

CURRENT TRENDS IN CSR AND THEIR IMPACT ON MANAGEMENT EDUCATION*

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Introduction:

This paper combines the perspectives gained through some three decades of experience in the international automotive industry, academic exploration in the areas of peace and development, with specific emphasis on business and structural violence, new business models and long term advocacy and participation in the development of the United Nations Global Compact.

While I am a Canadian who lives in Finland, I do spend a great deal of time working with business, government, entrepreneurial, civil society and labour organizations as well as with the academic communities in China, Japan and Korea. I have a great appreciation for the overarching philosophies and business approaches in these countries. In what follows, however, I shall focus on trends impacting the Anglo-American business model. My rationale is that this model still dominates and has continuous impact on business teaching around the world.

It would seem appropriate to start our discussion by pausing to reflect a little on the global context;

- Massive social inequities: Extremes of wealth (few) and poverty (many)
- Serious Ecological degradation: Climate chaos, biodiversity loss, energy decline,

are viewed by many as major global threats to the world's peoples, to all in rich or poor nations, to each and every one of us.

But these did not just happen and it is important that we try to explore the possible causes.

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In an article published in 1949, Albert Einstein wrote that “for some time now human society is passing through a crisis and that its stability has been gravely shattered” and he concluded that the essence of the crisis centered on “the relationship of the individual to society”. Einstein argued that though the individual had an ever better understanding of his dependence on society, he experienced it not as an asset or protective force but as a threat to his “natural rights” and “economic existence.”

If I might borrow from the colloquial, one does not have to be an Einstein to see the relationship between the enduring social challenge, the rapidly escalating environmental challenge and the essence of the crisis: the relationship between the individual and society.

So on the most macro and micro of levels we appear to have a challenge in relationships and in the values and in the way these values that support the relationships is shared.

While many might say that these are broad philosophical issues, I propose that they are reflected in business and in the role that business currently plays and that we might want or need it to play in society.

The social and environmental threats are increasingly seen by the North no longer as distant un-niceties and inconveniences that occur only in the time/space of the distant South. Of course some still believe that barriers of distance, education, wealth, protectionism and even physical walls – insularity in myriad forms – offer protection. But slowly even in the bastions of the most conservative minds and hearts these threats are increasingly understood as global realities.

India and Indian leaders, scientists, researchers, academics and business people have made significant contributions to driving home this reality. Mother Teresa tugged the minds and heartstrings of the world. Rajendra Pachauri and the IPCC have given dimension and direction to the realities of climate change. Indian business and business thinkers have shown that there are not only markets at the bottom of the pyramid, but a potential fortune in human, social and economic capital. The city of Bangalore, its citizens, its scientists and its companies have become synonymous with innovation and are the leading edge in technology that is driving the world.

Today, in the classrooms and laboratories of business schools around the world, innovation ranks among the hottest topics.

I may return to Prof. Einstein for a moment with another quote: “No problem can be solved from the same level of consciousness that created it”; tomorrow’s

challenges cannot be solved with yesterday's thinking, with the same thinking that caused them.

The social and environmental challenges that we face and the imperative that they be addressed effectively and in a timely manner indicate that we have a profound need for new consciousness, new thinking, and innovation.

One of the greatest barriers to innovation is entrenched dominant logic; convergent thinking or cultural lock-in. Convergent thinking is ideally suited to assumptions of continuity and is effective in handling small incremental changes and differences. Cultural lock-in perpetuates a self-reinforcing world view that can be detrimental and limiting in addressing major challenges and transformational change.

Dominant logic provides an assumed or perceived reality in which visions, strategies, structures can be developed. It acts as a funnel through which perceptions of past environment and experiences (successes and failures) are categorised and as a lens limits the range of imaginable futures and therefore the range of imaginable future strategic actions. It provides a comfort zone which is tempting to maintain, difficult and uncomfortable to question and is often clung to despite mounting evidence that either the view of the past was inaccurate and/or incomplete and/or that the perception of the future excludes too many possibilities.

As you travel to business schools around the world, peruse text books, read the business best sellers, one thing that can be noted is the tension between those who understand that the tried and true business models are sound and only need adjustments, the "if it ain't broke, don't fix it" camp and those who feel that a new consciousness, new approaches, new thinking and new models are imperative. Bolstered by past success, dominant logic often tends to lead to a process of institutionalisation and of favouring the application of old solutions to new problems and eventually to the exclusion of new problems.

How can we go beyond established and congealed world views that are being reinforced by cultural factors that influence a company's thought processes and patterns which can include myopia (market changes are not real), hubris (we have always been right) and egocentricity (wisdom is at the top)?

How do we go beyond "business as usual"?

Allow me to suggest three approaches that can be considered by business to transform its dominant logic and improve its capacity to innovate:

1. incorporate points of view of different stakeholders with diverse priorities, needs and aspirations

2. broaden the objectives of the company beyond the economic to include the social and the environmental
3. integrate radically different markets in the core business model.

Perhaps you will define these as the basis for a new and more vibrant corporate culture. Many people would understand that business involvement with these issues falls under the heading of CSR – Corporate Social Responsibility.

