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The Future of Corporate Social Responsibility

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This paper offers a contemporary look at that part of corporate community involvement which in recent years has become known as 'corporate social responsibility'. The author adopts a broader perspective than Michael Porter's prominent article on 'corporate philanthropy'. Here, the voluntary and discretionary expenditures of business on social and environmental projects are seen to be more closely aligned with corporate risk management and reputation-building than with corporate strategy. After some observations about terminology and philosophical attitudes, the paper notes the growing pressure on business to undertake discretionary social and environmental expenditures and to account publicly for such activities through institutionalized annual reporting. Some recent international initiatives to foster and popularize corporate social responsibility are summarized and their features briefly assessed, as is one attempt to measure corporate social responsibility. The paper seeks to illuminate the 'hidden' issues in this increasingly popular contemporary movement. The most important of these are to identify who ultimately pays for such expenditures and who ultimately makes decisions about them. At the same time it is noted that the capabilities of private business in the social arena may sometimes exceed those of government. The paper concludes with a number of judgements about the nature and legitimacy of this contemporary development and also about its future.
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Introduction

This paper offers a reasonably comprehensive overview of contemporary attitudes towards 'corporate social responsibility' (CSR), and their influence on business. The author's perspective is that of a commentator on business, rather than a commentator on social or environmental issues. However, the main purpose of the paper is to draw attention to issues which the author regards as important, yet finds neglected. These are explained and their

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implications for the practical future of CSR explored. Although what follows is restricted to commentary, the author also recognizes a great need for research into these hitherto neglected aspects of CSR; in particular, into the implications of who 'pays' for CSR activities and who 'decides' what they should be.

Definitions and Labels

The basic idea of CSR is that business should act and be held accountable for more than just its legal responsibilities to shareholders, employees, suppliers and customers. That is, business should be 'expected' to acknowledge and take full responsibility for the *non*-economic consequences of its activities with respect to wider society and the natural environment. This expanded notion of business responsibility is not universally accepted, nor is it anywhere fully required by legislation. Yet today a growing number of voices in contemporary society are calling on business to contribute more to general public and social welfare. While these calls are varied and some are imprecise, the basic idea is that individuals as citizens, consumers and employees want a commitment from business to an expanded notion of social responsibility which extends beyond legally acknowledged stakeholder groups.

'Corporate social responsibility' is a relatively new term. It has no clear boundaries, nor even an agreed definition. Although there is a published history of the term's evolution (Carroll, 1999), it is still only one of several labels in use for the same purpose. Other commonly used labels include 'corporate citizenship' and 'corporate responsibility'. Prominent Harvard economist Michael Porter (Porter and Kramer, 2002) prefers the narrower term 'corporate philanthropy'. Generally, CSR advocates maintain that businesses should assume a major role in making the world a better place. They ask that corporations adopt socially responsible policies on labour, environmental and human rights issues (Frost, 2004) (www.aworldconnecte-d.org/article/php/524 26 June 2004). One representative mainstream definition of CSR is that adopted by the European Union:

> CSR is a concept whereby companies integrate social and environmental concerns in their business operations and stakeholder relations on a voluntary basis; it is about managing companies in a socially responsible manner. (Holland, 2003).

Most approaches to CSR, like this one, rest upon acceptance of 'stakeholder theory', often associated with Professor Freeman of the Darden School of Business (Freeman, 1984). Both the *Encyclopedia of Management* and the *Blackwell Encyclopedic Dictionary of Business Ethics* identify stakeholder theory as defined by Freeman as one of a tiny handful of recognized models for interpreting corporate responsibility (Donaldson, 2002). In fact, the term first appeared with reference to business in an internal memorandum at Stanford Research Institute in 1963, where it was used to describe 'those groups without whose support the organisation would cease to exist' (Gregg, 2001). This is a relatively tight definition. In most of the CSR literature, as with Freeman, 'stakeholder' is generally interpreted much more broadly and is taken to mean that managers ought to serve the interests of all those who have a 'stake' in the firm, or are affected by it. The potential breadth of the concept is clear in the definition, popular among academic commentators for many years, proposed by Archie Carroll (1979):

> The social responsibility of business encompasses the *economic, legal, ethical,* and *discretionary* expectations that society has of organisations at a given point in time.

