11,700 and those at the top. If, however, we use the criteria of chief executive salary against average on the BBC, it breaks through the 20:1 ratio recommended by the Fair Pay Commission (Table 7.2).[16]

Even if the national minimum wage is used, only the BBC has a multiple more than 20:1.

Table 7.2 Public sector pay

Sector	Multiple: Highest paid over average
BBC	21
Local government	16
Teaching	8
NHS	10
Universities	9
Police	9
Judiciary	6

The conventional mechanisms for setting wages in industry and their assumed justification do not seem to be working in the private sector in the case of top management (Table 7.3).

Table 7.3 Setting remuneration: forms and justifications

Form	Justification
Simple comparisons	A level is set based on information about rates elsewhere – remuneration seeks equity while it minimises losses to firms paying more
Job analysis	The work is analysed and remuneration is set based on 'comparing like with like' with fairness as the key justification
Negotiated wages	Directly or through a third party is determined through negotiation with the justification based on a contract
Administered systems	An 'external' agency, e.g. government, creates a formal procedure under which acceptable levels of remuneration are determined

Remuneration committees with a majority of independent directors are increasingly a key feature of legitimacy and proper accountability for the current system. The terms and conditions of a remuneration committee will usually include:

- establishing the corporate policy on salaries;
- tailoring the individual packages to match the culture, management style and competitive environment;
- making judgements on specific cases taking into account performance;
- reporting to shareholders on its membership and practice.

Under pressure from the Financial Reporting Council there has been steady progress in winning the commitment of firms initially to both the Combined Code and more recently to the UK Corporate Governance Code. Despite that, research by Grant Thornton[17] among the FTSE 350 a few years ago found a mixed picture with general support for the principles but gaps in its application in key areas (Table 7.4).

Table 7.4 Commitment to the Combined Code

Issue	Compliant
Does company make a statement of if and how the Combined Code has been applied?	75%
Remuneration Committee, at least two members, all of whom are independent NEDs	30%
Nomination committee majority independent NEDs	20%
Does the board comprise of at least two independent NEDs?	30%
Majority of NEDs classed independent	40%
Do the directors, especially NEDs, have access to independent professional advice at the company's expense?	40%

The Accounting Standards Board found similar gaps in compliance in a number of areas of compliance with the (UK) Companies Act (Table 7.5).

Table 7.5 Compliance

	Non-compliant	Falling short
Business description	6%	52%
Strategy	8%	44%
Principal risks	0%	66%
Performance and position	4%	20%
Trends and factors	6%	56%
Corporate social responsibility	12%	34%
Contractual and other arrangements	12%	52%
Financial KPIs	6%	34%
Non-financial KPIs	32%	20%

There is an implicit 'ethical contract' by management to establish and maintain systems which link their role as trustees with their needs as executives. Too often this 'ethical contract' has been interpreted in favour of insiders rather than the wider community.

The ethical contract is closely linked to the more traditional, operational contracts between the executive and the other stakeholders in the venture. The legitimacy of the leadership role within the firm is sustained by the interaction of these 'relationships'.

External legitimacy is sustained and controlled by the developing and constraining roles of the personal ethic of individuals and the internal and external systems of scrutiny, each of which is reinforced by mechanisms for enforcement. Together, these underpin the 'corporate contract' between the employee and the firm which is the basis of stewardship.

The challenge of the multinational

The 'contract' taken for granted at home may be open to greater challenge abroad. The massive shifts in world trade raise a host of questions, some about appropriate behaviours in different contexts. The injunction 'when in Rome, do as the Romans' poses real problems for international businesses. These concerns have prompted many to acknowledge that, although in some countries the rights and high standards of corporate governance are little more than aspirations, the international dimensions of Corporate Governance cannot be ignored.

In 1999, member governments of the OECD voted and endorsed the OECD Principles of Corporate Governance. These go some way to establish international standards in governance. The principles assert that a Corporate Governance Framework[18] should:

> Promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities.

The framework further seeks to:

- protect and facilitate the exercise of shareholders' rights;
- ensure the equitable treatment of all shareholders, including minority and foreign shareholders – all shareholders should have the opportunity to obtain effective redress for violation of their rights;

- recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises;
- ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership and governance of the company;
- ensure the strategic guidance of the company, the effective monitoring of management by the board and the board's accountability to the company and the shareholders.

In line with this, in 2009, 37 countries – including the UK, USA, Japan, Germany, Brazil and France – signed up to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, which is a legally binding standard to criminalise bribery of foreign public officials in international business transactions.

The challenges, however, go further as the questions raised for international business have gained sharper focus as legislatures and regulators, often prompted by NGOs and more spontaneous action groups, have sought to intervene on issues as diverse as exploitation of minorities, lack of health and safety legislation, child labour, union rights and even the ethics of plant relocation.

The attempt to address these issues faces a series of new questions. They range from questions about the transferability of one moral code to another culture or community, to the claim that firms shift production to exploit loopholes in legislation. Wages in Mexico and the Caribbean are far lower than those in the United States prompting companies to transfer production to lower wage cost areas. At the same time these, typically poorer countries, get jobs, innovative technologies, management or business skills and access to world markets.

Key concepts of governance, ethical or operational assumptions may be challenged in different environments. The Friedmanite reliance on rules has limited value as managers are operating within several rule structures. These will include the rules of the 'home' country, those of the 'host' market and any accepted international regulations, e.g. the UN Charter of Human Rights. Even the notion of profit maximisation can have a different meaning to a Japanese and a USA businessperson.

Obligations and contracts

This increases the obligation on the individual or the enterprise to establish an internally sustainable, externally justifiable code of ethics and corporate governance. In effect, the 'business contract' is spelt out by the party best able to understand, outline and sustain its terms and conditions.

Donaldson[19] tackles the problem of arriving at the contract where the regulator or partner is unable or unwilling to define his or her terms by distinguishing between minimum and maximum rights, duties or terms. The list of 'fundamental international rights' might include:

- freedom of physical movement
- ownership of property
- freedom from torture
- a fair trial

- non-discriminatory treatment
- physical security
- freedom of speech and association
- minimal education
- political participation
- subsistence.

Kline[20] asks whether these rights can impose on firms a duty to refrain from behaviours which are consistent with their ambitions but deprive individuals or communities of their rights. There is, however, not always a duty to take action outside their immediate sphere of operations to assert these rights. Donaldson suggests that international firms always have a duty to avoid depriving individuals or groups of their rights but never have a duty to aid the deprived from winning their rights. This approach is open to criticism because it fails to draw out the interdependence between the different actions nor does it address all the dilemmas created by local government action.

Another predicament faces the firm trading against a background of state discrimination to address social problems. In Malaysia, the government expects banks to discriminate in favour of lending to Bumiputra-owned businesses – at the expense of Chinese-owned ventures. Is it acceptable for international banks to support these policies? There are two, readily identifiable, routes forward under these circumstances. First, Hartman suggests that the enterprise ought to go beyond the minimum duties. He calls it 'avoiding helping to deprive people of their rights'. Second, firms might act together to establish standards to impose generally or in specific communities.

The Sullivan Principles, which were drawn up by US Secretary of Health and Human Services, Louis Sullivan, to guide US companies, are an illustration of this type of action. In conducting its mainstream business, the international firm influences the economic and social development of a community in a number of ways. It can contribute to shaping the goals and aspirations of the nation. The venture might reinforce existing aims or processes.

These issues highlight the substantial costs of corporate governance in international business. Tomassen and Benito[21] suggest that 'governance costs explain almost 40% of the performance variance among the foreign subsidiaries in the studied sample, which underlines the importance of governance costs for business performance'.

Regardless of the cost and form of response, it seems inevitable that the nature of the corporate contract in international business will be subject to increasing scrutiny as firms become more mobile, barriers between markets erode and the globalisation of industry increases.

Other players, other values?

Cultural, ethnic and social variety is not confined to international markets. Close examination of most mature economies, markets and communities highlights their internal complexity. Economic development has been shaped by migration, interaction between different groups and the actions of outgroups. Non-conformists in Britain, Scottish migrants in North America, the Jewish community across Europe and Calvinists in Germany played a disproportionate role in shaping the industrial revolution in the last century. Their debates about the purpose of commerce – from Smith (the Scot) to Hayek (the Austrian migrant) continue to mold discussion.

Their influence on the discussion on corporate responsibility has, if anything, been even greater. The Welshman, Owen; Cadbury, the Non-conformist; and the Scot, Carnegie symbolise the ability of individuals from outside the establishment to raise new issues and question the values and assumptions of the dominant community. There is a distinct Islamic dimension to business in many communities in the USA and Europe.

Changes in today's business environment suggest that new players are entering the economic arena. Their aspirations and values are influencing the debate on corporate responsibility and governance. Some derive their codes of ethics from outside the Judaeo-Christian tradition which dominates European and American business. Shinto in Japan, Hinduism from India and Islam impose different obligations and have different expectations of their believers. Japanese, Korean, Chinese and Indian products can be seen on every high street and their factories and offices exist in most communities. Equally important, recent decades have seen the acquisition of major brands in the West and North by firms from the East and South. In the UK, companies as diverse as Tetley and Land Rover are now owned by Tata from India.

These companies and entrepreneurs whose roots lie in Asia and the Middle East are valued members of business communities across Europe and the USA. Their ethical codes are seldom incorporated in discussions of corporate responsibility. It is, however, increasingly important to explore the ways the values of these new players will influence the debate on ethics and responsibilities. The emphasis in Asia on the group, for example, contrasts sharply with the individualism which dominates Anglo-Saxon debate on values and responsibilities. The attention paid to harmony within the group; Amae, and with nature; Shibui, have few equivalents in European or USA thinking. In Islam, attitudes towards religious observance and social obligation struggle to coexist with Western materialism. Fate, caste, family and respect play a complex part in shaping the business behaviour of Hindu business.

The nature of entrepreneurship

A more subtle, but, potentially equally important change is being wrought by the new generation of female managers and entrepreneurs. There is some evidence that many have a stronger sense of group or community than their male counterparts. Prima facie evidence from studies of female entrepreneurs suggests that their personal goals and value profiles differ significantly from their male counterparts.

The modern business community is culturally complex, ethnically diverse and not gender based. It reflects increasingly the community in which it operates. The nature of the contract between business and its community is being renegotiated to reflect these changes. Business is showing growing awareness of the challenges it faces in addressing issues of stewardship, employment and investment in an international environment characterised by complex and changing expectations. Responsible business acknowledges the impact of its actions and its responsibility to satisfy the economic functions of the firm in an environment of trust.

The decision by communities to give industry greater freedom during the 1970s, 1980s, 1990s and early 2000s assumed a link between freedom and prosperity *for the whole society*.

Like all political decisions it is conditional. One of the implicit terms of this contract is that self-regulation delivers the economic benefits while ensuring the community is maintained and developed effectively at a minimum cost. The values of the executives who are responsible for delivering their side of this 'bargain' are shaped by a tradition of debate which gains added momentum from all the new issues and perspectives that are emerging today. The apparent failure to deliver on this 'bargain' is leading some to question the core assumptions behind 30 years of thought about corporate governance and stewardship.

Definitions

Corporate stewardship as defined by the UK's Financial Reporting Council[22] appears to be built around three key issues: effective and honest reporting; integrity; and fostering quality improvements. This places a clear responsibility on the leaders of the business, typically the board of directors 'to provide strategic direction; to ensure its executives implement that strategy; and to report openly and honestly so that they can assess the progress being made; to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company'.

Tomorrow's Company[23] has a rather more open-ended definition of stewardship, stating it as: 'the active and responsible management of entrusted resources now and in the longer term so as to hand them on in better condition'.

QUESTIONS

1 Discuss the contribution that a shareholder 'bill of rights' can make to effective corporate governance.

2 Can Rawls help in understanding the nature of corporate governance?

3 Compare the role that disclosure plays in corporate governance in the USA, Germany and Japan.

4 Detail the provisions of the EC's latest Directive on company law. How are these provisions likely to affect company behaviour?

5 It is sometimes argued that supervisory boards work very well during periods of growth and prosperity but are major barriers to change especially during times of economic difficulty. In the light of recent German experience, how far do you accept this criticism?

6 Outline the arguments for and against the separation of the roles of chairperson and chief executive of a large plc. How would your views change when dealing with a medium-sized firm?

7 Analyse the proposition that the key difference between US and UK systems of corporate governance and those prevalent in most of northern Europe is that in the latter ownership 'is a necessary but insufficient definition of accountability [while] . . . those who give their lives to the company are as important as those who put their money in'.

8 Define:
(a) paternalism
(b) disclosure
(c) entrepreneurial capitalism
(d) cronyism
(e) the duty of loyalty
(f) LBO
(g) supervisory boards.

CASE STUDY 7

Sir Stuart Rose, Chairman and Chief Executive

In 2008, after a very successful time as Chief Executive of Marks & Spencer, Sir Stuart took the controversial decision to combine his role with that of Executive Chairman despite concerns expressed by regulators and some shareholders. Comments by some of these led him to defend his fellow board members saying ‘they're not muppets’ – and confirming that he and the company would ‘revert to separate Chairman and Chief Executive at that time’.

Sir Richard Greenbury, one of his predecessors, defended the decision despite it being counter to corporate governance best practice as implied by his own ‘Greenbury Report’. Besides this, major institutional shareholders such as Brandes and Invesco Perpetual backed the decision.

Three years later, Sir Stuart departed from the company with a cash bonus of £1.36 million, as part of a total remuneration during his final year at the company of £2.77 million, despite a disappointing year for the company's shares.

At roughly the same time, Sir Stuart called for a review in the gap between executive pay and staff wages. ‘We have to accept that over the last year or three the division between the lowest paid and the highest paid has got wider. So that does need looking at’, he said. ‘The biggest rule that I think people should set themselves is: no pay for failure. That's what people really, really hate.’

Question

What does this or similar issues in executive behaviour tell us about business leadership?

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Chapter 8

Standards, safety and security

Few issues raise more challenges or pose more uncomfortable questions for corporate leaders than standards of health, safety and security. Aberfan, Bhopal, Piper Alpha, Exxon Valdez, Herald of Free Enterprise, Three Mile Island, Chernobyl, Texas City Refinery, AZF fertiliser factory, Georgia sugar refinery Port Wentworth, Qinghe Special Steel Corporation, Buncefield oil storage depot, Deepwater Horizon and Fukushima are still fresh in the minds of the public and business. The human tragedies, let alone the financial consequences, force responsible executives to ask which standards they apply in their factories, plants and offices.

It is increasingly hard to estimate the scale of human loss of just those listed above, not least because losses from nuclear failures can occur over a long period of time. The

Ruins of the Union Carbide pesticide plant, Bhopal, India

Source: Nathan King/Alamy

Table 8.1 The ten most expensive disasters

Disaster event	Million (US$)
Fukushima	55,000
Deepwater Horizon	30,000
Chernobyl	5,000
Tanker Prestige	2,500
Exxon Valdez	3,000
Piper Alpha	1,750
Buncefield oil storage depot	1,100
Bhopal	2,500
Petrobras P36	750
Enchova Central	650
Total	102,250

immediate death toll of those listed is around 5,000. Bhopal is considered the worst with an immediate death to of up to 4,000 but the ultimate toll of these events is likely to be many multiples of this figure.

The financial costs are equally difficult to estimate but the costs of the 10 worst, in financial terms, are likely to be around US$1 trillion, with the costs of Fukushima and Deepwater Horizon continuing to climb (see Table 8.1).

The combination of these factors can be added to the day-to-day risks in industries like construction and mining (Table 8.2). The Labour Force Survey calculates that in Britain every year, some 274,000 people suffer an injury at work. Of these, 28,267 will incur a major injury while 241 will die.

Although internationally the most dangerous jobs vary, some are universally risky, with fishermen, construction workers and miners among the most dangerous occupations: in the USA, for example, sanitation workers or garbage collectors rank in the top ten; while in Japan nuclear workers face massive risks; whereas in China it seems to be road building. In the face of this, health, safety and security rank high in corporate social responsibilities. Globally, the annual economic cost of major occupational accidents (2010–2016) alone is reported at US$5 billion.[1]

The central dilemmas in this area are similar to others in the CSR field. Does the firm:

- Aspire to minimum, i.e. those determined by law and scrutiny?
- Target satisfactory levels, better than the law but defined narrowly?
- Achieve the maximum possible?

Table 8.2 The 10 most dangerous jobs in Britain (not in order)

Bomb disposal or mine-clearance expert
Construction workers
Deep-sea divers
Farm workers
Fisherman or merchant seafarers
Lorry and commercial drivers
Oil or gas riggers
Police
Soldiers
Timber cutters

These revolve around the broader question as to whether there are absolute standards which the firm establishes even if they are higher than legislators require. For international businesses, there is the corollary issue of whether they adapt to standards which can be locally enforced or are there standards which are imposed in the richest, most powerful and most health and safety aware locations and must be generalised across companies? For the OECD[2] the aspiration is for multinational companies to:

> follow prevailing regulatory standards and industry norms to minimise the risk of accidents and injury to health arising out of, linked with, or occurring in, the course of employment. This encourages enterprises to work to raise the level of performance with respect to occupational health and safety in all parts of their operation even where this may not be formally required by existing regulations in countries in which they operate.

The World Trade Organisation is also taking a wider role on health and safety issues.[3] Internationally, however, the International Labour Office (ILO) is taking the lead in delivering 'decent, safe and healthy working conditions.'[4] The ILO Convention[5] places the following responsibility on businesses to:

> (a) provide and maintain workplaces, machinery and equipment, and use work methods, which are as safe and without risk to health as is reasonably practicable;
> (b) give necessary instructions and training, taking account of the functions and capacities of different categories of workers;
> (c) provide adequate supervision of work, of work practices and of application and use of occupational safety and health measures;
> (d) institute organisational arrangements regarding occupational safety and health and the working environment adapted to the size of the undertaking and the nature of its activities;
> (e) provide, without any cost to the worker, adequate personal protective clothing and equipment which are reasonably necessary when hazards cannot be otherwise prevented or controlled;
> (f) ensure that work organisation, particularly with respect to hours of work and rest breaks, does not adversely affect occupational safety and health;
> (g) take all reasonably practicable measures with a view to eliminating excessive physical and mental fatigue;
> (h) undertake studies and research or otherwise keep abreast of the scientific and technical knowledge necessary to comply with the foregoing clauses.
>
> Whenever two or more undertakings engage in activities simultaneously at one workplace, they should collaborate in applying the provisions regarding occupational safety and health and the working environment, without prejudice to the responsibility of each undertaking for the health and safety of its employees.

Once a set of standards is established, the immediate challenge is to determine who is responsible for enforcement. It can be the external legislator, the employees or their representatives or the company itself. In the UK, there are two main sets of regulations covering health and safety at work. These are the Health and Safety at Work, etc. Act 1974 and the Management of Health and Safety at Work Regulations 1999. These largely place responsibility on: the individual, for him or herself; the individual for him or herself and others who may be affected by what he or she does or does not do and the employer.

As environments and technologies change, the issues are:

- In what ways should industry respond to demands for security, greater safety, improved literacy, job and wealth creation in communities that differ widely in their cultures, expectation and capabilities?
- What can firms do to establish systems that work locally, through local staff, to set and maintain standards?

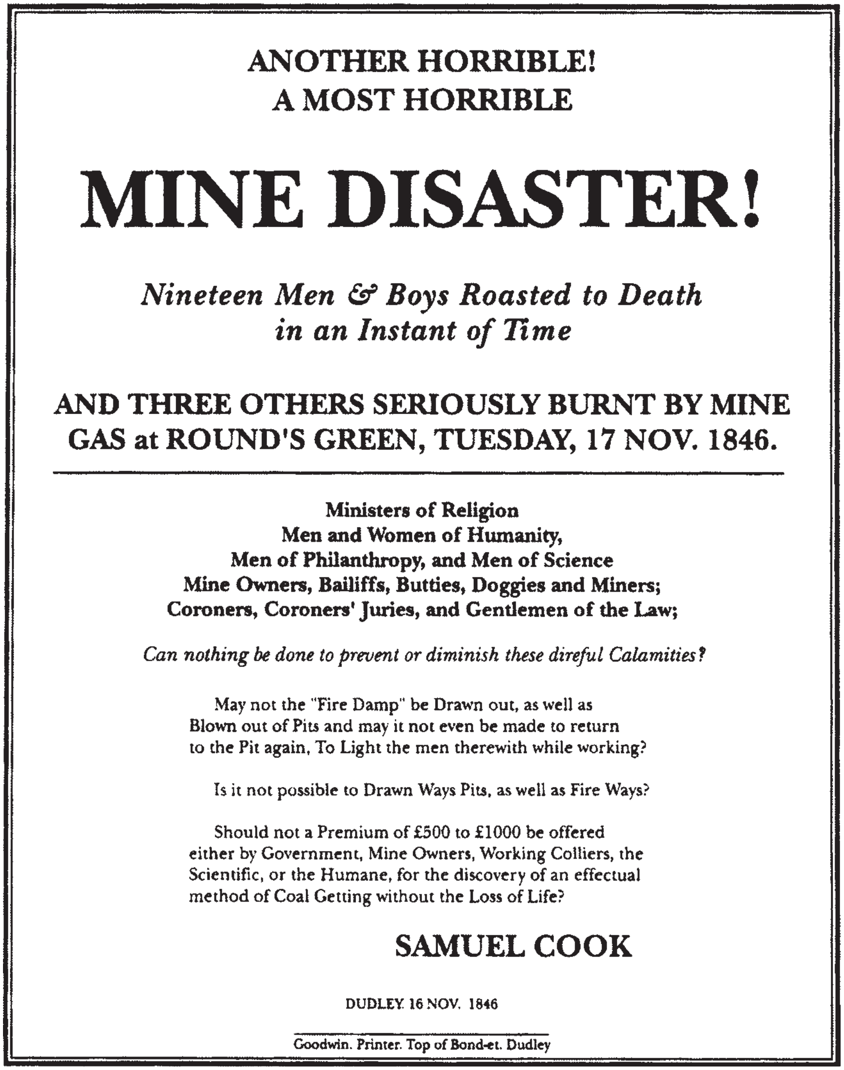
The problems are not new. Economic and industrial growth involves change and risk. The character of the change involved has worried commentators since the start of the industrial age.

> There were trim cheerful villages too, with a neat or handsome parsonage set in the midst; there was the pleasant tinkle of the blacksmith's anvil, the patient cart horses waiting at his door; the basket maker peeling his willow wands in the sunshine; the wheelwright putting the last touch to a blue cart with red wheel; here and there a cottage with bright transparent windows showing pots of blooming balsams or geraniums, and little gardens in front all double daisies or dark wallflowers; at the well clean and comely women carrying yoked buckets, and towards the free school small Britons dawdling on . . . The land around was rich and marley, great corn stacks stood in the rick yards . . . this was the district of protuberant optimists, sure that old England was the best of all possible countries . . . But as the day wore on the scene would change: the scene would begin to be blackened with coal pits, the rattle of hand looms to be heard in hamlets and villages. Here were powerful men walking queerly with knees bent outward from squatting in the mine, going home to throw themselves down in their blackened flannel . . . here were handloom-weavers, men and women, haggard from sitting up late at night to finish the week's work, hardly begun till the Wednesday. Everywhere the cottages and the small children were dirty, for the languid mothers gave their strength to the loom.
>
> George Eliot, *Felix Holt*

The accumulated evidence that industrialisation in the early part of the 19th century was linked with higher wages, better housing and general improvements in the standards of living for the vast bulk of the population does little to change the image shaped by writers like Eliot, Dickens and Disraeli. In the first half of the century real wages increased rapidly while prices dropped sharply after the end of the Napoleonic War. Although there is an element of romantic nostalgia in the views of the past, other factors came together to blind writers to the material gains from industrialisation.

These go to the heart of the challenge facing those who seek to highlight the gains and bring out the ways industry can respond responsibly to critics. First, industrialisation has, in the past, been associated with far greater aggregations of people in cities and industrial centres. Rural deprivation was dispersed while urban squalor is concentrated. Writers who could remain unaware of the problems of the countryside were forced to acknowledge the problems of the cities in which they lived.

Concentration introduced a second feature. In rural or pre-industrial communities, it was only natural disasters which affected large numbers of workers or users. Farm accidents occurred very frequently but seldom affected more than a few workers. The famines, floods or earthquakes which affected large numbers could be explained as God's work or providence in some other form. The advent of mining and industry changed this. An explosion, fire or collapse might involve hundreds of workers and their families. Whole communities were affected. Society saw a 'man made' disaster and wanted an explanation. In its simplest form, technology had created the problem so technology should be able to solve it.



ANOTHER HORRIBLE!
A MOST HORRIBLE

MINE DISASTER!

Nineteen Men & Boys Roasted to Death in an Instant of Time

AND THREE OTHERS SERIOUSLY BURNT BY MINE GAS at ROUND'S GREEN, TUESDAY, 17 NOV. 1846.

Ministers of Religion
Men and Women of Humanity,
Men of Philanthropy, and Men of Science
Mine Owners, Bailiffs, Butties, Doggies and Miners;
Coroners, Coroners' Juries, and Gentlemen of the Law;

Can nothing be done to prevent or diminish these direful Calamities?

May not the "Fire Damp" be Drawn out, as well as Blown out of Pits and may it not even be made to return to the Pit again, To Light the men therewith while working?

Is it not possible to Drawn Ways Pits, as well as Fire Ways?

Should not a Premium of £500 to £1000 be offered either by Government, Mine Owners, Working Colliers, the Scientific, or the Humane, for the discovery of an effectual method of Coal Getting without the Loss of Life?

SAMUEL COOK

DUDLEY 16 NOV. 1846

Goodwin. Printer. Top of Bond-st. Dudley

A mining disaster

Source: Courtesy of Dudley Archives and Local History Service

Reforms illustrated the potential to improve standards through human intervention? At the same time, the temptation to avoid compliance and its associated costs added the third feature to the challenge to industry. The state could legislate but implementation was the responsibility of the individual or the enterprise. Responsible corporate leaders acknowledge that there is no benefit from ignoring the challenges faced by change, innovation and risk taking.

> I don't want to know about it; I don't choose to discuss it; I don't admit it. The subject is a very difficult one. Mr Podsnap, in Charles Dickens's, *Our Mutual Friend*

The word 'podsnappery' has disappeared from use but the risks of ignoring the dangers associated with industry and change are widely recognised. Newspapers claimed that TEPCO ignored warnings about the risks at Fukushima Daiichi nuclear plant (for example, 'Japan Ministers Ignored Safety Warnings Over Nuclear Reactors', *Guardian*, 12 March 2011; 'Tepco Ignored Warnings about Tsunami Risk', *Bloomberg*, 18 March 2011; 'Japanese Officials Ignored or Concealed Dangers', *New York Times*, 16 May 2011).

Legislation has never been a good substitute for prior planning and executive action. The Offshore Safety Act 1992 set in place some of the most comprehensive offshore safety systems in the world but could do nothing for those most affected by the Piper Alpha disaster.

The USA probably has more expertise within government, more legislation such as the Outer Continental Shelf Lands Act of 1953, National Environmental Policy Act (NEPA), the National Environmental Policy Act, Oil Pollution Act of 1990, National Marine Sanctuaries Act, Clean Water Act and more, better resourced agencies, notably the Minerals Management Service (MMS), Fish and Wildlife Service, the United States Coast Guard and the Outer Continental Shelf Safety Oversight Board but has experienced some of the most catastrophic environmental disasters the world has seen in the last half century. The report to the President on the Gulf Oil disaster[6] included an illustration of the formal approval process that regulators imposed on BP before agreeing to the development of Deepwater Horizon (Figure 8.1). Ultimately the laws, the regulators and the process failed to deliver the desired outcome. In part, this seems to have been the result of a failure to fully engage the company and its staff. Their priorities were, seemingly, elsewhere.

A fine can be imposed for health, safety and environmental offences but responsible corporate executives give a much higher priority to avoiding the internal failures of compliance. This requires a combination of leadership, endorsement, control and guidance which persists over time.

Evolving agendas

The agenda for response and care is shaped by a series of factors. These include:

- new technologies
- new environments
- new markets
- cultural diversity
- managerial ownership and discretion.

Technology places enormous strains on the ability of human systems to cope with change.[7] This can be seen in some of the most difficult areas of compliance with standards in industry and commerce. Risk analysis and management has emerged as a crucial aspect of strategy. Peter Bernstein[8] in his remarkable book, *Against the Gods: the Remarkable Story of Risk*, highlighted not only the nature of risk but its relationship with technological change. Change has traditionally pushed the bounds of people's, society's and industry's capacity to adapt. A decade before the financial crisis of 2008, he was asking: 'is the entire financial system at risk because so many people are trying to shed risk and slough them off onto someone else?'

We might know the answer to this now but we are still exploring the relationship between risk and responsibility. Much of the current thinking about risk derives from either the insurance/assurance sectors or the nuclear industry.

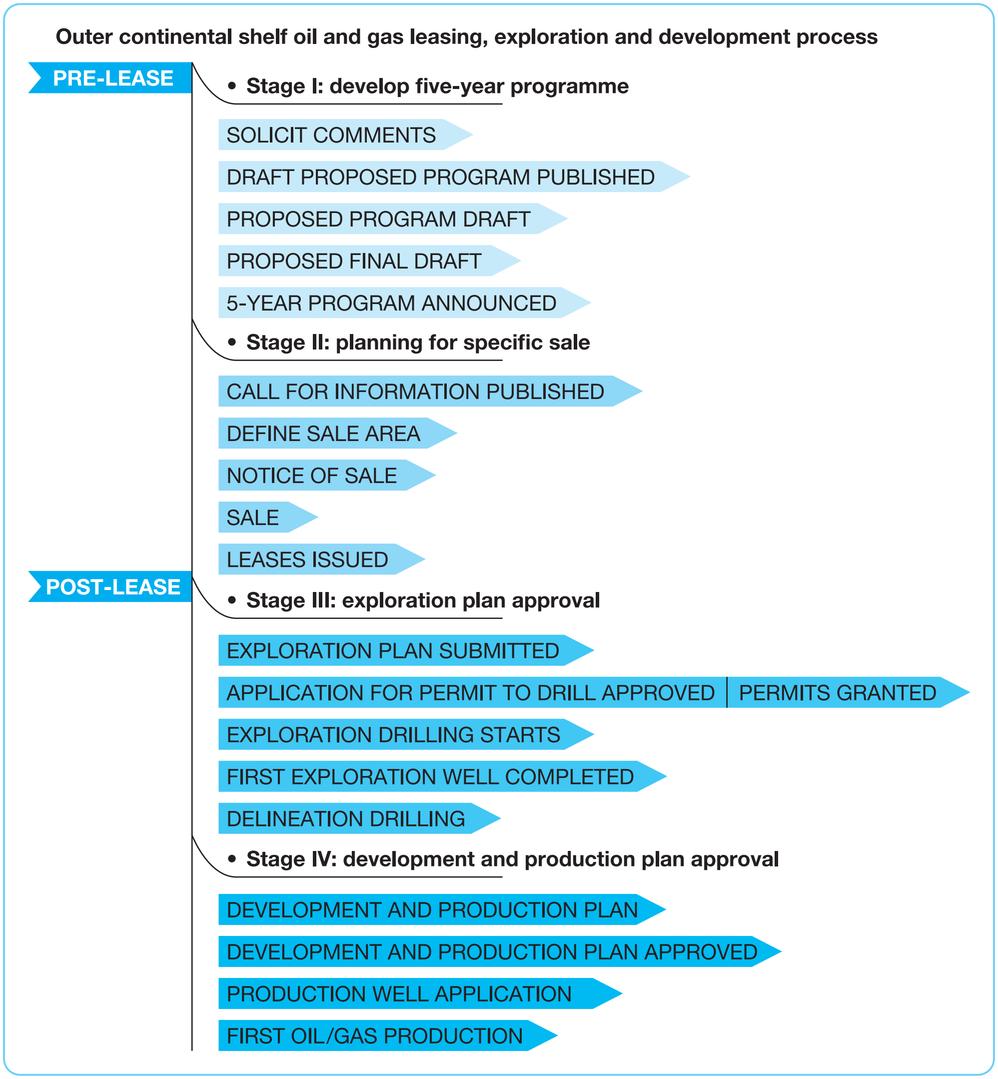


Figure 8.1 The Deepwater approval process

Source: National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling (2011) *Deep Water: The Gulf Oil Disaster and the Future of Offshore Drilling* (Report to the President). Washington, DC: GPO, Figure 3.1, p. 61.

Both have developed approaches to risk which have valuable lessons for management. The Association of British Insurers, for example, notes that:

> so far as underlying corporate performance is concerned, risk aspects of corporate responsibility are as important as bottom line impacts. Companies need to incorporate these matters into strategic risk management, because they can have important implications for drivers such as brand value, market acceptability, human capital and new fields such as biotechnology or nanotechnology. (But) . . . Many companies are not yet managing these systemic risks adequately, posing threats to shareholder value which investors need to take into account.[9]

There has, however, been relative neglect of other aspects of risk management, notably the influence of psychological factors such as group think. Risk assessment is a vital field of insurance and re-insurance. It has grown more complex and demanding as the character and scale of technological risk evolves and grows. Until fairly recently, industrial activity largely dealt with mechanical or electro-mechanical processes. Risks could be seen and understood – even if Podsnappery was widespread.

The early reports of the factory commissioners highlight the tangible and visible risks which surrounded workers. For instance, at John Brown & Company's Steel and Iron Works:

> Masses of red hot metal, too heavy to be carried about, are wheeled about, sometimes by boys (but, one of the managers observed) we do not think that the work hurts the boys' health. It is hot, but they can often rest, and have plenty to eat and drink . . . the worst is, say, the loss of a finger.

In Northampton, where Wellington Boots were made and the stabbing of holes was required:

> [Mr Bostock pointed out to the Commissioner that] the stabbing was laborious, requiring great attention, and was even dangerous, for they often sat so close that in drawing the thread with both hands, the awl, which was always held point outwards, in the right hand, not infrequently struck the next child (which prompted the Commissioner to note). I have noticed, before seeing Mr Bostock, that several persons of both sexes, whom I met in the town, had lost an eye, but thinking it merely an odd coincidence, had not inquired about it, till Mr Bostock made the above remark.[10]

The tangible and immediate nature of these risks made it relatively easy for a combination of legislation, action by insurers and changes in management to overcome the problems at least in the richer, developed countries. Child labour is still common in newly industrialising economies. There are clear echoes of Mr Bostock in the description of child labour in India's silk and sari industry today.

> Bonded children as young as five work for more them twelve hours a day in the silk industry, at different levels of production. They toil for nearly seven days a week, breathing smoky fumes from the silk making machinery. These children squat near cramped looms to help and assist workers in dim and damp rooms. They are required to dip their little hands in boiling hot water that causes blisters and handle dead worms which breed infections. Twisting thread which injure their fingers is also a part of the silk making process.[11]

Socially responsible businesses can play a direct role in tackling these abuses. Kytle and Ruggie[12] note that:

> Three aspects of the global operating environment are of particular relevance for understanding the evolving contributions of CSR to corporate risk management . . .
>
> - networked operations, value chains and the global economy;
> - empowerment of global stakeholders;
> - dynamic tension among and between stakeholders.

The refusal to insure certain types of process or a plant operating in a particular way can be enough to force change or close it down. It is relatively easy to legislate or intervene in areas of high visibility and high impact. The mixture of community awareness and recognised impact reinforces the demands for action. In many areas the impact is high but the

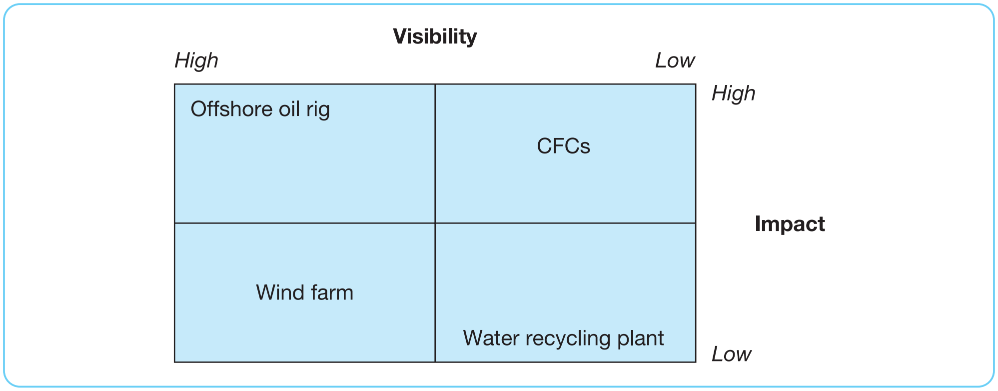


Figure 8.2 Issues affecting the pressure to intervene

visibility is low. This was true of environmental hazards like CFCs and many workplace risks, e.g. carcinogens in the workplace atmosphere. This might mean that problems grow unnoticed until it is too late for effective action. High-visibility, low-impact hazards are often the easiest to act against. With low visibility, low-impact problems the challenge is to persuade people to take action before they have a greater impact (Figure 8.2).

The new technology problems facing firms, legislators and insurers demand greater awareness of the intangible and long-term nature of risk. Headlines about suicides among its employees hit Apple Inc.'s major supplier in China, Foxconn (see Figure 8.3).

This is not a wholly new issue. Pneumoconiosis black lung killed more coal miners than mine disasters. The hidden risks to workers in seemingly safe industries like computing and white goods production adds a new dimension to risk management. In chemicals, biotechnology and electronics the risks are harder to identify and tackle. This problem is compounded by the scale of risk, its extension to new groups and changing attitudes to legal intervention.

The combination of these events allied to natural disasters like the San Francisco earthquake, has made insurers acutely aware of the risks involved in new technologies and

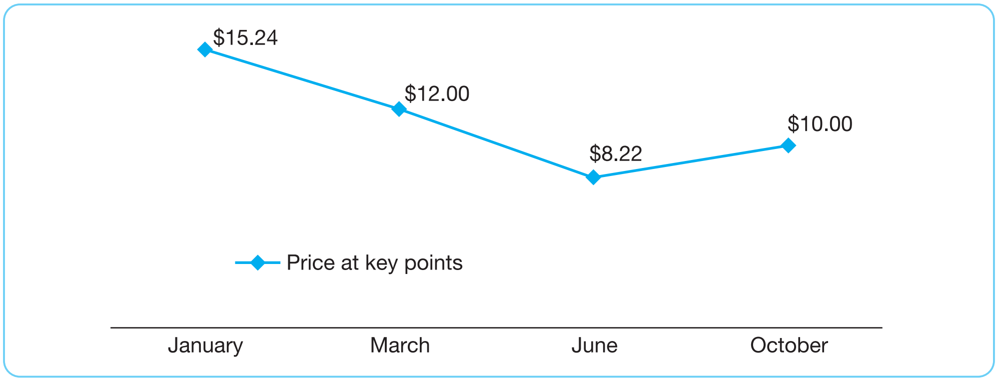


Figure 8.3 Foxconn share price 2011 (Hang Seng Index)

human error. Sir Bryan Corby of the Prudential admitted that 'the substantial difficulties' facing the company in 1990 stemmed partly from 'a failure properly to assess the exposure and get reinsurance levels right'. Pressure from the insurance companies on firms to improve their risk management policies is increasing.

