Editorial

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Corporate social responsibility

Some time ago (Vol. 8, No. 1 to be precise), we had occasion to refer in passing to a latter-day discussion, debate, dispute — call it what you will — about the duties of company directors towards their shareholders and other members of the community. This issue is at the heart of the debate on corporate social responsibility, which is dealt with at length in an article abstracted by us in Vol. 10, No. 1 (Ref. 10116). It is raised again in a short, but forthright, article by Professor Malcolm McDonald abstracted later in this issue (Ref. 11220).

Shareholders or stakeholders?

The essence of this debate appears to be whether companies (that is, their directors) are under a duty to look after, first and last, the interests of their shareholders, or whether it is incumbent on them to take account of the interests of a wider range of persons and organisations that it has become fashionable to refer to as stakeholders: these last, depending on who you are talking to, may be held to include (besides shareholders) employees, customers, suppliers, the local community, the environment and indeed the public weal.

The law

It has long seemed to us that in this debate a good deal of nonsense is uttered from all sides. First, as a matter of present law (and indeed of simple survival) the directors of a company, so long as they act within the laws of the land, are answerable to their shareholders, and to nobody else. It can hardly be otherwise: where a company is owned, wholly or as to a majority shareholding, by a single individual, its directors, if they act against the directions of the owner, or contrary to what the owner perceives as his/her interests, will be sacked.

What interests exactly?

Nor does the diffusion of shares among a larger number of individuals and institutions fundamentally alter the matter: a chief executive who is held to have acted against the shareholders' interests (perhaps by failing to maintain a dividend, or by causing the share price to fall) will be ousted. What *does* change with the spread of shareholding is the difficulty of determining just what the shareholders, or a majority of them, see as their interests. A problem that is compounded when major shareholdings are held by insurance companies, or pension funds, who themselves have shareholders.

'Ethical' investments

At all events, shareholders' interests are normally held to be financial: the Board's basic dilemma then is to choose between maximising short-term profits, and dividends, on the one hand, or planning for long-term stability and growth through investment on the other — or more probably how best to balance between these two extremes.

Of course, there are instances of derogation (which may be real or only apparent) from strict adherence to financial concerns whether short or long term. The Co-op Bank, for example, operates an 'ethical' policy under which it will not provide loans or banking services to companies held to be involved in arms dealing, animal testing, exploitative labour practices or nuclear power; this policy is based upon, and moderated by, comments from its customers, and avowedly costs it some millions of pounds profit annually. (On the other hand, the bank reckons its ethical policy is 'worth' £30 million annually — presumably in

an enhanced customer base — giving the bank room to claim that ‘ethics’ are, in reality, profitable business.)

Again, there are investment funds that will only invest clients’ money in certain types of enterprise — usually ‘green’, environmentally friendly, fair-trade enterprises. However, these, as well as the Co-op’s attitude, are explicit stances, which the shareholder or investor will be aware of in advance; within these transparent limitations the normal financial criteria for success hold sway.

What then of the interests of other so-called stakeholders? Is the pursuit, first and last, of shareholder interests to be taken to mean ripping off customers, paying rock-bottom wages, squeezing suppliers until their continued existence is in question, operating with disregard to environmental consequences?

Well, no. It may be that there have been — possibly still are — economies in which one or more of these anti-social activities might seem to lead to maximisation of shareholder benefits; fortunately for all of our social consciences Western societies in the 21st century are not among them.

Of course employees’ interests, of every sort, not just financial, must be consulted: every enlightened employer from Robert Owen, almost 200 years ago in New Lanark, has known this. That we are still discussing the matter (*vide* ‘The importance of employees in the process of building customer experience’ abstracted in Vol. 10, No. 2 — Ref. 10222 — among many others) indicates that enlightened employers are still not numerous enough among us. Companies whose employees are discontented are unlikely to be achieving best results.