Carroll subsequently incorporated each of these components into a hierarchical 'Pyramid of Corporate Social Responsibility' (1991), beginning with the necessary economic requirement of being profitable, through the legal requirement to obey the law, to the *expected* requirements of behaving ethically and being a good corporate citizen through philanthropy. While not all CSR enthusiasts would totally agree with every detail of this thinking, the Pyramid does highlight the multi-dimensional nature of the stakeholder concept and the 'expectation' that business should serve secondary as well as primary stakeholder groups. It is also very rare for CSR enthusiasts to discuss the responsibilities of stakeholders. Yet with rights, one might suppose, also come responsibilities. With one honourable exception (Windsor, 2002), this writer sees little interest in the academic literature in what, for the business community, is an equally important consideration.

Recognition of secondary stakeholder groups, who have no contractual bond with the firm, extends the 'stakeholder' concept beyond a firm's owners and those with whom the firm has commercial obligations, to the less readily defined communities in which the firm operates. It thus becomes the moral obligation of the firm to strike an appropriate balance among these various interests in directing the activities of the firm (Marcoux, 2000). Yet it may be both conceptually and practically impossible to extend the fiduciary duties of managers to these non-shareholding stakeholders (Marcoux, 2003).

It is nevertheless the view of Freeman and many academic writers that it is the manager's job to maintain the support of the wider array of stakeholder groups by balancing their various interests (Freeman and Phillips, 2002). This is seen as managers' 'multiple accountability' to stakeholders. The problem is that even if this made practical business sense, it would be operationally demanding. In any case, stakeholder theory does not specify how to make the necessary trade-offs among the competing interests of the different stakeholder groups (Donaldson, 2002). Indeed, some stakeholder theorists explicitly recognize that ‘the fleshing out of a coherent stakeholder theory is proving to be problematic’ (Roberts and Mahoney, 2004). Even the General Editor of the *Journal of Corporate Citizenship* publicly bemoans, in an editorial (Waddock, 2003), that despite ever more rigorous scrutiny of company actions, there remains no consensus about how a company is to move in the direction of meeting stakeholder demands. There is not even agreement on terminology, although ‘it is increasingly clear that common definitions are needed to provide credibility and legitimacy’ (Waddock, 2004).

To managers, it seems that to stretch the established responsibilities of business into new areas, as CSR proponents demand, means that businesses are being asked to accept costs and responsibilities which may well be remote from their commercial focus and from which there may not be any identifiable return in revenue. For business, this demand is of questionable legitimacy. At the least, it is an issue of significance, which cannot legitimately be marginalized. In fact, one academic author has identified no less than 20 different elements of CSR (Welford, 2004) for which business is ‘expected’ to be accountable. This makes CSR a complex issue also. It is made still more complex by the fundamental nature of the challenges of its critics. For example, Mike Nathan of the Australian Institute of Public Affairs emphasizes that ‘the new stakeholders’ are not impacted directly by business, do not have a contractual arrangement with the firm, have gone beyond government as their agent, and do not hold any asset base in the firm. Yet they stand up and make claims on what the firm should do that go beyond what the firm itself decides is in its interest to do (Ryan, 2003). From the perspective of this author, the outstanding question for CSR advocates must be how such claims can be legitimized. It is not obvious that the CSR movement is at present in a position to reply convincingly. To be convincing, any reply needs to present more than just a morally persuasive argument — it must also offer a managerially feasible mechanism by which it can be implemented in the business world as we know it.

Concepts

So the core argument surrounding CSR is the legitimacy of the concept. Some believe CSR represents a contemporary evolution in mainstream thinking and in the practical reality of our economic system. Others believe it is just an intellectually sloppy and trendy diversion from rigorous economic and institutional analysis. Each view is firmly rooted in the established wisdom of earlier generations, albeit drawing from different academic perspectives. Opponents of CSR reflect the neo-classical economics of Milton Friedman, while its supporters draw on another acclaimed economist, Kenneth Andrews, but on basic legal principle as much as economics.