In the UK, questions are being asked about the notion of negligence which has shaped the way the law has dealt with claims. *The Times* contrasted the British view that 'the public shaming of those adjudged responsible for a catastrophe has been regarded as both punishment and deterrent' with the US view that deterrence 'is enforced through huge claims for damages and consequently swingeing insurance premiums'. Notions of neglect in the law are being revised while business must take a more responsible attitude to risk and hazard management.

It is impossible to put a real figure on the costs to insurers of corporate failures leading to claims. The estimates at TEPCO and BP easily run into the tens of billions of dollars. The Payment Protection Insurance (PPI) settlements are set to cost the banks in excess of £9 billion. In the USA, Armstrong Holdings Inc., alone faced about 173,000 asbestos personal injury claims that would cost between US$758.8 million and $1.36 billion. Individual claims go into the millions with one case involving a worker in a local gas station in rural Minnesota leading to a settlement of $8,200,000.00 after being appealed all the way to the United States Supreme Court.

The appraisal of risk and the successful management of hazards requires a clear understanding of their nature. The various ways in which risk is viewed within the firm and the community are categorised in terms of visibility and impact. In some cases both the firm and the community recognise the risks involved in a process. The employers and workers on Piper Alpha knew they were involved in a high-risk industry as did the workers at BP Deepwater Horizon rig. But, the National Commission on the BP Deepwater Horizon Oil Spill made clear:

> as neither industry nor government adequately addressed these risks. Investments in safety, containment, and response equipment and practices failed to keep pace with the rapid move into deepwater drilling. Absent major crises, and given the remarkable financial returns available from deepwater reserves, the business culture succumbed to a false sense of security.[13]

On one level, the employees knew that they were taking risks working in the offshore oil industry. This, however, does not reduce the responsibilities placed on management. It creates an opportunity fully to inform and involve their workers in reducing and tackling risk. Full partnership is the key to success in reducing risk where both parties understand that they are at risk.

There are some situations where neither party appreciates the risk. CFCs were introduced before either the companies involved or the wider community recognised the threat to the environment. Constant vigilance is the only way to keep the costs of these risks to a minimum. The type of environmental monitoring employed to highlight new opportunities can play an equally important role in spotting new risks. This may involve efforts to involve others in auditing and appraising risk. The organisation has special responsibilities where it sees the risk but the community is either unaware of the risk or unable to defend its interests. These obligations include early warning, internal openness and hazard reduction.

There are occasions where the community identifies a risk that the firm cannot see or acknowledge. This might result from internal blindness, e.g. where the venture is too closely identified with a technology or process, or self-interest, e.g. where groups within the firm are exploiting poor financial safeguards. Openness is essential if these latter problems are to be avoided.

Group think is perhaps the biggest barrier to positive change in attitudes to risk and hazard management. It poses general difficulties to the firm attempting to develop an affirmative approach in these areas beside creating severe difficulties in tackling specific issues and events. Analysis of managerial behaviour before, during and after some of the worst problems shows that the features of group think recur.

The problems surrounding the Ford Pinto are a vivid illustration of the consequences of this syndrome. The Pinto was an important but not vital element in Ford's efforts during the early 1970s to reposition its operations in the face of growing competition especially from overseas. It was closely identified, however, with the egos of several key executives at Ford, notably Henry Ford II and Lee Iacocca. The latter was battling to become the leader of the company when Henry Ford II retired. Iacocca had promised to produce the 2,000:2,000 quickly and under budget. This was achieved. The car weighed just over 2,030 lb and sold for US$2,000. It took less than six months to develop and was well under budget.

Ego identification became linked to a sense of invulnerability, the first reports of problems added to this sense of invulnerability. Henry Ford II rejected Ralph Nader's criticisms arguing that people wanted 'good cars, good looking cars, fast cars, cars with power and styling'.

Reading the accounts of the principals, there is a powerful sense of collective rationalisation people were getting the cars they wanted. Critics were stereotyped as ignorant or hostile. This reinforced the sense of inherent morality which prompted the firm to ask the National Highway Traffic Safety Administration to put a price on auto safety. The figure produced was US$200,725. This was then used to calculate the cost per vehicle of improvements needed to solve the problem. The internal report virtually concluded that it was cheaper to pay the accident claims. This symbolised the pressure on group members to rationalise decisions, repress doubts and keep members in line.

Even in his autobiography, a decade later, Lee Iacocca gives a clear impression of self-justification. Although he admits that 'we resisted making any changes and that hurt us badly', he argues that the Pinto was not the only car with this problem of 'fire breaking out if hit from the rear'. At no point does he comment on the deaths or injuries caused by the problem. His argument seemed to centre on the notion that no one 'deliberately [tried] to make this car unsafe'. No critics had made this accusation but had argued that no one put enough effort into making it *Safe*.

Group think was identified by Janis[14] as a characteristic of the ways groups respond to external threat or challenge. It has eight key characteristics:

1 **Invulnerability**: members are overoptimistic. This leads them to take excessive risks with little serious consideration of alternatives.
2 **Collective rationalisation**: contrary evidence is dismissed through explanations which avoid serious reappraisal of assumptions.
3 **Inherent morality**: the group is so confident of the rightness of its actions that doubts are rejected.
4 **Stereotyping**: critics and opponents are allocated a stereotype which eliminates the need seriously to consider their position or response.
5 **Pressure**: demands for loyalty are used to repress doubts and keep members in line.

6 **Self-censorship**: members suppress their questions to retain group esteem.

7 **Illusion of unanimity**: this is maintained vigorously. Silence is treated as 'agreement'.

8 **Mindguards**: specific individuals take on the task of controlling information flows and restricting those ideas which threaten the consensus.

The wider literature on group think highlights the frequency with which groups appear to pursue 'disadvantageous policies after the risks of doing so have become apparent'.[15] Kahneman and Tversky's[16] work on prospect theory and decision under risk has emerged as a powerful tool for exploring these issues. This theory was originally developed to examine why stock market investors became *more risk averse*, if their investments bore fruit *and took great risks* when faced with failure, i.e. the opposite of what might seem rational. In the same way, as the problems or the risks became greater, e.g. when problems with the brakes on the 2010 Toyota Prius became more evident, the initial response was denial even to cover up.

Achieving high standards and managing systems of safety and security demand that group think is avoided and risks and hazards are properly managed. This is as important in new environments or markets as in new technologies. Special challenges exist when firms address different cultures where knowledge, values and assumptions place the onus on the firm to identify issues and potential hazards even if this is not expected or required within the culture.

Managerial responsibilities in practice

The complex nature of modern technologies and the varied nature of the environments in which firms operate call for risk, hazard or crisis contingency planning of a high order. There are four fundamental stages of this.

First, there is preplanning, especially risk identification or analysis.

The latter is inseparable from the second element: **hazard or crisis management**.

Third, firms require post-event learning, feedback and adjustment.

An example of the structured approach can be seen at Du Pont. Edgar Woolar, Du Pont's then CEO, describes the approach in the following terms:

> First we said that we were going to make commitments and measure our progress (pre planning) . . . we would be cutting toxic air emissions 60%, carcinogens 90%, hazardous waste 3% and so on . . . The second thing we did was to take some of our top leaders and form a group called the Environmental Leadership group (management) . . . Another very important change was making this (safety or environmental improvement) one of the primary measures of people's success . . . he or she gets a bonus or salary credit (feedback).[17]

Fourth, high and sustained levels of situational awareness. There is a growing body of research into situational awareness and the effect of situational awareness (or the lack of it) and safety and security, especially in high-risk industries.[18] There are four basic elements in situational awareness;

1 knowing what is going on;

2 knowing what is important;

3 knowing your own role; and
4 being able to project this understanding into the future, especially where risk is involved.

The responsible firm knows that it has no guarantee of immunity from risk or threat. This can range from extreme forms of life or survival threats to limited threats to the firm's operations. Identification of these risks and their key characteristics is an important feature of contingency planning.

Cases

In many cases, these risks can be analysed in terms of technology or people. The extent of dependency on people or technology can be used to classify risks. The most taxing risk management situations exist where security is highly dependent on both people and technology. On Piper Alpha, security depended on both highly skilled staff and advanced safety systems interlocking successfully. Failure of either system to work placed everyone at risk. Total system security and integrity was essential for safety. There was, however, limited scope to substitute technology for people or vice versa.

The *Herald of Free Enterprise*, employed relatively simple technology to identify hazards but was totally dependent on human intervention to recognise the problems and act. Improvements in security require either better people management, i.e. make the current system work better, or substitution of technology for people. At Deepwater, there was relatively little people could do to arrest the problems once they started. Investment in better maintenance, monitoring and containment technologies is often critical to minimising risk and controlling the aftermath. In describing the steps leading up to the Deepwater Horizon disaster, the report described how:

> After the first explosion, crewmembers on the bridge attempted to engage the rig's emergency disconnect system (EDS). The EDS should have closed the blind shear ram, severed the drill pipe, sealed the well, and disconnected the rig from the BOP (blowout preventer). But none of that happened . . . , the rig never disconnected . . . Even so, the BOP's automatic mode function (the 'deadman' system) should have triggered the blind shear ram after the power, communication, and hydraulics connections between the rig and the BOP were cut. But the deadman failed too.

However,

> this failure may have been due to poor maintenance.

Some hazards exist outside the immediate control of people or technology. Natural disasters provide the clearest examples of these hazards. It is, however, management's responsibility to recognise these risks and minimise the opportunity for nature and process to interact to create a crisis (Figure 8.4).

Experience in the nuclear, chemicals and transport sectors highlights the importance of creating a culture of risk awareness and minimisation. This is underpinned by clear lines of responsibility and authority for the installation and monitoring of safety and security systems.

In most projects, these are required from the start. The *Challenger* disaster vividly illustrated the need to allocate proper responsibility for overruling commercial demands in

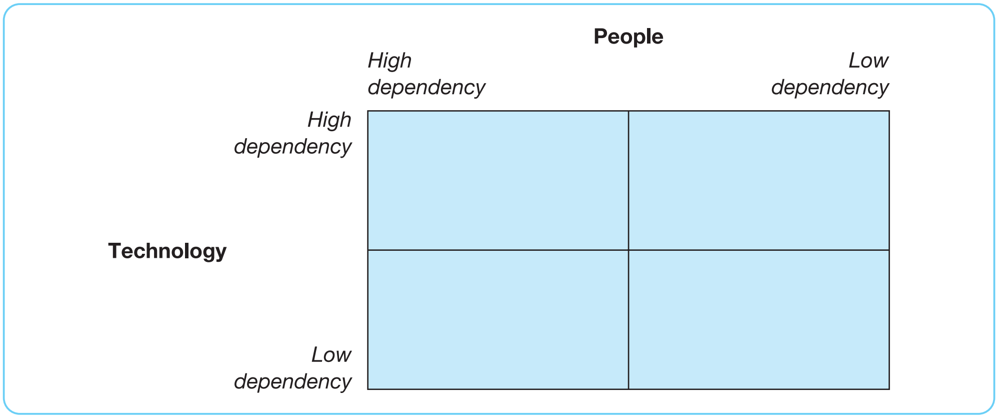


Figure 8.4 The dependency matrix

favour of safety requirements when construction started. Design errors and procedural violations lay at the heart of the problems with Chernobyl. There is a strong case for distancing the safety audit from line management while providing good lines of communication. In many operations, there is a call for regular reviews of existing or historic practice based on formal procedures. The King's Cross underground railway fire in London was put down to an almost complete absence of formal procedures.

A mixture of 'it couldn't happen here' and 'we've never needed these procedures' is potentially fatal. Enforcement is crucial. Systems which are not tested or procedures which can be ignored soon become discredited. Over-elaboration which contributed to neglect is as dangerous as insufficient attention. The systems introduced into the London Underground immediately after the King's Cross fire produced 'knee jerk reactions . . . every time anyone smells smoke', which soon undermined the quality of response. AID is the key to successful preplanning, namely, ***a**nalysis*, ***i**nitiative* and ***d**evelopment*. Once problems occur, executives find themselves facing challenges which they may face only once in their life. Openness, use of well-established routines, refusal to panic and a willingness to admit ignorance are integral elements in successful hazard or crisis management.

British Airways plans for 84 different contingencies and the company spends more than £100 million a year on security measures. Hazard management practice has shifted in recent years from preoccupation with equipment and system failure to a recognition that people still lie at the centre of effective response to crisis. RoSPA (Royal Society for the Prevention of Accidents) provides an array of services from audit to staff training and is a leader in the field. Much of its work is linked to the key UK and international occupational and workplace safety standards, notably British Standard OHSAS 18001:2007, or the array of international standards covering standards under ISO 13.100 or in the USA by the Occupational Safety and Health Administration (OSHA).

Properly organised management teams with procedures for working together are more effective than the heroic individuals portrayed in films and books. Information management is increasingly part of an effective response to problems. Judith Cooke comments[19] that 'very rarely . . . does it emerge that just one single thing went wrong. It is usually a combination of things, equipment failure, management failure, human error, all too often compounded by lack of judgement and failure to heed advice or warnings.' The standards needed by the firm are those which can cope with multiple failure not just single issue problems. Post-crisis management involves responsibilities to the individuals involved, the enterprise and the community.

After the Piper Alpha disaster, the Health and Safety Commission identified over 100 issues which needed to be addressed if the lessons learned were not to be lost. Among the most important were:

- the creation of an effective safety management system;
- regular audits of operations to ensure that hazards were identified, risks assessed and adequate controls were in place;
- adequate emergency arrangements;
- use of properly trained support staff.

In its analysis of the Deepwater Horizon disaster, the Independent Report[20] analysed three other incidents involving international operations of US-based oil and gas companies and concluded that:

> Although the causes of the three accidents* varied, they all included inadequate safety assurance, worker training, and evacuation procedures. Poor communication and confusion about lines of authority amplified the death toll.

The company's responsibilities extend beyond the firm to the community, especially the victims. Poor quality victim support has emerged as a common criticism of firms involved in problems. In part, this reflects a form of group think acknowledging the victims means acknowledging the failures. Effective feedback within the firm and to the community requires a degree of candour that is alien to some firms. It can be a crucial factor, however, in avoiding a blame culture which prevents lessons from being learned.

Legislation

The legislative environment surrounding standards management, safety and security is changing rapidly. The ILO has adopted more than 40 standards specifically dealing with occupational safety and health, as well as over 40 codes of practice. These embrace issues ranging from the industrial disclosure of risk information on proposed or current projects through innovations in occupational safety and health to new challenges in a changing world of work and the global economy. They, in effect, place the onus on the firm to disclose in advance any risks, to seek new ways to tackle risk and to adapt to the global environment.

In this the firm is responsible for ensuring that all those likely to be involved either directly in production or dealing with problems are given full information on hazards. Industrial disclosure of risk information on products requires that the firm must secure prior approval of potentially harmful products and is responsible for avoiding uses which place members of the local community at risk. Industrial disclosure of risk information on the

* The *Alexander Kielland* rig: 124 lives lost; the *Ocean Ranger* semi-submersible: 87 lives lost; and the *Piper Alpha* rig: 184 lives lost – all between 1980 and 1988.

workplace demands that full information on the health and safety hazards of production or service should be given in advance to workers, their representatives and other authorities. Other disclosures, for example those under freedom of information laws, and related disclosure requirements should be honoured.

These policies reflect and develop the requirements which already exist in many countries. The common strands are that responsibility for disclosure lies with the firm; prior notification is needed and full information is essential. The US National Environmental Policy Act, the EU's Strategic Environmental Assessment (SEA) Directive (2001/42/EC), beside policy recommendations made by the International Labour Office and the Organisation for Economic Cooperation and Development support this broad pattern of policy.

There is continuing debate about the respective merits and social returns from formal and explicit requirements, such as those of the US agencies and the Netherlands versus the informal procedures of the UK and most Scandinavian countries.[21] There are many examples of major benefits from voluntary action at costs significantly less than regulatory or legislative intervention. Lyon and Maxwell[22] quote, in particular:

- McDonald's replacement of its styrofoam 'clamshell' containers with paper packaging;
- French car industry's end-of-life vehicles programme requiring that all new models must allow 90 per cent recovery, reuse or recycling;
- 3M Corporation's 'Pollution Prevention Pays' programme.

A major contrast between US and European practice is the public right-to-know principles incorporated in US Laws and the resistance to this across Europe for much of the late twentieth century. This is changing with stronger 'freedom of information' legislation like the UK's Freedom of Information Act 2000, the Environmental Information Regulations 2004; Germany's granting to each person an unconditional right to access official federal information with no legal, commercial or any other kind of justification necessary; and China's Regulations of the People's Republic of China on Open Government Information, which came into effect on 1 May 2008. There has been a shift globally to the notion of active transfer of material on risk. EU member states are expected to ensure that information on safety measures and on correct behaviour to adopt in the case of an accident is supplied in an appropriate manner and without their having to request it.

Employees

Individual or group action by employees lies at the heart of any system for introducing and maintaining standards in areas like safety and security. They have responsibilities to the firm just as the firm has responsibilities to its employees. These responsibilities are:

- *Avoidance* – shunning practices which are counter to the standards set in the firm, are contrary to law or expose others to risk.
- *Prevention* – taking steps to prevent breaches of the firm's standards or the law. There is an imperative to prevent actions which could harm others.
- *Exposure* – exposing wrongdoing. Exposure poses some of the most complex problems for firms and their employees. Corporate fraud has often been dealt with internally

despite breaking national laws. Banks, for example, have been accused of covering up fraud among their employees in order to avoid questions about their internal security.

The alleged cover-up can extend beyond the institution itself. Recently (2010), the board appointed to wind up Iceland's Glitnir Bank took legal action against the bank's former auditors, PricewaterhouseCoopers Iceland (PwC), for allegedly helping to conceal fraudulent transactions. In the public sector, damage limitation can mean wrongdoers escaping proper punishment.

- *Govemance and compliance prevention* – taking steps to prevent breaches of the firm's standards or the law.

There is an imperative to prevent actions which could harm others. Ultimately, commitment and trust will determine how successfully these programmes are in practice. Top management has a special responsibility in this.

Robert Kennedy, then of Union Carbide (now a wholly owned subsidiary of the Dow Chemical Company), acknowledges that 'responsibility for convincing the workforce falls on senior management, and particularly on the CEO. "We know what signals to send the troops: This is for real. We are not spending half a billion a year on superficial programs. We're doing it to stay in business."' Standards work where top management commit the resources to ensure systems can be maintained. These, in turn, need to be fully integrated into the wider systems of reward and control in the firm.

Bhopal

Few events illustrate more clearly the challenges facing communities and companies than the cyanide gas leak at the Union Carbide plant in Bhopal, India. The disaster itself vividly illustrated the reasons why corporations are under pressure to establish effective standards especially in health and safety. It contains all the elements which place the primary onus on the firm to act responsibly in advance, tackle problems quickly and effectively when they occur and build the lessons from the event into the firm's operations. The episode itself contained elements which guaranteed that society would demand an effective answer from industry. It brought together a US multinational and India's poor.

The media inevitably made much of the contrasts between the standards which applied in and around Union Carbide's US operations and those which prevailed at Bhopal. The images of silent and hidden death striking the people of the shanties provoked a powerful reaction across the world. The eventual discovery that the gas involved cyanide, which was being stockpiled around the world for military purposes, merely strengthened feeling. The immediate reactions of the firm increased local and international suspicion of its motives and values. The sequence of events which took place was frighteningly simple. Union Carbide, the US Chemicals giant, had owned and administered its plant at Bhopal for a number of years.

It was managed almost entirely by local staff. This was in compliance with Indian legislation on the ownership and control of foreign operations. Around the factory a large shanty town had grown up. This type of development is common in India. The poorest members of the community live as close as possible to a potential source of work, money, materials and any other scraps which might improve their lot. In the early days, the company had tried to keep the shanty at a distance. Over time, its efforts in this direction seem to have diminished. It faced a difficulty encountered by other multinationals. It is hard for a rich, US corporation to be seen acting against the most deprived members of the local community even if it is for their own good.

The picture of bulldozers owned by Union Carbide destroying a shanty town, to keep it away from the factory, was not an image the firm wished to cultivate. There is some evidence that Union Carbide was viewed very favourably in the local community until December 1984. It now seems that water leaked into one of the processing tanks in the plant. At the high temperatures which existed, this produced a chemical reaction which led to a gas leak into the surrounding area. The gas was heavier than air and spread through the local area initially causing 2,500 deaths with at least 5,000 since then and many injuries. Critics of the firm identified four basic failings:

1 inadequate information about the risks in advance;

2 poor contingency planning and staff training;

3 failures in information during and immediately after the crisis;

4 reluctance to tackle the problems of those affected and the local community in the immediate aftermath.

Perhaps the most damning criticisms came from those doctors who said ‘that many lives could have been saved if they had known that cyanide gas was present’.

These comments provoked widespread criticism that the firm’s priorities were in limiting the damage to the company rather than tackling the problems in the community. There was a strong sense of, at least, three sets of cultural, social and economic imperatives at work. Inevitably, the corporation’s response was affected by the background of the US leadership. Responsibility and liability are close together in the thinking of North American business leaders. The Indian government seemed to seek a mixture of retribution and economic response. Those immediately affected were hurt, confused and in need of immediate assistance. All were affected by shock. The knock-on effects hurt virtually every aspect of the firm’s operations.

Communities around every plant owned by the firm demanded information on its operations. New safety demands were imposed. Recruitment plummeted while the credibility of the existing leadership dropped. The share price slumped and profits dropped. This had a knock-on effect across the entire US chemicals industry. It is hard to estimate the total cash cost of the disaster. The US$470 million settlement by Union Carbide to the victims may not be the largest single element in these costs. The failures before and during Bhopal highlight the need for prior planning and effective and open management during a crisis based on companywide standards. There is evidence that Union Carbide learned these lessons. The firm introduced a Business Charter for Responsible Care to address most of the issues highlighted as major concerns.

Robert Kennedy, the then CEO, identified 10 key elements in the firm’s subsequent approach to shaping and implementing the Responsible Care programme. These were:

1 The personal commitment of top management – ‘when the CEO says that the environment and safety comes before profit and production’, when people are held accountable, the message gets across.

2 A vision for the future – firms need a ‘simple and straightforward’ commitment which is disseminated and implemented throughout the firm.

3 A strategic plan – a plan is needed which has clear performance standards and proper budgets.

4 Independent assessment – at Union Carbide the 'environmental audit unit' has a budget of 'more than $6 million' and is appraised externally.

5 Industry-wide effort – the firm has advocated higher standards throughout the industry. Adherence to the Responsible Care programme became a condition for membership of the US Chemical Manufacturers Association.

6 Dialogue with the public – this willingness to inform and communicate lies at the heart of a successful standards strategy. It includes breaking down the barriers to communication the temptation to stonewall, education and training followed by an active community awareness and dialogue programme.

7 Realism – acknowledging limitations and making effective implementation the cornerstone of action.

8 Internal dialogue – reshaping attitudes and making it clear that performance and high standards are compatible.

9 Co-operation – this extends to all agencies with a genuine interest in the issue.

10 Total quality management – the integration of all systems for establishing and maintaining standards. These actions converted the response of the firm from a damage limitation exercise to a strategy for the future.

None of these actions 'saved' Union Carbide. With its shares still languishing, it was acquired by Dow Chemicals in 2000. Dow then found its own position under threat, 'internally by shareholders claiming that the company 'covered up' its continuing liabilities for Bhopal and externally from law suits, despite selling off the Union Carbine operations in India. The challenges continue today almost 30 years on from the disaster with the Indian Olympic Association (10A) calling on the organisers of London 2012 to sever its links with Dowchemical.

Piper Alpha

The explosion on the rig Piper Alpha highlighted a series of problems associated with projects which operate at the frontiers of technology in hostile environments. The fire on the Occidental Oil rig in July 1988 cost 167 workers their lives, hit Britain's balance of trade, shook the insurance market and provoked a major reappraisal of standards and security throughout the offshore oil industry. The Cullen Report on the disaster highlighted a series of weaknesses in company, industry and national policies. Although the firm denied the most severe criticisms of its actions, it immediately committed itself to changes (in practice) arising from the Cullen Report.

The events leading up to the fire on Piper Alpha are well documented in the Cullen report. Some were specific to the Occidental rig, others were part of more general industry practice. There can be little doubt that the success with which North Sea operations had developed was largely due to the research and investment of firms like Occidental. They had developed techniques which allowed oil to be extracted in a harsh and dangerous environment. There are claims that this very success produced a sense of complacency at least in government and the public mind.

The oil flows had made the pound a petrocurrency and secured the UK's balance of payments. High wages were earned by workers but some of the elements which led to the disaster might be discerned in attitudes to union or worker representation on safety matters. The partnership which is so important to successful implementation of standards when both parties recognise the risks had been eroded. The reluctance to have the Safety Representatives and Safety Committees Regulations 1977 extended offshore weakened the confidence of some in the good intentions of the firm and government.

> For a decade the government has ignored voices in the industry calling for this change . . . So it cannot be claimed that the dogs did not bark, only that those particular dogs had barked too often without good cause for the government to pay attention. It is an unconvincing case.[24]

There were suggestions in the Cullen Report that the safety regulations were not implemented with all the rigour that the hazards facing workers demanded. The company denied these accusations but the extent of loss of life makes it clear that weaknesses existed. Only through an active prior partnership in advance can these be eliminated. The firm's immediate response had much to commend it. The chief executive took a leading role in ensuring that rapid response teams were in place while onshore relatives obtained help. There were suggestions that support during the post-crisis period was less effective.

This highlights a major issue which has been identified in a series of comparable events including Hillsborough, the Bradford Football Stadium fire and numerous smaller events. Those affected need counselling, care and other support for far longer than used to be assumed. The Hillsborough tragedy also highlights the need of those affected for both trust in those dealing with the events in order to get a real sense of closure.[25] Disappointment with both characterised the inquest into the deaths and the Taylor Report.[26]

Responsible organisations start by seeking to rebuild trust then extend their help for much longer periods than in the past. Inevitably, this will require close collaboration with public agencies. The toll of lives from work in the dangerous conditions of the North Sea is high. This highlights the need for firms to learn the lessons of hazard management and build into their operations. The Cullen Report highlighted changes in practice that have implications far beyond its immediate remit.

The detailed analysis in the Report was welcomed throughout the oil industry as a model of objectivity and appraisal. Rebuilding management's credibility is a key feature in post-crisis management. This, in turn, depends on a determined effort to reconstruct relationships between management, workers and the community on the basis of trust and partnership. Worker and community representatives can play a vital part in this process. A restrictive or selective approach to partnering can undermine the effort to establish and renew standards.

Conclusion

The difficulties faced by Union Carbide, Occidental and, since then, Exxon with the Exxon Valdez oil spill, Imperial Sugar following the Georgia sugar refinery explosion and BP after Deepwater Horizon ought to force their leadership groups and those directing firms across the world to re-examine the standards they set and the ways they were implemented. There is greater awareness of the internal responsibility for standards and a recognition that externally imposed standards are no substitute for responsible management. Responsible corporate leaders recognise that they must address issues of health, safety and security if their firms are to prosper in a healthy community.

The emerging consensus is that companies can:

- Wed enterprise and risk taking in business to care and responsibility to the community and the environment by developing strategies which improve standards overall, win endorsement by their stakeholders and build competitive advantage by doing things right.
- Respond to demands for security, greater safety, improved literacy, job and wealth creation in communities that differ widely in their cultures, expectations and capabilities by recognising diversity but wedding standards to systems of control and ownership that can be replicated internationally. The sense of 'ownership' that the best firms get from their employees can mean that relevant adaptations can be introduced which match diversity of input with consistency of output.
- Establish systems that work locally, through local staff, to set and maintain standards by wedding ownership to effective preplanning, comprehensive contingency planning and quality feedback.

For the last 200 years and beyond, successful firms have coped with change, diversity and difficulty by creating internal standards and systems that work. Inevitably, these reflect the needs of their different stakeholders, the demands of their markets and the capacity of the technology they employ. Success in the future will call for the same blend of creativity, insight, quality and commitment to standards. These standards can only work if they are underpinned within the company.

These problems exist in the public as well as the private sector. Resources are misused, vulnerable clients are abused in public works departments, expenses are fiddled by MPs. Management is aware but does nothing. Managers are, in effect, breaking an important part of their contract with their employer. The emergence of a crisis merely exposes the weakness of the prevailing standards. They have lost the authority their contract gave them along with the legitimacy this endowed. The actions and their neglect undermine the ability of management to manage with authority and credibility in any area. This undermines the legitimacy of the firm and weakens or breaks its contract with the community.

QUESTIONS

1. In determining standards for health and safety in the workplace, what should come first, local custom and tradition or absolute companywide criteria? Justify your choice and identify three significant problems with the stance adopted.

2. What should be given priority, enterprise and opportunity or care and responsibility, in setting company goals?

3. Using secondary sources of information describe the events and circumstances that led up to, one of:

(a) the Piper Alpha fire;
(b) BP Deepwater Horizon;
(c) the sinking of the *Herald of Free Enterprise*;
(d) another safety crisis with which you are familiar.

Describe how an effective programme of corporate responsibility management could either have prevented the problem or minimised the tragedy.

4 What factors have contributed most to awareness and attention to workplace standards and safety in post-industrial society?

5 Judith Cooke has pointed out that a combination of things – equipment failure, management failure, human error are usually responsible for safety problems and hazards. How can firms design systems to cope with these rare, even unique, combinations of events?

6 Discuss the notion that 'whistle-blowers are traitors to their colleagues and employers'.

7 Compare the codes of ethics of Tesco, Shell and Rolls-Royce. Draw out the distinct approaches of each firm, indicating how they might reflect the distinct nature of the firm and the environments in which they operate.

8 You are the international vice-president of a US multinational, on your recent visit to India you were alarmed to see a shanty town growing up around your largest chemical plant.

The local indian managers have told you that they have done everything – short of bull-dozing the shanties – to persuade those living in the shanties to move.

Propose a set of measures which will keep the plant operating but eliminate the risk while not alienating the Indian government or the media. You are aware that your contract with the Indian government precludes closure of the operations.

10 Define:
(a) compliance
(b) inherent morality
(c) podsnappery
(d) tax avoidance
(e) group think
(f) a company code of ethics
(g) environmental impact assessment
(h) whistleblowing
(i) willfull blindness.

CASE STUDY 8

Standard Life Healthcare – a case study in health promotion

Michael A. Hall

About Standard Life Healthcare

Standard Life Healthcare is one of the UK's leading private medical insurers, covering over 440,000 people. The company supplies a range of healthcare solutions to corporate and individual clients, incorporating private medical insurance, occupational health services, a range of advice and support lines and a personalised health management service with affinity partner Vielife. The company employs around 800 staff, split evenly between offices in Guildford and Stockport.

The background

Standard Life Healthcare used to operate as many other companies do: a primary focus on sales, with little thought given to how executives treated customers once executives acquired them. A few years ago, all this changed. Executives realised that, in a competitive marketplace, with many very similar products, executives needed to do something different to stand out from the competitors, and to make life better for the people whose health executives protect.

To this end, executives took the decision to make customer service the unique selling point, and the introduction of a series of measures have improved the customer service beyond recognition. The company has improved how executives process claims, making it easier for customers to get a decision over the telephone without the worry and bother of writing to us and waiting for a reply. The company has speeded up the payment processes, giving reassurance more quickly.

Executives personally case manage difficult or complex claims, such as ongoing cancer treatment, facilitating every step along the medical pathway. Executives routinely collect detailed customer feedback, helping to understand how best to serve the customers. All of these things, and more, have helped us to achieve customer satisfaction levels of over 95 per cent.

However, more important than any of this in helping us to become a better company and to achieve these levels of customer service is the people. Investing in the staff is at the top of my agenda, for many reasons. Firstly, as an employer executives have a duty of care to staff. I have a responsibility as a chief executive to improve the working environment of the people.

Secondly, staff who are well looked after, encouraged to contribute in a meaningful way and offered the freedom to succeed will perform significantly more effectively.

So, an investment in people is an important part of the corporate social responsibility – making sure that the 'work' part of the work/life balance is as happy and fulfilling as possible. But it also has a positive impact on the business.

Promoting health as an expression of corporate social responsibility

The programme of improving working conditions for staff comes under the umbrella title of 'A Great Place to Work'. Many aspects of 'A Great Place to Work' are concerned with communication. Executives hold twice-monthly coffee mornings, where staff can air their views with members of the executive management team. Queries are followed up, and suggestions from staff acted upon. Senior managers take part in 'back to the floor' sessions, learning more about the conditions under which staff do their jobs. Training and development resources have been put in place, including 'extra-curricular' options such as language courses to encourage whole-person learning. Additionally, I now meet every new member of staff for a fifteen-minute chat where I explain the company ethos and emphasise the importance of every single member of the team.

These communications interventions have all formed an integral part of the plan to make Standard Life Healthcare a great place to work. However, The company is also worked hard at investing in the health and wellbeing of the staff as an expression of the commitment to them, and also with potential benefits for the company firmly in the minds.

Many companies look after the health of their staff through providing private medical insurance. This gives reassurance to the employee (and their family) that they will receive speedy, high-quality medical treatment in time of need. Insurance also provides benefit to the employer, who knows that, in the event of an employee requiring medical care, they will be back at work sooner rather than later.

However, a new pattern is now emerging, where insurance is not seen as the sole method by which employers can engage with the health of their workforce. At Standard Life Healthcare, executives are

Case study 8 (*cont.*)

convinced that, instead of just looking to treat those who become ill (although this is still vitally important), businesses should look at ways of helping their staff to avoid the need for medical care in the first place. This is an important change of emphasis, mirroring the UK government's attempt to change the National Health Service (NHS) from a 'sickness' to a 'wellness' service. Workplaces can play an important role in promoting wellness, as a large number of people spend a large proportion of their waking hours in the workplace. Business can demonstrate a real, living corporate social responsibility by promoting good health, perhaps the most important part of a high quality of life.

Of these, CSR is rooted in the business imperative to keep striving for improvement, and I believe that promoting health and wellbeing will also have a positive impact on the performance of any company that buys into this progressive agenda.

Put simply, employees in better health perform better at work. There is ample anecdotal evidence for this: think about your day at work spent with a rotten cold. Executives all know that when executives are suffering from ill health, executives perform less effectively. However, there is also a significant body of research to show the link between a healthy workforce and a healthy profit. For example, Canada Life Assurance gained a 2.7 per cent productivity increase when they implemented a worksite health and fitness programme* and the UK Secretary of State for Business Innovation and Skills has written, 'Promoting health, safety and wellbeing at work . . . makes sound business sense'.†

Health management at Standard Life Healthcare

The company is not interested in forcing people to change their behaviour – executives don't want the staff to feel as though management is intruding into their personal lives. Executives prefer to offer the chance to make healthy choices, and leave ultimate responsibility down to the individual. Sometimes executives have healthy choices denied to them – when was the last time you visited the cinema and were able to buy a piece of fruit to eat during the film? Executives wanted to create an environment in which people were able to make healthy choices, and where they were encouraged to do so.

With this in mind, executives took the decision to begin working with health management firm, Vielife. Vielife's services offered exactly what executives were looking for – effective interventions that offered reassurance to staff and a clear benefit to the company as a whole.

The heart of the health management programme is an individual online portal for each employee. Every member of staff is issued with a unique username and password that they can use to log on to a personalised website. This site allows the user to take a series of health assessments, looking at sleep, stress, exercise and nutrition. These tests normally take around 20 minutes to complete, giving the user an overall 'score' in a particular area of their health. The results are then used to offer appropriate advice to the individual who has been assessed. For example, if a weakness is identified in the amount of exercise an employee is taking, they would receive advice on how to fit physical activity into their daily routine. This advice is creatively put together, and full of useful and interesting hints and tips. If they choose to, a member of staff can also receive regular e-mail reminders, giving gentle encouragement and also containing new advice. Some of this advice is targeted at particular times of year, perhaps suggesting seasonal foods and highlighting their nutritional benefit.

Individuals are invited to retake the health assessments at regular intervals, tracking their progress and motivating themselves to continue making healthy choices.

Importantly, every individual health result is kept entirely confidential. We, as a company, have no access to individual assessment results, avoiding the problem of a 'Big Brother' employer checking up on staff. Of course, this only works because of the trust between management and staff engendered by the emphasis on communication described above. Without this trusting environment it would be much more difficult to encourage staff to participate in the health assessments as they would be suspicious about the motives. At Standard Life Healthcare, staff realise that executives have their best interests at heart and are interested only in helping them to improve their health.

Executives have a duty to support the efforts of the staff in getting healthier – executives want to enable them to make healthier choices. Although executives don't have access to individual health results, executives do get aggregated scores broken down into departments. This allows us to target interventions where they will be most effective.

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* Information from Vielife health management.

† Patricia Hewitt, MP, in *Health and Wellbeing in the Workplace: a Director's Guide* (2002) p. 7.

Case study 8 (*cont.*)

After the introduction of the health management programme, assessment results from throughout the company told us that employees were feeling stressed at work, especially in the customer service teams where executives were most keen to have a positive impact. Executives already had an Employee Assistance Programme (EAP) in place and processes for staff to raise issues such as stress, but it was clear that executives needed to do more. Executives have since introduced a regular massage service to both the offices, where staff can go for a twenty-minute massage for the subsidised cost of £5. Staff tell us now that they really enjoy the massages, so much so that it's become stressful trying to get an appointment! In customer service areas staff may take a ten-minute break after handling difficult phone calls. Executives also introduced after work exercise classes to help relieve stress and these have proved extremely popular.

The first set of health assessments also identified nutrition as an area of weakness. To counter this executives redesigned the menus in the staff restaurants. Again emphasising the importance of choice, executives haven't excluded anything (chips are still on the menu!) but executives have increased the range of healthy alternatives. Staff have responded enthusiastically to this, and now drive change. Executives have a company tradition of serving champagne and pastries whenever executives have won significant industry awards. Now executives serve champagne, pastries, orange juice and fresh fruit following requests from staff.

The company has also had free breakfast days to emphasise the importance of eating properly in the morning, offered free fruit and held organised walks at lunchtime after distributing pedometers.

All these interventions are designed to support the employees' own efforts, and demonstrate the commitment to them as people, not simply as workers. Good health helps the employees to enjoy a higher quality of life, as well as benefiting their performance at work, and investing in health is a key part of the social responsibility.

The results

The introduction of the health management programme in 2002

Since then, the company has seen improved business performance go hand in hand with improved health within a happy, motivated workforce.

In terms of improved health, the hard work of the staff, supported by interventions from the company, has resulted in the following:

- 60 per cent increase in the number of people eating 5+ portions of fruit and vegetables;
- 29 per cent improvement in nutrition score;
- 14 per cent improvement in stress score;
- 4.9 per cent reduction in absence;
- 9.1 per cent reduction in the number of smokers;
- 2.3 per cent drop in the number of people overweight or obese.

This is a terrific set of results for a company, demonstrating the effectiveness of workplace health promotion. Promoting health has become a key part of the corporate social responsibility programme and has become an integral part of the company culture.

In themselves, these health results make the investment worthwhile. Additionally, executives have also experienced improved business performance that, although not solely the product of improved health, should certainly be seen in that context.

The company has won the Health Insurance Company of the Year award, the industry's premier award, every year since the introduction of the health and wellbeing programme. A large part of this success is due to the excellent customer service (for which executives have also won numerous industry awards), that executives offer both to the policyholders and also the intermediaries who sell the products. The staff can deliver this level of service partly because they are healthier – and demonstrate improved performance as a result. Healthy people tend to be happier at work, capable of concentrating more effectively, and working more productively. Also, the health and wellbeing programme has had the added benefit of showing the staff that executives value them enough to help them make healthy choices, making them feel respected and valued by their employer; two key factors in high quality performance at work.

