

Corporate Social Responsibility

Can Corporations “Do Good” and Do Well?

ABA Section of International Law

2005 Fall Meeting – Brussels, Belgium

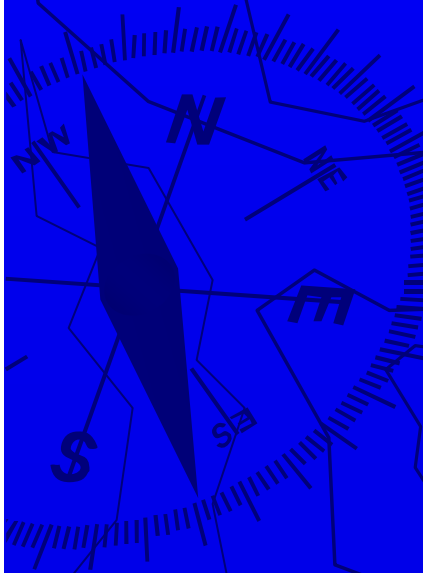


“The Social Responsibility of Business is to Increase its Profits”

Milton Friedman

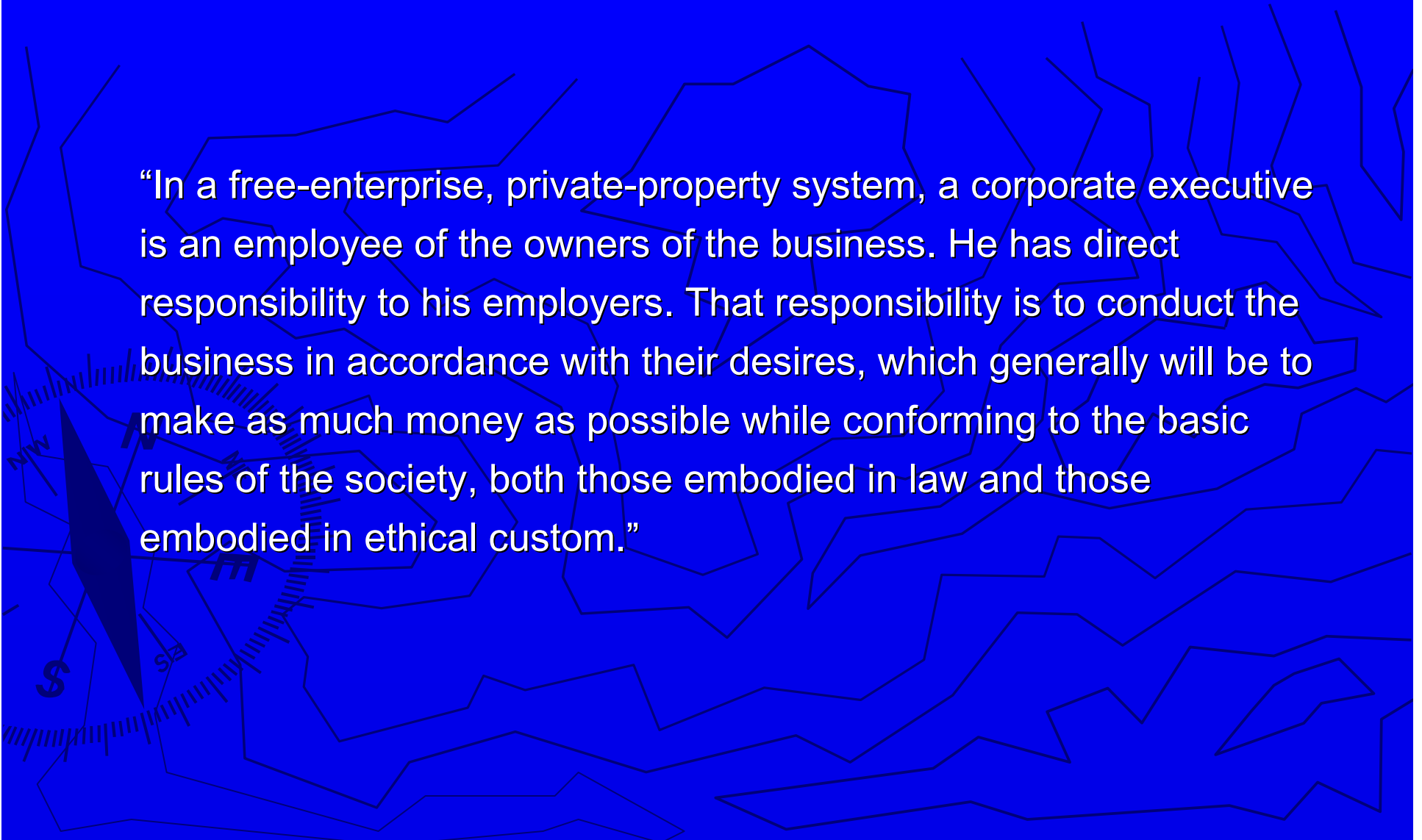
The New York Times Magazine

13 September 1970



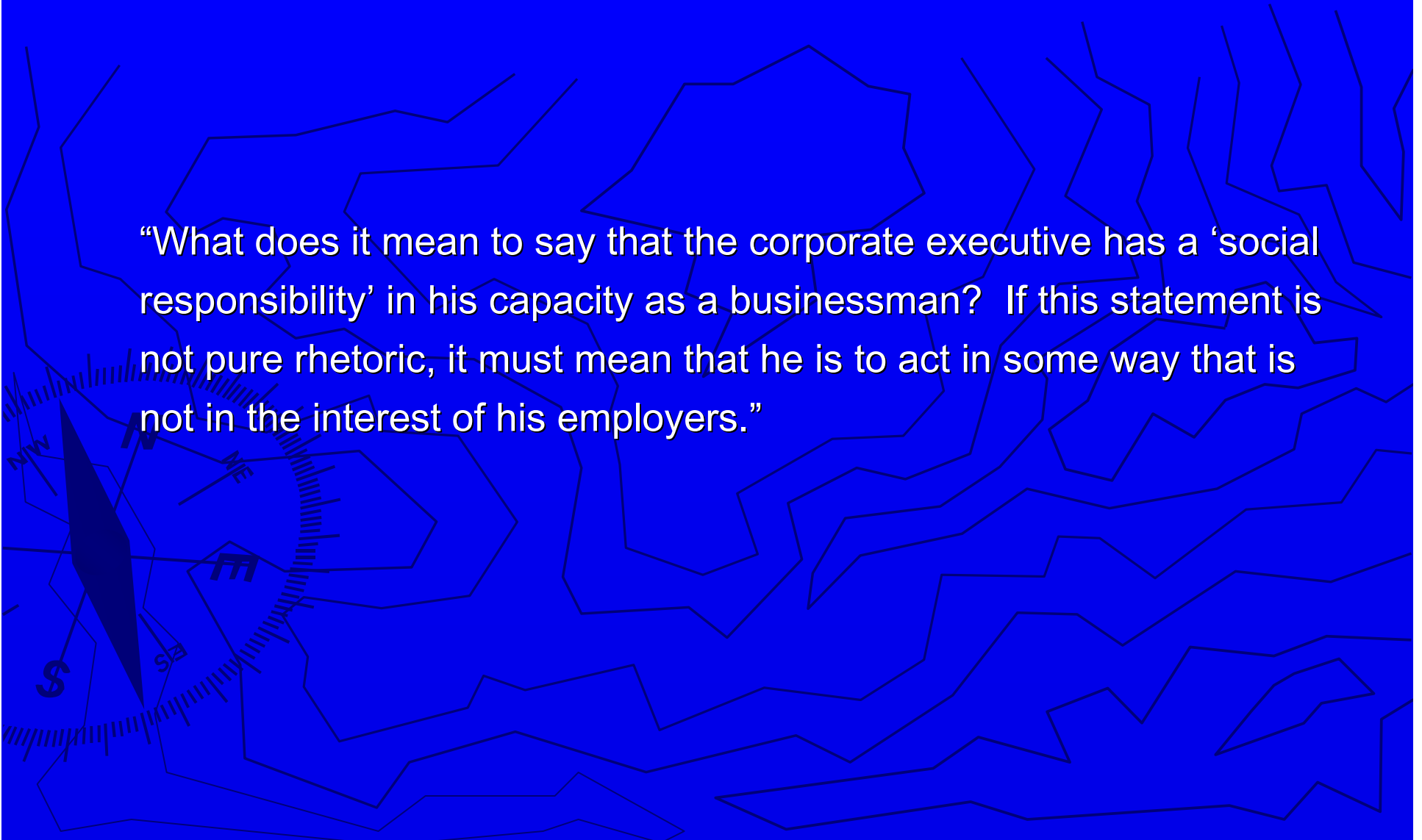
Friedman

“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 the basic rules of the society, both those embodied in law and those embodied in ethical custom.”



Friedman

“What does it mean to say that the corporate executive has a ‘social responsibility’ in his capacity as a businessman? If this statement is not pure rhetoric, it must mean that he is to act in some way that is not in the interest of his employers.”