The traditional attitude towards the non-economic responsibilities of business was first popularized by marketing guru Ted Levitt (1958), but is most commonly represented by quoting Nobel prize-winning economist, Milton Friedman. In an article written for the *New York Times* magazine (Friedman, 1970), he stated in crystal-clear terms the 'market-economist' view:

> The business of business is to maximise profits, to earn a good return on capital invested and to be a good corporate citizen obeying the law – no more and no less. To go further in a deliberate fashion is to exceed the mandate of business. It is to make what amounts to an ideological stand with someone else's money and possibly to engage in activities with which many stockholders would not agree.

There is however a wider, somewhat more contemporary, view, that a company, which in law is a legal person, can legitimately be regarded as analogous to a real person in that concepts of responsibility may be applied to both. In this way, a company can be considered a morally and ethically responsible entity. In this sense, another prominent economist, Kenneth Andrews, defined corporate social responsibility as:

> Sensibility to the social costs of economic activity and to the opportunity to focus corporate power on objectives that are possible, but sometimes less economically attractive than socially desirable. (1989: 257–258)

This latter statement makes explicit the core issue in the contemporary debate about CSR and its legitimacy. This key question is whether, when there is no legal or financial reason, companies should nonetheless address social and environmental issues. This question can arise in the context of basic human rights as well as with regard to child labour, pollution standards, sustainable resource exploitation, and so on.

Research reported by staff of McKinsey (Cogman and Oppenheim, 2002) has suggested that such ethical and social responsibility issues may clash with emerging business opportunities in at least four growing categories of commercial activity. These are: the exploitation of some new technologies, such as GM foods; the movement of activities from the public to the private sector, like power and water supply; entry into third-world markets, as with subsidised foodstuffs from the EU in Africa; and the exploitation of legally contestable markets, such as tobacco, alcohol, gambling and sex.

It is worth noting that both the foregoing philosophical perspectives are reflected in popular opinion. For example, a commentator in *Forbes Magazine*, taking the hard-nosed economic perspective, recently wrote (Hayward, 2003):

> Like wide ties and polyester slacks, management enthusiasms come and go. The fad of the moment is the triple bottom line…Companies must now measure their environmental and social performances.

Meanwhile, on the other side of the debate, a business journalist writing in Kuala Lumpur presented the issue in the follow terms (Mohd Khairi, 2003) (www.highbeam.com/library 4 June 2004):

> Since corporations influence… nearly every facet of a person's life,… the expectations placed on corporations will naturally evolve to include social responsibilities.

Business Practice

Despite differences of philosophy and principle, many businesses are already experienced in dealing with social and environmental issues at a practical level. In large part this is on account of the growing influence of 'Triple Bottom Line' (TBL) reporting. This is a 'whole-of-business' approach comprising a balance sheet of environmental and social consequences of business operations in addition to the necessary financial outcomes. It requires a company to look at its impact on the social fabric, environment and, in some cases, human rights. This involves recognizing and assessing a range of potential non-business risks, not all of which need have financial implications for the firm. Whether motivated by external pressure or internal strategy, large corporations increasingly regard TBL reporting as necessary. In fact, by 2001, 45 per cent of the 250 largest global companies published reports covering TBL. In Australia, 11 per cent of the top 500 companies currently do so. France has legislation requiring companies that want to be listed on its stock exchange to make information about their social and environmental performance available to investors. Britain has legislation requiring pension funds to publish the percentage of their portfolios invested in socially responsible investments. As a consequence, about half of the UK's top 100 companies are courting funds with details of their TBL credentials. Even in Japan, 72 per cent of the country's top 100 companies produce 'sustainability' reports (Macken, 2002).