Of course the interests, needs, desires, hopes of customers — actual and potential — are ignored only at a cost to the bottom line — although the real lessons of this are still widely ignored. Thus we continue obsessively to discuss Customer Relationship *Management* (references too numerous to mention) as though customers were merely another raw material to be moulded into shape. (For a different view of the customer’s proper place in an enterprise, see ‘Customer feedback’ abstracted by us in Vol. 10, No. 3 — Ref. 10317, or ‘The next step in open innovation’ in the same edition, Ref. 10307, or ‘The company behind a domestic cure-all asks: What else would you like us to do?’ abstracted in this issue Ref. 11223.) What we must get away from is the hypocrisy of claiming that ‘the customer comes first’: of course she doesn’t, and she knows it too — profits come first, but they won’t come as they should without real, not just pretend, attention to the customer.

Of course a policy of squeezing one’s suppliers until they can no longer make a profit is unlikely to prove beneficial in the long run; growing numbers of companies are now finding it worth their while to operate in alliance with their suppliers (*vide* ‘The shop’ abstracted by us in Vol. 9, No. 1, Ref. 9111, and other disquisitions on supply chain management).

Of course a reputation for ignoring the environmental consequences of one’s operations, or dismissing the concerns of the local community in which one works, is likely to damage a business’s brand and its profits. As Shell, Nike, Nestlé and McDonalds can all testify.

So, if we already know all this — even if we don’t practise all of it as well as we should — then why do we continue to discuss the issues of shareholder interests and (other) stakeholder interests as though they were antithetical? The correct answer to this artificial standoff is simple. A director’s primary responsibility is to his shareholders, who employ him, remunerate him and have the right to sack him (or her). But no director can

Employees

Customers

Suppliers

The environment

A false antithesis

adequately discharge his responsibility to shareholders — especially in the longer term — without ensuring a contented workforce, well-served customers, stable suppliers and a welcoming community. The demands on companies — particularly high-profile companies — from government, from the media, from their employees, from their customers, and from public opinion, are growing and will continue to grow. And unless these are listened to, judiciously, shareholders' interests will suffer. But it is those interests that are, quite properly, the bottom line.

10 years; 10 leading articles

We have referred above to a number of articles from other journals abstracted by us in this and previous issues. The purpose of this abstracting service is to give our readers a flavour of the best articles appearing in our contemporaries, and a reference to where they may be found should they wish to read these in full. But of course we publish, each quarter, a number of articles by eminent contributors on our own account. So it's good to be able to announce that, to celebrate the completion of 10 years of publication of this journal, we have asked a respected marketer, *Dave Chaffey*, to select from our volumes 1–10 the ten articles that best chart the evolution of marketing during that decade. We will announce his choice later this year.

And an annual vote for each year's best article

We also intend for future years to give a 'best article' accolade to one contribution from the four issues of that year's volume. Our intention is that votes for the best article each year should be cast by you, our readers, and we will announce in the spring the method by which you can vote for the best article in Vol. 11.

Contents of this issue

Meanwhile, we publish this month the second part of Don Schultz's contribution on media synergy, in which he explains how, working with data from SIMM (Simultaneous Media Usage Study), it is possible to trace, with CHAID analysis, the key media for four selected product categories. In his conclusion Don makes it clear that the whole business of using mathematical algorithms for media planning is a work in progress.

Mike Grehan and James Pettijohn combine to shine a light on the constantly evolving subject of search marketing. After reviewing the history of this subject, they speculate on ways in which it is changing, and likely to change in the future, as well as the strategies that marketers should consider in order to keep pace with those changes.

The first part of Tom Breur's paper on data quality in our last issue dealt with the problem of ensuring high-quality input to a data warehouse; the second part, in this issue, addresses the problem of maintaining that quality after the data warehouse has gone live.

Angus Jenkinson contributes a paper on segmentation, claiming that the market is tending towards the use of simpler limited methods, using black-box algorithms and failing to achieve the results available from gold standard segmentation methods. He offers reasons for these failures, and remedies.

We follow these four papers with a short case study from Waterstone's, winners with EH Brann of the Diamond Award in the 2009 IDM Business Performance Awards. We conclude with our abstracts, and a book review.

Robin Fairlie and Derek Holder