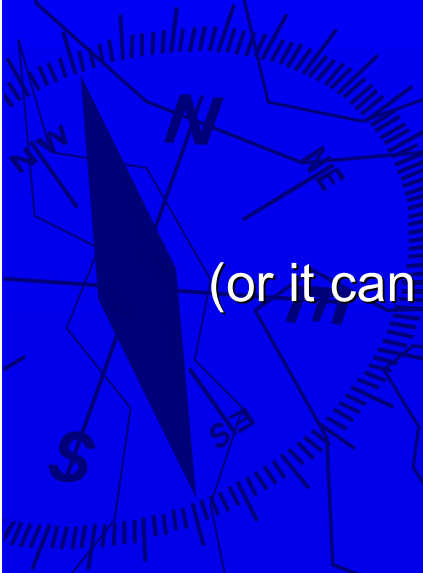
Friedman

“For example, (it must mean) that he is to refrain from increasing the price of the product in order to contribute to the social objective of preventing inflation, even though a price increase would be in the best interests of the corporation. Or that he is to make expenditures on reducing pollution beyond the amount that is in the best interests of the corporation or that is required by law in order to contribute to the social objective of improving the environment. Or that, at the expense of corporate profits, he is to hire ‘hardcore’ unemployed instead of better qualified available workmen to contribute to the social objective of reducing poverty.”

CSR Concepts

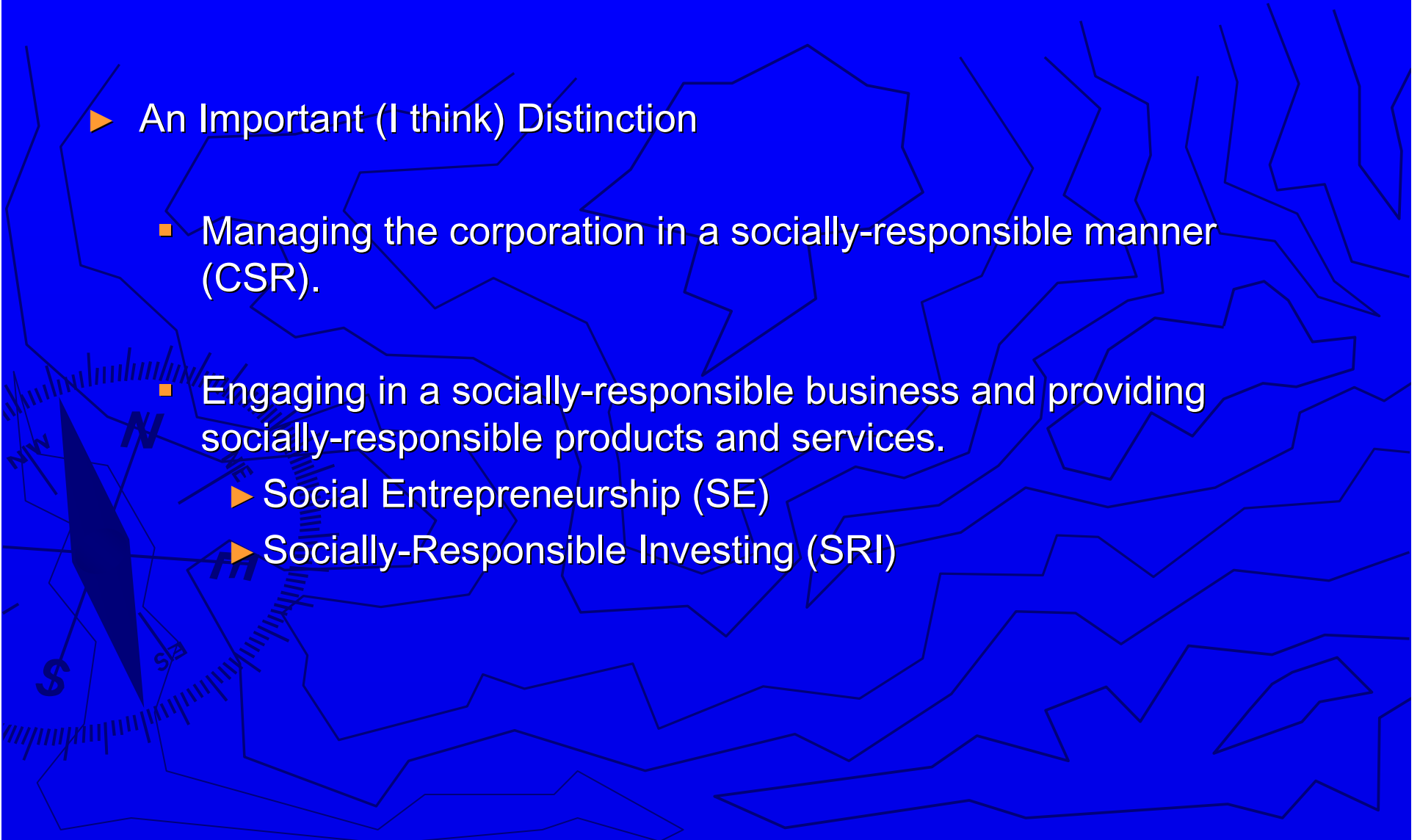
Acting in a “socially responsible” manner IS in the “best interest”
of the corporation.