The company is convinced that more companies should look at promoting health as part of their social responsibility towards their employees and the communities in which they live. Good health is a pointer towards a good quality of life and we, as employers, should see this as a key aspect of the service to the staff. Promoting health needs to be sensitively handled: facilitating, not forcing healthy choices and effected within a trusting work environment. With these prerequisites in place, promoting health could become an effective and essential part of your company's programme of social responsibility.

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Chapter 9

The greening of economies and corporations – the sustainability challenge

In the early 1960s Rachel Carson's book, *Silent Spring*,[1] triggered a public debate which has gathered force over the last 50 years until it is seen as, perhaps, the most powerful challenge facing mankind. In this debate the role of industry and commerce remains at the centre of the storm of discussion, claim and counter-claim. Carson placed industry, commercial farming and careless innovation at the centre of her argument. Chemical insecticides, fertilisers and concentrated single-crop production were among the 'elixirs of death' that were wreaking havoc with the 'Earth's green mantle' so that 'rivers of death' flowed under skies where 'no birds sing'.

It is a theme picked by other authors such as James Lovelock.[2] International and national agencies and governments have picked up the themes in different ways. Internationally the most powerful voice is possibly the Intergovernmental Panel on Climate Change.[3] In the UK the Committee on Climate Change advises the UK government on setting and meeting carbon budgets and on preparing for the impacts of climate change. Dissenting views do exist[4] but represent a very small minority of scientific opinion.

The strength of the original imagery, the clarity of the prose and the message itself set an agenda which has forced an increasingly determined response from much of industry. Today, the message of the scientists is being heard: the earth has finite assimilative capacity. Pollution – if unchecked – will cause deforestation and desertification, loss of species, increased incidence of cancer and other destructive consequences. The challenge is for business and government to find ways of managing growth for sustainable development, without stressing the Earth's resources to a point from which they may not be able to recover Figure 9.1.

The prose has deteriorated with the environment but the central message of concern is the same. Socially responsible industry has a pivotal role to play in tackling the issues, developing and delivering the response. In part, this business input is important because of the pervasive nature of industrial processes. The questions asked of industry gain added momentum from the challenge which notions of sustainable development pose to established notions of economic, industrial and business development.

Living sustainably depends on accepting a duty to seek harmony with other people and with nature. The guiding rules are that people must share with each other and care for the earth. Humanity must take no more from nature than nature can replenish. This in turn means adopting lifestyles and development paths that respect and work within nature's

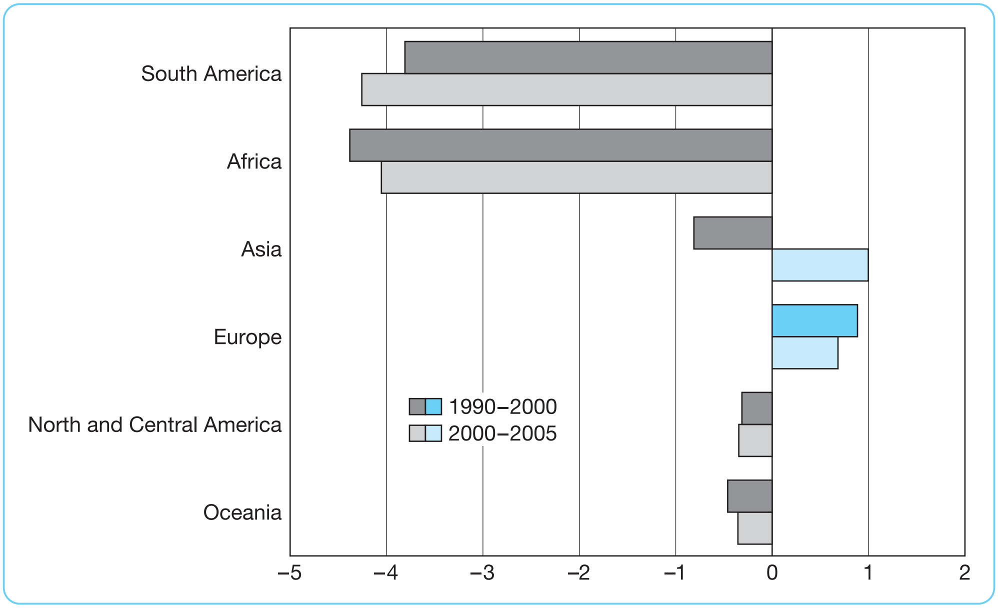

Figure 9.1 Annual net change in forest area by region 1990–2005 (million ha per year)

Source: Food and Agriculture Organization of the United Nations (2006) *Global Forest Resources Assessment 2005: Progress Towards Sustainable Forest Management*, Rome: FAO, Figure 4, p. xv.

limits. Each element in this proposition poses challenges to an industrial economy based on competitiveness rather than harmony, rivalry not sharing and investing to increase yields and adding rather than merely replenishing. It often fails to appreciate the different aspirations of different countries at different stages of development. 'This notion of changed values is as much about shifting values as it is about shifting practices.'[6]

There is, however, no consensus on the view of business development, environmental protection and sustainability. It is possible to place the proposed responses to the environmental challenge along a spectrum which extends from corporations resisting proposals to change until forced by legislation and enforcement and firms building their futures around internalising environmental concerns (Figure 9.2).

There is, however, evidence emerging that no long-term solutions can be produced without industry's involvement. There is widespread consensus that business must play a part in resolving the challenges it has helped to create (Table 9.1). The old dichotomy which insisted that people had to be in favour of either economic progress or environmental protection hurt the environment movement by keeping out of it exactly those people needed to solve the 'environmental problems': economists, the business community, the majority of government officials and hundreds of millions of poor people.

Many of the worries raised by those concerned about the negative effects of environmental degradation are shared by industry. This concern extends beyond the simple 'we

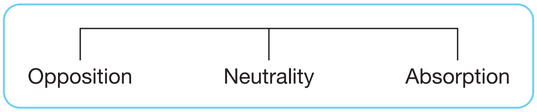

Figure 9.2 The spectrum of response

Table 9.1 Organisational implications of environmentalism

Organisational system	Environmentalist concerns
Inputs	
Raw materials	Depletion of forests Harm caused by toxic materials like pesticides, solvents
Fuels	Depletion of oil, coal, natural gas Pollution created by fossil fuel, hazards of using nuclear energy
Throughputs	
Plant	Plant safety and accidents Risks to surrounding neighbourhoods
Workers	Occupational diseases/hazards Work related injuries/ill-health
Wastes	Hazardous waste disposal Emission of pollutants Emission of environmentally destructive chemicals like CFCs
Transportation	Risk of spills and losses in transporting hazardous materials
Outputs	
Products	Product safety Health consequences of products such as tobacco, liquor, fats, beef, etc.
Packaging	Refuse created by packaging
Servicing	Reliability, hazards of failure

share the planet as well' type of proposition. Production managers want factories located in healthy and diverse environments because output is higher and workers are healthier. Office staff consistently opt for facilities in tune with the local environment rather than at war with its context. Marketing executives learned long ago that balance, health and prosperity were far more secure contexts for business development than distorted, unhealthy growth. Finance staff are discovering that hidden costs do not stay hidden for ever. Shrivastava[7] summarised some of these in terms of their impact on the input, processes and output of the firm.

According to Ethical Investment Research Services:[8]

> Over four fifths (84%) of high and very high risk* companies have a corporate wide climate change commitment and over half (61%) have referenced the wider policy context by referring to international targets, regulations or the scientific imperative.

The challenge exists at every stage in the evolution of the corporation from its formation or the acquisition of new business to the internationalisation of the firm. One of the highest risk areas is the acquisition of new businesses, which may carry unknown environmental skeletons. No due diligence would now be complete without considering potential environmental problems, especially when the target owns land. Cleaning up contaminated land is one of the biggest causes of multi-million pound environmental liabilities.

* Risk defined as risk caused by climate change.

This growing awareness of the costs and benefits of positive environmental programmes is endorsed by corporate leaders across the world. A survey of the top management of large corporations showed that they are increasingly seeing adaptation to the needs of the environment as a major source of a competitive product differentiation. Lubin and Esty[9] describe how 'managers can no longer afford to ignore sustainability as a central factor in their companies' long term competitiveness'. Ram *et al.*[10] challenge the view that 'making our operations sustainable and developing "green" products places us at a disadvantage *vis-à-vis* rivals in developing countries that don't face the same pressures.' Ram *et al.* highlight how 'by treating sustainability as a goal today, early movers will develop competencies that rivals will be hard-pressed to match'.

This thinking provides a potential bridge between Gaia and those others involved in deep ecology, the environmental reformers and communities aspiring to capitalise on the results of industrial development.

A silent spring or false dawn?

The picture presented by Carson was vivid and clear. Technologies were being employed to excess, in areas in which they were not needed, crudely and without sufficient thought. Even where alternatives existed, commercial pressures prompted farmers, businesses and countries to use the quick fix of a new chemical spray or pesticide rather than resist the temptation to act until the consequences were known. The images presented of the 'town in America . . . [robbed of its] dawn chorus . . . [where no] bees droned and streams were lifeless' became part of the imagery of the era.

Her reforms had a similar appeal. Restraint, allied to a use of natural processes could be the key to a 'reasonable accommodation' between the needs of the environment and man. There were early successes from this approach. Some are identified in her book. Natural predators can do the job of chemical predators. There can be few gardeners today who do not see the ladybird as a powerful ally against aphids. Farmers in Europe and North America look increasingly to natural means to combat natural enemies. The use of DDT, the major villain of the Carson text, is banned in many countries and its use heavily restricted. But, sometimes the natural solution backfires. The cane toad in Australia and the seed-feeding weevil had serious negative effects.

There are, however, new guilty parties. They range from acid rain produced by power stations to the litter from fast food outlets and excess packaging. However, it is possible to identify clear and easily accessible successes against a deteriorating overall picture. It is sometimes surprising to see how quickly and easily successes in waste reduction can be achieved, especially where cost reductions follow.[11] Lean production techniques,[12] especially the Toyota Production System,[13] rely heavily on and gain many of their returns from waste reduction.[14] The story of aluminium recycling demonstrates how, if society recognises the value of a material and puts systems in place to recover it, significant resource savings can be made. While aluminium consumption is twelve times what it was in 1960, 30% of current demand is met through the recycling of used products, with recycling rates as high as 90–95% (Figure 9.3).

The graph in Figure 9.4 illustrates the rise in atmospheric carbon dioxide over the last half century. Note that the increase in carbon dioxide's concentration in the atmosphere is exponential in nature.

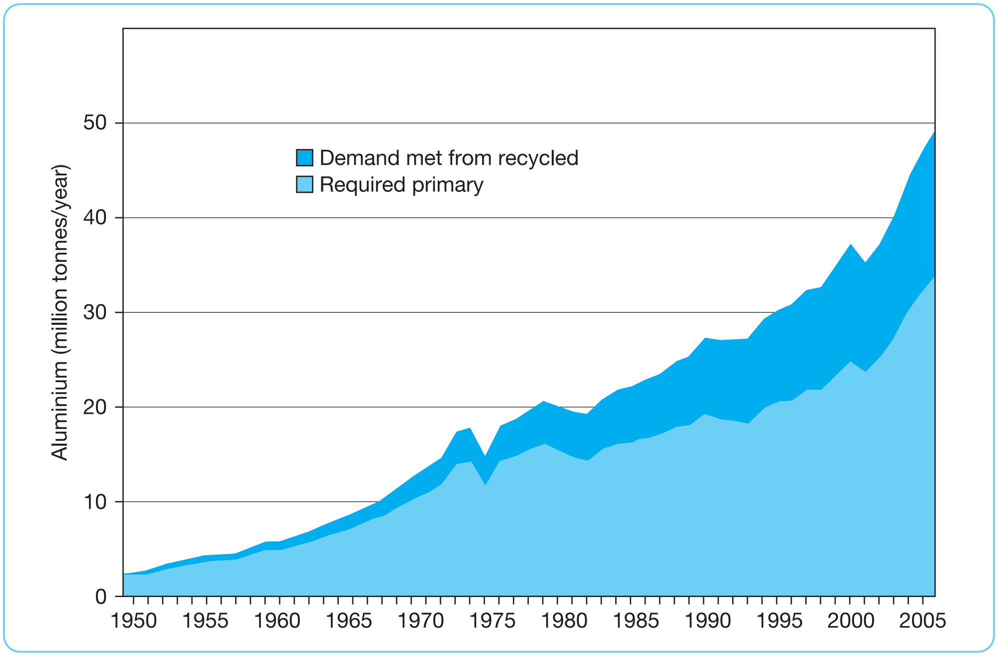

Figure 9.3 The effectiveness of aluminium recycling

Source: International Aluminium Institute (2005) *Aluminium for Future Generations Sustainability Update 2005*, London: IAI, page 5.

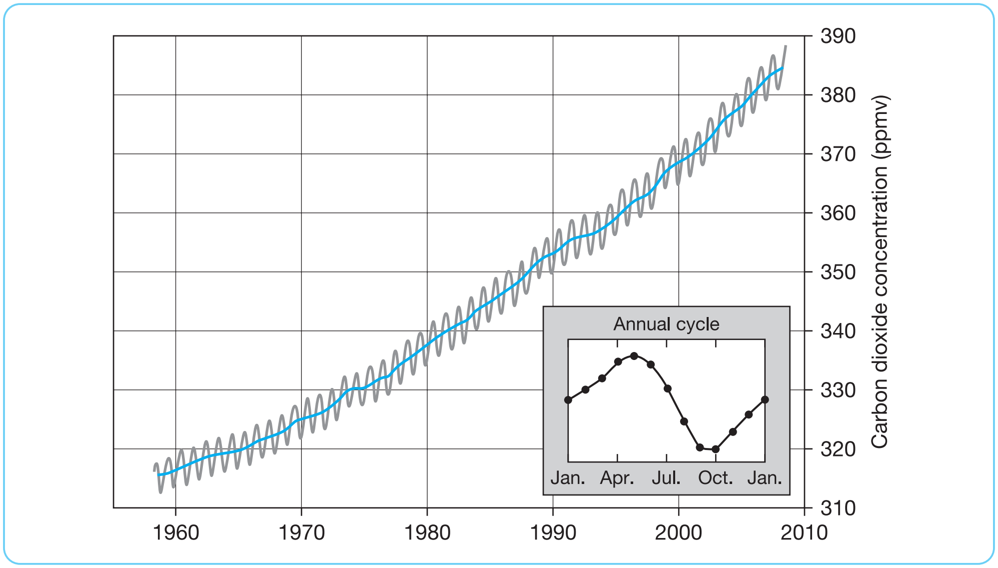

Figure 9.4 Atmospheric carbon dioxide measured at Mauna Loa, Hawaii

Source: Robert A. Rohde (www.globalwarmingart.com).

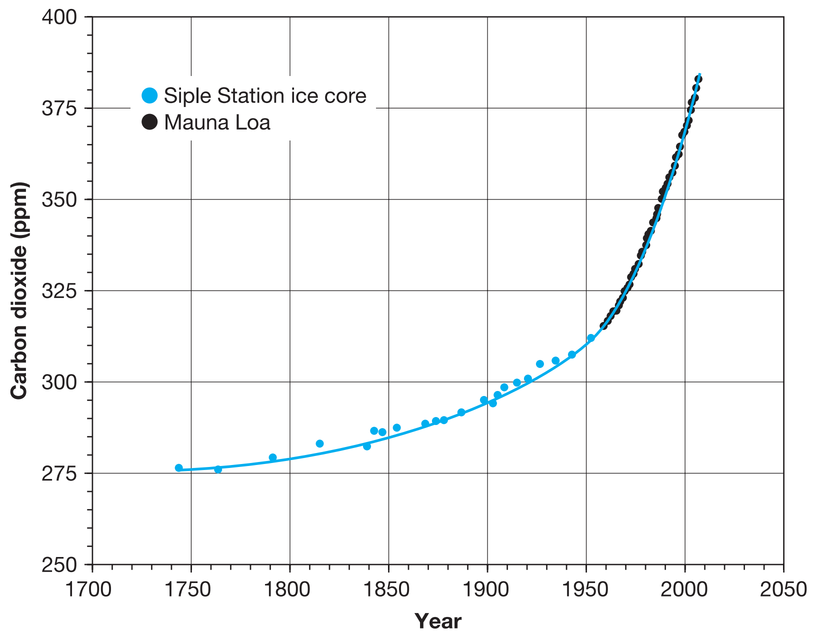

Figure 9.5 Future atmospheric carbon dioxide increases

Source: European Environment Agency (2010) *The European Environment: State and Outlook 2010 – Assessment of Global Megatrends*, Copenhagen: EEA.

An extrapolation into the future[15] would suggest continued annual increases. Atmospheric pollution has increased rapidly while worries about global warming raise questions about the ability of the planet to sustain itself. The sharp increase in levels of carbon dioxide in the atmosphere is closely linked with the spread of industry and the use of the car. Corporate leaders are learning to accept their responsibilities even if it affects their immediate business interests (see Figure 9.5 to appreciate the risks).

Charles Luce, Chair of the Board of Consolidated Edison Company, acknowledged this when he commented that 'if we are to preserve a habitable earth we are going to have to accept fewer foods and services, including less electricity'. In effect, industry has accepted that the full care and maintenance clause that exists with most leases or property contracts applies to the planet. There is a variety of ways to enforce this contract. They include:

- internal reform of business practices;
- long-term adjustments made to damaging social and economic activities;
- restrictions placed on certain activities or products;
- polluter-pays programmes by governments;
- income from taxes employed to 'clean up';
- economic growth and industrialisation limited to the amount that the area, community or planet can absorb;
- new technologies developed to correct harmful effects.

The European Commission, for example, has applied the polluter-pays principle in differentiating the rates of community assistance for structural funds, cohesion funds and

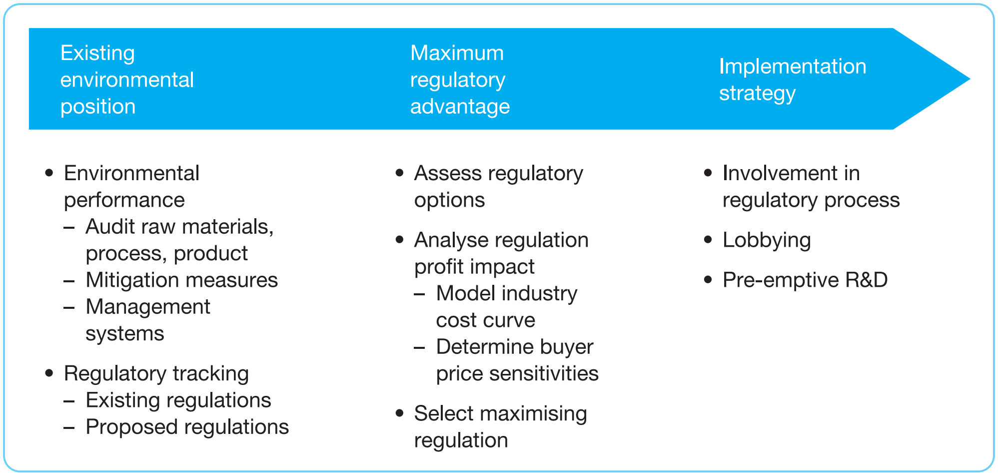

Figure 9.6 Determining a strategy for environmental regulation

Source: Clark, J. (1993) 'Green Regulation as a Source of Competitive Advantage', *Green Management International*, 1 (Jan.): 51–9.

ISPA infrastructure operations, with some omissions.[17] The UK government's Carbon Reduction Commitment (CRC) initiative is based on charging businesses for every ton of greenhouse gas they produce.

Each of these has played a part in shaping responses to threats to the environment. The growth in public concern, partly reflected in increased government legislation, has also played its part[18] (Figure 9.6).

Companies have adjusted their behaviour to reduce the impact of their activities on the environment while developing systematic strategies using approaches to reduce weight and consumption of raw materials. These have often been introduced ahead of changes in regulation. The three graphs in Figure 9.7 illustrate how the weight of beer bottles, yogurt pots and soup cans have dropped over time.

Some firms have introduced 'green imperatives' into their mission statements. In effect, this places an embargo on activities likely to have a negative impact on the environment. New products will not be introduced which cannot be recycled and the environmental impact of all activities is assessed. Sometimes these programmes are internally managed or monitored. Elsewhere, firms collaborate with government departments or pressure groups to undertake environmental (green) audits or environmental impact analyses.

Environmental audits examine every aspect of the firm's operations including production, delivery, office and development to appraise in an objective and replicable way their impact on the environment, progress since previous audits and ways to minimise any negative effects.

ISO 14001 is the internationally accepted standard setting out how firms can go about putting in place an effective environmental management system (EMS). The Eco-Management and Audit Scheme (EMAS) is a voluntary EU initiative designed to improve corporate environmental performance. BS 7750 was Britain's environment management standard, but now has been suspended in favour of ISO 14001.

A survey by the British Standards Institute (BSI) in 2006[19] found that 70 per cent of companies are concerned about the rising cost of energy, nearly half (45 per cent) worry about waste management and a third (30 per cent) worry about carbon emissions. Yet, nearly one-third (29 per cent) of those surveyed do not have an EMS in place. This is despite

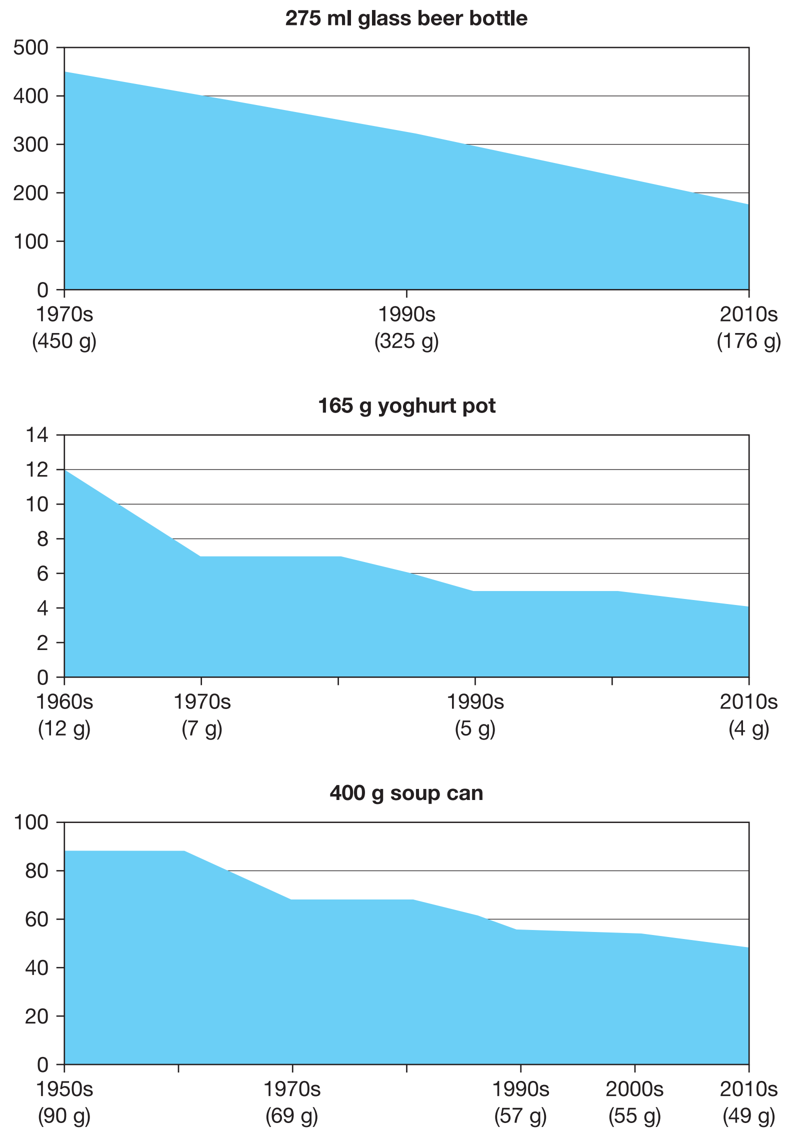

Figure 9.7 The decrease in packaging weight over time: beer bottles, yoghurt pots and soup cans

Source: Industry Council for Packaging and the Environment (2010) *Fact Sheet: Lightweighting*, Summer 2010, Reading: INCPEN.

the fact that many recognise the environmental and business benefits an environmental management system (EMS) can bring:

- 94 per cent recognise that it can improve environmental performance;
- 54 per cent believe it can enhance corporate reputation;
- one in 10 believes it enhances competitive advantage and achieves cost savings;
- 76 per cent believe customers will be more interested in companies with an EMS in the next 10 years.

Figure 9.8 Pollution control as percentage of GDP

Source: Organisation for Economic Co-operation and Development (2001) *OECD Environmental Indicators: Towards Sustainable Development 2001*, Paris: OECD, p. 104.

Environmental impact analysis takes a strategic view of the firm's relationship with the environment. It aims to provide overall direction to the environmental policies as the firm attempts to adjust its operations to achieve competitive advantage while achieving a better fit between its operations and the needs of the environment. There can be immediate and long-term benefits from this approach (Figure 9.8). Companies like The Body Shop employ their positive attitudes to the environment as a key element in their market strategy. This enabled the firm to build up a distinctive and loyal franchise.

AccountAbility's AA1000 series are principle-based standards to help organisations become more accountable, responsible and sustainable. They address issues affecting governance, business models and organisational strategy, as well as providing operational guidance on sustainability assurance and stakeholder engagement. The AA1000 standards are designed for the integrated thinking required by the low-carbon and green economy, and support integrated reporting and assurance.

The AA1000 principles are:[20]

Inclusivity. For an organisation that accepts its accountability to those on whom it has an impact and who have an impact on it, inclusivity is the participation of stakeholders in developing and achieving an accountable and strategic response to sustainability.

Materiality. Materiality is determining the relevance and significance of an issue to an organisation and its stakeholders. A material issue is an issue that will influence the decisions, actions and performance of an organisation or its stakeholders.

Responsiveness. Responsiveness is an organisation's response to stakeholder issues that affect its sustainability performance and is realised through decisions, actions and performance, as well as communication with stakeholders.

The value of these principles lies in their comprehensive coverage and the flexibility of their application. They demand that an organisation actively engage with its stakeholders, fully identify and understand sustainability issues that will have an impact on its performance, including economic, environmental, social and longer term financial performance, and use this understanding to develop responsible business strategies and performance objectives. Being principles rather than prescriptive rules, they allow an organisation to focus on what is material to its own vision and provide a framework for identifying and acting on real opportunities as well as managing non-financial risk and compliance.

ISO 14001:2004 is designed for any organisation that wishes to establish, implement, maintain and improve an environmental management system, to assure itself of conformity with its stated environmental policy. See also Myriam Linster and Frederique Zegel, 'Pollution Abatement and Control in OECD Countries'.

Many companies have found that waste reduction and recycling programmes reduce costs and adds value to their business. Nigel Marsh, company head of environmental management at Rolls-Royce, has commented that:

> Using an environmental standard such as ISO 14001 has given us significant savings from reduction in waste and water use, as well as lower energy consumption. ISO 14001 delivers value in risk management, improved compliance and, I believe, it can be a differentiator in winning new business. Many clients now see the long term benefits of working with companies that have robust environmental management systems in place.

This has increased enthusiasm for longer-term adjustments in business, economic and social practices.

Welford[22] suggests that total quality management (TQM) and total environmental management (TEM) can be seen as part of the same system of discipline and restraint. He argues that 'total quality and as such zero defects also means zero negative impact on the environment'. Some firms have used the notion of environmental auditing to shift their company policies from resource exploitation to resource development. There are, however, some key aspects of social behaviour that cannot be addressed solely by firms.

Perhaps, the most important global, environmental issue is population growth. The world's population is expected to virtually double in the next 50 years with growth in the poorest parts of the world increasing even faster (Figure 9.9).

The 2000s will see two whole Europes, East and West, added in just 10 years; an extra United States every two and a half years; two United Kingdoms every 14 months; a Sweden or two New Zealands every month; a Birmingham every four days; every 24 hours a town the size of Walsall or Wolverhampton; and a school class of 30 every 10 seconds.

Such figures are apt to induce panic (Figure 9.10). But is the panic justified? Do we need to worry? Is population growth a problem? Is it something we can handle? Or is it, as some would make out, a positive benefit?

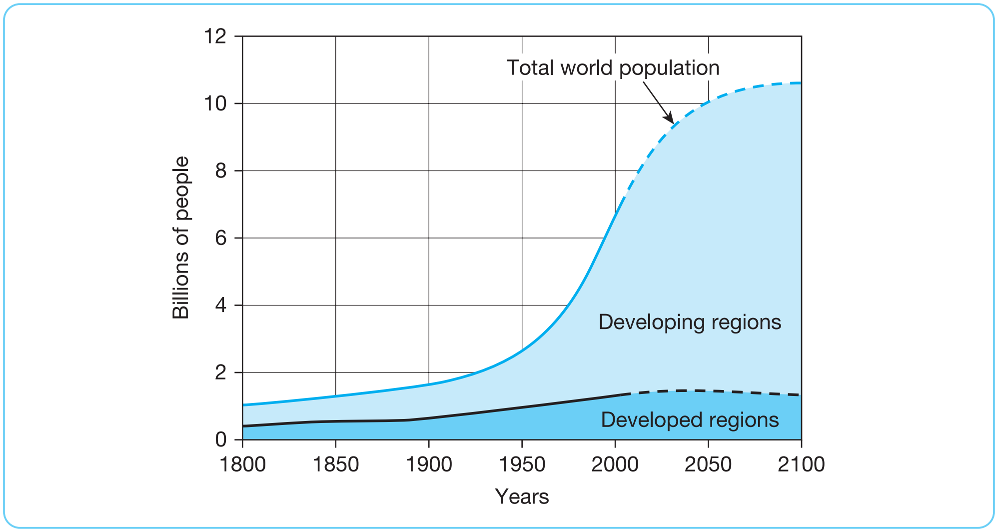

Figure 9.9 Population growth

Sources: *United Nations Population Division Population Prospects: The 2004 Revision*, Population Reference Bureau, United Nations Department of Economic and Social Affairs Population Division.

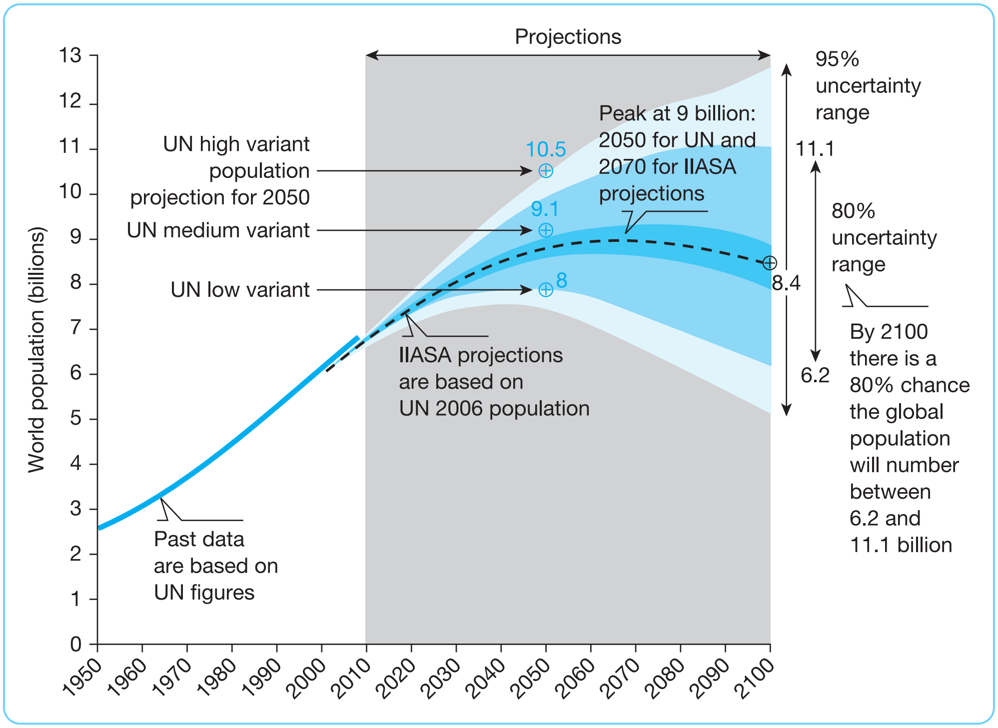

Figure 9.10 World population projections

Note. The UN Population Division studies fertility-evolution scenarios to produce high-, medium- and low-variant figures, whereas IIASA bases its calculations on assumptions for fertility, mortality and migration (with the latter only affecting regional projections).

Source: European Environment Agency (2010) *World population projections – IIASA probabilistic projections compared to UN projections* (www.eea.europa.eu/data-and-maps/figures/world-population-projections-iiasa-probabilistic).

Progressive companies are beginning to participate in schemes to reduce the impact of population growth on certain types of ecosystem, especially rain forests and fragile areas like arid semi-desert areas. At the same time, there is evidence that part of the cause of population growth is poverty which can only be tackled through a combination of economic development, industrial success and distribution of the benefits which follow on a more equitable basis.

Research into products which use up fewer scarce resources or which are alternative to harmful products dominate the R&D budgets of progressive companies around the world. In some areas, there has been dramatic progress in reducing raw materials usage with tangible commercial returns.[23]

Governments are recognising that a virtuous circle can be created in encouraging firms to keep to the forefront of environmental protection. Without a clear indication that central government meant business, the paint industry would not have had the necessary incentive to develop, to solve the separate problems of new decorative paints free of added lead, or anti-fouling paints used on ships free of the organotins which were polluting water. Recycling of post-consumer aluminium now saves an estimated 84 million tonnes of greenhouse gas emissions per year, equivalent to the annual emissions from 15 million cars.

Solow[24] was among the first to suggest that waste and environmental harm was a result of the 'free good' view of natural resources. A solution is to increase the price which will create a market in which some members will have an interest in maintaining the quality and integrity of the resource. Polluter-pays programmes can be linked to green taxes such as the differential tax rates on leaded, unleaded and diesel fuels in Britain. Elsewhere, punitive penalties are advocated. These transfer the entire cost on to the polluter. The simplest expression of polluter pays is the use of government funds raised through taxes to clean up the environment. This was the strategy adopted in the last century when municipalities built sewage systems and government underpinned restraint with legislation. It seems inevitable that some element of cleaning up will be necessary for the long term. Few observers expect that the problem of environmental degradation will disappear.

Even if pollution stopped there is a massive residue of damage and pollution to be tackled. Information on these residues is vital if the problems are to be addressed. Many countries have very poor records of the types of materials used in earlier stages of industrial development. Data on waste disposal is often even harder to obtain. Many governments now require a proper register of material use and disposal. This may be linked with efforts to build an historic picture of land use. These registers are slowly being constructed. There are, however, many barriers to the construction of these registers, not least the reluctance of some landowners to disclose information that could have a negative effect on property values.

The scale of these residual effects allied to the unknowable results of many forms of technology has prompted many groups to advocate a slowdown or even a halt to growth. The Club of Rome Report[25] argued that the only way significantly to reduce risk was to reduce economic and industrial growth. In essence, finite resources cannot cope with infinite growth. Returning to the theme the authors of this report[26] now suggest that industrial growth has gone beyond the limits of the planet's capability to adjust and restraint may not be enough. These writers argue that the 'extent of land erosion, the progressive deterioration in the sea allied to other changes in the ecostructure may impose their own catastrophic limits to growth if some action is not taken in advance'.

Critics of this view argue that technology itself holds the key to tackling these problems. The US Office of Technology Assessment suggested that advanced technologies could 'slash hazardous industrial waste in the USA by 75 per cent'. Technologies have emerged to clear pollutants from power station emission to reduce acid rain, reduce emission from car exhausts, remove metals and other pollutants from factory discharges and tackle a host of hazards. Technology may hold the key to new products which can be substituted for environmentally damaging items. Large-scale recycling requires technologies which are either novel or unknown. Alternative energy sources will call for innovative products and processes. Biotechnology might provide the key to land reclamation and crop management.

The Earth Summit† in Rio, 1992, was called to address these and the host of related questions. A strategy for sustainable development which combines internal reform of business practice, restrictions, investment and innovation was seen by the participants as the key to genuine progress. At the heart of this was Agenda 21, which remains a long-term vision for balancing economic and social needs with the capacity of the earth's resources and ecosystems. The subsequent Johannesburg Summit 2002 identified a series of tangible gains from Rio:

- Over 6,000 cities and towns worldwide have created their own 'local Agenda 21' to guide their long-term planning.
- National Agenda 21s have been prepared by a range of countries.
- Ever increasing numbers of businesses have embraced sustainable development and have adopted the 'triple bottom line' approach that takes into account economic, social and environmental factors. Several major business organisations espousing sustainability – such as the World Business Council on Sustainable Development – have grown extensively.
- The UN Commission on Sustainable Development was set up to monitor implementation of the Rio Summit.

Those who previously doubted the willingness of industry to reform its practices, acknowledge the progress to date and the ability of firms to integrate environmental protection into their corporate development.

The Johannesburg Summit itself place socially and environmentaly responsible business at the heart of its proposals. It called[27] for:

> Enhanced corporate environmental and social responsibility and accountability. This would include actions at all levels to:
>
> (a) Encourage industry to improve social and environmental performance through voluntary initiatives, including environmental management systems, codes of conduct, certification and public reporting on environmental and social issues, taking into account such initiatives as the International Organization for Standardization standards and Global Reporting Initiative guidelines on sustainability reporting, bearing in mind principle 11 of the Rio Declaration on Environment and Development;
> (b) Encourage dialogue between enterprises and the communities in which they operate and other stakeholders;
> (c) Encourage financial institutions to incorporate sustainable development considerations into their decision-making processes;
> (d) Develop workplace-based partnerships and programmes, including training and education programmes.

† The United Nations Conference on Environment and Development.

Table 9.2 The top 10 Clean-Tech Employers (publicly traded pure plays)

Rank	Company	Headquarters	Sector/Activity	Employees
1	Vestas Wind Systems	Randers, Denmark	Wind	20,730
2	LDK Solar	Xinyu, China	Solar	13,464
3	Suntech Power Holdings	Wuxi, China	Solar	12,548
4	Itron	Liberty Lake, USA	Smart grid	9,000
5	China BAK Battery	Shenzhen, China	Energy storage	8,200
6	Trina Solar	Changzhou, China	Solar	7,891
7	Baldor Electric Company	Fort Smith, USA	Electric motors	7,250
8	Gamesa Corporacion Tecnologica	Vitoria, Spain	Wind	6,721
9	Neo-Neon Holdings	Hong Kong	LED lighting	6,505
10	Yingli Green Energy	Baoding, China	Solar	5,813

Source: Clean Edge (2010) *Clean Tech Job Trends 2010*, San Francisco: Clean Edge, Inc. (www.cleanedge.com), reproduced with permission.

Note: Based on companies' reported claims and publicly available Q2 2010 financial filings/most recent annual reports.

Industry has a specific responsibility in delivering the first phase of the Kyoto Protocol which asks nations to cut their emissions by only 5.2 per cent below 1990 levels by 2012.

This has been followed by a series of major international events notably the Green Climate Fund with substantial private sector commitment. The next Earth Summit 2012 Rio+20 will be held 20–22 June 2012.