The respected business thinker Michael Porter summarizes the justification for CSR under four headings:

- Moral obligation – to do “the right thing” – to respect ethical values as well as people and the environment

- Sustainability – “meeting the needs of the present without compromising the ability of future generations to meet their own needs.”

- License to operate – the permission from government and people to carry on business

- Reputation – the enhancement of corporate image and brand value

While these are valid, they focus on the tension between business and society. Perhaps a more useful point of departure is to recognize their interdependence.

Porter argues that these justifications are not sufficient to help a company identify, prioritize and address the issues that are the most important and where it can make the greatest impact. The result is an array of uncoordinated activities that are disconnected from the company’s strategy and that make neither a meaningful impact on the social challenges nor enhance the soundness of the company.

We can argue quite forcefully that an understanding, a consequential and proactive acceptance of the society/business interdependence is at the very root of a sustainable business culture and at the very heart of sound business.

Yet today there exists a dichotomy between the direction of the dominant, primarily Western, Anglo/American shareholder driven corporate model and the needs and aspirations of the society in which it operates.

Last year, in an interview with Mc Kinsey, the father of public-opinion research, Daniel Yankelovich reported that business strategy might be evaluated by two tests:

- does it enhance long-term profitability?
and

- does it serve the public good?

And went on to state that these are not mutually exclusive criteria.

Yankelovich's research confirms what we all know: "the social contract with business is in a state of flux." If a new social contract is to be developed, is it important for management to find ways not to be locked into "the tyranny of quarterly earnings" and build a new culture of value not only for shareholders but for all stakeholders?

However, in his book *The Corporation*, Joel Bakan, examining the legal construction of companies, affirms that corporations are required by law to elevate their own interests above those of others, making them prone to prey upon and exploit others without regard for legal rules or moral limits. The Friedman – propounded position of the moral obligation of the corporation to maximize profits for its shareholders, once the sacrosanct premise on which the rules of business was based is not only being questioned but attacked. The old rules with their clear, uncompromising direction and criteria for strategic and operational decision -making no longer seem to apply. Managing to create shareholder value, evolved into managed earnings and from there to managing quarter-to-quarter results to please the financial markets, even, and at times especially and specifically, at the cost of disinvestment in the future seemed to work and work well until the future arrived. One of the results was that business became disconnected from its fundamentals, producing immediate "perceived value" instead of real and sustainable value, because that is what the stock market rewards.

Disinvesting in the future is not limited to reducing R & D or foregoing investments that will show returns in years to come at the cost of current quarter results and dividends. Of course these are important aspects but often secondary to the disinvestments driven by trading brand value, the relationship and the trust of the stakeholders for short term gains.

So in addition to the tensions caused by a dichotomy between the dominant business model and society, there exists a set of tensions within the model itself and with the business community as a whole.

We are experiencing a state of flux and in this state of flux, the emphasis is moving from learning about ratios to learning about relationships.

Relationships are based on trust. The level and extent of the trust or distrust will determine the quality, effectiveness and value of the relationship. Relationships are much more than the means to an end but are of great intrinsic value.

Reviewing 75 years of research data, Daniel Yankelovich points to three significant surges in American public mistrust of business and other institutions over the past 75 years. Tied to the Great Depression, Watergate/Vietnam and the scandal cycle epitomized by Enron, the three were marked by changes in the economic patterns as well as perceived decline in social morality. The main targets were business and government. And it appears that this decline is continuing. In the Enron days of 2002, 36 % of the US public felt that business leaders could be counted on to do the right thing most of the time. By 2006 this eroded to 28%. And it seems that this mistrust was shared by customer, employee and shareholder alike. At the end of January 2002, Businessweek ran a header: “The scope of the Enron debacle undermines the credibility of modern business culture. Let's get back to basics”.

Taken at its simplest, business can be seen as an activity or a process which can be understood in terms of its output relative to the inputs and energy expended and to the value it adds or subtracts.

A process that is destructive, where the outputs are less than the sum of the inputs, must eventually erode or implode, as will any process that does not add enough value to permit its sustainability.

It can be further argued that to be sustainable, a process must serve the needs and aspirations of all those involved, that is to say, it must add value to each, adequately and appropriately recompense each for their input in terms of energy resources or risks taken and ensure a surplus that can be invested to permit growth and development. The argument can be made from both an ethical point of view – just/equitable compensation for effort/risk as well as in terms of the business case – inappropriately compensated effort/risk will tend to seek better opportunities.

In essence, a business can be understood in terms of synergy, a model where the whole is greater than the sum of the parts.

A business that cannot properly remunerate capital will not attract capital and a business that provides better remuneration based on investor standards will attract quantitatively or qualitatively better capital. A business that cannot meet the needs and aspirations of its customers will eventually not be able to retain them or to attract new ones and this same logic can be extended to employees and other elements of the value chain. Without customers, the company would cease to have any economic

input and without employees it would cease to have any economic output. Without a license to operate, a business simply ceases to exist.