(or it can be, or should be in the best interest of the corporation)



CSR Concepts

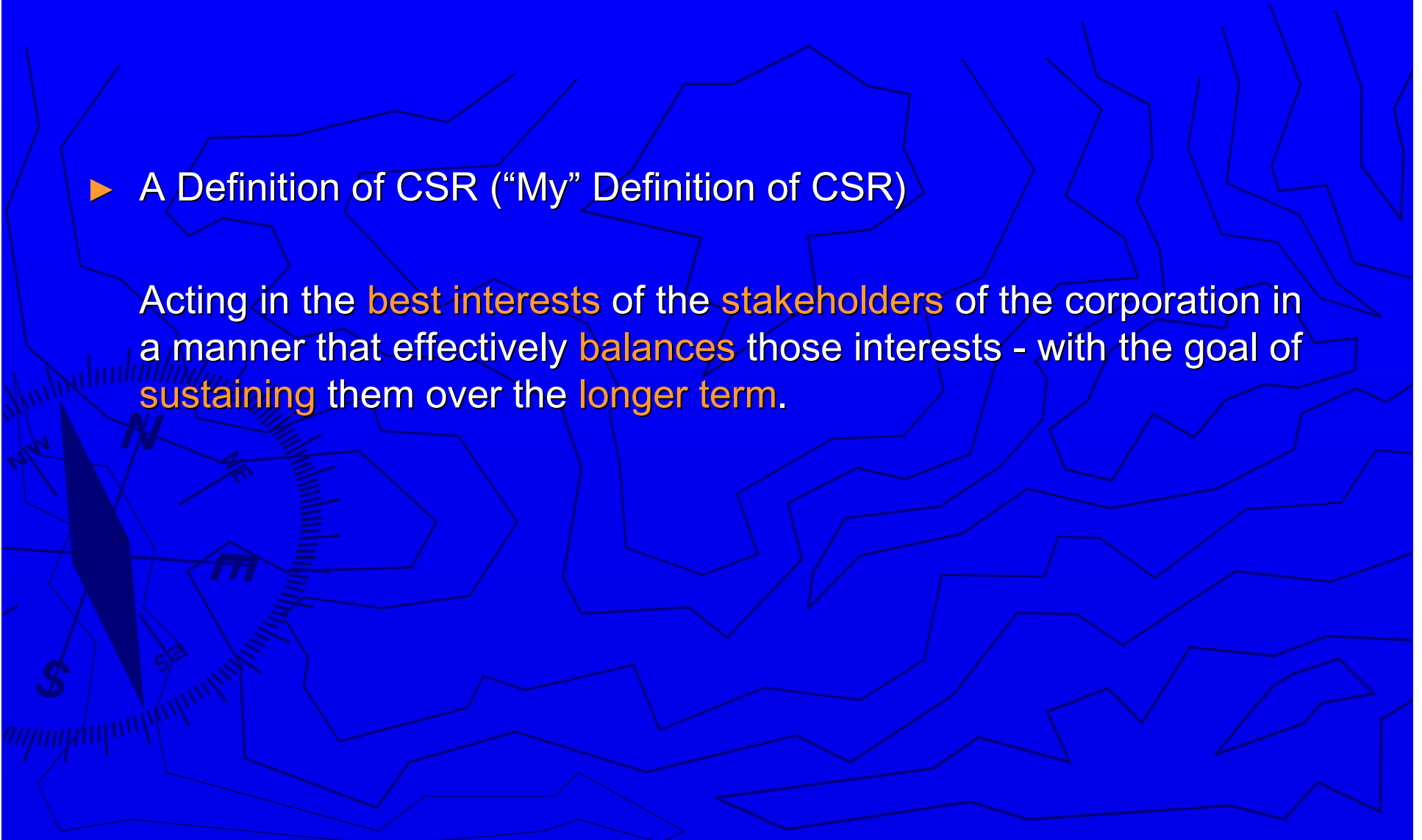
- ▶ An Important (I think) Distinction
 - Managing the corporation in a socially-responsible manner (CSR).
 - ▶ Engaging in a socially-responsible business and providing socially-responsible products and services.
 - ▶ Social Entrepreneurship (SE)
 - ▶ Socially-Responsible Investing (SRI)



CSR Definition

- ▶ A Definition of CSR (“My” Definition of CSR)

Acting in the **best interests** of the **stakeholders** of the corporation in a manner that effectively **balances** those interests - with the goal of **sustaining** them over the **longer term**.



CSR Umbrella



CSR Umbrella

- ▶ Corporate Governance
 - Financial (Internal) Control
 - Financial Reporting
 - Non-Financial Reporting
 - Risk Management

Each aspect of Corporate Governance requires strong compliance systems, auditing activities, and enforcement mechanisms.



CSR Umbrella

- 
- ▶ Environmental Stewardship
 - ISO 14000 Series
 - Regulatory Compliance
 - ▶ Sustainable Development
 - UN Millennium Development Goals
 - Government SDS Programs (SDS I, SDS II, etc.)
 - ▶ Employee Welfare (Health & Safety)
 - ILO Standards
 - Regulatory Compliance

CSR Integration

“The debate on CSR has been helpful in raising awareness of the non-financial responsibilities of companies. But I know of no phrase which has done more damage to constructive thought or caused greater confusion. It has encouraged the belief that a company’s responsibility to society lies in voluntary philanthropic add-ons, rather than the application of the principle to all its activities”

Sir Geoffrey Chandler
Former Director
Shell International

(as quoted in *Globalization, Governance and Sustainable Business*,
a publication of The Copenhagen Centre for Corporate Responsibility)

Voluntary CSR v Compulsory CSR

▶ Voluntary CSR

- Any CSR activity that is undertaken voluntarily and is entirely within the discretion of the corporation