There are limits to this approach. Small and medium-sized firms have been slow to emulate the policies followed by larger firms. Even among large firms tangible commitments have been limited. In some developing countries and in specific industrial sectors the notion of restraint does not sit easily with imperatives to build industry especially given the attitudes adopted by some of the richest countries.

The *Clean Tech Job Trends 2010*[28] report found that more Chinese companies were leading in clean technology developments than EU or US corporations (see Table 9.2).

Long-term adjustments vie with short-term imperatives. The notion that population growth should be limited is hard to get over to peasant families without any security apart from the labour of other family members. Demands to reduce acid rain, reduce emission from car exhausts, remove metals and other pollutants from factory discharges and tackle a host of hazards compete with pressures to keep costs down, save jobs even keep declining industries viable. Technology may hold the key to new products which can be substituted for environmentally damaging items. Large-scale recycling requires technologies which are either novel or unknown. Alternative energy sources will call for innovative products and processes. Biotechnology might provide the key to land reclamation and crop management.

A strategy for sustainable development which combines internal reform of business practice, restrictions, investment and innovation is increasingly seen by businesses, governments and NGOs as the key to genuine progress.

Those who previously doubted the willingness of industry to reform their practices, acknowledge the progress to date and the ability of firms to integrate environmental protection into their corporate development. There are limits to this element of the approach. The notion of developing country restraint does not sit easily with imperatives to build industry especially given the attitudes adopted by some of the richest countries.[29]

The emergence of the G77 group of Third World countries has positive and negative implications. Its strength will force richer countries to negotiate more equitable development agreements. It is, however, worrying that much of its strength was deployed to tone down proposals on rain forest development.

Europe

Perhaps the clearest outcome post the Rio and Johannesburg Summits is acceptance that any efforts to tackle the problems of the environment must be international. The adoption of Europe-wide regulations is likely to be linked with rapid progress in setting up systems of national regulation and accreditation.

Responsibilities

Many of the worst problems cross the boundaries of control of individual countries. The reluctance of the countries bordering on the North Sea, for example, to abandon dumping in rivers, sewage emissions into the sea or burning toxic waste at sea illustrates the difficulty of action in the seas linking one of the richest parts of the world. International action may be the only means to tackle problems which cross national boundaries.

The Montreal Protocol, various EC directives and sector-specific agreements like the bans on whaling provide some clues to the opportunities and constraints on this type of activity. The risk exists that the demands for internationally effective regulation and the call for national economic competitiveness will provoke new tensions between rich and poor countries especially at a time of slow economic growth.

The optimum solution lies in finding safer alternatives. These would provide rich and poor with politically realistic options. The Bruntland Report[30] and related documents[31] develop this theme by integrating the three themes of protection of the environment, sustainable growth and active partnerships. Future generations have a right to expect access to environmental resources at least as good as exist today. Growth strategies that do not deliver this are mortgaging tomorrow for today and industry must be an active partner in building this relationship not just a controlled and regulated agent.

The evidence presented to the Earth Summits gave some scope for cautious optimism that technological innovation, regulation and industrial partnering can work in this complex area. Clean technologies, properly enforced laws and better management can break the link between industrialisation and pollution.

Since the early 1970s, industrial output in Europe, for example, rose rapidly but lead emissions dropped and air quality improved. This suggests that too little growth can prompt some communities to adopt exploitative methods of economic development while sustained growth provides the resources to adopt cleaner technologies Figure 9.11.

Polluter-pays programmes and green taxes work best if distortions which shift the balance away from environmental protection are eliminated. The World Bank notes that in a number of areas the costs of replacement are far less than the costs of exploitation. Deforestation is encouraged when the logging firm is charged fees which do not cover the cost of replanting. Sustained, integrated strategies based on partnerships between industry and the community provide the best hope for real progress in linking economic growth and environmental protection.

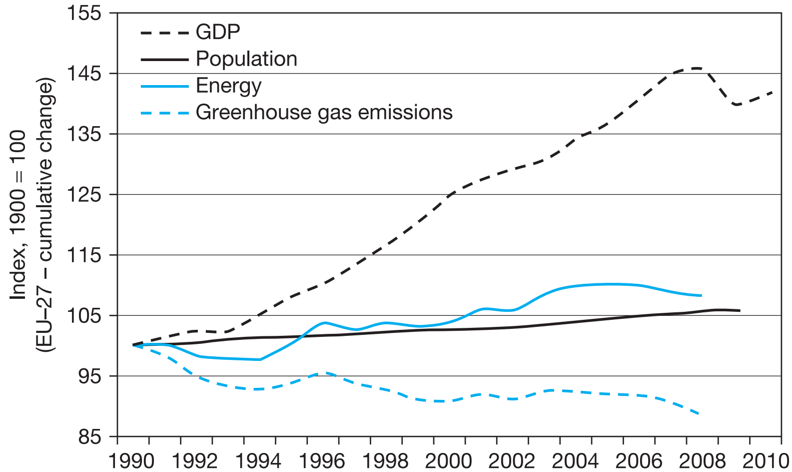

Figure 9.11 The relationship between GDP, population, energy consumption and greenhouse gases

Source: European Environment Agency (2010) *Change in GDP, population, primary energy and emissions, 1990–2010* (www.eea.europa.eu/data-and-maps/figures/change-in-gdp-population-primary).

Conclusion

The threat posed to the natural environment by industrial development is not new. The Romans saw people crippled and the environment polluted by mining. Overproduction and inefficient management saw the North African 'bread basket' of the Roman Empire turn into a desert in a few hundred years. In China during the seventh century, Tang canal networks linking the Yangtze valley and the Yellow River and irrigation systems opened up new lands for development. The population expanded rapidly and the character of Chinese development was set for the next 500 years. Deforestation in the Western Isles during the eighth and ninth centuries altered the character of the islands and their economic base. New techniques of irrigation allowed the Chola Kingdom of southern India to exploit 'waste land' but the increases in population led to extensive forest clearing. The expansion of the central African state of Ghana in the eighth century was based on its exploitation of iron. Its collapse seems to be linked to over exploitation of its reserves.

The introduction of sheep into the north of England and Scotland during the late Middle Ages to meet the needs of the expanding textile industry changed the landscape and reshaped communities. The exploitation of the native peoples of South America and the destruction of the environment started almost as soon as Europeans arrived on the continent in the fifteenth century. The dust-bowl effect in the Midwest of the United States earlier this century was caused by the same combination of exploitation and inefficiency. The annihilation of the herring shoals in the North Sea; the massacre of whales in the Pacific and the Atlantic; the destruction of the rain forests vividly illustrate the increasing power of man to destroy key parts of the natural environment. Until recently, this impact was limited, localised and poorly reported. Rachel Carson's book vividly illustrated how this had changed. She documented the extensive and pervasive impact of these changes. Since then a series of reports have highlighted the extent of destruction and its cumulative effects.

Despite the initial shock on publication, these warnings like others have been ignored not least because of the failure to develop coherent, industry-based policies for change. More recently, changes have occurred.

- First, the rapidly increasing scale of damage is recognised.
- Second, the political will to tackle these issues is being mobilised.
- Third, the role of industry and management as part of the answer and the problem is acknowledged.

QUESTIONS

1 Shrivastava claims that 'we are now witnessing the greening of corporations'. What form does this take and how are subsequent stages in the greening of corporations likely to evolve?

2 Using data from locally available sources, e.g. your college or university, identify readily available ways to reduce waste. Indicate the barriers to reducing this waste.

3 Describe the 'polluter-pays' approaches adopted in at least one country with which you are familiar. Draw out the strengths of this approach and identity any weaknesses.

4 Does technology hold the key to tackling the problems of environmental degradation? Analyse this argument and draw conclusions based on the evidence collected.

5 Outline the opportunities and limitation on EU policies and programmes for improving environmental standards in industry.

6 Paul Harrison argues that 'the 1980s were our best chance to act to stop undermining the future of the planet'; indicate any reasons why this was the case.

Has anything changed in the last 30 years to increase the chance of remedial action? If your answer is yes, please specify the changes. If your answer is no, please indicate the actions needed to introduce this change.

7 Describe some of the limits to the growth of 'green consumerism' locally, nationally and internationally. Illustrate with examples of successes and failures.

8 Define:
(a) environmental audit
(b) strategic environmental assessment
(c) Gaia
(d) eco-labelling
(e) sustainable development
(f) green consumerism.

CASE STUDY 9

Climate change action at Tufts University

William Moomaw and Sarah Hammond Creighton, Tufts Climate Initiative

Tufts University, a mid-sized university with three campuses in Massachusetts, has pledged to meet the Kyoto target by reducing its greenhouse gas (GHG) emissions to 7 per cent below 1990 levels by 2012.* Tufts will further reduce to 10 per cent below 1990 levels by 2020 and by 75 per cent in the longer term.† In addition, Tufts is the first university to join the Chicago Climate Exchange, a contractual emissions reduction and trading pilot program. These commitments are consistent with Tufts' environmental leadership position and create enormous learning opportunities for the university community. However, turning rhetoric into reality is a significant challenge.

Tufts Climate Initiative (TCI) works with the university's Operations Division and Administration as a catalyst and a resource. It provides a link between students and implementers, and spawns new initiatives by providing additional resources for ongoing climate change-related efforts across the university. TCI's approach is one of co-operation and partnership around three major areas:

- reduction of GHG emissions by assisting in the design and implementation of projects;
- research of technologies and measures, and monitoring of past projects; and
- education and outreach, both within and outside the university.

Starting point: creating an emissions inventory and gauging attitudes

TCI began by conducting an inventory of Tufts' major GHG emissions. Given the university's projected growth rate, a 23 per cent emissions reduction by the year 2012 is needed in order for Tufts to meet the Kyoto target. The inventory process yielded several other important insights:

- university emissions were rapidly increasing during the 1990s;
- electricity use per student was increasing (up 16 per cent between 1990 and 1998), as well as per square foot, mostly due to increased use of computers and air conditioning;
- carbon emissions had grown more slowly because our electric utility had decreased its emissions – largely through increased use of nuclear power; and
- carbon emissions from space heating had decreased per square foot and per student as buildings became more energy efficient, but were increasing in total due to more buildings.

Strategy for action: reducing carbon emissions

Based upon the emissions inventory, TCI decided that a combination of strategies could be used to meet its goals. These strategies include: increasing efficiency of electrical office equipment and lighting, increasing HVAC efficiency, purchasing green power, switching from oil to natural gas for some boilers, and changing personal behaviour. Other scenarios include installing co-generation or large-scale renewable energy systems.

1 Energy efficiency in new buildings

In addition to its ongoing small and large renovation projects, Tufts is designing and constructing new buildings. The energy impacts of new buildings can be greatly reduced by designing high performance buildings that are designed from the beginning to be super efficient, durable and healthy for their occupants.

TCI worked in close cooperation with the design team for the Wildlife Clinic at the Tufts School of Veterinary Medicine. TCI supported a third-party design review and evaluation of the alternative design schemes. As a result, the building includes a heat recovery system, sophisticated lighting controls, efficient lighting and other environmental features. By modifying plans for the Wildlife Clinic, energy use was reduced by 50 per cent and lowered CO_2 emissions by about 150 tonnes/year.

* This goal is consistent with the US emissions targets set forth by the Kyoto Protocol.

† This target is consistent with the goals of the New England governors and eastern Canadian premiers.

Case study 9 (*cont.*)

A planned 450-bed residence hall will include 28 kilowatts of photoelectric generation and a large solar hot water heater. TCI obtained $500,000 in funds to support the implementation of these solar features.

2 Energy efficiency in existing buildings

New buildings, regardless of how 'green', will add carbon emissions to a campus profile. But modifying existing buildings can yield significant emission reductions. Our challenge is largely how to operate 100-year-old buildings and their systems efficiently.

Graduate students collaborated with facilities staff to assess the CO_2 reductions that could be gained from retrofitting a residence housing 12 students. New features of the system include better insulation, solar hot water, sophisticated lighting controls, and energy efficient appliances. Students continue to monitor and assess this project, and it is projected that these improvements will pay for themselves within five years.

A comprehensive lighting retrofit in the Science and Technology Center reduced heat load enough to eliminate the need for additional air conditioning. This building has also been re-engineered for improved energy efficiency. Smart design in a major renovation of the chemistry building maximised the capacity of the existing ventilation system and reduced the need to only one additional unit. Combining this with high performance chillers will save $160,000/year and lower carbon emissions. Throughout the university lighting and lighting controls have received significant investment. These and other efforts have stabilised the electricity consumption on the Medford campus in 2001, 2002 and 2003, and will pay back in less than five years. This reverses the growth trend of the previous decade.

3 Alternative fuels and fuel switching

In co-operation with the Medford Solar Project, TCI installed two solar panels on one of Tufts' wood-frame homes in June 1999. The two solar panels cost $3,000 and produce over 700 kWh of electricity annually. This is enough to power approximately 10 per cent of yearly electricity usage for an average household and prevents the annual release of 1,200 lbs of CO_2.

At Tufts, transport (both university vehicles and commuters) is the third largest contributor to GHG emissions, behind electricity and heating, which account for 6 per cent of emissions. Tufts' facilities fleet now includes a Prius hybrid electric car. Donated by Toyota, two RAV4 electric vehicles are being used by mail services and public safety. The RAV4 allows mail services to reduce the use of their larger delivery vehicles and leads to gas savings of US$1,000/year. These measures have cut GHG emissions by about 10–15 tonnes each year.

4 Personal action initiatives

A student survey revealed that entering students arrive with an average of 15 electrical appliances and that these appliances (including personal computers) are constantly left on. TCI's personal action initiatives focus on getting students to turn off computers and lights through education, stickers, contests, web-based material, brochures and a light-bulb-exchange programme.

TCI also tested and implemented the use of Vending Misers, a device to cut vending machines electricity use in half. Through the installation of these devices, 70 tonnes of CO_2 have been avoided annually.

Planning and policy development

In order to move towards a more comprehensive approach in involving university decision-makers in projects of increased size and scale, TCI encouraged the formation of the Energy Affairs Council (EAC) in May 2001. The EAC is composed of financial representatives from throughout the university, and addresses energy costs, reliability and environmental impacts. The EAC has recommended a university-wide temperature policy that includes temperature targets, off-hour and weekend setbacks and procedures for exceptions. EAC is proposing an independent Energy Fund to finance energy and emissions reduction projects, and establishing general building energy policies for construction, renovation and operations.

Lessons learned

In the four years since it was established, TCI has accomplished a great deal. Each of our projects has taught us unique and specific lessons about initiating projects, implementing technology, budgeting, contracting and follow-through. Yet, several lessons emerge repeatedly.

First, effective climate change action must be a partnership between an advocate (TCI) and the university's Operations Division, and have presidential support. At Tufts, the Operations Division runs the physical plant, constructs new buildings, runs dining services and manages the grounds. TCI has played the

Case study 9 (*cont.*)

role of advocate, researcher and fund-raiser, but the real implementation always involves close work with our Energy Manager, Director of Facilities, Campus Directors, mechanics, dining managers and other staff.

Second, in most cases, technology exists to improve efficiency or generate electricity without GHG emissions. Implementation difficulties most often occur because of competing priorities, financial constraints, timing considerations (the academic calendar can pose huge impediments), lack of familiarity with the technology and structural barriers. Furthermore, selecting the architect, engineer or consultant most qualified to work at universities is not easy. In short, the process can be as important as the technology.

Third, money and time are always in short supply. In this way an advocate such as TCI staff can be useful to help keep projects on track, research funding opportunities or develop creative strategies. Shifting to life cycle cost and energy analysis is often difficult given constraints placed on construction budgets.

Lastly, successful advocacy for action requires persistence, getting dirt under one's fingernails, following through, accurate information and, perhaps most importantly, a willingness to admit mistakes. Regular Operations personnel are busy, have other priorities or may lack experience with many new technologies. We have learned that it is entirely insufficient to simply identify a problem without working jointly to find a solution. Furthermore, we have learned that just 'doing it' in most cases is complicated. TCI needs to address logistical details such as who will install it, who will maintain it, what happens if there are problems and who will pay for repairs.

Tufts' commitment to climate change is bold, comprehensive and action-oriented. Certainly, our ultimate success will be seen in future GHG emissions reductions. We will be successful if, through our efforts, the university and all members of the Tufts community begin to think about their impact on the climate and take responsibility for their actions.

Questions

1. Review the Tufts programme.
2. Examine ways other institutions might use similar methods.
3. Examine the barriers to introducing a Tufts-type programme.

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Chapter 10

Sustainability – the opportunities and challenges

The last 70 years have created few more powerful images than those forged by the impact of industry on the natural environment. Among them are the scars left on the landscape by opencast mining in Britain and the wastelands created by logging in Tasmania or Brazil. The sight of former miners, ex-building workers or textile operatives unable to breathe because of lung damage echoes the pictures of children from the Japanese fishing village of Minamata maimed and blinded by mercury dumped in the sea by chemical plants. The images include surreal landscapes wrought by acid rain on forests in Canada, Germany, Scotland and Scandinavia, blackened countryside in the newly liberated workers' paradises of Romania, Bulgaria, Poland, East Germany and the brutal simplicity of multi-coloured effluents pouring from waste pipes into rivers and seas. Individually and together these pictures and the concerns they create are shaping the environment in which firms operate.

According to Global Environmental Outlook 3 (GEO-3) (2002), a study by the United Nations Environment Programme, even if environmentally friendly approaches were to be adopted now, carbon-dioxide concentration, water shortages and coastal pollution would continue to rise until 2050.[1] The United Nations Conference on the Environment and Development – the Rio Summit – took as one of its dominant themes the responsibility of corporations to the natural environment. Many leading companies have already acknowledged their role in protecting the environment so that future generations can benefit and enjoy its bounty.

Sometimes this awareness has emerged gradually as leaders have recognised that their long-term survival and prosperity depends on a healthy environment. Occasionally a dramatic event like the Exxon Valdez oil disaster or BP's Deepwater Horizon has forced companies, industries and communities to recognise the cost of inaction. Equally, new approaches to the economic analysis of environmental activities are emerging. Typically, these seek to ensure that all economic activity, which impinges upon the environment is fully accounted for in the economic pricing system of the goods and services produced by such activity. This is called the 'internalisation of environmental costs'.

For Wheale and Amin[2] 'efficiency is obtained when marginal damage (MD) and marginal savings (MS) to the firm from the generation of pollution are equated and marginal savings is relative to emissions and marginal damage is relative to ambient pollution'. See Figure 10.1.

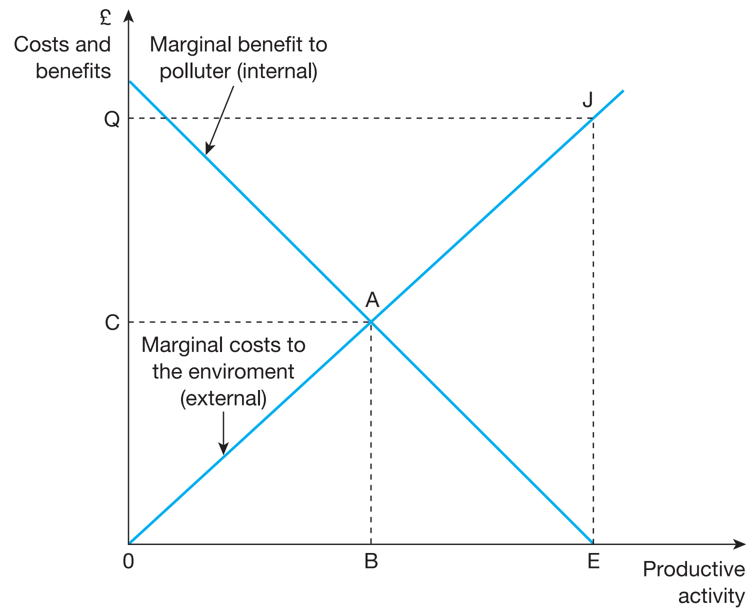


Figure 10.1 Marginal costs and benefits of a polluting productive activity

Source: Wheale, P. R. and Amin, L. H. (2003) 'The Polluter Pays Principle: An Assessment of Various Economic Instruments' for the Control of Pollution', *New Academy Review*, 1(4): 38–60.

Wheale and Amin[3] note:

> A firm in a competitive market equilibrium, with free access to environmental resources will continue to engage in polluting activities until the marginal return is zero, that is, it will continue to the point where further pollution contributes nothing further to his output and, thus, the marginal product is zero. The implication is that because of their disregard for the external costs that they impose on others, polluting agents will engage in socially excessive levels of polluting activities.

There is, however, widespread recognition that the implicit contract between society 'and industry contains powerful injunctions of protection and maintenance rather than allowing firms to engage in polluting activities until the marginal return is zero'.

This implicit contract will become more explicit if firms fail to respond to the mounting pressures for responsible action and improved performance. Changes in corporate approaches to such sensitive areas as hazard reduction, resource use, waste, pollution, etc. will require coherent change strategies backed by top management if they are to work.

The pressures on the natural environment have grown with increasing technology, wider use of potentially damaging processes and expanding populations (Table 10.1).

A number of issues have emerged as critical to the efforts to match environmental protection and business development. Each highlights a mixture of general and specific features of the relationship between business and the environment. These include CO_2 emissions leading to:

- Global warming – the ecological balance on the planet is founded on specific – if variable – climatic conditions. A major shift caused by the build-up of carbon in the atmosphere might create a greenhouse effect which can affect the crops on which millions of people depend.

Table 10.1 Projected impacts on urban areas of changes in extreme weather and climate events

Climate phenomena	Likelihood	Major projected impacts
Fewer cold days and nights	Virtually certain	Reduced energy demand for heating
Warmer and more frequent hot days and nights over most land areas	Virtually certain	Increased demand for cooling
Warmer temperatures	Virtually certain	Reduced disruption to transport due to snow, and ice effects on winter tourism Changes in permafrost, damage to buildings and infrastructures
Warm spells/heat waves: frequency increases over most land areas	Very likely	Reduction in quality of life for people in warm areas without air conditioning; impacts on elderly, very young and poor, including significant loss of human life Increases in energy usage for air conditioning
Heavy precipitation events: frequency increases over most areas	Very likely	Disruption of settlements, commerce, transport and societies due to flooding Significant loss of human life, injuries; loss of, and damage to property and infrastructure Potential for use of rainwater in hydropower generation increased in many areas
Areas affected by drought increase	Likely	Water shortages for households, industries and services Reduced hydropower generation potentials Potential for population migration
Intense tropical cyclone activity increases	Likely	Disruption of settlements by flood and high winds Disruption of public water supply Withdrawal of risk coverage in vulnerable areas by private insurers (at least in developed countries) Significant loss of human life, injuries; loss of, and damage to, property Potential for population migration
Increased incidence of extreme high sea level (excludes tsunamis)	Likely	Costs of coastal protection and costs of land-use relocation increase Decreased freshwater availability due to saltwater intrusion Significant loss of human life, injuries; loss of, and damage to, property and infrastructure Potential for movement of population

Source: United Nations Human Settlements Programme, UN-HABITAT (2011) *Cities and Climate Change: The Global Report on Human Settlements*, Washington, DC.

- Acid rain – this poisons the forests, rivers, lakes and seas on which locals depend for their livelihood and the planet needs for equilibrium.
- Toxic air emissions – these can place communities at risk from the immediate effects of a Bhopal or gradually threaten the landscape or nearby groups such as those near brickworks.
- Waste – People, factories, farms produce waste products which can overwhelm the ability of man-made or natural systems to cope.

Ozone depletion highlighted a range of issues that were either new or neglected for business. Perhaps the two most significant lessons for industry from the growing awareness of the threat from ozone depletion were the range of industrial activities that could affect the environment and the insidious nature of these threats. Companies who were perceived as environmentally neutral found that their technologies have a massive but hidden effect. The build-up of ozone was slow and largely unobserved. This meant that firms, industries and technologies were highly dependent on the products which produced the damage. Remedial action has only a lagged effect. The effects are worldwide and raised questions about the value of local action.

The potential impacts were drastic. 'If CFC use had continued to grow, by the year 2075 there could have been an additional 43 million cases of cataracts, plus 96 million cases of skin cancer, including 2 million extra cancer deaths. Enhanced ultraviolet radiation also cuts the yields from plants – from 5 per cent for wheat up to 90 per cent for squash. It reduces plant height and leaf area, and reduces flowering and germination. It damages cyanobacteria which fix nitrogen in paddy fields and could slash rice yields. It could speed global warming by damaging trees and phytoplankton, which absorb large amounts of carbon dioxide. The overall costs of uncontrolled ozone depletion to the USA alone would have reached US$150 billion by the year 2075, including lost crop harvests of $42 billion and fish catches worth $7 billion. Indeed, if skin cancer deaths are accounted at typical compensation rates, the total costs rose to $3,517 billion.'[4]

Vulnerability

Roome[5] has suggested that analysis of corporate vulnerability to environmental demands can be analysed in terms of scientific significance and public perception (Figure 10.2).

Industries like chemicals, oil and defence are at the centre of the debate on environmental protection. The public sees them as providing clearly identifiable threats through their factories, processes and products. Highly publicised events like the Exxon Valdez oil spill, BP's spills in the river Mersey, the pollution of the Danube and Bhopal have influenced the public image of these firms.

Scientific significance of environmental impact	Public perception of environmental impact: *High*	*Low*
High	**Posture**: Reactive **Pressure**: Law **Case**: Chemical companies like Union Carbide and the processes employed	**Posture**: Reactive **Pressure**: High **Case**: Computer companies like IBM using CFCs in production
Low	**Posture**: Reactive **Pressure**: Communications **Case**: Steel producers like British Steel with easily recycled output	**Posture**: Discretionary **Pressure**: Management **Case**: Telecommunications firms like BT with satellite communications

Figure 10.2 Assessing corporate vulnerability

This is probably inevitable as the potential impact of their products on the environment is immense. Firms in these industries wishing to overcome their problems manage a portfolio of strategies based on the four Ps: *pre-emption*, *participation*, *product development* and *positioning*.

Pre-emption means introducing changes in practices which pose a threat to the environment before they are required by law. A number of companies operating in the North Sea banned flaring off waste gases before legislation forced them to. This produces a number of benefits for the firms. The most basic is that the approach is compatible with existing company practice not forced by legislators who will inevitably look for more general solutions. Pre-emption can build greater trust between the firm and the community. The firm increases its standing by acting before it is forced to act. This may persuade politicians to allow firms to solve a wider array of problems in the future. The enormous capital costs involved in change in these process or extractive industries can be reduced if the firm introduces modification in a planned and internally controlled way instead of through government fiat. There is some evidence that positive prior action has a neutral effect on share values. The decision by Conoco to adopt a nine-point plan to reduce toxic emissions and prevent oil spills at a cost of over US$50 million had a neutral effect on share prices. It is clear that DuPont matched or outperformed the market at the time of the announcement of its environmental spending performance.

This contrasts with the sharp drop in the share price of Exxon following the Exxon Valdez disaster and BP's after Deepwater Horizon. This drop in price occurred long before the extent of the fines and penalties became known. The public hostility to firms responsible for damage to the environment seems likely to increase the penalties for failure and increase the gains from early action.

Protest against pollution

Source: John Novis/Greenpeace UK

There is accumulating evidence that the affirmative actions adopted by the nuclear industry had gone some way to allay public fears and convince legislators that it is seeking environmentally friendly solutions to the challenges it faces until the Fukushima Daini nuclear power disaster.

Some legislative, regulatory and supervisory action is inevitable in a complex and sensitive area like environmental protection. It is estimated that firms in the major developed countries are spending around US$500 billion on compliance to meet the needs of environmental protection, and health and safety requirements. The scale of these costs, plus the near certainty that they will increase, demands that industry plays an active role in shaping legislation and supervision. All companies have a vested interest in producing policies that recognise the constraints under which firms operate. Responsible companies have a similar concern for ensuring that legislation does not leave gaps that the unscrupulous can exploit. It is government's role to set standards and priorities. It is industry's role to help in developing the technologies to meet and improve these standards. The dialogue should be continuous.

Companies appreciate that they are not bystanders. Organisations like Business and the Environment in Britain and the Business Council for Sustainable Development in North America strive to encourage their colleagues to adopt more responsible attitudes and behaviour while persuading the state to listen to their views. Firms can adopt four basic strategies to environmental issues: offensive, defensive, indifference and innovative. Organisations like Business in the Environment adopt a progressive view of this model – striving to help firms move from offence to innovation.

1 The immediate reaction of most organisations to accusations that they are harming the environment is to counter-attack. Farmers assert that chemical fertilisers do far more good than harm. Plastics companies allege that critics are backed by producers of rival products. Physical attacks on investigators are not unknown. The public and government may interpret these reactions as the natural response of an enterprise with something to hide.
2 A defensive approach to environmental concerns is widespread. This can be seen in firms that see themselves as victims of new, social expectations. They are trading in good faith but someone with no knowledge of their company or industry identifies a problem. These companies typically retreat into secrecy and a refusal to explore effective responses and corrective action. Chemical companies build higher fences round their plants. Timber companies emphasise the lack of alternatives.
3 Indifference is perhaps the dominant response especially in small and medium-sized firms. The paint producer will ignore demands for alternatives until legislation forces a response.
4 Innovative: our best strategy is to look for ways to capitalise on the new demands and opportunities.

Innovation is used to eliminate harmful products or processes and substitute safer alternatives. Some firms use this approach as a platform to penetrate new markets. At each stage, companies work with government to mesh their efforts into the wider programme of government action. Product development programmes of companies are linked increasingly to the demands for greener products and the opportunities these create for firms capable of matching capacity to need (Figure 10.3).

Figure 10.3 The stages of corporate response

Table 10.2 Comparison of values in ecological and conventional economics as the basis for marketing

Conventional economics	Ecological economics
Anthropocentric	*Ecocentric*
Value derives from human welfare only	Natural world has intrinsic values
Attitude of exploitation	Attitude of respect and obligation of stewardship
Human welfare depends on consumption (broadly defined)	Human welfare depends on our relationship to the natural world and to each other and on inner attitudes, as well as on consumption
Humans are defined as consumers and producers	Human are citizens as well as consumers and producers
Decisions are best made in markets	Decisions are best made in the political arena and local communities as well as in markets

Every aspect of the marketing system provides opportunities for innovations based on a better fit with the needs of the environment. Government programmes create opportunities in services, processes and products. Varey argues that this requires rethinking the core logic of marketing.[6] See Table 10.2.

The successful development of catalytic converters to reduce fumes from car exhausts was prompted by new regulations in the USA and Europe. These new products have grown in importance as customers have shown a determination to seek out and buy green products. Ten years ago, it was rare to see a new product or process to meet the needs of the green market. Now, it is rare to see innovations that ignore this dimension.

New detergents are launched which boast that they are 'less harmful to the environment' with significant reductions in everything, except performance. Catalytic convertors are standard on cars ranging from family saloons to four-wheel drives. New ranges of chilled and fresh food products are introduced which 'use rainwater for irrigation and not one

Table 10.3 Opportunities and demands in the marketing chain

Stage	Event	Response
Raw materials	User action	Heinz refuse to use tuna caught in certain ways
Processing	Buyer resistance	Customer reluctance to accept products with certain E numbers
Supplies	Embargoes	Unilever refuse to use non-biodegradable chemicals in detergents
Packaging	Customer interdict	McDonald's instruct packaging suppliers to stop using CFCs
Manufacturing	Voluntary restraint	Stop using hardwoods in furniture
Distribution	Community demands	British Gas use underground pipes
Retailing	Affirmative action	Bottle banks
Consumption	Consumer boycotts	Buyers refuse to use certain kinds of aerosols

single pesticide'. New washing machines boast that they use '*x* per cent less detergent and *x* per cent less water'. Supermarkets now offer bottle banks, box bins and paper or plastic bins as new services to their customers.

One green bottle
Drop it in the bank,
Ten green bottles,
What a lot we drank.
Heaps of bottles
And yesterday's a blank
But we'll save the planet,
Tinkle, tinkle, clank.

Wendy Cope, *A Green Song*

A mixture of customer or competitive pressure and opportunism has provided opportunities through the marketing chain (Table 10.3).

In key sectors like car and food production innovative activity is dominated by environmental concerns. Some car firms promote the speed with which their new model can be recycled with the same enthusiasm with which they once promoted its speed from 0 to 60 miles per hour. New food products highlight their green attributes. Heinz recently repositioned their canned tomato soup. It was promoted with the strap line – the only artificial preservative we use is the one you have to open. The increased market share of energy saving or environmentally safe products is prompting increasing numbers of firms to develop new offerings none more vigorously than the car industry with hybrid cars (Figure 10.4).

Soaring sales of hybrid cars may simply pave the way for a generation of all electric cars. The increase in electric-vehical charging stations around the world is creating new opportunities for car and other vehicle producers (Figure 10.5).

There is evidence that the fastest shifts occur when environmental gain and financial benefit coincide. This has strengthened the arguments for taxation policies which reinforce the link between these gains and benefits. Carbon taxes act as a continuous incentive to adopt ever cleaner technology and energy conservation. Standards tend to be 'technology based' and therefore encourage technology switches up to the point judged by the regulator to be the 'best available'.

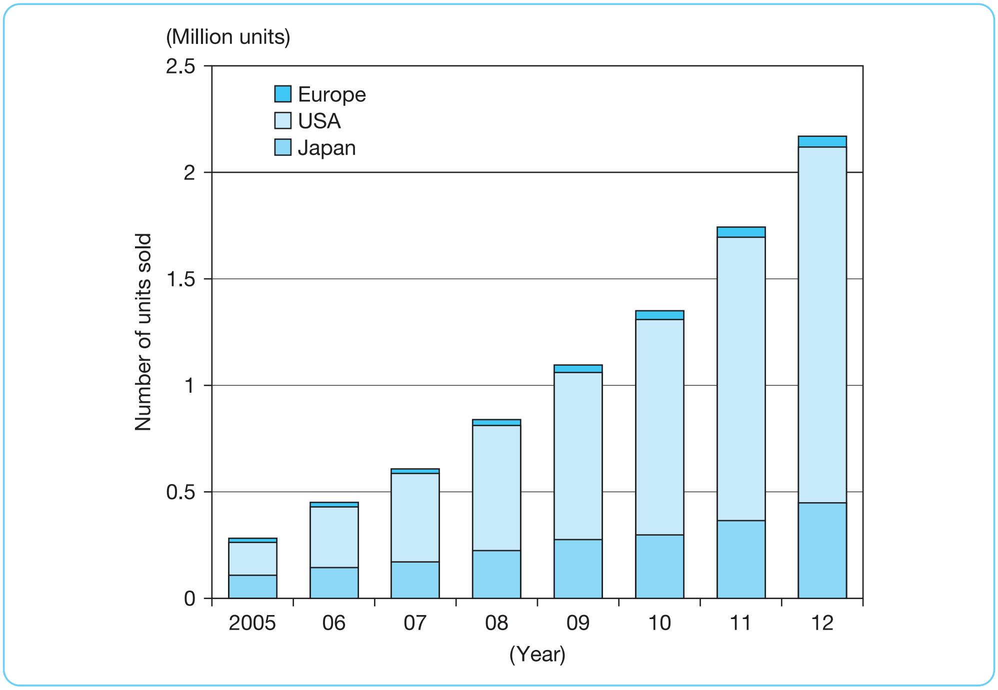


Figure 10.4 Hybrid car sales projections

Note: Figures for 2005 are actual results.

Source: Department of Electric and Electronic Engineering, University of Portsmouth.

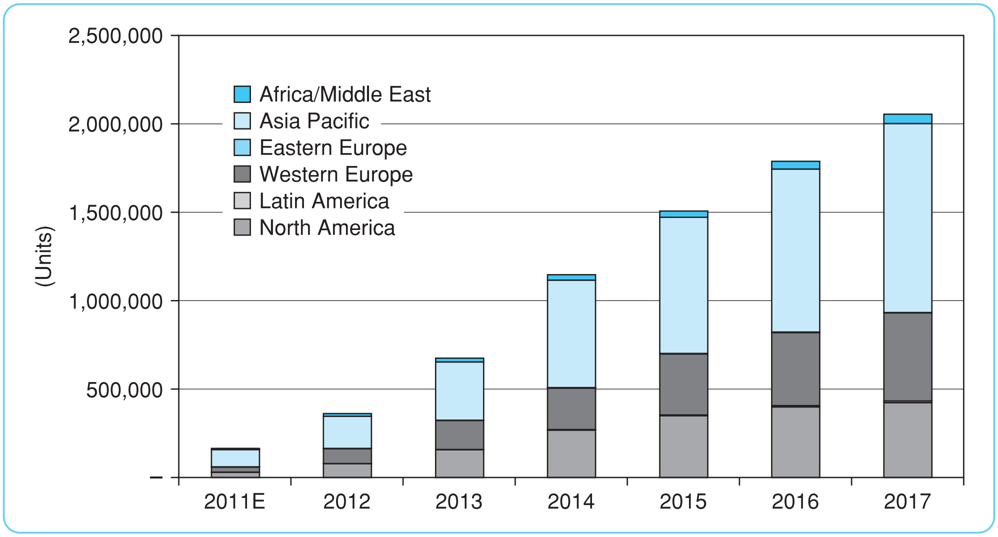


Figure 10.5 EV charging station unit sales by region, world markets (2011–2017)

Source: Pike Research (2011) *Electric Vehicle Charging Equipment*, Boulder, CO: Pike Research, Chart 1.1, page 1.

Table 10.4 The search for environmental excellence

Position	Policy
Corporate values and ethos	Openness is encouraged with links to concerned groups and the science community – environment gatekeepers flag issues and spot opportunities. Top management adopt a clear stance
Responsibilities and accountability	Emphasis on individual and local responsibility, management reward and control systems reinforce green policies, worker-based environment circles and linked rewards
People policies	Recruitment, selection, management, motivation and control linked to environment protection
Organisational structure	Lean and flexible with emphasis on need-based structures not bureaucracies
Senior management	Visible, committed, close to customers and aware of wider responsibilities
Operations	Developmental, emphasis on effectiveness, waste elimination – lean production
Marketing	Developmental, continuous but responsible innovation
Finance	Emphasis on added value and needs of multiple stakeholder responsibilities – ethics matter
Resourcing	Partnership and supplier development-based with emphasis on integrated development and innovation – JIT works
Corporate strategy	Anticipates needs, emphasises long-term value added, awareness-based with clear visions

Source: Roome, N. (1992) 'Developing Environmental Management Strategies', *Business Strategy and the Environment*, 1(1).

The repositioning of the whole enterprise to a positive environmental stance is still rare in Britain although increasing numbers of US, German, Dutch and Scandinavian concerns are adopting this position. It calls for internal adjustment to strengthen corporate commitment to affirmative action, systematic scanning of the environment and co-ordinated product and process innovation. Roome[7] links these changes with a search for 'environmental excellence' (Table 10.4).

Information is the lifeblood of the modern corporation. New technologies allied to a need for control systems which allow resources to be deployed effectively in complex and changing environments have made information and information systems central to every aspect of corporate policy. Information technology is affecting everyday life across a broad spectrum of the workforce.

Environmental management information systems pose special problems for corporations. These include:

- the qualitative nature of much of the data;
- the length of the timescales involved; and
- the interdependencies between effects.

Unless systems are designed which can overcome these problems, environmental information will remain on the periphery of the main corporate information and intelligence systems. This, in turn, will reduce the effectiveness of policies and the environment programmes. Melville[8] identifies a series of central research questions that need to be answered to designing an effective system (Table 10.5).