If relationships are defined by trust, trust requires transparency and transparency implies respect. In their annual report on the pharmaceutical industry, Ernst and Young cited “increasing stakeholder confidence”, along with value chain management and growth in emerging markets as critical factors in realizing global potential.

Porter’s question as to where to place the emphasis – on the tensions or on the interdependence – becomes increasingly germane.

This is not just theory.

Let us consider two statements in the light of the concept of the interdependence of business and society:

- Efficient use of land, water, energy and other natural resources makes business more productive..
- Any business that pursues its ends at the expense of society will find its success illusory and temporary.

These illustrate one aspect of the interdependence and help us understand that the responsibility of business with regard to the environment goes far beyond the “nice to do” and impacts the very core: materials and energy costs and long term ability of the company to operate.

It is in the consequent understanding of the impact of externalities that we can explore the concepts that can drive a new business culture.

Current developments indicate that within the next five years environmental, social and governance (ESG) criteria, the hallmark of interdependence, will become mainstream in assessing business performance and sustainability and the integration of ESG standards will be seen as regular business practice. Around the world, corruption is seen as having a significant impact on economic activity resulting in higher cost of doing business, lack of predictability, an uneven playing field and less competition as corruption deters honest bidders. Corruption reduces the resources available for poverty alleviation and can be viewed as an element of failed global governance.

And so we see that the financial community that was once epitomized by a blinded obsession with quarterly results and short term profitability pursuing its own

enlightened self interest, is driving a cultural change that is impacting every aspect of business.

I would like to conclude by sharing some thoughts on the Global Compact which through the commitment and efforts of its stakeholders is today the world's largest and most significant voluntary Corporate Responsibility initiative.

The decision by the leadership of a business to engage in and support the Global Compact, to use the Global Compact as a strategic framework, is a fundamental decision and a decision of fundamental importance. For while at first glance it might seem innocuous, engagement in the Global Compact is really a commitment to a profound cultural change that will have a profound and very positive impact on the business model.

As you will recall, when United Nations Secretary-General Kofi Annan introduced the concept of the Global Compact at the World Economic Forum in January of 1999, he warned that unless more serious consideration was given to social and environmental issues the global economy would grow even more fragile.

Looked at another way, a more equitable and inclusive world economy would not only be more sustainable, but would lead to improvement in the quality of life by providing opportunity and dignity to a growing number of the world's population. In so doing, it would promote peace and ensure the stability and growth of markets.

So while the purposes of business and the United Nations are different, their objectives do overlap and the deepening interdependencies help define the broader aspects of business responsibility.

Outlining both the moral and the business case for responsible corporate citizenship, the Secretary-General challenged business leaders worldwide to contribute to a more stable and inclusive global market by embracing and operationalizing a set of universal principles in the areas of human rights, labour, environment and anti-corruption and by supporting the broader goals of the United Nations.

The Global Compact challenges companies to integrate these principles into their strategic vision, operating practices and the day-to-day decision making and to catalyze action in support of the United Nations goals. To do so, the Global Compact offers facilitation and engagement through several mechanisms: Policy Dialogues, Learning, Country/Regional Networks, and Projects.

The Secretary-General offered the Global Compact as a dynamic platform for profound organizational change, fully realizing that processes of change are never free from tension and cannot happen without leadership.

The Global Compact is not a set of standards or regulatory framework, but rather an action-oriented voluntary commitment to share values and principles, to learn and share lessons learned. Through the Global Compact, the United Nations seeks to advance responsible corporate citizenship so that business - in partnership with other social actors - can play its appropriate role in building more inclusive and sustainable national and global economies, in working towards a more harmonious society.

The Global Compact involves all the relevant social actors: governments, who define the principles on which the initiative is based; companies, whose actions it seeks to influence; labour, in whose hands the concrete process of global production takes place; civil society organizations, representing the wider community of stakeholders; and the United Nations, the world's only truly global political forum, as an authoritative convener and facilitator.

Understanding and respecting the fundamental connections and the interdependence between business, the environment and society has become essential elements in business management. Increasing complexity and interdependence require new approaches and integrative management tools that help embed environmental, social, and governance concerns into their strategic thinking and daily operations.

Business needs support as it internalizes and integrates these issues into the core of businesses, engages in dialogue with stakeholders and reports their conduct. Business requires talented and ethical leaders who can not only advance organizational goals and fulfill legal and fiduciary obligations to shareholders, but who are also prepared to deal with the broader impact and potential of business as a positive global force in society.

Academic institutions help shape the attitudes and behavior of business leaders through business education, research, management development programs, training, and other pervasive, but less tangible, activities such as the spread and advocacy of new values and ideas. Through these means, academic institutions have the potential to generate a wave of positive change, thereby helping to ensure a world where both enterprises and societies can flourish.

Through the Principles for Responsible Management Education, leading business schools and institutions around the world have voluntarily joined forces with

the Global Compact to create a powerful strategic platform to guide and support the contribution of the academic community.

Focusing on purpose, values, method, research partnership and dialogue as well as on adoption and implementation of these principles for responsible management, international business education today finds itself at the leading edge and represents a commitment on the part of the academic community to play a vital role in the building of a better and more harmonious world.

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