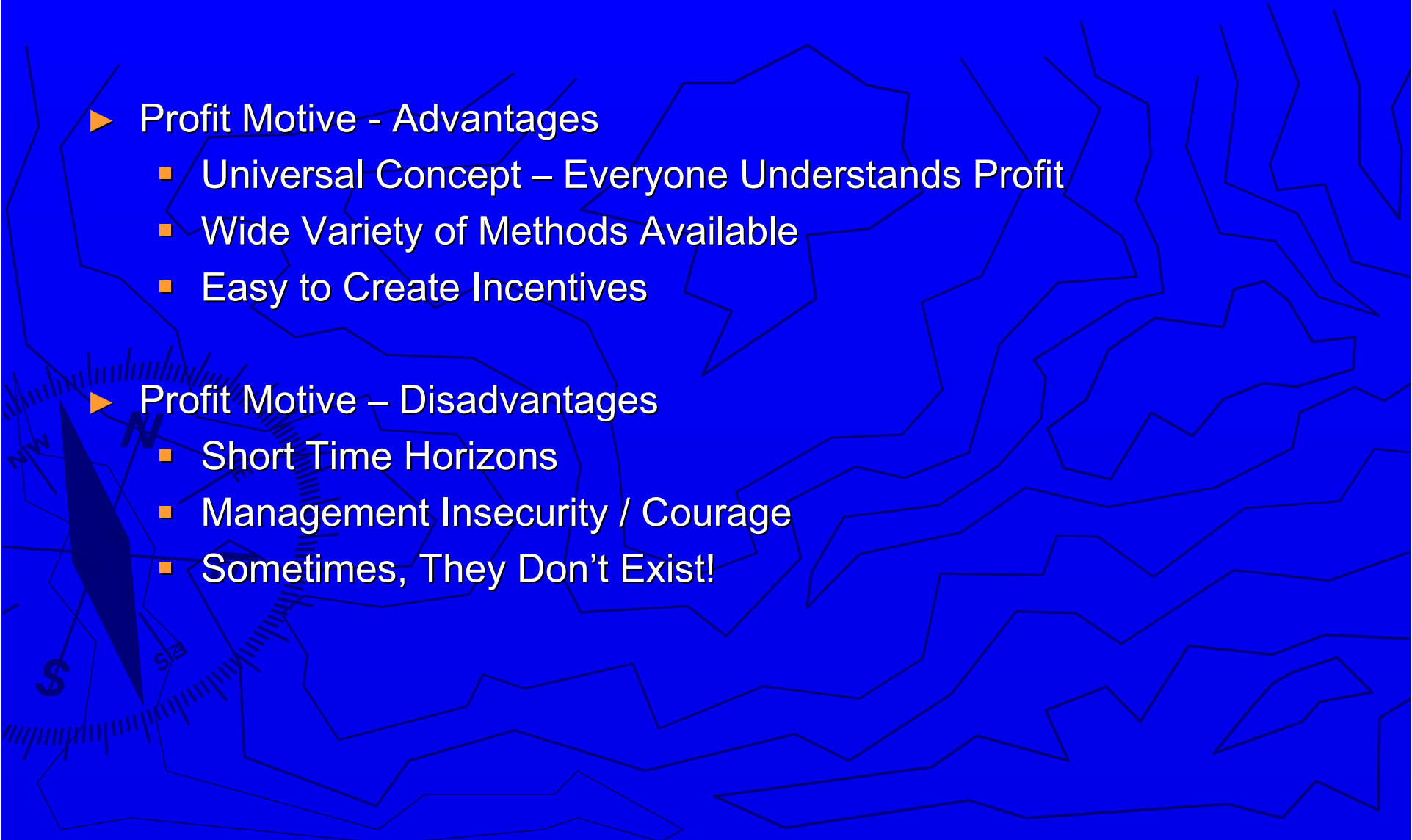
▶ Compulsory CSR

- A CSR activity that is required by law or regulation
- It has a “voluntary” aspect, in that the decision to comply – or not comply – with the law is, in theory, an exercise of discretion.

CSR Motives

- 
- ▶ Ethical Commitment
 - Continuity problem
 - Commitment changes as management changes
 - ▶ Market Opportunity
 - Provides Access to New Markets
 - Not always sustainable, may evaporate as a fad
 - ▶ Risk Management Systems
 - Can be integrated into Operating Procedures
 - Can be sustained over the long term

CSR Motives

- 
- ▶ Profit Motive - Advantages
 - Universal Concept – Everyone Understands Profit
 - Wide Variety of Methods Available
 - Easy to Create Incentives
 - ▶ Profit Motive – Disadvantages
 - Short Time Horizons
 - Management Insecurity / Courage
 - Sometimes, They Don't Exist!

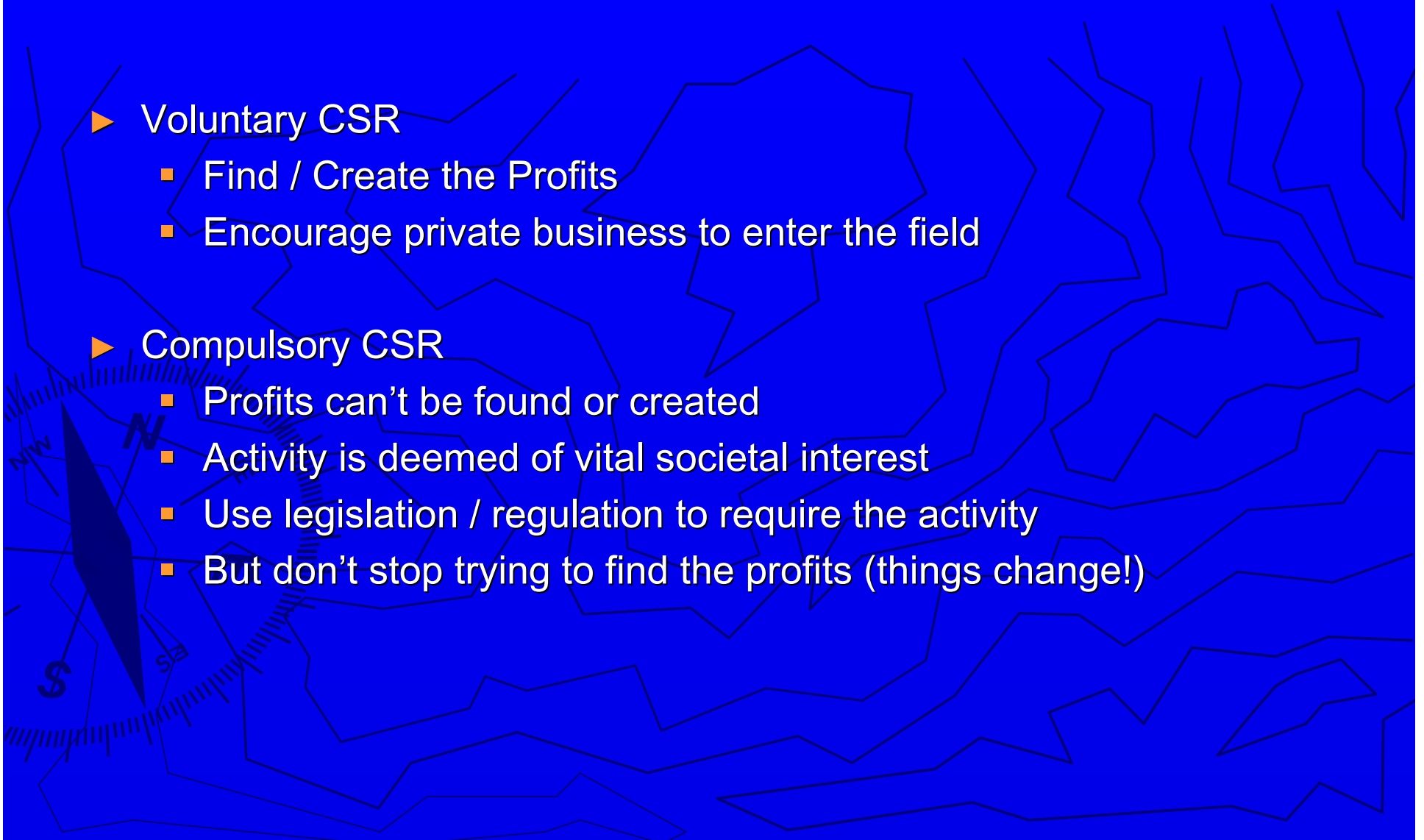
CSR Design

▶ Voluntary CSR

- Find / Create the Profits
- Encourage private business to enter the field

▶ Compulsory CSR

- Profits can't be found or created
- Activity is deemed of vital societal interest
- Use legislation / regulation to require the activity
- But don't stop trying to find the profits (things change!)