Table 10.5 Central research questions for environmental information

Domain	Research question
Philosophical perspective and theory	**RQ1**: How can different philosophical perspectives – positivist, interpretive, critical, and design – be applied to complex problems involving information systems, organisations, and the natural environment? **RQ2**: How can different theories be applied to complex problems involving information systems, organisations, and the natural environment?
Research methodology and data sources	**RQ3**: How can different research methodologies, such as life cycle analysis and integrated assessment, be applied to examine complex problems involving information systems, organisations, and the natural environment? **RQ4:** How can different environmental metrics, such as CO_2 equivalent, be employed to assess the impact of IS on the natural environment?
Phenomena	
Belief	**RQ5a**: What is the impact of information systems on beliefs about the natural environment and environmental sustainability? **RQ5b**: What design approaches are effective for developing information systems that influence human beliefs about the natural environment?
Action	**RQ6a**: How do the distinctive characteristics of the environmental sustainability context, such as values and altruism, affect intention to use and usage of information systems for environmental sustainability? **RQ6b**: What design approaches are effective for developing information systems that influence human actions about the natural environment?
Outcome	**RQ7**: What is the association between information systems and organisational and sustainability performance? **RQ8**: What is the association between information systems and supply chain performance from an efficiency and environmental perspective? **RQ9**: How can firms optimally invest in industry IS platforms intended to reduce negative externalities associated with the natural environment? **RQ10**: How can systems approaches shed light on organisational and environmental outcomes that result from the use of IS for environmental sustainability?

Source: Melville (2010).

Information and information systems

Partly because of these challenges early attempts to tackle these issues became so discredited that respected companies like Florida Power and Light 'banned' the term 'environmental information management system'.

The lynchpin of any effective environmental management information system (EMIS) is the specification by decision makers – inside and outside the organisation – of the key areas for action, implementation, control and allocation. A combination of openness and transparency is an integral feature of this stage in the design of EMIS. Openness ensures that all key groups have access to the process of decision information specification. Transparency is important to enable all stakeholders to observe the choice and decision process and endorse its outcomes. Once the key decision areas are identified, the basic system design becomes a priority (Figure 10.6).

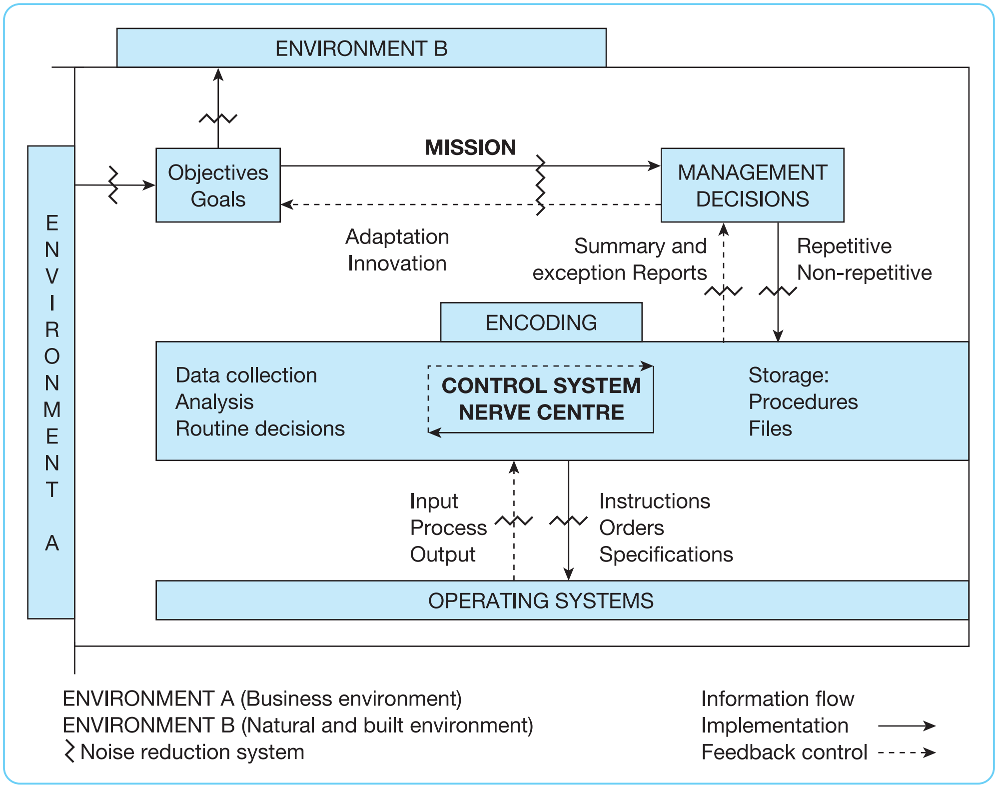


Figure 10.6 Environmental management information system

Typically, this will consist of four key components:

1. The information nerve centre: the hub of the system where data is stored, tested, integrated (where possible) and organised.
2. The need identification structure: the nerve ends of the system which identify users or decision makers and their needs and external concerns.
3. The integrators: these feed information into the nerve centre and out to managers who need it, in a form that they can use – in time for them to take effective action.
4. System integrity checks: these ensure the internal and external integrity of information systems while minimising noise and distortion.

This is especially important for an EMIS as noise and distortion can undermine the quality of the data and the ability of managers to use the information. In an EMIS clear specification of operational and strategic responsibilities must be linked with an understanding of:

- The level at which decisions and actions must be made. These can then be linked with monitoring, feedback and reward systems.
- The types and sources of data.
- The characteristics, nature and limitations of the data and any integral hierarchies of environmental management information requirements.

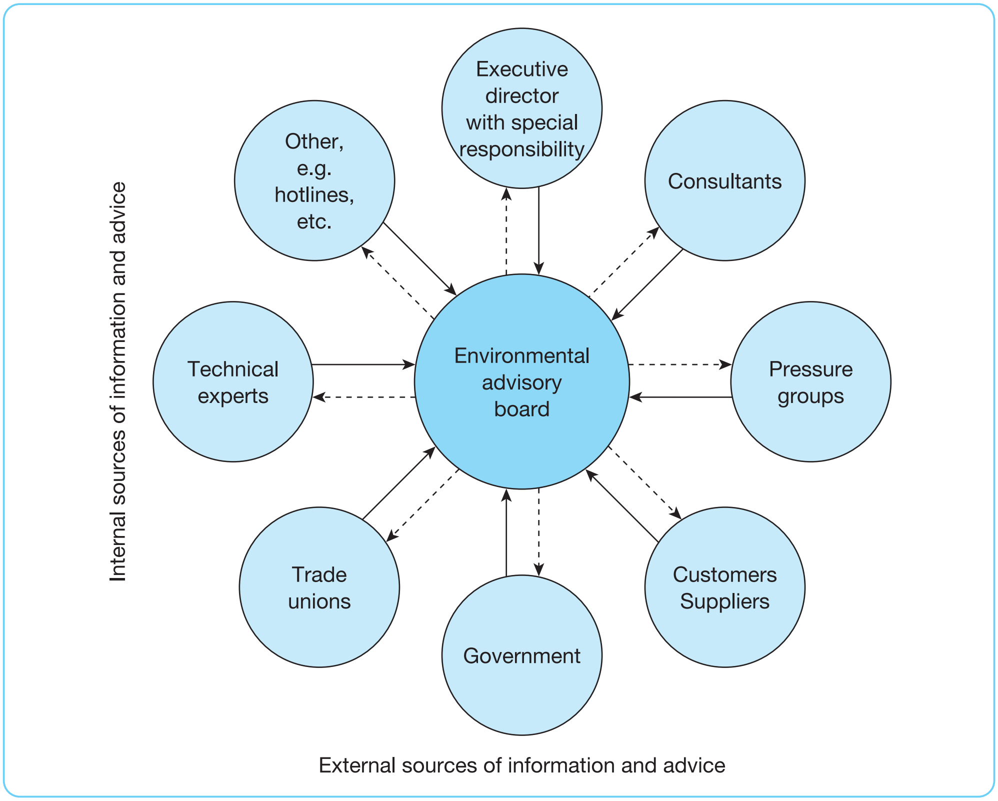


Figure 10.7 Hub-based environmental advisory structure

Even today many of the information systems which exist rely on informal sources or data gathered for other purposes[9] and managed through an environmental advisory committee, advisory panel or directors with specific responsibilities for the area.

Environmental advisory boards are often chaired by a non-executive director of the firm. The executive director responsible for the issue may be a member of the board. The advisory board will gather information and advice from sources ranging from consultants recruited to examine specific issues to employee 'hot-lines' set up to permit staff to identify issues in confidence (Figure 10.7).

The integration of these information and advisory systems into the firm's strategic stance is an integral part of a process of repositioning the enterprise.

Accidents, liabilities and challenges

Some of the most important developments in corporate environmental policies have followed specific events. The Exxon Valdez oil spill illustrates key features of the process of crisis, response, adjustment, reaction and compliance. These characterise the ways in which the firms involved, the wider community and the business system generally manage the corporate contract with the community and the environment. The specific events surrounding the oil

Table 10.6 A hierarchy of environmental management information requirements

Responsibility	Task level	Typical data sources	Data characteristics
Environmental performance	Corporate environmental policy and programmes	Auditing Permit management	Highest integration Summary and exception
Compliance/Risk management	Internal compliance External compliance	Facility reports Surveys Impact studies	Relatively lower volume
Materials management	Plant-level processes	Chemical inventory Waste tracking Material and emissions balances	High integration High volume
Source monitoring	Engineering task Market assessment R&D	Air and water reporting Tank testing Exposure monitoring Groundwater and soils	Low integration High volume

Source: Adapted from Fitzgerald, C. (1993) 'Selecting Measures for Environmental Quality', *Greener Management International*, 1, January: 25–40.

spill were well documented at the time. The supertanker Exxon Valdez ruptured its tanks in a collision off the coast of Alaska. The spill polluted the coast and endangered vast numbers of wildlife. There were several elements which made this event an especially powerful symbol for those concerned about the impact of commercial activity on the natural environment. The first and perhaps the dominant factor was its location.

Alaska's remoteness allied to its climate made it 'the last frontier' to many Americans. It was seen as a remote wilderness scarcely touched by the pressures which affected the industrial world. The discovery of oil had prompted many observers to warn that this fragile ecosystem was at risk. There was, however, a counterview – at least in the USA – that industry and society had learned the lessons of Oklahoma, Texas and California. Destruction seemed to be a thing of the past. In effect, the belief grew that the oil industry could be trusted. Equally important, there was little recognition of the nature of the 'new' environments into which the industry was moving and the new potentially greater risks which Big Oil was taking. This issue arose even more starkly when deep water oil exploration developed.

At the same time, there was a more pervasive view that the USA was rich enough to pay the price needed to protect the environment while exploiting natural resources. Thoughtless exploitation might occur in poor or badly regulated economies but the USA was rich and apparently had an impressive system of supervision and control reinforced by companies who set their own high standards.

In effect, it could not happen here. The spillage seemed to shatter these illusions. It was alleged that the captain of the ship was not even on the deck when the accident occurred. Stories are confused about the reasons for his absence but the most basic system of management control had failed. The systems installed on the ship and locally failed to stop or contain the spillage. Most were wholly inadequate to the needs which existed when a major crisis blew up. Technology existed to control and minimise the effects but the necessary investments had not been made.

Key security and defence elements in the 'contract' between the enterprise and the community were neither endorsed nor implemented. It seemed that industry could not be trusted to either protect the environment or to establish the information and control systems to ensure that corporate environmental commitments made centrally were implemented locally. Inevitably, the media's attention strayed beyond the shoreline to the catalogue of previous failures. Earlier minor spills had given prior warning. Parts of 'the last frontier' had been turned into minor industrial slums by neglect and poor supervision.

State and national systems of regulation had failed to address the problems. Even the richest country in the world could not trust its industries or those it paid to regulate commerce. The response of Exxon, the rest of the industry and the support agencies did little to reassure the community. The slow response and the arguments about liabilities seemed more akin to a row about the fine print of a contract than an attempt to implement the spirit of the agreement or solve the problem. This reaction highlights a special dimension to environmental issues. They carry on getting worse until something effective is done. There is no standstill clause. The status quo 'ante' cannot be rebuilt merely because all the parties agree to go back to where they started.

Something has to be done. The inexorable spread of the oil, the helplessness of the wildlife and the apparent impotence of corporate and political leaders was a powerful juxtaposition of interests and image. Nowhere has the value of environmental contingency planning been more vividly illustrated than by its apparent absence in Alaska and more recently in the Gulf. Environmental contingency plans are the arrangements drawn up by a company, usually in collaboration with local or expert partners to cope with serious environmental problems.

Even the basic notion built into most insurance contracts – solve the problem first and worry about liabilities later – seemed lacking. The eventual efficiency of the clean up and containment operation raised questions about why this was not in place earlier. A large-scale adjustment in attitudes allegedly took place later. Oil companies, especially Exxon, saw their share prices drop. Customers switched brands. Employees asked questions about the values of their enterprise. Potential recruits were reluctant to join. Planners, politicians and regulators imposed more stringent requirements. Billion-dollar installations such as the Texaco offshore installation in California were regulated more tightly – it seemed. The trading climate of the industry was changed. The total cost is hard to estimate but figures in the range of US$5–15 billion for Exxon alone have been estimated.[10]

Losses on this scale affected the attitudes of the business and financial community. It prompted a group of investors to formulate the famous Valdez principles. These must be accepted by a public company before members of the group allow their funds to be invested in the corporation's shares. The immediate reaction to this clear statement of first principles was favourable. Companies saw it as a powerful means to confirm their values while the public acknowledged the seriousness of the intent. Parallel developments saw companies and communities make similar demands of their suppliers and collaborators. The longer-term response has been less enthusiastic.

Some clauses, e.g. the whistle-blower's charter in point 8 of the Valdez principles (Table 10.7), pose particular problems to firms with a tradition of confidentiality. Some firms objected to the imposition by investors of broad brush requirements which affected their core business operations. Elsewhere, resistance centred on the failure to acknowledge the marked differences in the constraints under which firms operate. The nadir was reached when Exxon refused to endorse the principles. Since then, recognition that shareholders have a right to impose conditions has restored some of the momentum.

There has also been an attempt to shape different principles which acknowledge diversity and the different costs of compliance. Management strategies are increasingly shaped

Table 10.7 The Valdez principles

1	**Protection of the biosphere.** We will minimise and strive to eliminate the release of any pollutant that may cause environmental damage to the air, water, or earth or its inhabitants. We will safeguard habitats in rivers, lakes, wetlands, coastal zones, and oceans and will minimise contributing to the ozone layer, acid rain or smog.
2	**Sustainable use of natural resources.** We will make sustainable use of renewable natural resources, such as water, soils and forests. We will conserve non-renewable natural resources through efficient use and careful planning. We will protect wildlife habitat, open spaces and wilderness, while preserving biodiversity.
3	**Reduction and disposal of waste.** We will minimise the creation of waste, especially hazardous waste, and wherever possible recycle materials. We will dispose of all wastes through safe and responsible methods.
4	**Wise use of energy.** We will make every effort to use environmentally safe and sustainable energy sources to meet our needs. We will invest in improved energy efficiency and conservation in our operations. We will maximise the energy efficiency of products we produce or sell.
5	**Risk reduction.** We will minimise the environmental, health and safety risks to our employees and the communities in which we operate by employing safe technologies and operating procedures, and by being constantly prepared for emergencies.
6	**Marketing safe products and services.** We will sell products or services that minimise adverse environmental impacts and that are safe as consumers commonly use them. We will inform customers of the environmental impacts of our products or services.
7	**Damage compensation.** We will take responsibility for any harm we cause to the environment by making every effort to restore the environment fully and to compensate those persons who are adversely affected.
8	**Disclosure.** We will disclose to our employees and to the public incidents relating to our operations that cause environmental or pose health or safety hazards. We will disclose potential environmental, health or safety hazards posed by our operations, and we will not take any action against employees who report any condition that creates a danger to the environment or poses health or safety hazards.
9	**Environmental directors and managers.** At least one member of the board of directors will be a person qualified to represent environmental interests. We will commit management resources to implement these principles, including the funding of an office of vice president for environmental affairs or an equivalent executive position, reporting directly to the CEO, to monitor and report upon our implementation efforts.
10	**Assessment and annual audit.** We will conduct and make public an annual self-evaluation of our progress in implementing these principles and in complying with all applicable laws and regulations throughout our worldwide operations. We will work towards the timely creation of independent environmental audit procedures which we will complete annually and make available to the public.

by awareness that accidents impose liabilities that affect all aspects of the firm's operations. The challenge lies in reshaping the firm to blend responsibility and robustness in the business system. This will require a new formulation of the business contract with new duties made explicit through initiatives like the Valdez declaration or implicit through changes in operations.

QUESTIONS

1. The failure of the Rio, Johannesburg or subsequent Summits to ratify the biodiversity convention places a special responsibility on multinational corporations to include programmes of sustainable diversity in their long-term strategies. How far does this proposition reflect a realistic expectation?

2 Use a corporate vulnerability framework to analyse the challenge facing firms with which you are familiar.

3 Identify the main features of an effective EMIS and illustrate, where possible.

4 John Elkington, author of *The Green Consumer Guide*, argues that 'without a shadow of a doubt, the most impressive environmental success story has starred 3M'. What features would you expect to see in this type of success story? Why do you think 3M, or any other firm you can identify, merits these plaudits? Justify your answer with evidence of specific action or systems.

5 One of the distinctive features of environmental problems is that 'they carry on getting worse until something effective is done to reverse the harm, merely stopping or doing nothing does little good'. Discuss the implications of this statement for corporate environmental policies.

6 Use the 'business ecosystem' to describe and analyse the pressures on a European firm in one of the following industries: automobile production, dyestuffs, fast food catering or packaging.

CASE STUDY 10

American Express Business Travel

Background

In a real way, Bill Ford, chairman of Ford, summarised the central challenge of corporate social responsibility in the modern world in his introduction to Ford's sixth formal non-financial report of Ford Motor Company:

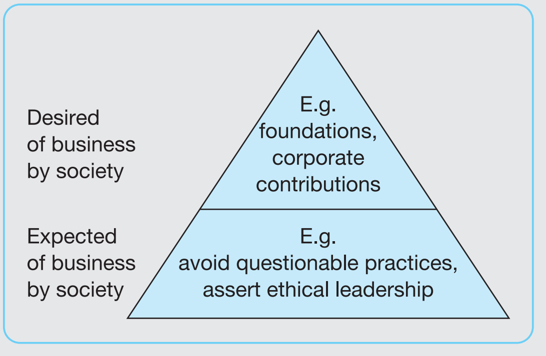
> At Ford Motor Company, we have made sustainability a long-term strategic business priority. The reason is simple: we are a 100-year-old company, and I want us to become a 200-year-old company.

The same challenge faces not only American Express Business Travel but the entire business travel sector, because – using the same statement by Bill Ford:

> Sustainability is about ensuring that our business is innovative, competitive and profitable in a world that is facing major environmental and social changes.

Innovation, competitiveness and profitability are the more obvious positive dimensions of the long-term corporate social responsibility (CSR) agenda. They illustrate, however, the ways in which a relatively narrow set of traditional agendas applied to business have expanded to define a new relationship between business and society.

The traditional business agenda



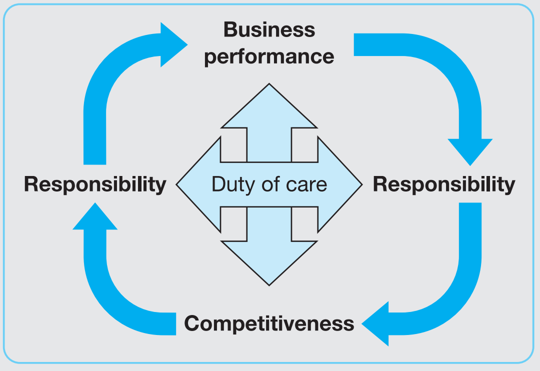
The traditional business agenda

As the impact of business across society expands, it is not surprising that society's expectations of business increase not only in scale, but in nature. This is, also, a function of the greater confidence in the competences and capabilities of business to address issues of sustainability, safety, security, care for employees and other stakeholders, stewardship, fairness and diversity and other indicators of the business agenda that emerged in the late twentieth century.

Case study 10 (*cont.*)

It is equally clear that the twenty-first century is seeing even more changes as a duty of care becomes ever more central to a virtuous circle that links business performance, responsibility and competitiveness.

The Virtuous Circle



The virtuous circle

Key Clients of American Express Business Travel illustrate these sentiments in different ways.

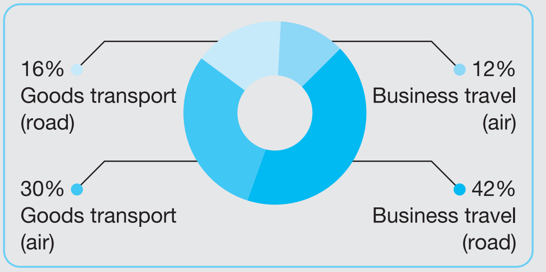
> Exercising sound corporate responsibility is fundamental to the way we operate. BOC

> Companies seeking to generate sustained corporate value require a business policy that takes account of the future needs of society. Credit Suisse First Boston

Few sectors reflect these challenges more clearly than business travel – local, regional and global. Many of the issues addressed in contemporary debates on CSR are central issues for the business travel communities.

On environmental sustainability, CO_2 emissions are generally seen as important 'greenhouse gases' with business under growing pressure to cut back on emissions. For some companies, business travel is a major factor in their emissions.

The biggest single contribution to a company like AstraZenica's travel and transport CO_2 emissions is associated with business travel for sales and marketing activities. A combination of the use of video and teleconferencing, the introduction of hybrid vehicles and other developments is part of the company's strategy to reduce business travel related CO_2 emissions.



CO_2 emissions in 2009 from travel and transport

Other issues within the broad, duty-of-care agenda for business travel include: security (notably anti-terrorism) with tracking closely linked to this, insurance of travelling executives, scrutiny (often linked to the avoidance of corruption or misuse of position), cultural and social impacts, equality/diversity, human rights. In effect, Sarbanes Oxley (SOX) has put the spotlight on reporting and information across the array of corporate activities.

Lord Levene (Chairman of Lloyds) says that 'the most successful, least crisis-prone businesses will be those with integrated approaches to risk management . . . this requires a culture change at board level'.

Some issues which have been real for some time to progressive thinkers in the travel industry – security especially in the face of terrorism – are prompting wider concerns. Elsewhere, the changing nature and pattern of business travel for example greater diversity among business travellers, poses its own challenges.

These shifts are occurring, while the wider business travel environment is becoming more competitive and more challenging. Prospering in this environment will call for outstanding qualities of creativity, innovativeness and customer orientation – all designed to deliver added value that translates to stronger customer relations, enhanced brand equity, increased market share and better returns.

Some of these issues notably equality of opportunity are more important in the US business travel agenda, while security is emerging as a global concern. The challenge, however, is to convert these issues and concerns to:

- deliverables;
- actions; and
- sources of added value.

Case study 10 (*cont.*)

The challenges
Greater environmental awareness among business travellers
More diversity among business travellers
Concern about information and contact in face of external threat
Fears about security
Concerns about ethics and accountability

These challenges – and the many others that can be identified – exist for all business travellers, especially in an increasing diverse and global environment.

Questions

1 Review the challenges facing American Express Business Travel

2 Make recommendations on:

(a) how the specific challenges might be met;
(b) an overall strategic response.

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Chapter 11

Managing a sustainable business

Companies are faced with a range of pressures which affect every aspect of their business system. The internal ecosystem of the enterprise is adapting to these pressures. The firm's operations are shaped by a combination of general environmental pressures. These include technologies, climate and population and the economy. The shifts in the population structure of Europe and North America creates new opportunities for firms able to exploit the large, relatively rich, ageing population but produces shortages of new recruits (Figure 11.1).

Often, the effects of these forces are interpreted by intermediaries. Financial institutions will cut off funds for firms under suspicion but back companies who seem able to exploit new opportunities. Criticism in the media can persuade customers to boycott or back certain products and services. The state can act directly through its massive purchasing power or indirectly through fiscal and monetary measures. The marketplace itself is shaped by the rivalries of firms seeking to capitalise on opportunities or avoid problems.

The success with which a firm operates in this environment is determined by a mixture of internal pressures and responses. The leadership groups in the enterprise can supply specific guidance or endorse certain policies. These groups act under pressure from a mixture of perceived and actual liabilities, threats and opportunities. The notion that success is won through eternal vigilance is probably more true today than ever before. The concept of

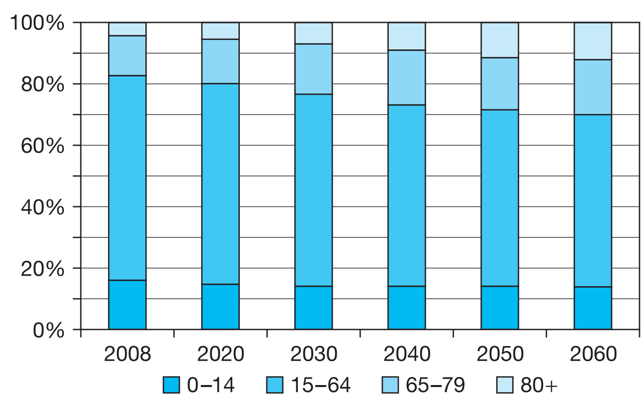

Figure 11.1 Population structure by age groups, EU27

Source: European Economy News (2009) 'The Clock Is Ticking . . . Ageing and the Long-term Sustainability of Public Finances', *European Economy News*, 14 (July), p. 6.

environmental scanning has developed a twin meaning in modern markets. Its strands are spotting threats and identifying opportunities. The techniques the company employs and the capacity of the organisation to respond lie at the core of the firm's ability to win competitive advantage.[1]

Most research into business development and competitive success indicates that virtually all the firms in a market are aware of the threats and opportunities but only a minority are able to adapt and respond. These are the ones that succeed. It is seldom ignorance that causes failure.

Even when businesses spot opportunities, some provide insufficient resources to succeed, while others cannot or do not employ their resources effectively.

Long-term effectiveness in building a business which will wed commercial success to environmental responsibility turns on the integration of the firm's positioning, adaptation, response and communication (Figure 11.2).

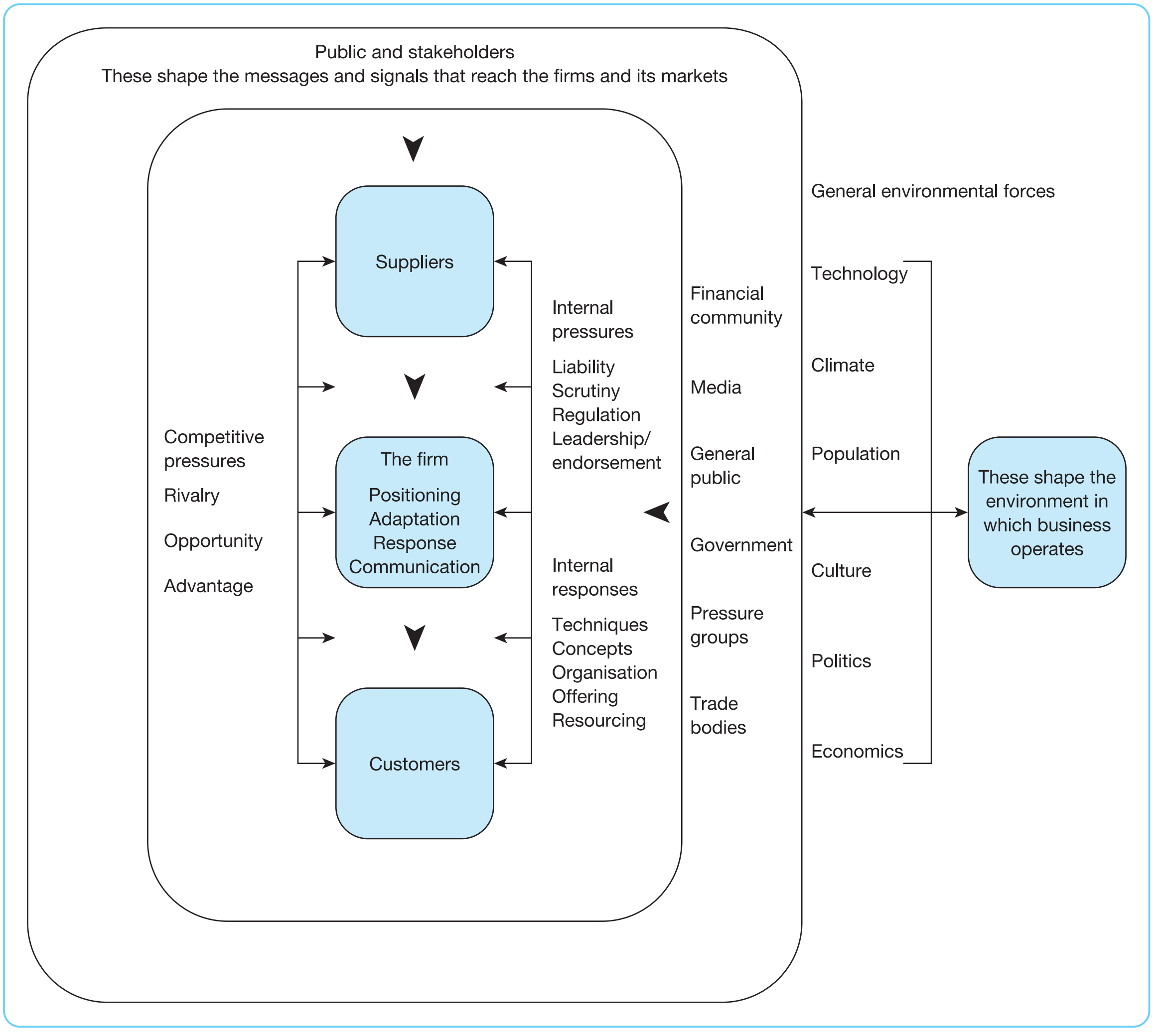

Figure 11.2 The business ecosystem

These determine the marketing, people, operations, networking and finance policies of the firm, its suppliers, collaborators and rivals. Today there is a fast-spreading recognition around the world that progress can no longer be measured in terms of technology or material standard of living alone. A society that is morally, aesthetically, politically or environmentally degraded is not an advanced society, no matter how rich or technically sophisticated it may be. In short, we are moving towards a far more comprehensive notion of progress – progress no longer automatically achieved and no longer defined by material criteria alone.

The organisation and structure of the enterprise evolves to reflect the nature and the expectations of the wider social and economic community. The most successful firms are those that have strategies and policies which can be delivered through its organisation while meeting the needs of the environment in all its forms.[2]

The magnitude of the problem forces more than fine-tuning, more than incremental change. It requires a serious rethinking of the way the company organises to do business. Wider horizons mean wanting to do more. A smaller, that is, more crowded world means having less to do it with. Success thus requires finding new ways of managing, in our businesses and our lives, that address this central contradiction of our times. Succeeding in the corporate olympics means operating under a new, apparently contradictory strategic imperative: to 'do more with less'. Every aspect of the firm's current and future operations is affected by its fit with the environment.

Marketing

The marketing policies of firms are perhaps the most public aspect of their work. New product development programmes of firms are increasingly influenced by efforts to reduce the negative effects of innovations while strengthening their positive features.

Industries like food, personal hygiene, travel, energy and transport are at the fore of these developments. The personal hygiene market, for example, has been reshaped over the last decade by the success of firms like The Body Shop and the launch of products which avoid cruelty, minimise waste and have a generally neutral or positive effect on the environment.

Beauty without cruelty has grown by an astonishing 1,500 per cent during the past two decades while other great success stories of the eighties, such as Body Shop and Ben and Jerry have faced new challenges often involving new owners. In some sectors notably food, this trend is reinforced by specific events such as food scares and general trends, notably the shift to healthier eating.

Peattie highlights these changes with his green purchase perception matrix (Figure 11.3). He distinguishes between different brands and products by both the degree of compromise – from an ideal – and the consumer confidence in that offer.

Green imagery dominates much advertising copy in print media and on television. This has prompted some authors to suggest that this had gone too far and was producing a proliferation of spurious and sometimes false claims which added to customer confusion in key sectors like food.

Packaging is an especially controversial aspect of the presentation of products and services. Many firms are now engaged on sustained initiatives to reduce the amount of packaging used, use recycled material or employ safer or biodegradable materials (Figure 11.4).

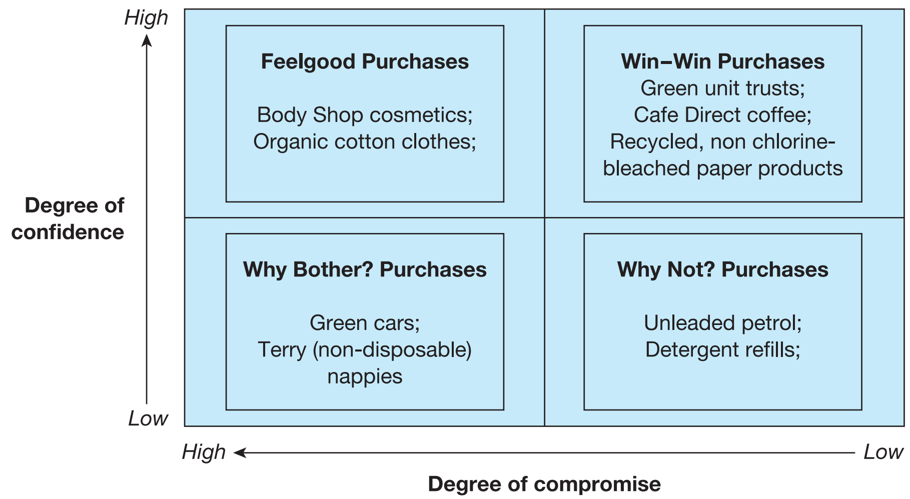

Figure 11.3 The green purchase perception matrix

Source: Peattie, K. (2011) 'Towards Sustainability: Achieving Marketing Transformation – a Retrospective Comment', *Social Business*, 1(1): 85–104, Figure 1, p. 98.

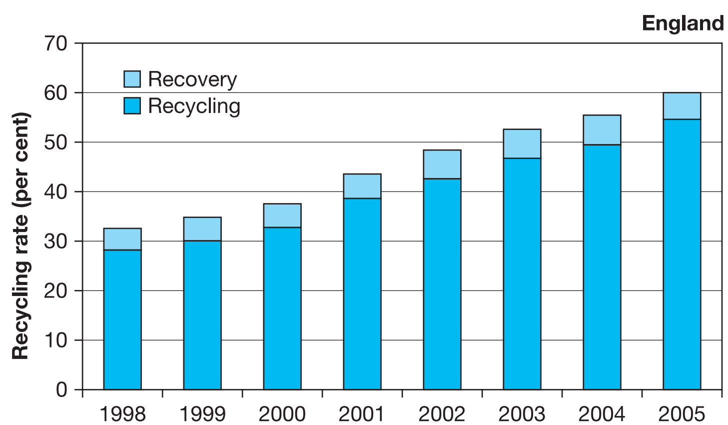

Figure 11.4 Recycling and recovery from packaging 1998–2005

Source: Department for Environment, Food and Rural Affairs (2006) *Recycling and recovery from packaging: 1998–2005* (http://archive.defra.gov.uk/evidence/statistics/environment/waste/kf/wrkf17.htm).

Estimates show the packaging waste stream is made up of various materials including paper (36 per cent), glass (24 per cent), plastics (18 per cent), wood (14 per cent), steel (7 per cent) and aluminium (1 per cent). Waste reduction requires a change in relations with material suppliers. Procter and Gamble is one of many companies engaged in a sustained joint research initiative with their packaging companies to substitute recycled material wherever possible. End users are being actively involved through schemes to re-use packs or collaborate in returning materials.

Operations

Sourcing and purchasing, production, logistics and distribution play a vital part in company attempts to adopt policies which are less harmful to the environment. There is a potential source of conflict in the fit between the traditional imperative on buyers to obtain supplies at the lowest cost and new demands for hazard reduction and fairness. This encourages some companies to engage in long-term sourcing programmes in collaboration with major raw material, component, equipment and service suppliers. 3M's 'Pollution Prevention Plus' ('3P') programme is closely integrated into the operations of its major suppliers. The 3P programme's success and longevity can be attributed to its simple, inclusive program design. Projects must meet the following fundamental criteria to receive formal 3P recognition:

- eliminate or reduce a pollutant;
- benefit the environment through reduced energy use or more efficient use of manufacturing materials and resources;
- save money – through avoidance or deferral of pollution control equipment costs, reduced operating and materials expenses, or increased sales of an existing or new product.

Major utilities now require their equipment suppliers to concentrate on minimum energy wastage. Food processors are insisting that capital projects minimise the effect on the environment. The manufacturing operations of firms face many new demands from the community, legislators and employees.[3] Responsible firms are looking for ways to minimise their impact on the environment and replace hazardous processes with those which are safer and less noxious.

The mobility of industry and the efforts of some poorer communities to encourage inward investment poses a major dilemma to some companies. The internal pressure to withdraw from certain activities while still using the products or components forces firms to choose between costly new developments and cheaper alternatives. The refusal to merely ship harmful processes out of the firm or locality elsewhere is increasingly seen as part of a wider notion of responsibility. This stretches from a willingness to pay fair prices and accept wider responsibilities to other communities. The introduction of 'Fair Trade' marks is employed to identify products where Third World suppliers are paid a 'fair price for a fair day's work'.

People

3M's '3P' programme shows how crucial employees are in determining the effectiveness of all aspects of the company's response to the new expectations. Many of the pressures on the enterprise to respond to environmental pressures come from current or potential employees. It may take the form of potential recruits asking about the firm's attitude to pollution or existing workers raising questions about fumes given off by certain processes. The information, recruitment, training and development programmes of companies are central to their response to demands for information, guidance and reassurance.

An appreciation of the importance of a responsible attitude to the environment is the first step in winning active co-operation. The integration of education for environmental responsibility into degrees in business education is being supported by endowments by business leaders.

This approach is permeating the operative training programme, technician support, supervisory training and management development at all levels. The redirection of the enterprise to satisfy the new demands placed on the firm is a major exercise in organisational change. It calls for the systematic application of an effective change strategy.

The key steps in managing this change are:

- the need to change is recognised;
- the features of the adjustment are diagnosed;
- the implications for those involved are identified and their contributions specified;
- a coherent strategy for managing the change is developed;
- the adaptations needed by groups and individuals are spelled out;
- a consultation process is initiated to allay fears and give those involved a sense of ownership;
- feedback is encouraged;
- implementation takes into account the needs for training and development;
- scope for adjustment based on consultation and feedback is built into the process;
- it is acknowledged from the start that anything can go wrong.

Lewin[4] suggests that there are three basic stages in a change process: unfreezing, change, refreezing. Unfreezing means identifying and breaking down the barriers to change. Change is the move from 'an old state to a new one'. Refreezing is the creation of the new status quo. In a complex area like this, force field analysis can play a valuable role in identifying the forces driving change and those restraining it (Figure 11.5).