Indeed, casual perusal of SustainAbility's *Radar* magazine suggests interest in and efforts toward CSR are rapidly increasing in Japan. According to one report (Goto, 2003) (http://www.sustainability.com/news/articles/core-team-and-network/goto-csr/japan.asp 6 December 2004), this is clear from recent activity by the powerful big-business representative organization, Nippon Keidanren. In December 2001 the Keidanren subsidiary, Council for Better Corporate Citizenship, launched 10 consecutive crash courses on CSR. Then, in a report of May 2002, they stressed how important it is for top management to recognize CSR issues and their associated responsibilities. A few months later Keidanren published a revised 'Charter of Corporate Behaviour'. Independently of Keidanren, SustainAbility also report that, since 2001, Toyota Motor Corporation and many other Japanese corporations have begun to invite 'stakeholders' to public meetings at which they can address company environmental or sustainability reports. Despite this growing top-level interest in CSR, it is equally appropriate to note that Japanese organizations remain woefully under-represented in the United Nations Environment Programme-supported 'GRI' (see below). As at December 3, 2004, only 10 of GRI's 186 'organizational stakeholders', drawn from 35 countries, were from Japan.

It is appropriate to comment on CSR developments in Asia more generally. One revealing indicator of the regional impact of CSR is the local response to initiatives like that of Ethical Corporation, which holds annual conferences in Asia. At the 'Ethical Corporation Asia 2003' conference in Singapore, there were over a hundred participants from all over the world, with China, Hong Kong, Japan, Malaysia, Singapore, The Philippines and Thailand all represented. Yet despite the prominence of Japan's Sony Corporation and India's Tata Group, most of the participating companies were global Western corporations. It was the same story in 'Ethical Corporation Asia 2004', held in Hong Kong. On this occasion there was an opening discussion explicitly on 'the state of corporate responsibility progress in Asia', in which business leaders from six Asian countries participated. Even here, three of the six Asian countries were either represented by non-regional nationals, or, in the case of The Philippines, by the country boss of Nestle.

Somewhat more positively, attention can be drawn to the Association of Sustainable and Responsible Investment in Asia (ASriA). This organization is clearly very active. Among other initiatives, it has recently announced an English version of a survey commissioned by Japan's Environment Ministry into market analysis of institutional and retail investor views about Socially Responsible Investment (SRI). In addition, in 2004, together with Singapore's Centre for CSR, ASriA launched a whole new Asia-Pacific Corporate Social Responsibility Seminar Series, the highlight of which was the launch of 10 Asia-Pacific CSR Centres across the region. More generally, ASriA commissions a rolling series of research reports and maintains an e-bulletin service which currently has around 4,500 subscribers.

Moving away from business-oriented CSR activities to the academic, it was interesting that in 2004 the *Journal of Corporate Citizenship* published a Special Issue on CSR in Asia; the guest editors were from Australia and the UK. This was illuminating in that two of the papers attempted to offer comparative assessments of the current status of CSR in Asia, while no less than six of the other papers investigated activities in particular East Asian countries. An important finding, overall, was that the papers collectively acknowledged (Birch and Moon, 2004):

> there is no single CSR formula or template for CSR worldwide, and that programmes and policies in CSR can differ considerably for company-specific and culture-specific reasons.

One Hong Kong-based contributor (Welford, 2004) was unusually clear in his judgement. He suggested that although Asian companies seem to be doing less than European companies and that best-practice CSR in Asia may not be as well developed as in Europe, it is important to recognize that stakeholder expectations and demands are culturally specific and require CSR solutions that reflect cultural specificity. It is reassuring that the need to accommodate legitimate cultural difference is clearly recognized in academic circles (Logsdon and Wood, 2002).

It has been noted above that TBL, which reaches directly into issues of CSR, has already become a significant corporate reality in East and West alike. Many big businesses see both TBL and CSR as manifestations of an emerging business ethic that explicitly recognizes the interdependence of business and community life and the ethical responsibilities this inescapably brings (Lagan, 2003).