Encouraging CSR Activities

- 
- ▶ Support Certification Programs
 - ISO and Similar
 - ▶ Provide Market Access
 - Revise Trade Laws
 - ▶ Purchase CSR-Compliant Products
 - ▶ Support Credit Markets for CSR Firms
 - Low-Interest Loans and Guarantees

Encouraging CSR Activities

- 
- ▶ Revise Penalty Regimes
 - ▶ Reform Litigation Environments
 - US Auto Roof Standards (NHTSA Proposal)
 - Legal Immunity from Related Lawsuits
 - ▶ Consider Direct / Indirect Incentives
 - Tax Incentives
 - Grants / Subsidies

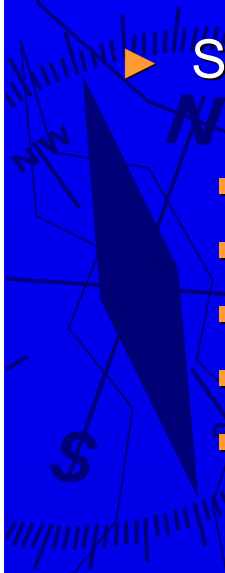
The SME Position

► CSR Motives

- SMEs are motivated by profit
- MNCs have a profit motive, but broader considerations
- The SME perspective is much different than the MNC perspective

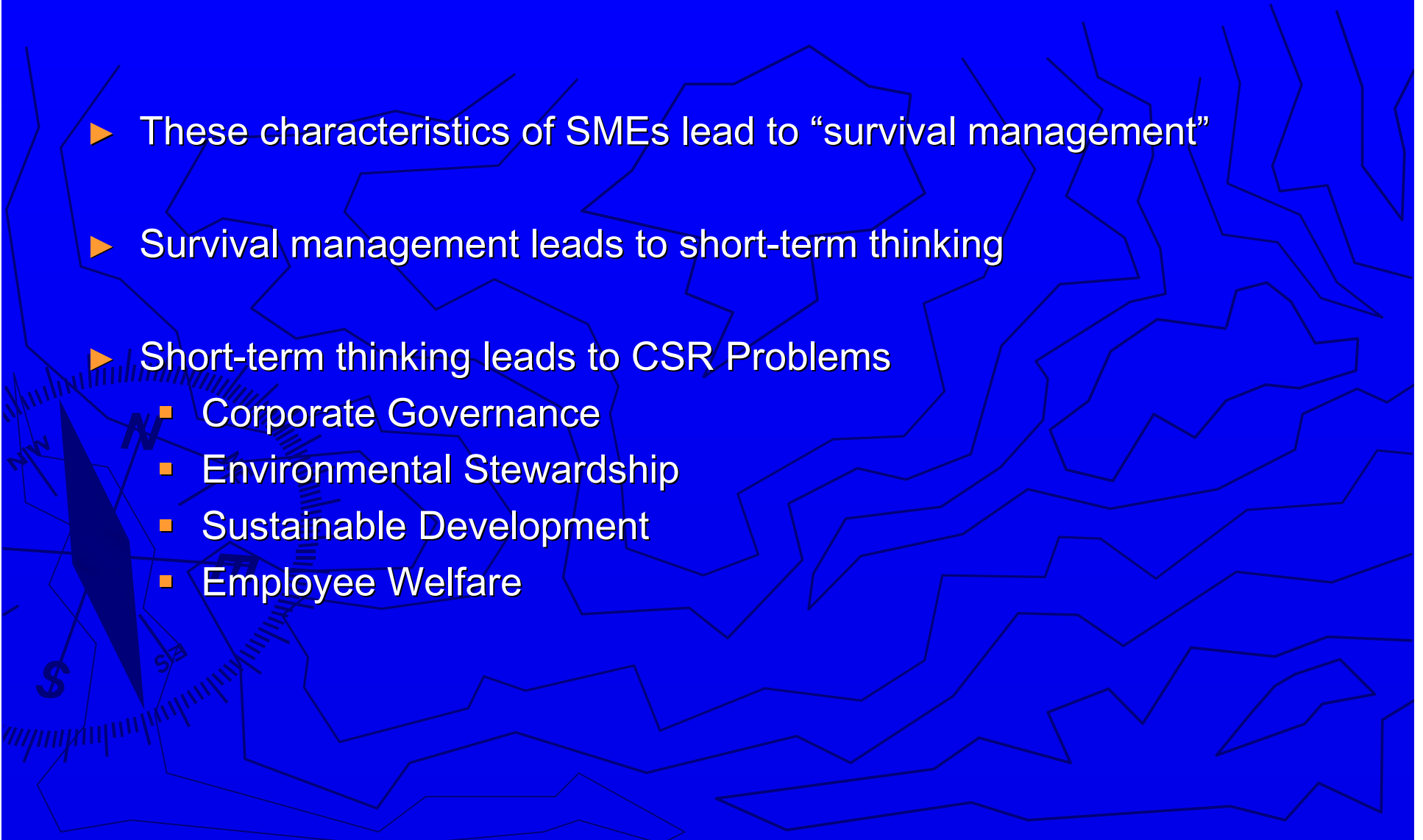
► SME Risks

- Weak Capital Structure
- Commodity Products and Services
- Insecure Markets
- Absence of Pricing Power
- Absence of Buying Power




The SME Position

- ▶ These characteristics of SMEs lead to “survival management”
- ▶ Survival management leads to short-term thinking
- ▶ Short-term thinking leads to CSR Problems
 - Corporate Governance
 - Environmental Stewardship
 - Sustainable Development
 - Employee Welfare



CSR Management Systems

- 
- ▶ Kaplan-Norton Strategy Maps / Balanced Scorecards
 - Identify Financial Objectives
 - Identify Customer Value Proposition
 - ▶ Capable of Delivering Financial Objectives
 - Identify Internal Processes
 - ▶ Needed to Support Customer Value Proposition
 - Identify Knowledge and Human Resource Assets
 - ▶ Necessary to Properly Operate the Internal Processes