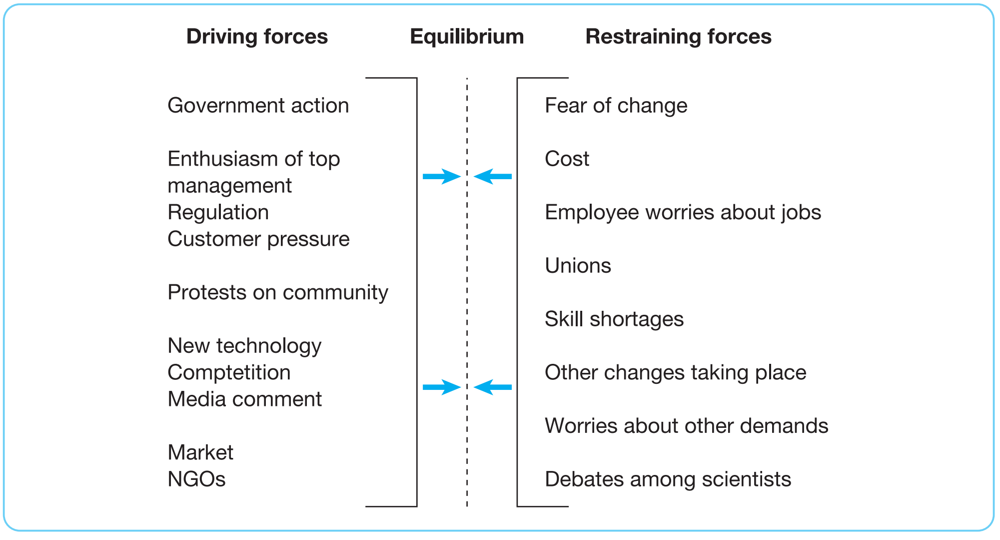

Figure 11.5 Force field analysis of repositioning the firm to a more environmentally-friendly stance

This provides the opportunity to move the enterprise forward by strengthening the driving forces or weakening the restraining forces. Successful adaption occurs where:

- the need for the changes is recognised and accepted throughout the firm;
- communication and participation is high;
- the adaption or innovation is widely endorsed;
- progress and success is recognised and disseminated;
- the leadership acts together and transmits consistent messages;
- a holistic view of the enterprise is adopted;
- change is backed by training and development of at risk staff.

These changes can be undermined or supported by internal and external forces.

Finance

Force field analysis highlights a range of areas in which the internal and external finance community plays a vital role in shaping the patterns of adaptation to environmental demands.[5] Resources are required to finance change inside the firm. New technologies may be needed or alternative products or processes deployed. The willingness to deploy resources is a powerful indicator of seriousness of intent by top management.

The Valdez principles and the relative success of ethical and responsible investment funds highlights the growing support in the financial community for positive action to tackle environmental issues. There are, however, important principles of consultation which are central to any effort to win the backing of financial stakeholders in the venture. In part, the need to understand the nature of the process explains the interest among researchers in agency theory.

Perhaps the most important of these steps in ensuring support are early consultation and transparency. Properly managed financial institutions know the environmental challenges facing the firm even in the difficult times of the early 2010s.[6] They acknowledge the lack of negative short-term costs and the long-term gains from responsible attitudes to pollution control, waste reduction and the elimination of hazards.

Ambec and Lanoie[7] question the view that 'environmental protection (leads to) additional costs imposed by government, which in turn erode a firm's global competitiveness'. They argue that:

> First, better environmental performance can lead to an increase in revenues through three channels: (a) better access to certain markets; (b) differentiating products; and (c) selling pollution-control technology. Second, better environmental performance can lead to reductions in cost in four categories: (a) risk management and relations with external stakeholders; (b) cost of material, energy, and services; (c) cost of capital; and (d) cost of labor.

In contrast, Aupperle *et al.*[8] claim that the merits of corporate social responsibility 'simply do not show up on the bottom line'. This measure tends to be a better indicator of short-term performance. McGuire and his colleagues[9] suggest, however, that two measures of performance – return on total assets and total asset values – are positively correlated with corporate social responsibility. These asset-based measures may be better long-term indicators of the firm's performance. It is important to note that the main conclusion of the McGuire study is that 'prior performance is generally a better predictor of corporate social responsibility than subsequent performance'. The specifics of the change process may be outside their normal remit. Early involvement is a key component in winning trust and long-term support.

Some bankers suggest that the willingness to address environmental issues is a good indicator of the health of the firm and its ability to plan and position itself for the long term. The extent, cost and process of change is part of the essential briefing of financial partners. This is especially important when clean-up operations have an effect on the firm's property portfolio or balance sheet. Other sources of financial support, notably government agencies, can play a vital part in providing the resources, expertise and technology for change.[10]

In Europe a mixture of national government and EC aid is available especially in older industrial areas or those affected by mining, heavy industry production and large-scale processing. The creation of a comprehensive financing package is an increasingly important feature of a positive environmental stance.

Conclusion

In 1972 the Stockholm Environment Conference initiated a process of government and institutional debate and adjustment which has shaped much of the recent debate on environmental responsibility. The Rio, Johannesburg and Copenhagen Summits highlight the complexity of the tasks which exist. The focus has shifted from the role of industry from passive responders to demands, to active initiators in developments is a result of a mixture of pressures. Three are central to this discussion.

First, there is widespread recognition that industry holds the key to successful adaptation. International corporations have resources and expertise that can only be matched by the richest countries. They can deploy them with a flexibility and creativity which few states emulate. Their participation is essential if an international response is to be effective. The last two decades have highlighted the limitations on government action. The next decade will indicate whether participation offers the key to success. Small and medium-sized enterprises can deliver the enterprise, creativity and innovation which are essential to local resolution of complex problems.

The second key feature of industry's role is central to this chapter. Companies will be among the primary beneficiaries of a healthier and more prosperous environment. There is growing evidence that more prosperous communities invest in a wider portfolio of goods and services than stressed groups. More immediately, firms suffer with their communities when breakdowns occur. Markets are reacting with increasing sharpness to failure by firms to meet their responsibilities.

Third, a positive stance can improve the performance and position of companies.[11] Firms that manage their response effectively and reposition themselves are capable of building more secure and more prosperous positions in the marketplace. Successful compliance with the terms of business's contract to sustain the environment will generate profits in the long term and add value to the enterprise as well as the community. Lessons learned from failures and successes in accident prevention or response to accidents, programmes for disposal of waste and recycling products provide clues for future successes. Some easy answers might not work. Industrial composites reduce weight and energy consumption but are very difficult to recycle. The successful firm will be the enterprise which deploys the skills it has learned in the past to capitalise on the opportunities of the future while meeting its obligations to the 'environment'.

QUESTIONS

1 Use the success matrix to analyse the approach of three different firms of your choice to CSR.

2 Strategy is as important for effective corporate responsibility as for any other aspect of a firm's activities. Explain the role of strategy and draw out a comparison between corporate responsibility and any other aspect of business with which you are familiar.

3 Outline the corporate responsibility life cycle, indicate and illustrate how the response of firms changes over time as their position on the life cycle evolves.

4 Do you share the concern expressed by Ruth Johns in her comment 'my unease at the long-term effect of current practice is increased when the private conservation of managers . . . belies much public rhetoric'? Explain the cause of this disquiet and the implication of these concerns. Outline ways in which these worries might be resolved.

5 Describe the One Per Cent Club and explain its role.

6 Use Peattie's green purchase perception matrix to plot the position of four products of your choice, but not those illustrated in the text.

7 Describe the long-term effects of Shell's impact on the natural environment in Nigeria. Outline who is responsible for the clean up and any punishment of the offenders.

8 Define an NGO and outline the role they can play in making companies aware of their wider responsibilities.

9 Define:
(a) clean up
(b) crisis zones
(c) multiplier effect
(d) environmental fit.

CASE STUDY 11

Platt Oils

In 1982, Platt Oils and Chemicals of Indiana established a large synthetic, organic chemicals plant in Indonesia. For the next 10 years the plant prospered. Abundant supplies of local raw materials, low labour rates and very favourable exchange rates made this one of the company's most profitable operations.

There were some problems with remission of profits but these had usually been resolved by a mixture of constructive negotiations and export credit transfers. Relations between the company and the government of Indonesia were excellent. Although the firm had no links with Union Carbide, the disaster at Bhopal had an immediate and direct effect on the firm's operations. The communities in which they operated in the USA demanded that the firm undertake extensive reviews of its operations.

At the same time, a Congressional Committee undertook a wide-ranging review of operating practices at US chemical companies at home and overseas. These internal and external reviews prompted the firm to invite a major firm of environmental consultants to examine existing health and safety regulations and propose any changes that they felt were necessary for the firm to 'set and maintain the highest standards for health and safety at work'.

The report from the consultants was made available to local community groups and the Congressional Committee. The firm invited their comments and agreed to involve them in the final decisions about the measures to implement their recommendations. Many of the proposals which emerged from this study were incorporated in the firm's operations over the three years, 1987–90. Platt Oils and Chemicals of Indiana was soon seen as a benchmark firm in terms of its approach to health and safety.

There were, however, significant costs involved in introducing these changes. These produced price increases in the range of 5–7 per cent. Initially, this led to a cut in sales in the USA but these soon recovered as other North American processors introduced similar measures. In 1999, George H. Platt, Jr. attended a conference organised by Business in the Community under the auspices of HRH the Prince of Wales.

At this meeting, he was strongly influenced by debates about the international aspects of environmental and health and safety issues. He came back determined to apply the highest US health and safety regulations to all their plants across the world. Of these, the operations in Indonesia were by far the largest. He instructed the International Vice-President to set this process in motion on his next trip to Indonesia. This took place just over a month later.

When the International Vice-President reported back, he was forced to indicate the strong objections of the Indonesian government to the proposed changes and the likely price increases. The government of Indonesia wanted the changes postponed indefinitely for three core reasons:

- Any price increases would cut back exports from the plant and encourage imports.
- The changes would reduce capacity, especially during the time they were being introduced.
- The government did not believe the changes were necessary and resented the attempt to make plants in its country comply with 'foreign' regulations.

The board members of Platt Oils and Chemicals faced a major dilemma. They were strongly of the view that these changes would improve the health and safety of its workers. The government of Indonesia was fiercely hostile. This opposition was strengthened by the value of these exports (the plant was the tenth largest source of foreign exchange from processed or manufactured exports) and the sharp increase in demand which was occurring as the economies of other countries in the region boomed.

Questions

1. Advise the company on a route forward.
2. Identify a programme of actions designed to implement these proposals.
3. Outline the implications of this type of situation for efforts to set internationally comparable standards of health, safety or environmental protection.

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Chapter 12

Embedding CSR practice

Many of the principles, practices and participants involved in managing a sustainable business recur in programmes designed to embed best CSR practice across the firm. For some the process of embedding best practice lies in understanding and securing the maximum business returns from CSR. This fits well with Friedman and others' views of the prime, even sole responsibility of business – to make profits. Socially responsible behaviour contributes to profitability, hence it is legitimate. The central challenge here lies in measuring these profits, and ultimately measuring them against other possible investments. Others take a broader view, seeing these business returns as secondary with CSR decisions and actions 'taken for reasons at least partially beyond the firm's direct economic or technical interests'.[1] In effect, businesses exist as members of society and have responsibilities beyond their purposes. It should, however, be noted that no advocates of the latter perspective deny business's economic function.

It is worth noting at this stage that even within this notion of the economic function of the business there is considerable debate. Friedman, for example, emphases profits: 'there is only one socially responsible purpose of business . . . to increase its profits'.[2] But the nature of profits themselves has taken up bookcases in university libraries.[3] Many of the debates about the ability of CSR programmes to contribute to profitability pay little attention to the nature of profit, short, medium or long term, or the different ways of measuring profit itself. It is, however, clear that understanding and exploring the business case for CSR is an important strand in understanding CSR. Equally important are efforts to ensure that, like all business activities, this aspect of the business is run effectively and well.

Supporting the CSR effort

Attempts to develop CSR in business, understand its impacts and disseminate best practice have led to the development of an array of organisations around the world, important educational programmes, research initiatives and information sources.[4] CSR Wire, a valuable online network (www.csrwire.com) has identified over 2,500 organisations working in this area around the world.

In the UK, for example, these include AccountAbility, possibly the leading global organisation providing AA1000 Series of Standards, Business in the Community (BiTC) a business-led charity with 850 member companies and an estimated 10,000 businesses engaged through its campaigns. The array of organisations ranges from those like AccountAbility to research companies like the Forum for the Future, a small sample of which are listed, and a large array of companies such as Pearson, The Body Shop and others.

- **Standards organisations**
  AccountAbility
  Accounting for Sustainability
  Climate Disclosure Standards Board
  SustainAbility
  Transparency and Accountability Initiative
  UN Principles for Responsible Investment
- **NGOs**
  Better Cotton Initiative
  Carbon Disclosure Project
  Earth Summit 2012
  World Council for Corporate Governance
  CORE: Corporate Responsibility Coalition
  CSR International
- **Business-led organisations**
  Business in the Community
  Business Council for Sustainable Development UK
  Institutional Investors Group on Climate Change
  Global Business Initiative on Human Rights
- **Research bodies**
  Corporate Citizenship Company
  Forum for the Future
  Institute of Business Ethics
  Tomorrow's Company.

Universities and other institutions of higher education, such as those listed in Table 12.1, are developing programmes at every level to teach and study CSR.

Table 12.1 Universities and other institutes of higher education active in CSR

Ashridge	Liverpool
Bath	LBS
Cambridge	London
Cardiff	Manchester
Coventry	Middlesex
Cranfield	Nottingham
De Montfort	Oxford
Imperial	Stirling
Lancaster	Sussex
Leeds	Warwick

In the USA, the 1,500-plus organisations identified by CSR Wire range from Alliance for Research on Corporate Sustainability, through Business for Social Responsibility to Transparency International. In higher education, Harvard Business School, once criticised by the Prince of Wales, has a major programme of work across the CSR agenda. A group of Harvard professors led by Kanter[5] acknowledged not only the importance of universities addressing CSR issues, but existing gaps in knowledge about the appropriate solutions:

> (There is) an intellectual gap around solving an emergent class of high-profile problems that cut across sectors and require integrative knowledge derived from many professional fields. This is exactly the kind of knowledge-building opportunity universities should embrace, especially to give leaders an enriched portfolio of competencies.

EABIS is a Europe-wide organisation that brings business and management schools together with leading corporations to provide thought leadership in four key domains:

1. sustainability, change and innovation;
2. purpose, ethics and leadership;
3. strategic management and economics;
4. corporate and public governance.

It has developed valuable work especially through case studies on embedding CSR in the university curriculum while initiating research onto measuring the financial and non-financial performance of the firm.

CSR Asia is a social enterprise that provides companies and their stakeholders with an array of services linked to the distinctive Asian dimensions to CSR while providing a wider meeting place of ideas. The work in Asia reflects the growing awareness of the diverse experience and different cultures that affect attitudes and responses to CSR. In a straight comparison, for example, major differences emerged between young people in Hong Kong and the USA to CSR.[6]

The report *CSR in Asia the Real Picture*[7] highlights the diversity of the Asian CSR environment:

> Across Asia, local CSR initiatives and CSR issues vary hugely. In China we have seen much interest from the government which has developed a number of guidelines and initiatives around CSR. In Hong Kong, NGOs have demanded improved CSR initiatives from large listed companies. Some companies are global leaders on CSR, but others are lagging behind.
>
> In both Malaysia and Australia we have seen significant leadership on CSR issues from stock exchanges. In Vietnam, we are seeing leadership from the Chamber of Commerce working in partnership with the United Nations Development Programme. Singapore's approach is a tripartite one including business, government and trade unions.
>
> In both Japan and Korea there has been an emphasis on reporting. Japanese companies, in particular, have been leaders on environmental initiatives. A huge number of voluntary initiatives are apparent when one considers CSR in India. Bangladesh has introduced tax exemptions for companies engaging in CSR programmes and in Sri Lanka there has been an emphasis on CSR in small enterprises and linking CSR initiatives to peace in the country.

In his analysis of the corporate social responsibility system in Latin America and the Caribbean, Haslam[8] proposed a four-stage model for analysing stages of development of CSR practice:*

---

* Classification based on Haslam but including some additional data.

Running – well-established and mature CSR practices at the institutional and corporate level as in Brazil and Mexico.

Catching-up – where there are relatively strong but newer commitments to CSR illustrated by Argentina, Chile and Mexico.

Walking – emerging but slowly developing commitments to CSR in Bolivia, Colombia, Uruguay, Paraguay, Ecuador, Guatemala, Peru and Venezuela.

Stalled – with limited activity, most of Central America and the Caribbean, notably Cuba, Dominican Republic, Jamaica, Trinidad, Costa Rica and Nicaragua.

Although this analysis is open to criticism on the grounds of ethnocentricity, with its frequent comparisons with North American practice, it provides a useful framework for reviewing these developments.

Haslam[9] describes the different processes that are shaping CSR developments in Latin America in terms of a series of flows from the internal and external environments (Figure 12.1).

In Haslam's diagram, 'the key relationships between actors in these systems (are shown) in terms of arrows which show both the hypothesized direction of influence and its importance (with larger arrows denoting greater influence)'.

The last decade, especially since the Johannesburg Summit, has seen burgeoning interest in CSR as both a field of corporate practice and an area of academic interest in Sub-Saharan

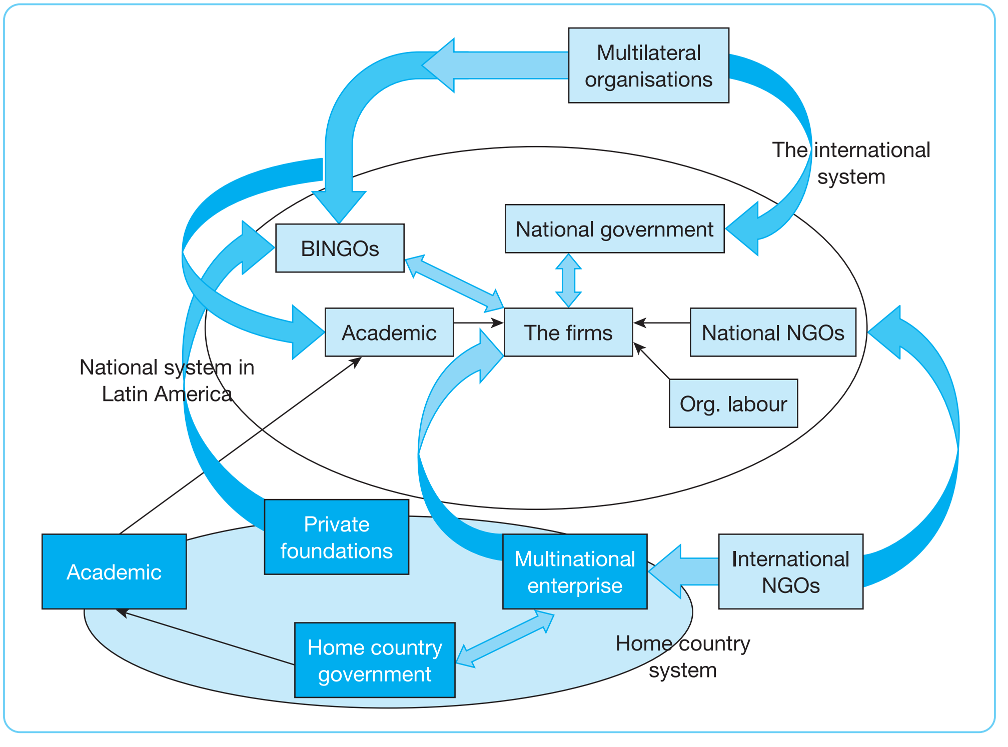

Figure 12.1 The CSR system in Latin America

Source: Haslam, P. (2004) *The Corporate Social Responsibility System in Latin America and the Caribbean*, Ottawa: Canadian Foundation for the Americas.

Africa. In some ways the challenge for business in establishing itself as a credible social partner and responsible member of the wider community is more difficult in Sub-Saharan Africa than anywhere else in the world.[10] The recent history of abuse from environmental disasters linked with Shell in Nigeria to the complicity of businesses in sustaining Apartheid in South Africa has created a legacy of distrust that is hard to overcome.

Visser[11] notes that: 'There is certainly no shortage of examples of corporate complicity in political corruption, environmental destruction, labour exploitation and social disruption'.

Using Carroll's pyramid concept,[12] Visser picks up the theme that has emerged over the last decade of the importance of culture in determining the weighting given to the economic, legal, ethical and philanthropic issues identified by Carroll. In England and France, for example, economic issues are viewed as the most important factors in determining the priority given to CSR while in Germany legal issues were most important. On the specifics of Sub-Saharan Africa Visser found that philanthropy and economic issues generally gets a high priority in the region.

This, in part, reflects the relative importance of health issues such as HIV/AIDS, the dependence on foreign aid and 'that it is generally still at an early stage of maturity in CSR, sometimes even equating CSR and philanthropy, rather than the more embedded approaches now common in developed countries'. The differences, notably in Sub-Saharan Africa, suggest that a different, less ethnocentric methodology is needed to give due consideration to the corporate,[13] public policy,[14] economic[15] and cultural environments[16] in which CSR develops especially in the field of corporate citizenship.[17]

The CSR environment in the Middle East faces many of the same challenges seen in Latin America and Asia with strong international pressure from multinationals and international agencies like the UN, while operating in distinct, different and diverse cultures. There is a view[18] that:

> CSR in the region remains in its infancy stage. It will take some time before the concept is accepted in the mainstream or until companies look past merely the social development and ad hoc environmental initiatives to help secure long term business benefits in the sense of mitigating risk and creating opportunity.

The Sustainability Advisory Group has undertaken a series of studies of CSR in the Middle East.[19] It found that in a survey embracing the Yemen, Saudi Arabia, Jordan, Oman, Qatar, Bahrain, Egypt and the UAE there was:

- a low level of awareness of CSR;
- companies had other priorities (and most strongly);
- it is difficult to secure funding for CSR Initiatives.

There is a strong emphasis on the business benefits of CSR with the top two responses being:

- 'Our corporate social responsibility is to minimise negative impacts and maximise positive impacts of business' (56 per cent of respondents ranked this in the top two places); and
- 'Our corporate social responsibility is to have strong corporate governance – making sure our organisation is transparent, accountable and ethical in its dealings' (53 per cent of respondents ranked this in the top two places).

The business case for CSR

There are a host of pressures around the world that influence the ways CSR is understood and interpreted. Different economic circumstances, legal systems, social norms and cultures affect both the levels of commitment and forms of CSR practice. It is, however, the business case for CSR that provides the strongest unifying principles. For some advocates this is not an issue – socially responsible behaviour is an essential requirement of any member of a society. For others, however, the requirement is more specific. Carroll and Shabana[20] express this as the 'specific benefits to business in an economic and financial sense'. They identify a series of specific questions which go to the heart of the business benefits case, notably:

- Can a firm really do well by being good?
- Is there a return on investment in CSR?
- What are the bottom-line benefits of socially responsible performance?
- Is CSP (corporate social performance) positively related to CFP (corporate financial performance)?

These issues go back to the earliest debates about CSR but have gained increasing attention over the last 20 years as investment in CSR has grown and become more global, with harsher questions being asked about the role and purpose of CSR.

This was illustrated initially by Porter and Kramer's view[21] that:

> If, instead, corporations were to analyze their prospects for social responsibility using the same frameworks that guide their core business choices, they would discover that CSR can be much more than a cost, a constraint, or a charitable deed – it can be a source of opportunity, innovation, and competitive advantage.

Their strategic view of CSR is built on three central tenets. First, that successful and healthy businesses need successful and healthy societies. Second, that effective CSR programmes can transform value chain activities to benefit society while reinforcing wider business strategies. Third, that to deliver these gains CSR activities need to be effectively managed and carefully targeted. These views align well with some elements of Zadek's[22] analysis of both the 'traditional' business case for CSR and the contemporary 'strategic' case for CSR.

In their extensive literature review on the issue, Mahon and Griffin[23] posit a simple 2 2 matrix to indicate the ways in which the relationship can work. A positive financial performance could, for example, be linked with a negative social performance if a firm ignored the human rights of its workers by paying less than the minimum wage to migrant workers. A positive social performance, however, could lead to a positive financial performance if its reputation for ethical behaviour prompted customers to remain loyal in the face of competition (Figure 12.2).

Their final conclusion that 'it is still not certain if a relationship exists because so little research has been replicated' is cautionary. The framework they provide and the challenges they pose; that future research must focus on appropriately defining and operationalizing the CSP and CFP constructs and that replication of results is crucial to their sustainability, remains central to work on the business case for CSR.

Kurucz, Colbert and Wheeler[24] pick up aspects of these themes by suggesting that there are four 'general types of business cases' for CSR:

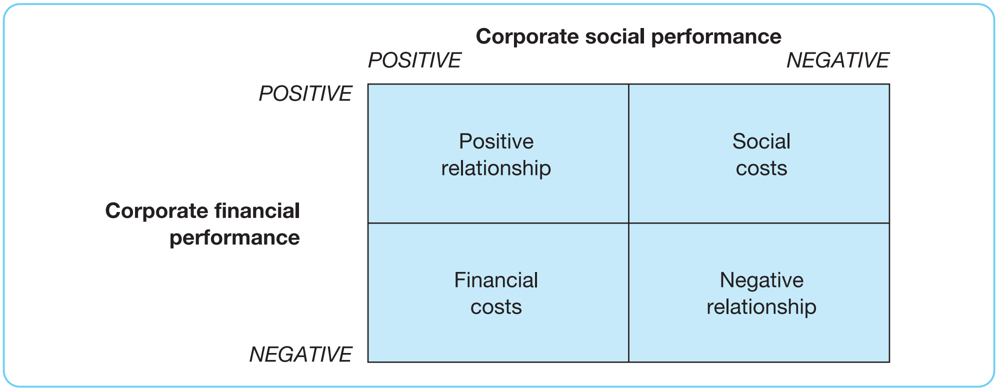

Figure 12.2 The relationship between CSP and CFP

Source: Mahon, J. and Griffin, J. J. (1999) 'Painting a Portrait: A Reply', *Business & Society*, 38(1): 126–33.

1 cost and risk reduction;
2 profit maximisation and competitive advantage;
3 reputation and legitimacy;
4 synergistic value creation.

At the heart of the case for cost and risk reduction is the notion that the socially responsible firm gains by building confidence in its actions among its different stakeholders. The trust generated reduces the costs of compliance while minimising the risks of inappropriate interventions.[25] There is some evidence that socially responsible firms can generate trust among key stakeholders like employees and customers.

Porter is not the only author to suggest that embedding CSR into a firm's business strategies can generate real-world competitive advance by reinforcing brand loyalty, stimulating new investment and reinforcing relations with strategically important stakeholders. The available evidence suggests that chief executive officers of large firms see these strategic and marketing returns as the key business benefits (Figure 12.3).

The dominant drivers among CEOs are the strategic returns from brand and reputation building, followed by revenue growth.

These marketplace issues are reinforced by related data from the UN Global Compact CEO Survey 2010[26] which identified consumer pressure as having 'the greatest impact on the way you (CEOs surveyed) manage societal expectations'. These views are reflected in opinion surveys among consumers. One survey in 2010 found that 88 per cent believe that companies should try to achieve their business goals while still trying to improve society and the environment while 71 per cent bought a product where money is given back to a charity as a result of their purchase. The 2010 *Corporate Social Responsibility Perceptions Survey*[27] found that 70 per cent thought CSR was important despite the recession, and would pay as much or more for socially responsible goods.

These studies were, however, relatively small samples of US respondents and have not been replicated by many academic studies. Despite the growng volume of research into the business case for CSR, there remain important gaps in the evidence base especially when tested against Mahon and Griffin's requirement for consistent definitions and replicable studies.

Figure 12.3 CEOs cite brand, trust and reputation as the primary motivation in taking action on sustainability issues

Source: Lacy, P., Cooper, T., Hayward, R. and Neuberger, L. (2010) *A New Era of Sustainability: UN Global Compact-Accenture CEO Study 2010*.

Organising and managing CSR

Without a wholly robust business case, the effectiveness and perceived value of a company's CSR activities will largely reflect its positioning within the organisation and the effectiveness with which the CSR function is managed. A great deal of research has highlighted the crucial role that top management plays in introducing and energising the CSR function and directing its activities. Swanson[28] comments:

> The chief executive officer can help guide the organisation towards responsible corporate conduct *vis-a-vis* the formal organisation by directing other managers and employees along the chain of command to attend responsibly to concern expressed by internal and external stakeholders.

This top management commitment is vital to effectiveness in socially responsible behaviour as acting responsible may challenge other short-term targets, performance indicators and behaviours. As firms move through the stages of developing their CSR competences as capabilities from resistance to engagement these roles change but the demands for professionalism increase (see Table 12.2).

In this final stage 'the organisation goes beyond its traditional business model and fully integrates CSR principles into every aspect of the organisation'.[29]

Table 12.2

Stage	Driver
Resistance	Entrepreneur
Philanthropy	Entrepreneur
Self-protection	Top management
Compliance	Senior team and law
Capacity building	Senior team
Competence building	Professionals
Embedding	Professionals
Transforming organisation	Internal and external stakeholders

Issues and challenges

In his *World Review* of the key strategic developments in corporate responsibility around the globe, Bendell[30] questions many of the more confident and comfortable assumptions made about the progress made in developing corporate social responsibility and corporate citizenship in recent years. Besides the challenges posed by BP's Deepwater Horizon disaster, the banking crisis and TEPCO in Japan, he notes that:

> the French arm of the Friends of the Earth (Les Amis de la Terre) slammed the majority of France's socially responsible investment (SRI) funds as being 'illegitimate'. The organisation said in its report, analysing 89 SRI funds, that 71 of them invested in companies it considered as 'controversial' for 'disastrous' social and environmental practices.

His analysis flagged up two deep concerns about the state of CSR around the world. First, there are weaknesses in the processes for assessing environmental, social and governance (ESG), which are related to weaknesses in professional standards and competencies. Second, there are the continuing problems of distinguishing genuine CSR practice and achievement from claims of achievement and contribution.

On the ESG performance measurement, he proposes eight key weaknesses:

1. Overdependence by analysts and raters on information published or provided directly by the companies being assessed or their media partners.
2. The focus on management policies and processes rather than impacts and outcomes.
3. Too much emphasis on the measurement of negative impacts rather than positive contribution.
4. There are methodological weaknesses in the approach adopted by many of those producing the analyses and rankings compounded by their reluctance to submit their methods to external scrutiny.
5. Many of those producing the analyses and rankings lack the independence needed for real confidence in their results.
6. Too often different aspects of ESG are conflated with financial measures, for example, conflated with moral issues.
7. Many ESG ratings are created as distinct issues but then incorporated into composite rankings that are hard to justify.

8 Most ESG analysts and raters do not integrate their ESG products and ratings with the mainstream financial analysis hence restricting the potential to integrate FSG considerations in normal financial investment analysis.

Tackling these issues will make an important contribution in addressing the second issue of distinguishing genuine CS practice and achievement from claims of achievement and contribution. It remains too easy for organisations, especially on an international stage to make claims for CSR practice that are hard to substantiate against objective criteria.

In 2010, for example, FIFA made great play of its commitment to corporate social responsibility in South Africa during and after the World Cup. The evidence suggests a different picture with construction and infrastructure costs soaring to around £3 billion against pre-event estimates of less than £0.5 billion (partly based on technical advice from FIFA). Although visitor and tourism numbers increased, the income from these fell short of the predicted £570 million, while visitor numbers were around 60 per cent of those predicted. South Africa was left with a major financial deficit while FIFA president, Sepp Blatter, declared the event 'a huge financial success for everybody, for Africa, for South Africa and for FIFA', with revenue to FIFA of £2.24 billion.

Critics of FIFA have concluded that besides this cash profit, FIFA failed to pay enough attention to the World Cup's environmental impact with the carbon trace, nine times higher than World Cup held in Germany; ticket prices were too high for most locals; and FIFA's sponsorship policy prevented local small and medium-sized businesses from benefiting from the championship. All this despite FIFA's declared aim 'to lead by example and channel the power of football and the influence of the organisation on the game and its stakeholders towards making positive impacts on society and the environment'.

These issues reflect wider concerns about the CSR strategies and impacts of multinational companies and organisations. Bondy[31] highlighted the different pressures on multinationals as they seek to shape their CSR practices. This study indicated the importance of home-market factors in determining practices. This is often seen to reflect the 'state centred' nature of law but Zerk[32] argues that while international law has its limitations, it presents more opportunities for the CSR regulation of multinationals than is generally assumed. The study of CSR in multinationals is emerging as one of the fastest growing and most complex areas of CSR study and analysis.

QUESTIONS

1 Green marketing is neither green nor marketing – explain.

2 Green tourism is a new growth area of business, outline its strengths and any potential dangers.

3 James Lovelock claims that 'climatologists are all agreed that we'd be lucky to see the end of this century without the world being a totally different place, and being 8 or 9 degrees hotter on average'. What are the implications of this and how can business respond?

4 How valid is the assertion 'if we are to preserve a habitable earth we are going to have to accept fewer foods and services, including less electricity' and how can industry respond?

5 Greedy consumers are far more of a threat to the environment than greedy producers–discuss.

6 Barack Obama claims that 'in the absence of sound oversight, responsible businesses are forced to compete against unscrupulous and underhanded businesses, who are unencumbered by any restrictions on activities that might harm the environment, or take advantage of middle-class families, or threaten to bring down the entire financial system'. How valid is this claim?

7 Outline ways in which companies have adjusted their behaviour to reduce the impact of their activities on the environment while developing systematic strategies using approaches to reduce the weight and consumption of raw materials.

8 Suggest ways that they can go further and faster.

CASE STUDY 12

Saving the barako bean: The Figaro Coffee Company's approach to fair trade

Charmaine Nuguid-Anden

Coffee in the Philippines

Circling the equator between the Tropics of Cancer and Capricorn, the 'Coffee Belt' is an area where countries like the Philippines, Brazil and Indonesia are located. The Coffee Belt has only two seasons a year and the weather is a temperate mix of humidity, heat and cold. The Philippines was historically one of the world's top producers of coffee, with export earnings amounting to at least US$150 million before 1986. However, output has dropped dramatically to only a total production of about US$500,000 or 500 kg per hectare. Over the past 10 years, 80,000 hectares were lost, with only about 120,000 hectares of productive coffee land remaining in mountainous areas and traditional coffee enclaves. This migration affects 60–80,000 coffee families, the majority of whom are small farmers.*

This was mostly due to developments that cut farming profitability. The Philippines' once rich coffee land had come reclassified as industrial or commercial land with increased land taxes. Farm-to-market infrastructure had not improved quickly enough in many of the country's rural areas. Mechanisation and increased efficiency in other parts of the world had greatly brought down the price of coffee. Most coffee lands are in typhoon-prone areas as well, adding to the seasonal risks. Dropping profitability led many farmers to abandon coffee growing.

This supply development did not match the domestic demand which continues to rise at 27 per cent per year, of which instant-coffee consumption was four times that of gourmet-coffee demand.

Fair Trade and community trade

Over the past 40 years, new business concepts, such as fair trade and community trade, have gained prominence in the European Union, North America and Australasia. Oxfam, one of the world's leading development NGOs, first began to promote fair trade in the 1960s. Oxfam considers fair trade to be 'about paying poor producers a fair price, and helping them gain the necessary skills and knowledge to develop their businesses and work their way out of poverty'.†

In the late 1980s, The Body Shop plc became the first major UK retailer to establish direct trading relationships with local groups of producers. Described by the company as its 'Community Trade' programme, it has led to the development of a range of products that contain 'community-traded' natural ingredients now

* The bulk of Filipino coffee is grown by small, independent producers, a consistent production pattern globally according to the Fair Trade Foundation. See: www.fairtrade.org.uk/about_standards.htm.

† 'Oxfam and Fair Trade', www.oxfam.org.uk/what_we_do/fairtrade/oxfam_and_ft.htm.

Case study 12 (*cont.*)

numbering 500. Through its support for community trade, the company 'aims to re-establish the connection between producer and purchaser, between origin and destination, between community based organisations and high street shops'.[‡]

In addition to NGO or company-specific initiatives, there are also various fair-trade labelling organisations, such as the Fairtrade Foundation and the Max Havelaar Foundation, which are supported by NGOs, trade unions, churches and mainstream businesses. The international fair-trade, standard-setting and monitoring body – Fairtrade Labelling Organisations International (FLO) – has certified 360 producer groups (including many umbrella bodies) in 40 producer countries selling to hundreds of fair-trade registered importers, licensees and retailers in 17 countries.

The range of fair and community-trade products available in the UK has grown substantially over the past decade and now includes bananas, chocolate, coffee, dried fruits, face cream, honey, orange juice, shampoo, sugar, tea and wine, among many others. But coffee was the first and remains the most popular fair-trade product among northern ethical consumers. In the UK alone, 14 companies offer dozens of different blends from around the world. Mainstream coffee shops such as Costa Coffee, Prêt à Manger and Starbucks now sell fair-trade coffee.

Know your bean

There are five commercially known coffee bean varieties worldwide: arabica, robusta,[§] excelsa, stenophylla and liberica. The most popular beans in use all over the world are arabica and robusta. The former has a more subtle and distinct flavour and is usually used for gourmet coffees. However, due to weather conditions, it cannot be natively grown in the Philippines except in some mountain areas, and therefore is mostly imported. Robusta, on the other hand, is grown in many parts of the country. Due to its more full-bodied flavour, robusta is used mostly for instant coffee. The excelsa and stenophylla varieties are not cultivated commercially in the Philippines.

Liberica is known to be an indigenous product in only three Asian countries, including the Philippines, making the bean a very unique and potentially lucrative product. The term 'barako'[¶] in the Philippines has become a generic name for the coffee grown and roasted in the Batangas region (just north of Manila). In truth, barako is the Philippine liberica known for 'its particularly strong taste, powerful body and a distinctly pungent odour'.[‖] Because of its homespun image, domestic demand for barako had slacked off in favour of international Arabicas and large-scale production of robusta. Saudi Arabia has been the only known export market for barako. As a result, the barako is now in danger of extinction.

The presence of large corporations with very high demand for robusta coffee had shifted most coffee production to this variety. However, as corporations buy the crop with the prevailing low world price, coffee farmers have begun to shift to other crops and some have chosen to sell off their lands.

Figaro Coffee Company and the barako bean

The Figaro Coffee Company is a popular specialty coffee store in the Philippines that is 100 per cent Filipino-owned. Established in 1993, it is based on the concept of a complete store where 'Filipinos can get the perfect coffee and all the necessary accoutrements for coffee making' that can compete internationally. From only two employees, a managing partner and a kiosk in the Makati Mall of the Ayala Centre, the company now has 31 outlets encompassing kiosks and cafes (including its first international store in Hong Kong that opened in 2001). This total includes 12 that are run by franchisees. The company's product line includes specialty-roasted coffees and various coffee-related paraphernalia sold at retail. The company does not own roasting facilities, but employs the facilities of a sister company, Boyd's Coffee Company.

Aside from the superior-tasting coffee that a customer can enjoy in the Figaro Cafés, the company also offers a host of freshly roasted beans on retail. Among the selection is barako and from the time it was introduced

[‡] 'Community Trade and The Body Shop', www.thebodyshop.com/web/tbsgl/values_sct_what.jsp.

[§] Also known as 'Coffea Canephora'.

[¶] Barako takes its name from the Tagalog word for 'wild boar'. These creatures are fond of dining on the plant's leaves and berries. The barako tree is bigger than other varieties, therefore, it takes up more space on the farm.

[‖] 'Figaro Foundation Project: Save the Barako', www.figarocoffee.com/barako.htm.