CSR Management Systems

► CSR Strategy Development and Execution

- Describe It

- Measure It

- Manage It



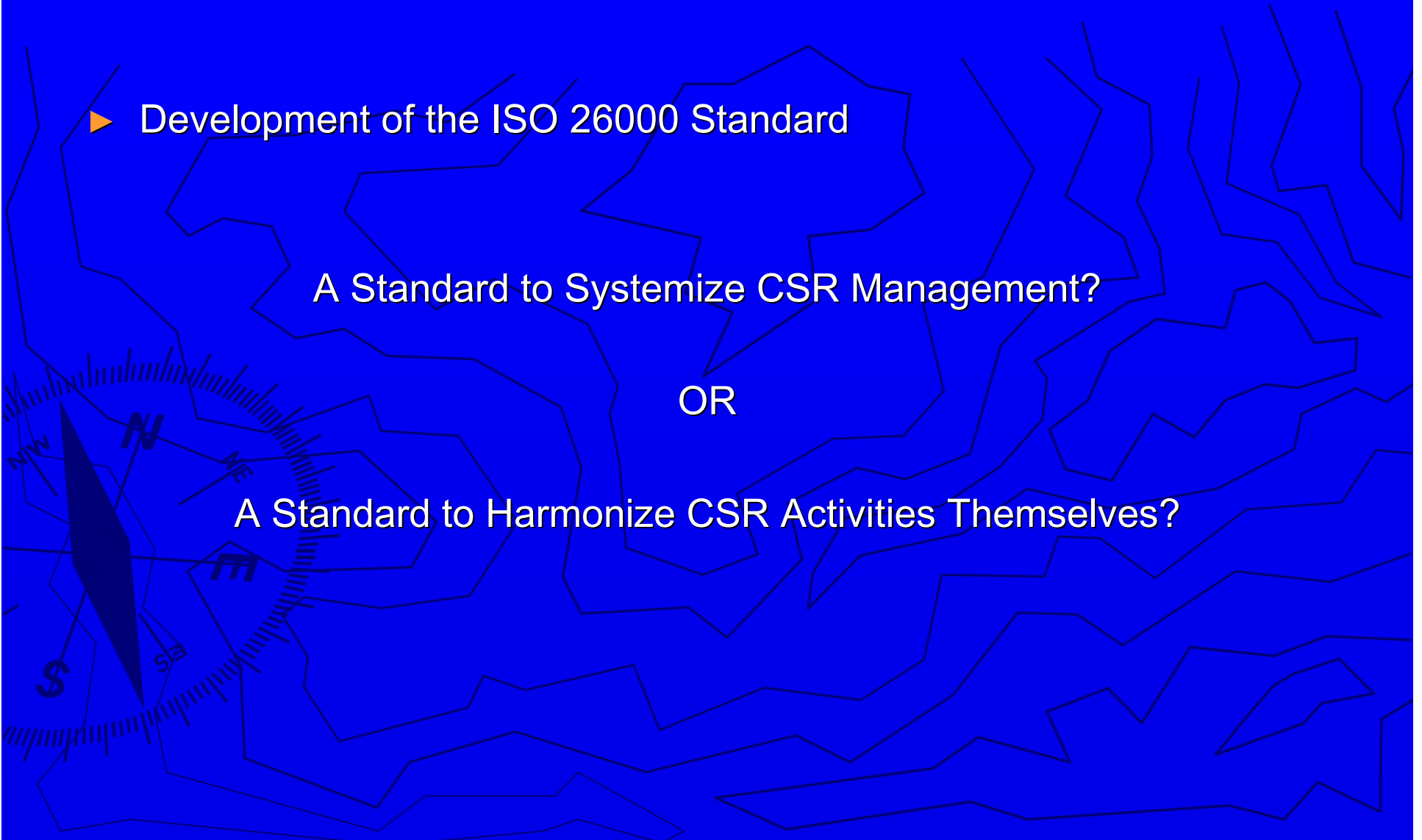
CSR Management Systems

- ▶ Development of the ISO 26000 Standard

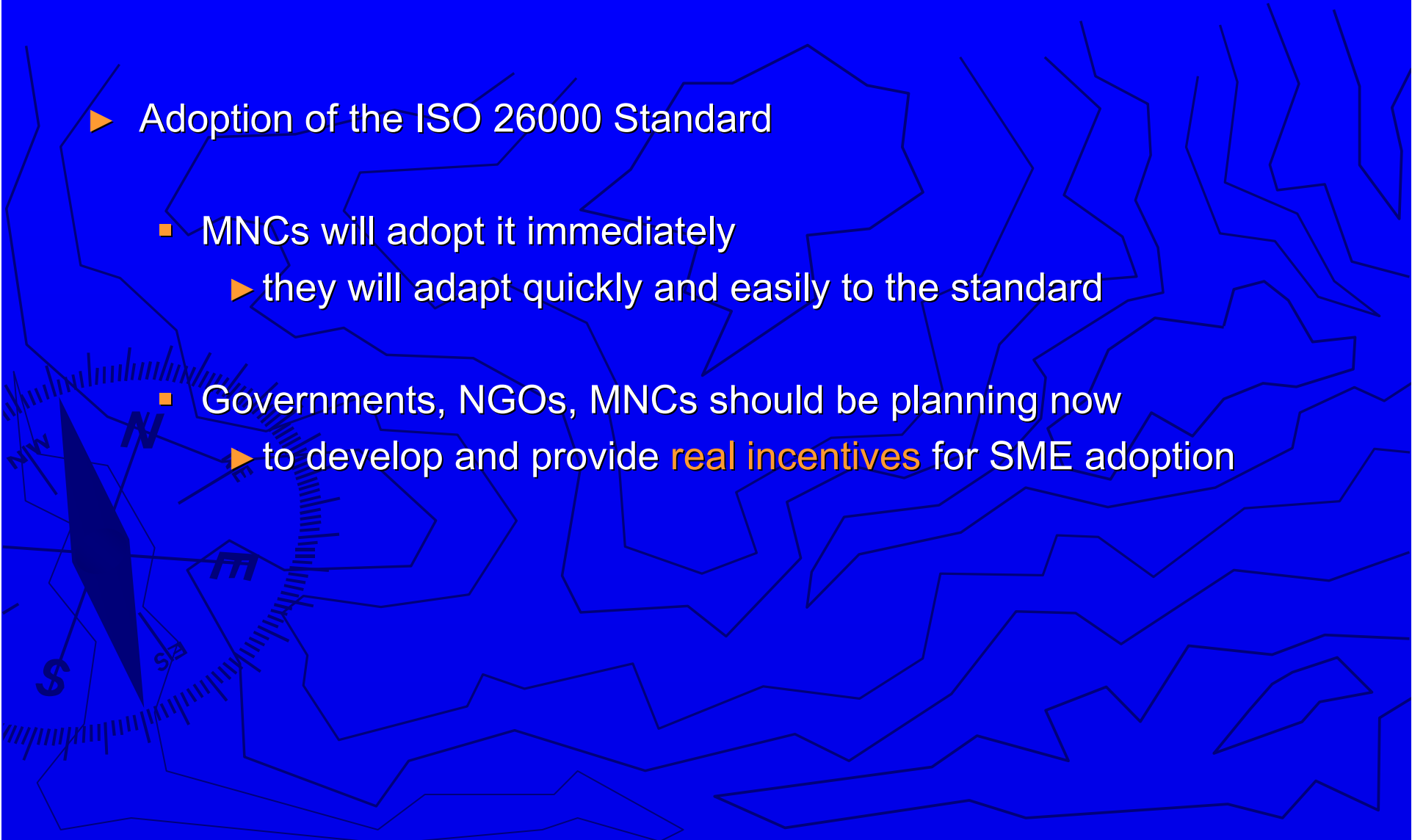
A Standard to Systemize CSR Management?

OR

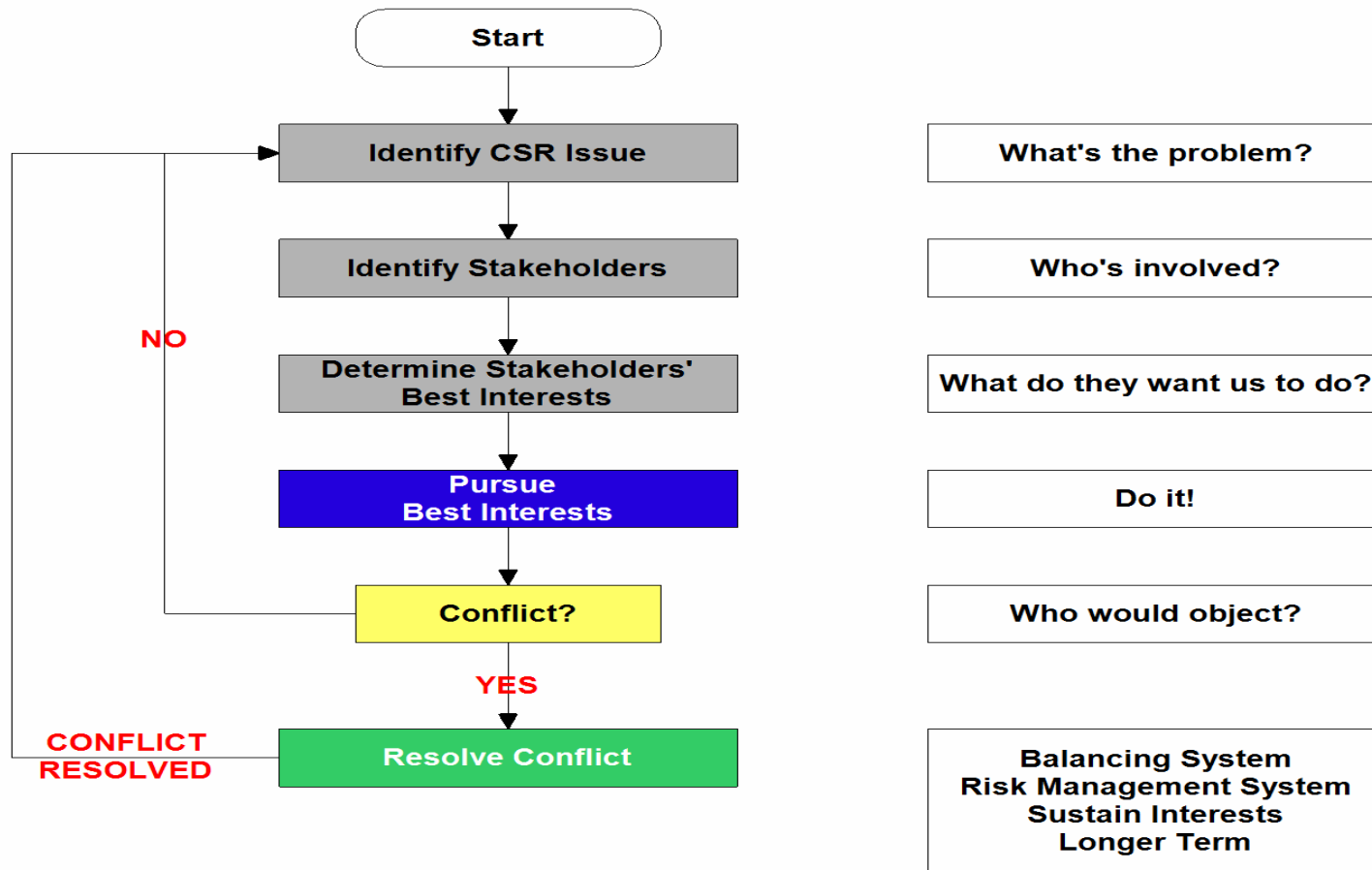
A Standard to Harmonize CSR Activities Themselves?



CSR Management Systems

- 
- ▶ Adoption of the ISO 26000 Standard
 - MNCs will adopt it immediately
 - ▶ they will adapt quickly and easily to the standard
 - Governments, NGOs, MNCs should be planning now
 - ▶ to develop and provide **real incentives** for SME adoption

CSR Management Systems



CSR Management Systems

► CSR Key Terms

- Stakeholders
- Best Interests
- Balance
- Sustainability
- Longer Term



CSR Management Systems

▶ Stakeholders v Shareholders

- “Any group or individual who can affect or is affected by the achievement of the organization's objectives.” (Freeman)