Case study 12 (*cont.*)

in 1999, Figaro barako has become a bestseller. The 'Save the Barako' cause has somehow given the coffee added value as portion of the bean sales is channelled back to into a project to promote the revival of the barako. The project encompasses awareness programmes, new plantings, research, and targeted marketing, and is co-ordinated with the Figaro Coffee Foundation (see below).

Meanwhile, as the consumption of Barako increases, a greater need arises to keep the production going which gives all the more reason why barako needs to be saved from extinction. The continued increased demand for barako, on the other hand, allows the advantage of bringing the price of barako to a viable level that benefits both the farmer and the retailer.

The waning supply of barako beans prompted the company to be more aggressive in securing supplies. The 'Save the Barako' campaign is its showpiece effort, and has earned the company a reputation as a company that cares for the coffee farmer.

Through Figaro's customer-loyalty scheme, called the Coffee Club, the company organises farm tours twice a year wherein coffee enthusiasts are shown the process of coffee harvesting and planting. Since the company is primarily a coffee distributor and coffee-shop operator, it did not have prior experience in actually growing coffee for commercial production.

Figaro Coffee Foundation

The Figaro Coffee Foundation was formed in 1998 with a singular thrust – to boost Filipino coffee production, particularly barako. As part of this process, it provides aid to the remaining local coffee families. The foundation's activities are mostly communications-focused: art exhibits and seminars shedding light on the domestic coffee industry situation. Geared towards obtaining consumer sympathy, the foundation's initial activities were aimed at securing a steadily increasing domestic demand for barako coffee.

Another aspect of the foundation's work is linked to the City Blends.** are specially designed coffee packs indicating particular cities where specific charities are chosen as beneficiaries. All City Blend beneficiaries are children's causes. As an example, the Makati Blends coffee benefits the 'Children Hour', a charitable institution based in Makati. Using the same strategy as City Blends, the company developed the Barako Blends, the proceeds of which go to the operations of the foundation.

Looking for the barako, finding a cause

As the company started to get recognition as a major coffee chain, especially with the arrival in the country of international coffee brands such as Starbucks, Figaro was in search of the popular Barako coffee. Quite serendipitously, Figaro's CEO, Pacita Juan, met Father Roger Bagao, a coffee farmer/priest in Tagaytay City, who headed a farmer's coffee co-operative. Father Roger hailed from the southern province of Bohol and has made coffee his life. A member of the Divine Word Seminary (SVD) in Tagaytay, Father Roger chose to live among the coffee-farming people. He knew that to assist them to attain spiritual awakening or enrichment, he first had to learn what crops they grew, how they made their livelihoods. This meant first helping them to fill their stomachs, and later reaching their souls. So *Coffee* was it. He organised a farmers' co-operative that ran a coffee mill known as SMSK.

Pacita Juan met Father Roger and asked him to show Figaro the other side of coffee – farmers, different varieties and where they grew, coffee in the south, coffee in the mountains. When Pacita was looking for the native barako, Father Roger could only tell her that this variety or species was no longer profitable as their yields were low and Nescafé (the biggest processor) would have no need for the barako. This saddened Figaro as barako is an important part of Philippine coffee history. 'How do we change the tide?' she asked Father Roger. 'Can we start planting barako? How do we tell people about this sad fate of this species that is so popular among our people?' These questions made Figaro, with the help of Father Roger, establish a foundation to address the needs of the Philippines coffee industry – now known as the Figaro Foundation Corporation.

The first project of the foundation was general coffee awareness-driven: The Coffee Farm Tour is now held every January in Cavite or Batangas, two provinces appropriate for a day trip. The second project is Barako awareness-driven. The barako tree is slowly being cut down due to its 'low' demand among big processors. However, there is growing demand for barako from specialty roast and ground processors in the Philippines, and for export to the Middle East. A related foundation project is called 'Barako Tree Planting'. Launched in 2000, this project is run every July or August. The key challenges facing the tree-planting project are where

** A collection of blends named after four areas, Makati, Shaw, Manila and Alabang.

Case study 12 (*cont.*)

to get seedlings and where to get land. Luckily, Father Roger found land during 2000 and 2001. After 2001, however, the foundation met with some problems regarding land ownership and could no longer access the first plantings to check on progress. In the same year, Father Roger introduced Cavite State University (CaVSU) and its research head, Dr Andy Mojica to the Figaro Foundation. Dr Mojica would be one of the keys to barako seedling propagation, and he would also be a major part of the Presidential Task Force on Coffee Rehabilitation prompted by Figaro's persistent invitation.

In January 2002, Figaro (now working with Dr Mojica's group) began to visit CaVSU for its Annual Farm Tour and also to work with them on barako seedling supply, a task that used to be performed by Father Roger. Meanwhile, Father Roger went on a sabbatical in 2002 and Figaro was subsequently invited to be a member of the Presidential Task Force on Coffee Rehabilitation (see below). In this same period, the coffee town of Amadeo was visited by President Gloria Macapagal-Arroyo for the first ever Pahimis festival to signal the start of today's Filipino coffee revolution – a peaceful revolution of going back to coffee farms to increase production to turn the country from being a net coffee importer to a net exporter as it was until 1990.

In Amadeo, Figaro met Mayor O. J. Ambagan who gladly offered his land for the next Figaro tree planting activity. In the same year, Leisure Farms, a first class farm community, invited the Figaro Foundation to undertake another tree planting activity in Lemery, Batangas which would be provided with irrigation and all the care needed for a first-class farm.

These efforts have now grown into a series of projects with the local government of Amadeo such as the 'Adopt a Farm' programme, coffee farm tours, and the organisation of a coffee co-operative to promote 'Café Amadeo' – a 'monobranding' exercise to promote Amadeo's coffee roasters who used to sell under different brand names. More than just to sustain its core product or core business, Figaro has become the trail blazer on how 'out of the box' ideas can be used to encourage farmers to plant the Barako again, motivate local governments to do their part and get co-operatives working toward one goal.

Through its partnership with the municipality of Amadeo, Figaro will be able to plant around 30,000 barako trees in and around the Amadeo town providing farmers with a niche product that can be their ticket to higher selling prices and export potential of a value-added product branded with the Figaro name.

Figaro took up the cause of the Barako when everybody else thought it an impossible task. But because of its belief in the cause, Figaro enjoined small groups who equally believed in the integrity of the cause and subsequently slowly built awareness towards a greater mass. Today, barako has gained many supporters and made a dream a possibility, further proof that an inspired vision that is led by a credible company to sustain its own industry is the heart of corporate social responsibility. Ultimately, the 'Save the Barako' campaign has moved even the simplest coffee customer to help sustain this once threatened variety – and that is reward in itself.

The Coffee Board[††]

Strengthened by this experience, Figaro has since been invited to be the private sector representative for the Presidential Task Force on Coffee Rehabilitation. Letting go of its initial misgivings to partner with government, the company has found that a multi-stakeholder partnership can provide the dynamism and sustainability that it needed to address the barako challenge. The Task Force is composed of the Cavite State University, various government agencies including the 'One Million Jobs Program' of the President, creditors, the Makati Business Club (a private sector think tank primarily representing top Philippine business interests), the local government of the town of Amadeo in the Cavite province, millers and processors and another international coffee retailer chain, Seattle's Best. Surprisingly, no big coffee producers were included in this task force. Figaro's Pacita Juan co-chairs the Task Force with a particular focus on work in the private sector. This includes the merchandising coffee as a group using the Kape Isla seal (the seal of the

[††] The purpose of the Coffee Board is to develop and promote the Philippine coffee industry through research, technical assistance and credit programs for development, expansion, rehabilitation and rejuvenation of coffee farms, millers and roasters, and through marketing and promotions of coffee for domestic and export markets. The board is composed of coffee farmers, traders, millers, manufacturers, retailers, exporters, roasters, researchers and experts from the academic and agricultural sectors.

Case study 12 (*cont.*)

Philippine Coffee) both domestically and internationally, and enjoining hotels and such to serve Philippine coffee.

This Coffee Task Force is set to implement a coffee fertilisation and rehabilitation programme in line with the 'One Million Jobs Program'. With plans to establish the programme in 22 provinces, Cavite (beside Metro Manila) will serve as the model province with activity jumpstarting from the town of Amadeo. The coffee programme includes spreading techniques perfected by CavSU and Nestle Philippines to willing farmers, with a loan of about Php15,000 per farmer (US$300). Both robusta and barako are targets for rehabilitation. In May 2002, the Task Force was elevated to become the National Coffee Development Board.

In line with this new duty, the 'Save the Barako' campaign has kicked into a higher gear as it provides Figaro with land for its new model farm in Amadeo. With Barako prices three times higher than for other varieties, this allows for a greater profit margin for farmers. Figaro is implementing a system of contract farming that allows for a controlled supply of barako as a niche market alternative, thus ensuring that there will not be a glut in the supply of barako. In order to minimise dollar-reserve losses due to importation, approximately 20,000 MT (approximately 1.5 MT per hectare) is expected to be produced each year. All these targets coincide with the lifting of tariffs due to WTO agreements, but as Figaro's CEO, Pacita Juan, quipped during the third Barako tree planting in Amadeo in August 2002, 'we are a small company and we know this is something we cannot do without our partners – the farmers, the people of Amadeo, the academe . . .'.

Lessons learned

As a medium-sized company without the mass-marketing resources of larger firms, Figaro has strength in specialty store marketing and communications strategies for advocacy and education purposes. The company sees itself as an agent of volunteerism not only because it inspires coffee advocacy for betterment of the industry.

Originally seeing consumers as their primary community, the company adopted charities in the cities where it had its strongest market share (City Blends). However, as supply chain issues emerged, it became obvious that the company's view of its community has expanded from its consumers to the farmers that produce its products. Given its youth, the company had been cautious about building government relationships because such partnerships can be notoriously short-lived. It is highly remarkable that a company of such a small stature was willing to take it upon itself to secure the future of a dying coffee bean.

However, the company has needed guidance to develop the mechanics for more long-term community relations' activities. The company's association with the League of Corporate Foundations and other third parties with more experience in community relations has helped. The company's participation in the National Coffee Development Board has allowed Figaro to further expand its experience in multi-stakeholder dealings as well as erase some preconceived notions of government. Yet, as the Coffee Board is a new endeavour, there must be careful monitoring of the progress of the barako under its wings.

While the task of rehabilitating the local coffee industry and saving the barako remain a formidable undertaking, Figaro and its various partners now have the right channels and networks to solidify and integrate their efforts as a collective unit giving them a greater fighting chance for survival.

Figaro remains committed to championing the cause of Barako and leading in rebuilding the Philippine coffee industry. With its clear vision to give back to the industry it serves, Figaro's undaunted spirit should enable the company to see this project through to completion with the support of both Filipino coffee consumers and producers.

Questions

1. Review the policies and programmes developed by Figaro.
2. Examine how these might help other firms and industries in similar positions.

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Chapter 13

The built environment

Over the last decade much of the debate on the environment has concentrated on the problems of the natural environment. The attention given to the role and contribution of industry in tackling these problems has distracted attention from the built environment. This, broadly speaking, is those parts of our locality, country or the plant which have been built by man.

It includes the villages, towns and cities, the road, rail, sea, air and other communications systems beside the factories and offices in which we work and the homes in which we live. This built environment is largely the creation of industry and commerce. Rural or agricultural society lacked the need to develop cities or the resources to maintain them. Prior to the sixteenth century, few cities had more than 50,000 inhabitants. Even the 'giants' of the ancient world seldom had populations of more than 100,000.

This pattern was transformed first by the growth of the nation state then by industrialisation. During the first Industrial Revolution, cities like Manchester, Birmingham and Glasgow grew dramatically. They were soon followed by cities like Lille in France, Liège in Belgium and the German industrial cities of the Ruhr Valley and those on the East Coast of the USA. With industry came growth along with environmental deterioration.

Kasa[1] illustrates how the first industrial revolutions affected aspects of the environment (Table 13.1).

The structure of the built environment is determined by the needs and resources of commerce. From the nature of the buildings, the distribution of populations, transport, communication, education – even sewage systems largely reflect the needs of industry.

Girardet's model of the Petropolis (Figure 13.1) shows how intimately the built environment and the natural environment are linked through the production and consumption of goods, services and waste.

The pattern of rapid growth seen during the nineteenth century is being repeated today as commerce, industry, education, culture and government act as a centripetal force drawing in people and resources (Figure 13.2). The scale is, however, even more vast than that seen in London and New York in the nineteenth century.

Most people in the developed world chose where they live largely to satisfy their requirements for access to industry or commerce. The highs and lows of the built environment are primarily a reflection of the patterns shaped by commerce mainly over the last two centuries.

The canyons of New York, the Eiffel Tower, Liverpool's St. George's Hall and Glasgow's Town Hall, San Francisco's water front, the Burse at Shanghai and Hong Kong's banking centre are the confident assertion of the capacity of industry and commerce to stamp their identity on the landscape.

Table 13.1 Industrialisation, urbanisation and the environment

Upswing/ downswing	Constellation of technical and organisational innovations	Core input and other key inputs	Carrier branch and other leading branches	Main energy source	Environmental problems
1780–1815 1815–1848	Water-powered mechanisation of industry	Iron, raw cotton, coal	Cotton spinning Iron products Water wheels Bleach	Waterpower/ coal	Socio-environmental (slums), smog
1848–1873 1873–1895	Steam-powered mechanisation of industry and transport	Iron, coal	Railways and rail equipment, steam engines, machine tools, alkali industry	Coal	Socio-environmental (slums), smog
1895–1918 1918–1940	Electrification of industry, transport and households	Steel, copper, metal alloys	Electrical equipment, heavy engineering, heavy chemicals, steel products	Electricity (mostly based on coal)	Water pollution (mainly from chemical industry)
1941–1973 1973–??	Motorisation of transport, civil economy and war	Oil, gas, synthetic materials	Autos, trucks, tractors, tanks, diesel engines, aircraft, refineries	As above, but also nuclear	Smog, acid rain, climate change and its effects, radiation

Source: www.cas.uio.no.

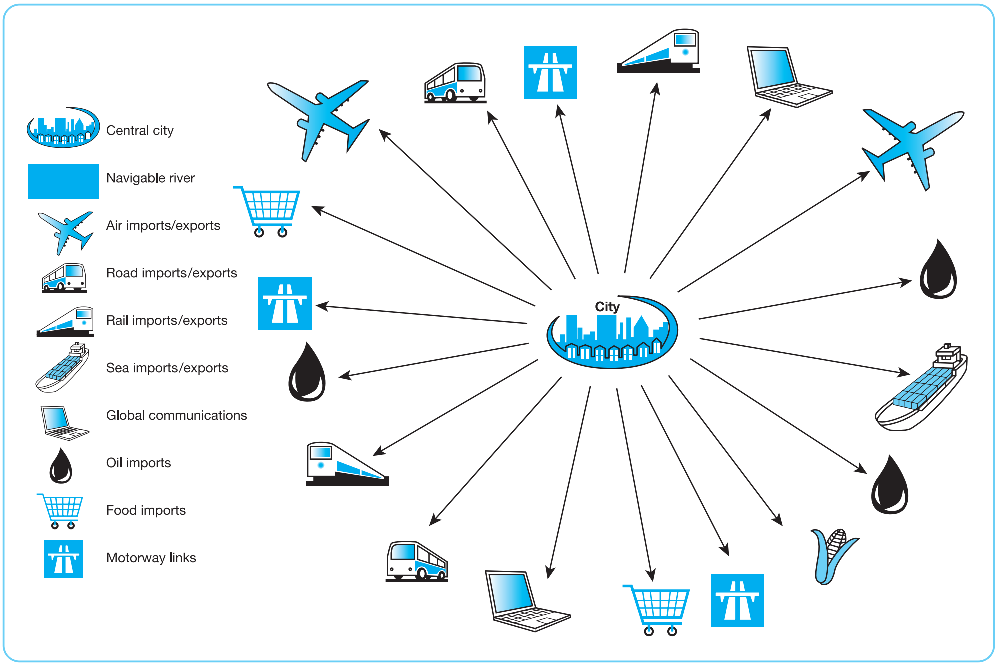

Figure 13.1 'Petropolis'

Source: Girardet, H. (2011) *Regenerative Cities*, Hamburg: World Future Council and Hafen City University Hamburg (HCU) Commission on Cities and Climate Change, p. 6.

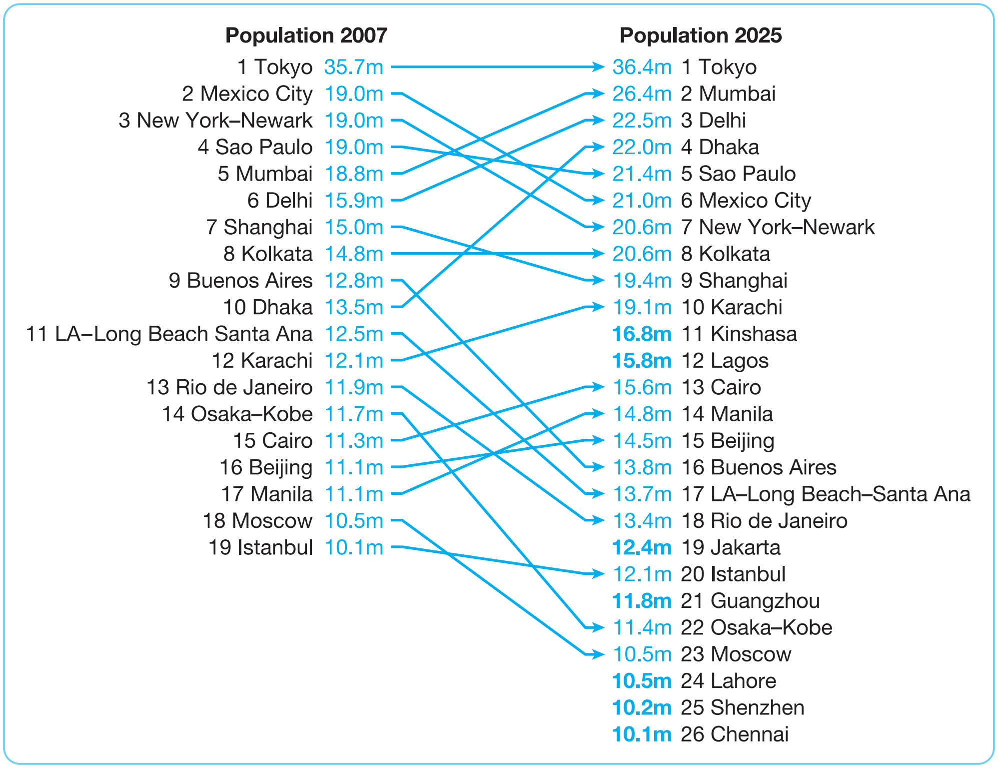

Figure 13.2 The world's megacities 2007 and 2025

Note: Cities in bold = new megacities.

Source: United Nations Human Settlements Programme (2008) *State of the World's Cities 2008/2009: Harmonious Cities*, Nairobi: UN HABITAT, Figure 1.1.2, p. 6.

Downtown Los Angeles, parts of Brixton, Hume and Moss Side, the desolated landscapes around most airports, ravaged and empty factories in the Pern region of Russia and the shanties in Bombay provide another darker side to industrial development.

In Mexico City total emissions of local air pollutants rose by 45 per cent between 1972 and 1983. Street booths sold puffs of oxygen. Dried and powdered excrement wafted through the air. Even today after efforts to reduce this, due to complex socio-political, economic and geographical realities, Mexico City still suffers from one of the worst air pollution problems in the world. In 2002, Mexico City air quality exceeded local standards for ozone (110 ppb for 1 hour) on 80 per cent of the days of the year.[2]

It is in these communities that the effects of industry are already the most marked. The same localities will provide a powerful indicator of the willingness of industry to meet its wider responsibilities. In effect, the repair and maintenance clause in the contract is clearest and nearest. In part, this reflects its wider concerns about the environment. It also mirrors the wider belief that the nature of the immediate communities in which people grow shapes their responses to more general issues.

Growing up in a barren or despoiled urban environment is not likely to generate wider feelings of respect, enterprise or development. This was recognised by the business people

A shanty town in Mumbai

Source: Adam Ferguson/VII Network/VII/Corbis

who shaped projects like the St. George's Hall in Liverpool, the Rockefeller Center in New York and the Hong Kong and Shanghai Bank in Hong Kong. The pragmatic and commercial gains were recognised by Levis when it moved out of its new tower block to a rambling, human development.

It is seen in the creative redevelopment of the river-front area in Boston or the renewal of Dijon. The exodus from Bathgate, Bochum and other 'new towns' and the inner cities is part of the same process. The changing pattern of transport and communications mirrors the same process of re-examination and redevelopment (Figure 13.3).

In some senses, the problems of the built environment are more intractable than those of the natural environment. Many of the solutions to the latter are clear if painful to some. Logging can be stopped in the rain forests if the political will exists and the economic burdens on the developing countries are eased. Dumping of chemical waste can be ended by firms if accessible technologies are used and the market will pay the price. It is hard not to feel some sympathy for the wildlife threatened by river pollution or the destruction of their habitats.

The built environment raises more complex issues. The urban sprawl of Tokyo, Mexico City, Bombay or Manila seems inexorable. There might even be a vicious circle at work. Stop the logging and forest clearance and the families wanting to settle in the new territories will gravitate towards the cities. It is harder to feel sympathy for the young, hostile, urban poor than dispossessed Amerindians.

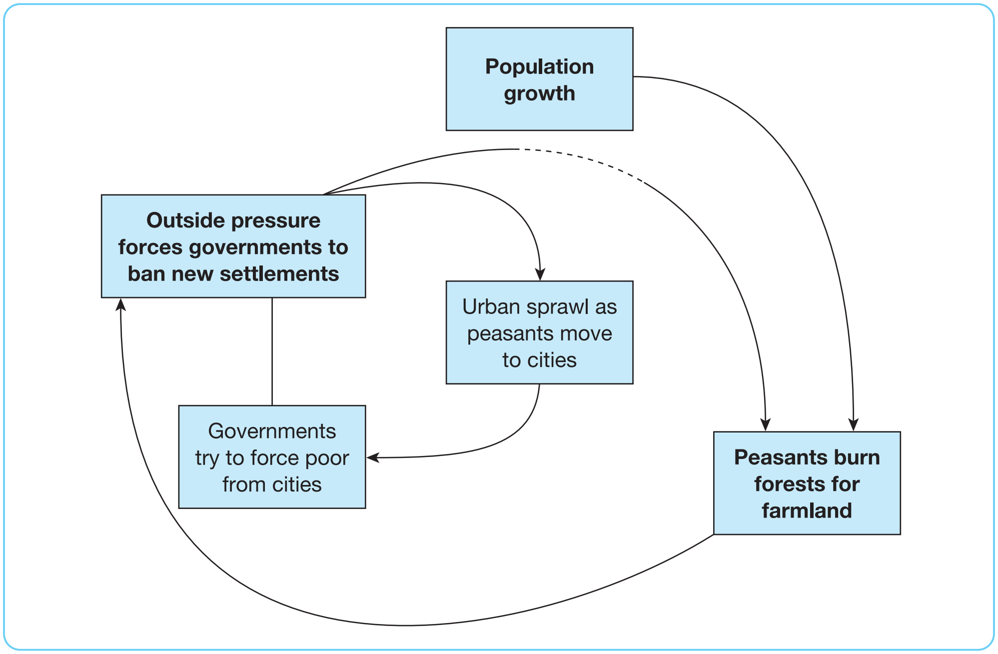

Figure 13.3 The vicious circle of urban development

Cities

The growth of the cities is one of the dominant features of industrialisation. It continues to characterise the development process in newly emerging countries. The great cities of the pre-industrial era: Florence, Madrid, Rome, Kyoto and Boston were soon overtaken in population by Milan, Glasgow, Chicago, Nagasaki and London. The explosive growth in the populations of British cities during the last century is well documented. As recently as the 1950s, London could still claim to have the largest population of any city in the world.

Only two cities had populations approaching 10 million in 1950: New York and London. Now they are dwarfed by Tokyo, Mexico City and Sao Paulo. Each has seen growth and continues to grow because of the commercial and industrial developments in their localities. During the 2010s, over three-quarters of the world's population increase is expected to take place in cities.

By the year 2050, 40 cities will have a population of over 10 million. Their combined population will exceed 400 million. Population densities in cities like Calcutta, Cairo, Tehran, Delhi and Shanghai already exceed 50,000 people per square mile. By the end of the decade, densities in the region of 100,000 per square mile will be common.

The fastest growth is taking place in the developing world. Africa saw an especially rapid shift from a rural to an urban population with primate cities, i.e. first generation, unplanned urban communities, playing a major role. These contrast with the population densities of 10,000 to 11,000 in cities like New York, Los Angeles, London and Essen. The cities provide the working environment for much of global industry beside providing their primary markets.

The health of the cities and the vitality of commerce are closely interrelated. Within the cities a range of problems can be seen.

These range from local impoverishment as communities find it hard to break out from a spiral of decline and deprivation to wholesale erosion of the quality of life. The riots in London in the summer of 2011 symbolised the threat to social order posed by a community which sees no hope of jobs, opportunity or improvement. The riot is a well-documented form of protest by the urban poor.

> Through this vast throng, sprinkled doubtless here and there with honest zealots, but composed for the most part of the very scum and refuse, whose growth was fostered by bad criminal laws, bad prison regulations, and the worst conceivable police . . . (and later) . . . Beginning with the private houses so occupied, they broke open the doors and windows; and while they destroyed the furniture and left but the bare walls, made a sharp search for tools and engines of destruction, such as hammers, pokers, axes, saws, and such like instruments. Many of the rioters made belts of cord, of kerchiefs, or any material they found at hand, and wore these weapons as openly as pioneers upon a field day . . . In the same manner, they marched to the place of rendezvous agreed upon, made great tires . . . they danced and howled, and roared about these tires till they were tired.
>
> C. Dickens (1841) *Barnaby Rudge: A Tale of the Riots of 'Eighty*

The parallels with the 'shooting and looting . . . the death and destruction in their communities' are clear. 'The thick smoke that darkened . . . dawn skies' is part of the same imagery. The relationship with industry is even more vivid as many of the television and newspaper pictures now show the impact on the Los Angeles business districts around Vermont and Manchester.

In Britain, the decline of the major cities in the second half of the twentieth century is well documented. Local progress such as the success of Leeds or the improvements around the Meadowhall and Canal Basin area of Sheffield show what can be achieved, but these pale alongside the continuing problems of Easterhouse, Moss Side and Brent. City centres with a strong cultural or other ethos like Manchester, Liverpool, Leeds or Newcastle can prosper but even their peripheral areas struggle.

Westwood and Nathan[3] describe how:

> amidst the now converted industrial buildings of twenty-first century Manchester – the original home of the old manufacturing job – you can easily see the places of work that have replaced these old jobs. The centre of the city is dominated by shopping centres, universities, restaurants, banks and museums. Just to the east of the city centre, next to the new stadium that recently hosted the Commonwealth Games stands the UK's newest supermarket – Asda Wal-Mart. Here is one of the latest and shiniest examples of a twenty-first century place of work. It might look slightly incongruous amongst Manchester's residue of industrial architecture: the juxtaposition between new and old work is striking in a part of Manchester so recently characterised by decay, unemployment and crime.

The potential contribution of industry can be seen in four critical areas: people development, job creation, environmental improvement and infrastructure programmes. In each area, opportunities exist for firms to use their expertise to add value to communities in ways which better the lot of those affected while improving the business opportunities for the firm. In each of these key areas immediate business problems can be tackled while communities are assisted. Government and business partnerships seek to give young people in the inner cities a promise of a better future while giving firms access to new, talented employees.

Job-creation schemes have supported the formation of new firms tackling long-term weaknesses within these communities. These, in turn, become the suppliers and clients of established companies.

Environmental improvements – notably those which improve architectural, design and environmental standards – draw in clients and customers, reduce vandalism and add to the motivation of employees. Infrastructure programmes can reshape the logistics costs curve while winning new collaborators.

Those firms which have followed in this type of programme have built their success on a mixture of visionary commitment, local collaboration, planning and effective operational management.

Vision

The vision is important. Programmes in communities which are under pressure in the difficult economy of the 2010s will face many setbacks. The immediate 'beneficiaries' have long memories of failure, rejection and alienation. The environments in which they live have been neglected for a long time. Often, there are those who seek to exploit the fears and distrust within the community for their own ends. The corporation or leader working in this area will find major differences in perception and attitude.

This was, for example, the experience of The Body Shop in Easterhouse in Glasgow. This community showed all the key indicators of neglect and decay. The quality of housing was poor, unemployment was high, car ownership was low while public transport was inadequate. Simple gestures like the decision by The Body Shop to give the project a high media profile was resented in the community as highlighting their problems. The more distant the community, the harder it is for corporate leaders to appreciate the issues which will motivate or alienate those involved.

Targeting or focusing efforts on strategically important areas like education has been an effective way to overcome some of these problems. Collaboration Partnerships provide much of the answer to the problems of understanding and insight. The Body Shop overcame many of its initial difficulties because of the backing of the Easterhouse Partnership (now the Greater Easterhouse Partnership) a consortium of businesses, local authorities and other agencies. Its aim is to mobilise the resources of all those who can help to improve the standards and prospects in the community.

In some communities the natural allies do not exist or are unwilling to play a part. In these cases, industry may need to play a more proactive role in developing third sector, social enterprises.

The social economy has emerged over recent years as an increasingly powerful force for social and economic change and progress locally and nationally. In the UK, Europe and North America, in particular, a number of forces are driving this growth. These forces range from the ability of social enterprises to bridge the gap between rich and poor in increasingly divided communities, to the power that the social economy has shown in tackling real needs and liberating potential.

There is, however, nothing fundamentally new about the social economy or social enterprise. The co-operative movement, for example, has its roots in both the social economy and social enterprise. Robert Owen, the father of co-operation developed his vision of this form of social enterprise before he left his home in Newtown, Powys (then Montgomeryshire) or soon afterwards. The Rochdale Pioneers created, what came to be for a time, the largest retailer in the world because they wanted to build a viable enterprise that overcame social problems.

The current interest in the social economy in the UK largely dates from the election of the Labour government in May 1997 and the launch of its Compact with key representative groups from across the social economy, voluntary and not-for-profit sector in England, Northern Ireland, Scotland and Wales. In his speech to the National Council for Voluntary Organisations (NCVO) Conference in 1999, the Prime Minister, Tony Blair, affirmed his commitment to the development of the sector(s) when he stated:

> We have always said that human capital is at the core of the new economy. But increasingly it is also social capital that matters too . . . too often in the past, government programmes damaged social capital – sending in experts but ignoring community organisations, investing in bricks and mortar not in people. In the future we need to invest in social capital as surely as we invest in skills and buildings. The voluntary sector is – I believe – showing the way, making the links between rebuilding communities and rebuilding economic opportunity.

Supporting the social economy has emerged as a crucial contribution that business can make within their local communities.

Definitions

The growing interest in and support for the social economy has raised important issues of definition and classification. The pressure to arrive at some form of coherent and agreed definition largely reflects the diversity of organisations and enterprises of many different forms, constitutions and sizes that make up the social economy. The Conference Report of the National Social Enterprise, Social Economy Conference in 2001 made clear:

> the social economy is a thriving collection of organisations that exists between the traditional private sector on the one hand and the public sector on the other. Sometimes referred to as 'the third sector', it includes voluntary and community organisations, foundations and associations of many types. Some social economy organisations, notably mutual organisations and insurance organisations, are very large indeed, but the focus of social enterprise is on very small businesses.

The problems of definition are made worse by the variety of organisational and constitutional types. The same conference identified nine different types of social enterprise, a list that could be expanded relatively easily if a broader definition of the social economy was included. The conference listed:

- employee-owned businesses;
- credit unions and community finance initiatives;
- co-operatives;
- development trusts;
- intermediate labour-market organisations;
- social businesses;
- community businesses;
- charities' trading arms.

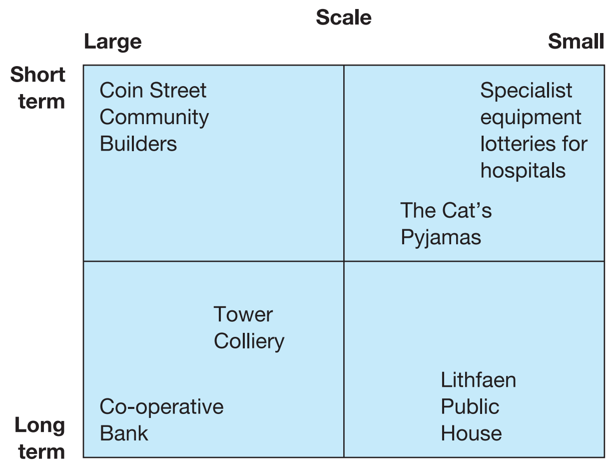

Figure 13.4 The structure of the social economy

'The social economy' can be extended to include large, well-established, permanent organisations, e.g. CIS (the Co-operative Insurance Society) as well as social enterprises created for a time specific or immediate task which form, serve their purpose and dissolve in a narrow time frames. Against this background, there are inevitable problems not only with definitions, but with measures of the scale and contribution of the social economy to the wider society and economy.

Perhaps the simplest way to look at the social economy is to view it as all those parts of the economy that are neither public nor private. This would lead to a view of the social economy as incorporating a wide spectrum of organisations from the very large like the CRS, CWS and CIS to tiny micro-enterprises created to meet a temporary social economic need (Figure 13.4).

In the UK, central government stepped into the breach in some communities. Elsewhere, voluntary agencies can play a part. There is little doubt that some local groups will require a clearer lead from industry before their potential contribution is tapped. Higher education may be such an agency. It might be said that if you want to find dereliction look no further than the area around the local university. In part this reflects the very limited role that most city centre universities see themselves playing in their immediate environment.

The land they own is designated for some future programme. Until this occurs, it can lie fallow. The infamous 'education precinct' scheme in Manchester illustrates this. The original 1960s vision was a campus stretching from the University to UMIST (University of Manchester Institute of Science and Technology). The elevated walkways led to it being dubbed 'the Broadwater Farm of higher education'. Most were not completed. They remained as monuments to the dead ends of much 1960s urban architecture until the transformation of the 2000s. The area around them has since been transformed. It now reflects the potential and talent of those working in the universities. A similar picture can be seen in the areas adjacent to universities in many parts of the world. Industry has the leverage and resource to unlock this potential. Planning large-scale projects of the kind seen in most renewal schemes call for a comprehensive planning process. This has a series of key stages (see Figure 13.5).

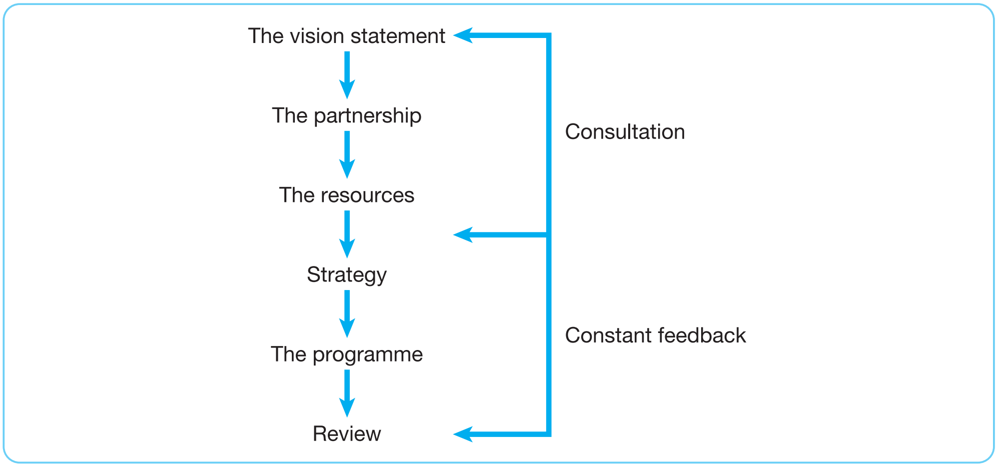

Figure 13.5 The stages in development

Universities, public authorities and the private sector have been especially effective in the development of science parks. Partnering, consultation and feedback are the cornerstone of a successful programme. It is not a novel process. Its value was acknowledged by business people and civic leaders who shaped cities like Birmingham, Munich, Turin and Chicago. This is especially important in determining the nature and character of the building projects. The city is a built environment. The buildings, their nature, scale, type and distribution form the environment.

A sense of personal ownership was lost in much urban architecture in the post-war environment. A sense of disposability and lack of personal involvement grew from a mixture of styles that used new materials in inappropriate ways; seemed to assume that context was irrelevant; ignored the link between form and nature and presumed. Function was an end itself. The typical Third World city is an island of concrete, steel and glass surrounded by an ocean of wood, tin and plastic. In 1980, around one in three or four urban dwellers in Asia lived in shanty towns; two out of five in Latin America and the Far East; two out of three in Africa.

Much of the blame can be laid at the door of institution-based developers in local authorities, public agencies, developers and large corporations. A revival of urban, commercial or industrial architecture depends on the willingness of leaders, from communities like industry, to challenge the assumptions listed above.

Disposability is perhaps the most dangerous assumption. It emerged from an attempt to design buildings that could be changed quickly or contained a floating population of tenants. Low-amenity industrial estates, some city centre office blocks and some of the worst peripheral retail developments show these features. Business leaders can redirect the efforts of those responsible for these schemes by a mixture of boycott and active collaboration. The initiative shown by Sainsbury's in supporting retail schemes shows this personal involvement. It contrasts sharply with the dreary red-roofed outlets which show the type of active participation needed to replicate the designs of a minor US fast food franchise.

This involvement is returning to some of the most innovative and popular office complexes. Scale seems to be an important feature in creating this sense of involvement. It is harder to achieve in industrial estates. There is growing evidence that high-amenity developments are far more popular with companies. Their employees prefer these environments. These is some evidence of better performance and higher productivity. Voting with their feet is unlikely to produce a short-, even medium-term improvement.

More active participation in commercial undertakings allied to a clearer stance on public projects will play a vital part in reshaping the built environment. The public sector remains a major player in industrial developments. Some initiatives have shown a commendable commitment to quality and adding value. The Science Parks in the west of Scotland, Manchester and Cambridge have indicated what can be achieved.

Management

The management skills of industry and commerce provide the clearest potential for added value in development programmes. This input can take a number of key forms. The most useful can centre on the need for strategic planning in the urban environment. This concentrates on the overall pattern of development rather than the more detailed view which had dominated local authority planning.

In Germany, this difference in the planning regime and the participation of industry is well illustrated in retailing developments in Dortmund and Cologne. Dortmund, with a weak chamber of commerce, allowed many new retail developments in various parts of the city. Cologne, on the other hand, has long had a very powerful chamber of commerce. The Dortmund inner city area declined by 23.5 per cent in real terms (between 1978 and 1984). In 1985, it set aside five-hectare sites for retail warehouses that could not be integrated with traditional centres. Cologne avoided these problems and prospered through partnerships.

The integration of different elements into a coherent unity instead of the rigid zoning is likely to characterise the successful urban environment in the future. New technologies and service industries pose few of the threats to the community of more traditional sectors. Their less intrusive nature makes links with social and domestic development easier. Holistic solutions will require full involvement by key players, notably commerce. Initiatives like the City Challenge provided a comprehensive framework for advancing this type of partnership.