Shareholders
Management
Clients/Customers
Government
Community

Directors
Employees
Suppliers
Regulatory Bodies
NGOs

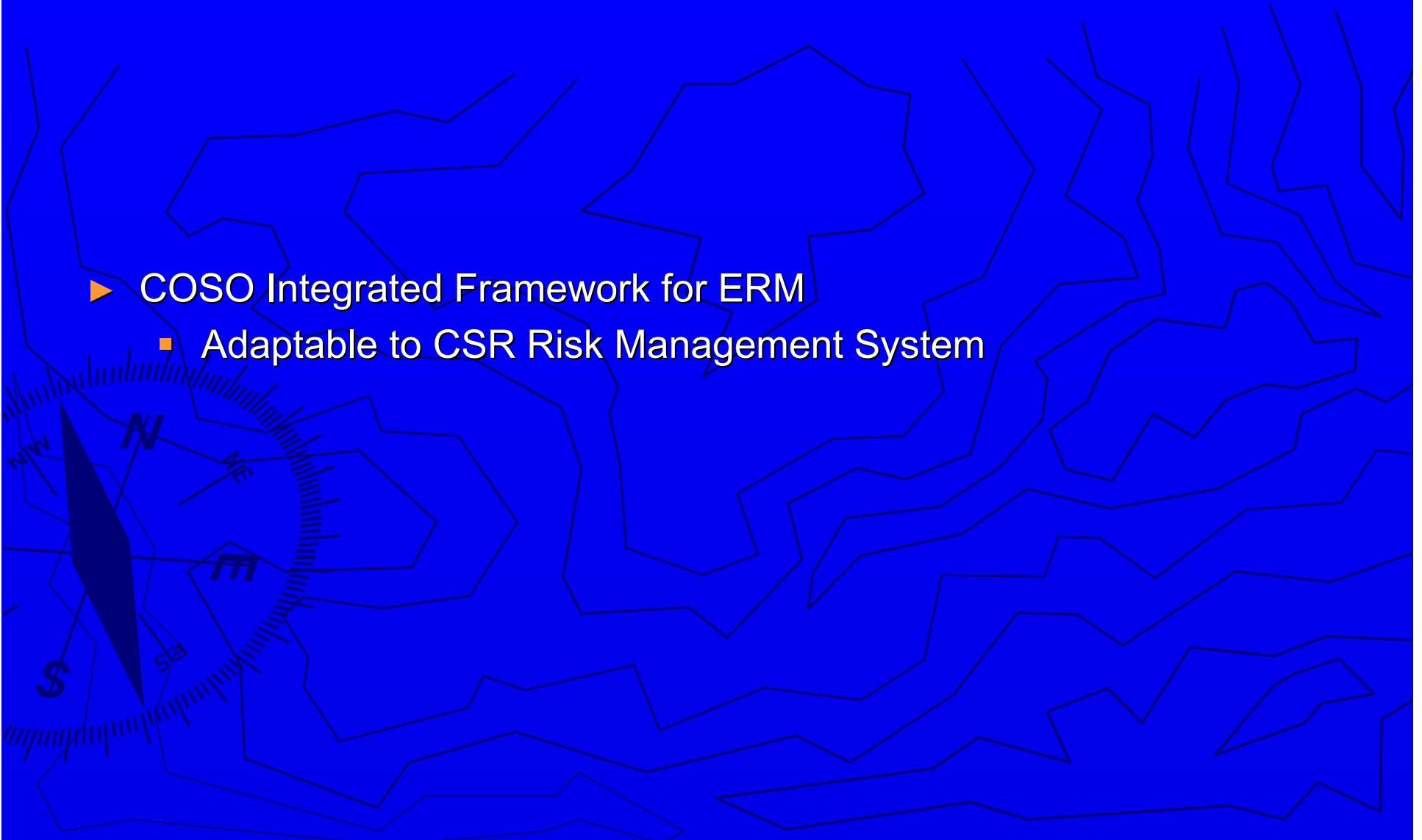
- ## ▶ Balance stakeholder interests in a way that will permit them to be sustained over the longer term.

CSR Balancing and Risk Management

- 
- ▶ Simple FMEA-like Analysis
 - Compare conflicts among Stakeholders
 - ▶ Capital Investment Guidelines
 - May apply more directly to SD investments
 - ▶ Statistical Risk Analysis Tools
 - Risk Analysis, Decision Analysis, “What-If” Analysis

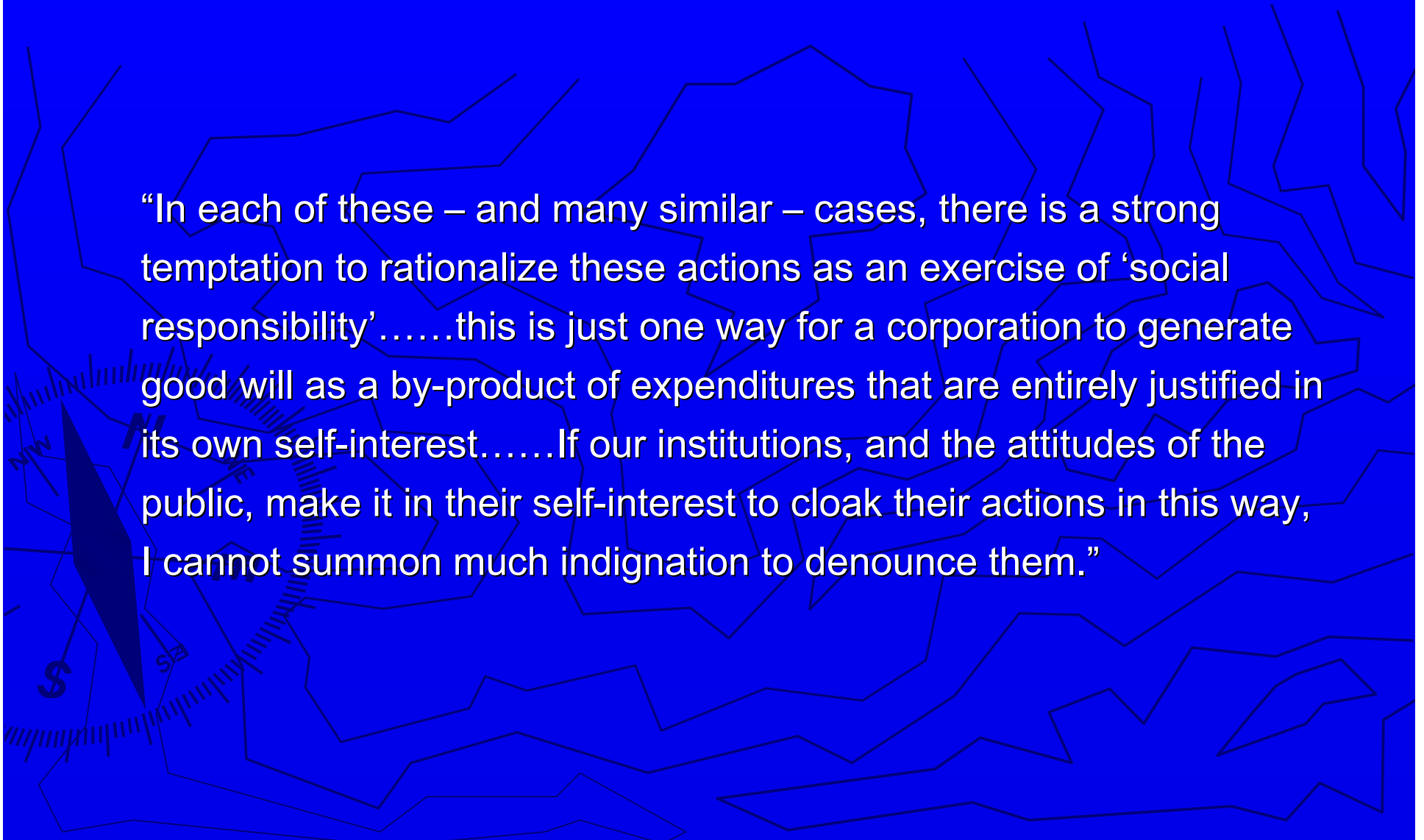
CSR Balancing and Risk Management

- ▶ COSO Integrated Framework for ERM
 - Adaptable to CSR Risk Management System



A Final Comment from Friedman

“In each of these – and many similar – cases, there is a strong temptation to rationalize these actions as an exercise of ‘social responsibility’this is just one way for a corporation to generate good will as a by-product of expenditures that are entirely justified in its own self-interest.....If our institutions, and the attitudes of the public, make it in their self-interest to cloak their actions in this way, I cannot summon much indignation to denounce them.”



The Most Important Question?

“Tell me how CSR helps to sell hamburgers.”

Phillip Rudolph
Foley Hoag, LLP
Washington, DC