Smaller communities

New technologies are changing the character of the built environment just as technology determined its nature in the past. The key features of cotton production, steel making, shipbuilding and materials extraction were large concentrations of labour in the workplace and the local area. The factory system grew because processing large amounts of product or material required large numbers of people. Even the layout of the factory was determined by the needs of flow or batch production and the necessities of manual supervision.

Factories were located near to sources of energy because the machines drew hungrily on this power. Even the exterior works reflected basic needs like up-draughts on chimneys or shop-floor lighting. The familiar factory gate was designed to allow large numbers to enter and leave at predetermined times. Few of these imperatives exist today. Electronics, plastics, new composite materials and biotechnology operate in smaller, more mobile facilities. Their plants are less intrusive. Even car production deploys far less labour per unit of production than in the past.

Telecommunications and the internet allow office work to be distributed far from the point of use. An enquiry on the London telephone exchange is likely to be answered from Paisley in Scotland. Hong Kong Telecom's enquiries are dealt with in mainland China. The shift from manufacturing to services has reshaped the dominant features of the cities. The call for massive concentrations of labour to facilitate the production process is declining.

London – which once accommodated furniture makers in Bethnal Green, switch-gear manufacturers in south London, rubber processors in Islington – is even more a city of civil servants and other office workers. In a modern economy the capacity exists to move an increasing proportion of business activity from the large city into smaller towns and communities.

In the UK, this is seen in the relative decline of Liverpool, Glasgow, Birmingham and the relative growth of Chester, Bath and Edinburgh. The shift creates new challenges and opportunities for development in both types of communities. The challenge to the cities lies in adjusting an infrastructure designed to meet the needs of, perhaps, a million largely static, residential inhabitants to the requirements of less than half a million residents but perhaps two million transients.

Industry has a crucial role to play in shaping that process. In smaller communities a different challenge exists. This is the move from small, local communities to hubs where a variety of groups with different needs coexist. These groups may be international. Milton Keynes in Britain, for example, has a number of schools for different nationalities including the Gyosei Japanese school. The onus exists on industry to ensure that developments are sympathetic with the requirements of the local community while avoiding the formation of a series of separate and potentially hostile ghettos.

In international firms, the workforce is increasingly transient. This can introduce strains on the housing market or novel demands on local facilities. Collaboration with other local agencies is especially important in local communities. It is part of the pressure for sympathetic not intrusive development in urban communities. The urban village is an attempt to tackle two of the features of recent developments which have caused special difficulties to the cities of Britain, Northern Europe and the USA. These are the tendency of urban centres to 'over-expand vertically, resulting in excessive density of buildings and central activities, creating excessive real estate and land values which then drive the economic need for even higher densities and even taller buildings'. These taller buildings and higher densities draw in increasing amounts of related infrastructure. Road and rail systems are required to shift even larger numbers of people. The costs of this infrastructure grows as the land values increase. It draws in resources from other parts of the country. Their relative decline pushes even more people into the urban centres. In Britain, it is estimated that almost half the road and rail infrastructure expenditure during the 1980s was concentrated on London. The cost per passenger (road, rail and air) of moving people into and out of London is twice that of other major urban centres in the UK.

The proliferation of suburban peripheries which 'over-expand horizontally because of the lower cost of land, resulting in densities of buildings and activities that are too low, which in itself causes and maintains the congestion in historic centres whilst perpetuating a form of development which leads to suburban sprawl over several miles from the centre'. In the USA and Australia, ribbon developments cluster around the highways providing a facade of car dealerships and fast food restaurants interspersed with shopping malls. These get bigger and bigger as the volumes needed to meet costs grow. Motorists travel increasing distances for the biggest, such as C. Penny or Woolco. In Europe, ribbon development has given way to vast commercial parks which compete with city centres for custom. Inevitably, these have a negative effect on the environment through the carbon emissions of their users. The BRE Trust is a charitable company set up to undertake research and education, to advance knowledge, innovation and communication in all matters concerning the built environment for public benefit. The BREEAM Code for a Sustainable Built Environment and the BREEAM Awards play a key role in both tackling the challenge that:

> Around 18% of UK CO_2 emissions are accounted for by nondomestic buildings. 21% of this is comprised by the retail, sport and leisure sector, excluding emissions caused by travel to and from shopping centres and the storage and distribution of goods.[4]

Motorway networks cut across the countryside to shift larger numbers of people in the quest for an Ikea or a Carrefour. The urban village is an attempt to redress this trend by re-creating the holistic communities that existed in towns before the industrial revolution provoked the pressure for growth. They are possible because new industries and technologies created different requirements. Three features characterise the urban village: it is at a human scale; it should be less than 100 acres in area; people should be able to locate themselves, their neighbours, their services even their work within the village. This is a psychological as well as a physical feature of the village.

It should follow the natural topography. It should be moulded around its environment. This notion of sympathy with the context reflects the underlying philosophy of the village itself.

People should come before private transport. The village concept confounds the trends of this century in the developed world by emphasising the link between the individual and his or her environment. The notion of disposability is rejected and replaced with a sense of the integral value of the community and its members. The lack of commitment is supplanted by a sense of involvement and participation. It is part of a process of redefining man's relationship with the built environment which takes a tangible form in buildings and cities and intangible form in support for community and developments.

Business can play an equally important role in reaching into key, disadvantaged communities. The UK has a large and diverse Black and Minority Ethnic population that is highly concentrated in urban centres like London (Table 13.2).

Table 13.2 The UK's BME population (population: by ethnic group, 1998–2003; percentages and thousands)

Ethnic group	Inner London	Outer London	London	GB
Black Caribbean	5.8	2.9	4.0	0.8
Black African	7.2	2.5	4.3	0.7
Black other	3.4	1.6	2.3	0.5
Indian	2.3	7.4	5.4	1.6
Pakistani	1.0	2.0	1.6	1.1
Bangladeshi	4.0	0.7	2.0	0.5
Chinese	0.9	0.5	0.7	0.3
Other Asian	1.5	2.0	1.8	0.3
Other	3.8	2.4	3.0	0.7
All ethnic minority groups	29.9	22.0	25.1	6.6
White	70.1	78.0	74.9	93.4
All persons (=100%) (thousands)	2,696	4,309	7,005	56,857

The private sector can often reach these communities more easily and effectively than the public sector.

Conclusion

Most people and firms operate in an urban or built environment. The factories, offices, schools, government buildings and houses in which people live and work have an immediate effect on their lives and lifestyles. This is as true in Blackburn as it is in Bombay. The built environment is largely the creation of industry. Buildings like the Royal Liver Building in Liverpool went beyond merely accommodating insurance clerks and operatives. It was a statement about the company, the city and the wider community.

The Chrysler Building in New York and others around the globe portray the same assurance and commitment to the role of industry and its contribution to the built environment. The reverse is true of a host of eyesores from Centre Point in London to the Koala Motor Inn in Sydney. The buildings themselves are key components in the built environment. The road, rail, air and other transport systems serve the needs of commerce. These are parts of the environment which the community has placed at the disposal of business so that its primary economic functions can be performed. But, this is not a transfer without responsibility. The quality of the built environment is perhaps the most tangible expression of the contribution that business is making to the health of the society in which it operates.

QUESTIONS

1 Explain why corporate involvement in tackling the problems of local communities grew during the 1980s and faded later, what are the factors that are likely to re-awaken this commitment during the 2010s?

2 Different types of economically challenged communities require different approaches to their problems. Outline the differences between these communities and indicate the ways industry can play a part in tackling the difficulties of two distinct types of community.

3 Why has 'culture gap' been such an important factor in the history of failed initiatives in disadvantaged areas?

4 Examine the contribution of private sector led interventions in local economic development. Draw out and illustrate their potential contribution and the limitations on the work they can perform.

5 During the nineteenth century, entrepreneurs and philanthropists built some of the UK's most enduring examples of civic architecture. Why have contemporary British entrepreneurs and philanthropists failed to match the efforts of their predecessors while their peers in Europe and the USA continue to invest?

6 Population growth is the greatest threat to the planet. Discuss.

7 As the largest cities continue to grow, what are the risks they pose to the development of sustainable communities?

8 Define:
(a) megacities
(b) urban sprawl
(c) the flight to the suburbs.

CASE STUDY 13

Pompier Engineering Works

The major downsizing of the Pompier Engineering Works in Tailton brought the challenges facing this key industrial town in eastern England into national prominence. The loss of 1,500 jobs was a severe blow to a community which had seen its major industries and leading firms gradually recover from the difficult economic circumstances of the 1970s and 1980s only to be hit again in the late 2000s. The engineering works had symbolic as well as economic importance to the town with a history that dated back to the 1830s.

Pompier said it had to lose nearly half of its 3,000 staff because four out of five production lines would be idle from September once major contracts were completed with no real prospect of new work to replace those contracts.

A long history

Tailton has an industrial history dating back as far as that of Britain itself. Although links with engineering have always been strong, the industrial base was much wider. Coal and fireclay were mined for much of the last century. The last pit closed as recently as 1982. Although there was a steady rundown in the mining industry, jobs emerged in new industries such as papermaking, refactory brick making, iron castings, general engineering and, more recently, plastics processing and some chemicals.

As recently as the late 1990s, Tailton was sufficiently prosperous to offer most of the youngsters leaving its schools a good chance of an apprenticeship or a job. Besides its manufacturing base, Tailton has been an important commercial centre for the nearby rural community.

The shopping centre is large and contains a number of retail outlets, such as Marks & Spencer and House of Fraser. However, business has been lost to nearby Steeltown. The new indoor shopping centre just outside that town has drawn trade from Tailton. Although Tailton is within 50 miles of both Birmingham and Manchester, access to the motorway network could be improved. Rail links are good but the closure of the engineering works has raised some questions about this.

Challenges

There are now about 146,000 people living in the Tailton area. The conurbation is bounded by the motorway to the west; with the exception of some more recent housing development, the town is skirted by good ‘A’ roads to the east and south. The town is very dependent on social housing with over 70 per cent of these houses are local-authority owned.

Employment is heavily weighted towards the public sector with nearly a third of jobs being in public administration and education. At the same time, one in six jobs in the city is in manufacturing, higher than the national average. The city is proud of being home to global companies such as Pompier, and sees firms like it as the cornerstone of the economy.

The overall stock of business is low with rates of new firm formation being weak.

Stock of business and VAT registrations per 10,000 of population

	2009		2010	
	Stock	**VAT registrations**	**Stock**	**VAT registrations**
England	669	65	683	70
East Midlands	615	56	626	60
Tailton	561	51	569	54

Case study 13 (*cont.*)

An industrial and commercial estates have been developed around the city. Unfortunately, these have been hard hit recently and are generally seen as looking 'tired' and requiring substantial investment. Youth unemployment has increased in this area and is very high by regional standards.

Home ownership is low, with 77 per cent of all houses council owned. There are a number of relatively isolated communities in outlying areas such as the old mining community of Kintry. Here there are major social problems, especially with the ageing population. These particular problems have to be seen in the context of the area's progressive decline.

Rising unemployment

Unemployment has grown rapidly. At the same time, there is low demand for existing skills. The college of technology became a university in 1992 and has grown rapidly in numbers. Its current student population is around 16,000 full-time equivalents. It has opened a Small Business Development Centre.

Figures from the Tailton Job Centre Plus show that it is proportionately one of the worst affected areas in England. The general picture is dismal with:

- a number of recent closures;
- negligible growth in existing firms;
- low rate of new company formation;
- poor prospects of inward investment.

Between 1994 and 2000, there was a 35 per cent decline in total employment in the area. At least 54 companies have closed and job losses (prior to the Pompier closure) of at least 4,000 people have occurred between the beginning of 2008 and March 2009. Twenty-five of these closures were in manufacturing and construction, accounting for over 2,500 of the jobs lost.

Overall employment changes from the Tailton Job Centre Plus statistics show the following changes in employment:

Sector	2005	%	2010	%	Change
Primary	886	3	756	3	–130
Manufacturing	15,226	52	12,424	48	–2,802
Construction	6,484	22	5,404	21	–1,080
Services	6,946	24	7,084	28	138
Total	29,542	100	25,668	100	–3,874

Although the last few years have seen some new developments, especially a new hypermarket and a major DIY superstore, these have done little to arrest the overall decline. Employment in the public sector, however, has increased but this seems likely to stop and decline in the light of government policies.

Community action: the announcement of the closure of the Tailton Railway Engineering Works prompted a number of people from different parts of the community to come together to explore ways of tackling their problems.

The City Council, along with the Chamber of Commerce and a number of employers, had worked well with the Regional Development Agency and recently had a successful bid for a Local Enterprise Partnership.

The stronger local firms like R&R cars and the ABL Brewery are willing to provide pump-priming financial support and ABL Distilleries providing a secondee as director. The challenge: where do you go from here and how do you get there? Develop an action plan for the town. This should highlight the main challenges facing the community. Ways to tackle the social and economic problems should be outlined. A clear indication of priorities and the mechanisms for gaining and allocating resources is necessary.

Questions

1. Review the challenges facing the city.
2. Propose ways to tackle these in the light of current government policies.

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Chapter 14

Ways forward and conclusions

No single text on a topic as complex, wide-ranging and dynamic as corporate responsibility can cover all issues or satisfy all needs. This book is an attempt to give form to the developing area while putting forward three basic propositions. The most basic is that the subject has a unity which encompasses such issues as business ethics, respect for the natural and built environments and affirmative action by business to play its part in tackling the problems of disadvantage. This view is shaped by the related proposition that industry has an economic contract with society.

This contract shapes the relations between commerce and other groups. Its primary aim is to enable industry to perform its economic function in the most effective manner. This economic function stands alongside, but is not separate from, the other functions performed by society. The defence and maintenance function allows business to execute its affairs against a background of security and reassurance. The education and development function develops the skills and sustains the values which industry requires to build and prosper. The governance function establishes the legitimacy of certain behaviour and defines the rules under which commerce pursues its trade. This contract is explicit in some areas, implicit elsewhere and open to negotiation, but it underpins all commercial activity.

None of this denies or undervalues the economic role of business. Sir Geoffrey Chandler[1] expressed real concern that implicit in the discussions around CSR is a denial of the value of that role. It is, after all, the role that creates the jobs, pays the taxes, produces the innovations and supplies the surpluses for other things.

Chandler, however, thinks that:

> the phrase is for business a self-inflicted wound seems not to be recognised. It implies that business, uniquely among legal occupations, has no inherent social utility, but requires a sanitising 'add-on' – something which enables it to 'give back' to society, a sentiment frequently heard on the lips of corporate leaders apparently unaware that this suggests that their core activities are parasitic, which, without appropriate policies and principles relating to the whole of their impact, they may indeed be.

Casson[2] develops aspects of this theme in his criticism of the notion of selfish rationality in modern economics.

> This is not just immoral – it is grossly inefficient, too. Honesty is not always the best policy for a selfish individual, but mutual honesty is better than mutual cheating for society as a whole. The cheapest way to stamp out cheating is to make people want to be honest: to recognise their ethical sense and reinforce it.

He goes on to argue that:

> Mathematics can model markets in Newtonian style – as a balance of forces achieved by an equilibrium price. This 'general equilibrium theory' triumphantly formalises the idea of the 'invisible hand'. The formal calculation of equilibrium is dramatically simplified if selfishness is assumed. The fallacy then emerges that markets work only if people are selfish. In fact, the opposite is true! In general equilibrium theory, price adjustment is handled by an auctioneer who has a monopoly of intermediation but never takes a penny for himself. Ultimately it is the altruism of this monopolistic auctioneer, and not competition between selfish traders, that makes the theory work. In the real world, it is the visible hand of the entrepreneur that sets the price and not the mystical presence of an invisible auctioneer.
>
> 'Ethical man' . . . derives emotional well-being from honouring obligations to others. Ethical man can trade with his friends by a handshake, but economic man must hire lawyers to draw up a contract and employ accountants to check that he has been paid. While economic man considers selfishness as natural, ethical man considers reciprocity natural instead. Reciprocity allows ethical man to transact informally, undertaking small transactions for which it is not worth negotiating the price or recording the obligation to pay. This sustains informal markets of great diversity, and strengthens institutions such as the family and the firm whose 'internal markets' typically work along these lines.
>
> The form of contract varies over time. The different players have varied beliefs and expectations. In the 1980s, 1990s and 2000s an apparent consensus emerged which prompted the state to withdraw from some activities. Private enterprise won a greater freedom to develop its responses to challenges and issues. This reflected the aspirations of many business leaders who believed 'that the vast majority of economic and social needs of society are best met by private sector institutions rather than government programmes'.

The rolling back of the state was not based on the proposition that tasks of social development and maintenance were unnecessary. The core proposition is that industry operating within a business contract employing a variety of market-based mechanisms could deliver these more effectively than the state or that the state could deliver them more effectively in collaboration with the private sector. The terms of the contract were, in effect, redefined to meet contemporary needs and circumstances. This notion of the contract is not new. It is articulated in writings at least as far back as Rousseau. Contracts are, however, about deliverables.

There is little point in preparing a contract if the parties to it cannot deliver against it, do not wish to deliver against it or do not believe they should deliver against it. High-quality governance and delivery lie at the heart of the effective corporate responsibility management.

Here, however, the contract is looking frayed around the edges in several ways. The most obvious and most public are the recurrent falls from grace. Most recently this was BP's failing in the Gulf of Mexico, the most long-standing was Shell's activities in Nigeria while the most widespread were the failings in the banking system. Repeated attempts to solve these problems by re-writing the rules don't fill many rational observers with much hope.

More widely, the contract is looking rather frayed around the edges in the area that Mary Robinson places at the heart of the CSR agenda – human rights.

> If indeed we believe that universal principles in the areas of human rights, labour rights, and the environment should become an integral part of business strategies and day-to-day operations, regulation alone won't be sufficient. It must be coupled with a concerted effort to stimulate good practices, to be innovative, to give leadership.*

* See, for example, the work of the Ethical Globalisation Initiative: a partnership between Mary Robinson, the Aspen Institute, International Council on Human Rights Policy and the State of the World Forum, www.eginitiative.org.

John Morrison[3] notes that:

> Business and Human Rights needs to be 80% about corporate leadership and 20% about regulation for those remaining businesses unwilling or unable to meet minimum universal standards. Implementing even the minimum can be a challenge.

This is a recurrent theme but it stretches into other areas:

> Companies themselves have a direct interest in seeing greater application of the rule of law. More than a dozen companies have joined with Amnesty International, Human Rights Watch, other NGOs, and the governments of the US, UK, Norway and Holland to promote a set of voluntary principles designed to ensure that security forces act consistent with human rights guidelines.[4]

This is not always easy. Janet Williamson[5] is unabashed in asserting that:

> If companies are serious about their commitment to labour standards, they should start by giving workers a voice by recognising unions and allowing collective bargaining, whether at home or abroad. *To refuse to do so is an abuse of their workers' fundamental human rights* [my italics].

The challenge is not just to the firms themselves but to their bankers.[6]

The third proposition around which this book is built is the notion that management can deliver. The skills, knowledge and competence exist to take action to address issues. This action can produce gains to the enterprise and benefits to the wider community. Many of the actions will rely on the core competencies that mark out quality management from other forms.

The construction of a meaningful link between analysis, diagnosis and action marks out the entrepreneur from the bureaucrat. Strategic visions ought to distinguish the corporate leader from the follower. The ability to plan for the long term while faced with pressing immediate problems is the basis on which outstanding firms have been built for the last two centuries. These are the skills which will help business to shape the future of our children and our communities?

Faced with this situation, Toffler[7] argues that new types of corporate structures are needed and will emerge:

> The multipurpose corporation that is emerging demands, among other things, smarter executives. It implies a management capable of specifying multiple goals, weighting them, interrelating them, and finding synergic policies that accomplish more than a single goal at a time. It requires policies that optimize not for one, but for several variables simultaneously . . . Moreover, once the need for multiple goals is accepted we are compelled to invent new measures of performance. Instead of the single 'bottom line' on which most executives have been taught to fixate, the corporation requires attention to multiple bottom lines – social, environmental, informational, political, and ethical bottom lines – all of them interconnected.

None of this will be easy in an environment that is rapidly changing. The changes are well illustrated by two important developments in recent years:

1 carbon credits and carbon trading;

2 regulatory interventions like the Sarbanes-Oxley Act.

Carbon credits and carbon trading

Carbon credits are a form of currency set up to reward organisations that contribute to the prevention of greenhouse gases or remove greenhouse gases from the atmosphere.

Organisations that reduce their emissions of greenhouse gasses earn these credits, which can in turn then be 'sold' to other businesses and individuals to 'offset' the emissions they generate. There are four types:[8]

EUAs – European Union Allowances are issued freely by the EU for several years at one go, for use within the Emission Trading Scheme (EU ETS). The ETS second phase began 1 January 2008 and ends 31 December 2012. All second-phase EUAs must be used within that period.

CERs – Certified Emission Reductions are issued by the UNFCCC for demonstrable reductions of greenhouse gas emissions in Clean Development Mechanism (CDM) Projects under Article 12 of the Kyoto Protocol.

ERUs – Emission Reduction Units are credits created under Article 6 of the Kyoto Protocol, Joint Implementation (JI).

VERs – Verified Emission Reductions are issued by independent bodies for demonstrable reductions of greenhouse gas emissions in projects that, for whatever reason, fall outside of the CDM. Their standards may be just as strict (such as with the Voluntary Carbon Standard (VCS) Gold Standard), or not as stringent. However, the market will generally reflect a poorer price for a VER that has been issued to a low or difficult to verify standard.

In Europe, they were created under the European Union Emission Trading Scheme.

The Sarbanes-Oxley Act

The Sarbanes-Oxley Act was passed in July 2002 and was a direct reaction by the US Congress to address the accounting scandals of late 2001 and early 2002. It has the aim of providing additional oversight of the auditing process, eliminating conflicts of interest and increasing corporate transparency. It also has the specific goal of advancing the standards for corporate governance. The act describes many things in detail, such as the relationship between the enterprise and its auditors, how to deal with 'whistle-blowers', fines and jail terms for the deliberate and willful destruction of audit-related data, and specific retention periods and standards for the documentation surrounding an audit. It also makes an auditor responsible for oversight of an enterprise's internal documentation and accountability processes. Poor corporate record keeping by auditors will no longer be tolerated; they will be fined – or in extreme cases, may be jailed.

The main consequence of this Act is that companies have to demonstrate that they have full auditable controls and processes in place covering most aspects of a company's activity, including relationships with customers and suppliers. Travel and expense management is not immune from this. Areas such as effective and appropriate travel policies, adherence to policy and booking processes, full audit trails of all expenses all come under the spotlight and cannot be ignored.

The active compliance framework for Sarbanes-Oxley is built around a mixture of policies and procedures bound by management controls, organisational embedding, performance and management with a strong discovery and validation system underpinned by quality information systems (Figure 14.1).

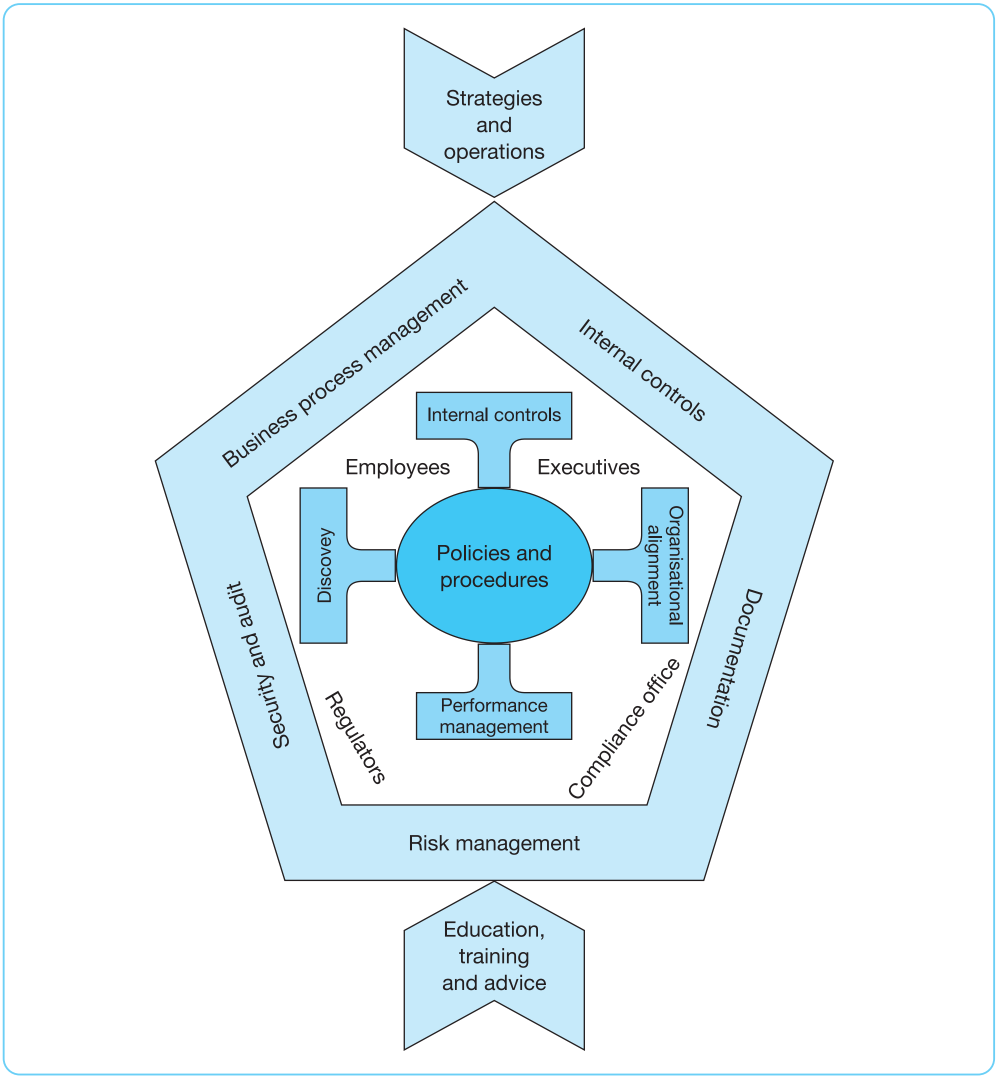

Figure 14.1 Active compliance framework

Managing the corporate responsibility function

New responsibilities call for a mixture of new and old skills. Education, training and management development lie at the heart of effective management. The contribution of leaders like the Carnegies, Fords, Lillys, Cadburys and Laings needs to be matched by improved competence among current specialist managers, ownership by line managers and new awareness by entrants to management.

The long-term impact of courses in business ethics, environmental awareness and corporate governance highlight their strengths and shortcomings. There is an active debate on the nature of the material and its relevance to managers. The proliferation of these programmes in recent years is a tribute to the successful advocacy of business leaders. Their novelty raises questions about the values of the educational institutions which are now hurrying into the field. Their diversity poses deeper issues about the nature of the discipline and the character of the intellectual paradigm that is emerging.

The professionalism of the area relies heavily on industry-lead bodies; specific, creative individuals; and a burgeoning network of practitioners. Greater form to these developments and an increased sense of cohesion are the essential prerequisites of a move beyond anecdote and experience to a coherent body of knowledge. Specialist staff require the support of top management. This is essential for two key aspects of their work. There is the internal management of the corporate responsibility function. It has evolved to deal with the preparation of mission statements, ethic policies, responses to requests for support and tackling crises.

This portfolio has grown rapidly over the last few years as good business practice has become a measure of corporate quality. Contributions from outside have highlighted the link between corporate or personal performance and corporate or personal pride. It is evident that endorsement plays a much larger longer-term role. Effective programmes are owned and implemented by and through line managers. They need access to expert staff but the systems of reward and control which shape their wider management behaviour will need to mesh in with those which determine their response to issues of corporate responsibility.

Many of the basic principles are spelt out in the text. Some have become watchwords for the standards by which industry regulates its behaviour. Transparency is one of these. Put bluntly, secrecy breeds suspicion while openness is the most public symbol of a clear conscience. In many ways the private sector has made progress over the last decade that is scarcely matched in the public sector. The recommendations of the Cadbury, Higgs, Walker, Greenbury committees go some way to tackle the more obvious problems, the need to return repeatedly to the issue raises major concerns about the approach.

A first, clear step towards transparency is achieved in the key recommendations of the corporate code. There is, however, insufficient progress on the issue of shareholder rights. The vexed issues of sources and numbers of independent directors, the disciplines imposed on directors, presentation of findings and other key features of corporate governance are only touched on.

The responsibility now lies with corporations in Britain to ensure that the report is implemented. Preliminary evidence suggests that many corporations are implementing the recommendations despite initial media reservations. Managerial integrity and independent directors with the courage to tackle colleagues and greater real diversity at the top are essential to a reform of behaviour.

The public sector faces a similar challenge to reform its behaviour to achieve transparency, eliminate cronyism and achieve a more fair system against a background of shrinking trust and major cutbacks. Staff development, training and external scrutiny are integral features of this. A strategic overview is seen as the best way to create the virtuous circle between doing the right thing and have right done to you. Strategies are underpinned by programmes that allow decisions to be made and resources allocated. These, in turn, provide a basis for evaluation and development. These programmes need to be delivered locally, nationally and internationally.

An international dimension

Many of the issues raised in the text require industrialists to look beyond their immediate environment. Outside events have forced this. Part of the wider contract with the international community is ensuring a profitable and successful future. This poses many problems for commerce. Some of the most committed supporters of corporate giving programmes concentrate their expenditure near to home. The evidence from the USA suggests that there is a poor (but improving) link between the sources of the earnings of firms and the distribution of their corporate giving.

The superior quality of US data should not disguise the anecdotal evidence that the US pattern is replicated elsewhere. This notion of transfer of earnings, sometimes from poorer countries to the rich, is increasingly hard to sustain while governments everywhere are looking for greater corporate involvement. The type of internationalist perspective adopted by firms to their business development is increasingly important in approaches to corporate responsibility.

Internationalism is moving to the centre of the corporate responsibility agenda. In part this reflects the global nature of some of the problems industry is asked to address. Global summits are likely to be viewed as the start of an effort by governments, international agencies, industry and the wider community to tackle global problems from a global perspective.

Carlo Ripa di Meana, the former EC Environment Commissioner, pointed out that after Rio:

> We must now open new talks to arrive at additional protocols which will put flesh onto the bare bones of the climate convention. These protocols will thus result in concrete decisions with binding obligations to achieve precise targets.

The mixture of power and responsibility that characterises the well-managed company gives industrial leaders a special role in shaping this agenda for development.

The future

The challenge to respond to the needs of the environment is part of the wider issue of corporate responsibility. Executives, corporations and policy makers work in a world which is increasingly accessible by people, money, products and services. Access and understanding do not necessarily go together. Values, attitudes and acceptable behaviour shift over time and between cultures.

The need to adopt a stance based on a generalisable moral code does not change. Part of the contract between the manager, the corporation and the community is an acceptance that neither office nor position give immunity from responsibility. Policies need to be backed by actions inside the firm to ensure fairness across the firm and integrity in individual behaviour.

Business has a role in the local community to ensure that talent, commitment and need are the keys to resources, power and privilege. The motor of economic growth for most of the last 200 years has depended on members of out groups having access to opportunity so that communities can be built, businesses develop and enterprise prosper through innovation and development. The global nature of the business environment means that these responsibilities exist in those regions where businesses operate or seek to operate. This is a global responsibility which lies at the heart of the business contract. The economic function of business and its wider responsibilities are integral features of this contract. Geoffrey Chandler asserted that:

> The analytical fog surrounding CSR provides a smokescreen for companies which proclaim their adherence to it while failing to adopt appropriate principles for the conduct of their core business. It obscures the democratic deficit left today by governmental failure to respond adequately to the implications of a globalised economy and to demand accountability from companies within a national and international framework. Companies are doing far less than they should legitimately do, but they cannot and should not be asked to fill the gap left by government – even in the face of government cuts, though in their unwisdom they continue successfully to resist government regulation which would help to underpin good behaviour and enable market forces to sort out the good from the bad.

The future of CSR, some say capitalism itself, lies in tackling these criticisms by business leaders who are willing to clear the smokescreen, address the democratic deficit, do more than they need and help the communities who share these responsibilities 'sort the good from the bad'.

QUESTIONS

1 The priority given to CSR in business according to Sir Geoffrey Chandler, is 'a self-inflicted wound'. What does he mean by this?

2 Human rights are the most important and most neglected aspect of CSR. Discuss.

3 Outline the nature of carbon credits, how they work and the opportunities and drawback of the newly emerging markets for these credits.

4 Use illustrations to explain the workings of Sarbanes Oxley. Outline why business in the USA has been so hostile and ways in which their different interests can be reconciled.

5 CSR remains on the periphery of university programmes in business and management – why is that?

6 Internationalism is moving to the centre of the corporate responsibility agenda. What does that mean and how can business respond?

7 The media are often criticised for enjoying the crisis caused by failures in CSR far more than the solutions – how true is this and if true can it change?

8 Spell out your views on the future of CSR – more of the same or real change? If the latter, what will shape the change?

CASE STUDY 14

Manchester City FC and corporate social responsibility

Professional football is not usually associated with active programmes of corporate social responsibility. More often the image is of super rich owners and increasingly rich players enjoying a hedonistic lifestyle.

Over the last decade, however, a number of clubs – initially the likes of Chelsea, Manchester City and Everton, but now most clubs – have developed programmes of corporate social responsibility with the active encouragement of organisations like the Premier League, the Professional Footballers Association and the Football Foundation.

John Hudson, PFA Director of Community, states:

> The PFA has been integral to the raising of standards across all 92 clubs, providing advice, guidance and support for clubs and players who have embraced this approach . . .
>
> Player engagement has pushed new boundaries since Community Programmes were first established at Professional clubs back in the mid 1980s when the game was at its lowest ebb, and the PFA wants to emphasise the importance of Corporate Social Responsibility and genuine commitment to this work on a Local, National and at International level in 2010.

Chelsea, for example, invested £4.39 million in its CSR strategy in 2006/7, 2.3 per cent of the company's annual turnover. This included raising more than £1 million for charity, the third consecutive year Chelsea has exceeded this mark. Everton in the Community was formed in 1988 and became a registered charity in June 2004. It has won a host of high-profile awards including:

- European Sporting Industry's Community Programme of the Year for the development of Imagine Your Goals' mental health scheme.
- Merseyside Police Award for Community Engagement.
- FA Charter Community Award – Disability Programme.
- FA Charter Community Club Award – Mental Health Programme.
- Fair Play Awards for 'Kickz' social inclusion project.

In the same vein, Manchester City has established itself firmly as a leader in corporate social responsibility with one of the largest such programmes of activity. It has persisted with and developed these programmes over a number of years and through several changes of club ownership. Its CSR programme is deeply embedded in the values and culture of the club.

The club's CSR work focuses on the following areas:

- The City in the Community initiative, which has contributed significantly to the community of Manchester since 1986.
- City in the Community Giving, a new programme designed to provide monetary grants to other not-for-profit organisations operating in the Greater Manchester area.
- Responsible Corporate Citizenship, to ensure that MCFC contributes to the achievement of positive social, economic and environmental outcomes through all of our day-to-day operations.

The City in the Community (CITC) programme was founded in 1986, aiming to forge closer links between the 'club and the local community'. It has a team of 20 full-time and 30 part-time staff. CITC runs projects based around four key areas: Sport, Health, Young People, and Skills & Enterprise. Every year this team engages with over 200,000 people of all ages and across all communities over Manchester, Tameside and Stockport. Through staff donations and a contribution from the club for example, MCFC provided the Manchester Children's Hospital with a £500,000 donation for the establishment of a specially designed children's play area.

Through City in the Community Giving, local charities and not-for-profit organisations are invited to apply on an annual basis for the club's support for projects designed to have a lasting and positive impact on the Greater Manchester area.

City in the Community scheme has lent its support to a range of initiatives that recognise members of the community who make a real difference to the neighbourhoods they live in.

The club has introduced the Connell Awards, a series of awards which will recognise outstanding contribution to urban sport in East Manchester. This builds on the club's earliest history when in 1894, the club originally known as 'St. Mark's' was founded and eventually evolved to become Manchester City FC.

Case study 14 (*cont.*)

The Connell Awards are named in honour of the family of Arthur Connell, the first rector of St. Mark's Church in Gorton. The family is credited with creating a great many services for the local community, including a soup kitchen, a penny savings bank and a ragged school. 'The community spirit which the Connells brought to East Manchester remains the cornerstone of the club's new CSR strategy.'

Pete Bradshaw, Head of Responsible Corporate Citizenship for Manchester City, said:

> Manchester City recognises the responsibility we have to our loyal supporters, stakeholders, sponsors, staff and the wider community, and is committed to building them a successful and sustainable football club for the future.
>
> As we continued to build on a well-earned reputation as a club at the heart of its community both near and far.
>
> The City in the Community programme is an embodiment of the club's integrity and authenticity. We've always been about more than just photo opportunities and one-off events. We want all of our programmes to leave a lasting legacy on the individuals, organisations and communities we work with. The club spent the year fundraising through a variety of events and the players and the manager were not slow to join in.

CITC Managing Director, Sarah Lynch said: 'As a football club we are very proud to come from Manchester and of the club's place at the heart of the community. Through CITC the club helps thousands of people a year.'

Questions

1. Why have football clubs become committed to such CSR programmes?
2. What are the benefits that a club like Manchester City can gain from its CSR work?
3. Compare the work at Manchester City with either another sporting club or a business.

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Quiz

Who said this? – (by company)

	The quote	The company
For example	'Exercising sound corporate responsibility is fundamental to the way we operate.'	BOC
For example	'How our societies choose to move people and freight will be an increasingly complex – and important – set of issues. We're engaging more directly on the issue through research, policy development, demonstration projects, and partners.'	Ford
1	'Our ordinary business operations include management of transportation used for logistical purposes – ensuring optimal routing and minimising environmental impact.'	
2	'Companies seeking to generate sustained corporate value require a business policy that takes account of the future needs of society.'	
3	'The Board remains committed to the principles of sustainable development and to those of the UN Global Compact. We recognise their importance and are keen to continually learn from our own and others' experience.'	
4	'As a large multinational organisation our environmental footprint is complex and far reaching.'	
5	'A survey in 2003 showed that our own use of conference calls saved over 20,000 tonnes of CO_2 per annum.'	
6	'We stress creativity and imagination in everything we do. While recognising that the old way may still be the best way, we constantly strive to find a better solution to a client's problems.'	
7	'We have corporate policies and procedures that conserve environmental resources at our facilities and in our products, packaging, and supplier operations.'	
8	'We are constantly seeking to reconcile a strategy of profitable growth with the social and environmental dimensions of sustainable development. We believe that positive financial results, environmental protection and closer ties with all stakeholders are key to the success of our group.'	

	The quote	The company
9	'In addition, all operations and activities are to be conducted in a manner that protects our natural environment. Only when we are successful in these pursuits can we meet our business goals of achieving superior financial performance, delighting our customers, and rewarding our shareholders.'	
10	'The environment is one of the most precious commodities we share.'	
11	'In environmental care, we consider the monitoring and reduction of our operations' environmental impact, as well as the environmental performance of products throughout their lifecycles, to be of fundamental importance.'	
12	'We will not compromise on our Principles of Corporate Social Responsibility.'	

The companies

Airbus

BT

Cisco Systems

Crédit Suisse First Boston

EADS

Goldman Sachs International

ICI

Johnson & Johnson

Microsoft Ltd

Renault

Stora Enso

TRW

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