At the same time, some CSR enthusiasts regard TBL as an *un*helpful addition to discussion of corporate responsibilities and argue on both practical and conceptual grounds that TBL promises more than it can ever deliver (Norman and MacDonald, 2004). Critics claim that TBL has become a public relations slogan for companies trying to be, or trying to appear to be, good corporate citizens. It allows them to lay public claim to respecting their social and environmental responsibilities as well as their financial ones. However, by lumping the three bottom lines together, companies are mixing woolly, subjective and arguable ideas with objective and auditable financial requirements. Whatever the flaws of contemporary accounting, and there are many, we do have agreed financial accounting standards and we possess agreed notions of what constitutes profit and how to report it. This cannot be said of the environmental part of the bottom line (Kohler, 2001). Further, some judge all CSR endeavour as misguided for the reason that many companies are simply unable to anticipate or estimate the social consequences of their actions (Turner, 2001). In this view, the philosophical point may be made that if society wishes to promote social, rather than economic, goals, there is no obvious reason why this should become the responsibility of privately owned, economically focused, business. After all, social and environmental goals are, more properly, the responsibility of the public and publicly accountable political process, in which *all* have an equal and legitimate vote.

Given the contested legitimacy of CSR, it is sensible to take note of individual company responses. However, disagreement over the meaning of words leaves much of the available survey data on the issue open to question. Partly for this reason, the author chooses to focus on the public statements of a small number of internationally oriented companies. This evidence is obviously very limited and it is offered for illustrative purposes only.

One revealing case is Sony. A single event in one country caused Sony to embrace CSR thinking and begin to apply it throughout its supply chain. In the autumn of 2001, Sony had to recall its popular game consoles in the Netherlands because it was discovered that the machines' coupling cables contained more cadmium than allowed by that country's environmental standards. The coupling cables had come from one of Sony's overseas suppliers. As a result, Sony recognized that the behaviour of its suppliers could hurt public trust in the company and its products, as well as its revenue. As a direct consequence, Sony inspected no less than 4,500 parts and materials suppliers at home and overseas, as well as their own factories, to see to what extent they made an effort to protect the environment and also human rights. In 2003, Sony went further and established a CSR strategy office to ensure that all its parts and materials suppliers meet not only Sony's traditional requirements but also new, more stringent, ones. The latter included tougher environmental protection and observance of labour and human rights standards deemed acceptable in the West (Fuji, 2003).

Unlike Sony, most Japanese companies display little interest in CSR. Although some, like Ricoh, Canon and major retail chain operator Aeon, have established what they call CSR guidelines, these are mostly aimed simply at ensuring compliance with the law. For example, Shizuo Fukada, a corporate adviser to Omron (TNW, 2003), has said publicly:

> When it comes to CSR, we tend to talk primarily about ethics, codes of conduct and legal compliance. But in Europe and the US… discussions centre on how to make contributions to society in addition to the fulfilment of these duties. Japan should talk about CSR from the same standpoint.

This judgement is echoed by the chairman of Fuji-Xerox, Yotaro Kobayashi, who has said 'Japanese companies are still discussing minimal levels of CSR, such as legal compliance' (TNW, 2004). So with CSR in Japan, what we are seeing is the relatively sudden arrival of yet another piece of Western thinking. As usual, it is being greeted with a combination of interest and confusion, combined with a determination by some to put it to good use. At present, a majority seem to relate it, incorrectly, to legal compliance. Even Sony first found CSR as a result of an unexpected failure of compliance. More accurately, CSR involves discretionary expenditures and the active support of business in undertaking social and environmental activities over and above those required by law.

In addition, there are two sharper reasons for Japanese corporate interest in CSR. One relates to current moves by the European Commission (EC) to establish standards for corporate 'excellence'. If this plan goes ahead, a number of internationally known Japanese companies want to be in this group. Interest in the development has been heightened by a recent commission survey ranking 15,000 firms operating in the EU in terms of their 'excellence' in employment practices and workplace amenities. Not a single Japanese company made the top 100. As a consequence, several Japanese companies have applied for admission into CSR Europe, a Belgium-based non-profit organization that influences this kind of policy in the EU. A second reason for Japanese interest is that the Geneva-based International Organisation for Standardisation (ISO) is considering adding CSR standards alongside those for product quality assurance and environmental protection in its corporate compliance rules. If this occurs, Japanese firms, and others, will have to take notice.

There are other and better examples of companies which embrace CSR principles. One of the most recognized is Sweden's IKEA, the world's largest retailer of furniture and home furnishings, a company with an annual revenue in excess of US$5 billion (Larsen and Reichert, 1996). This is a highly individualistic company which actively protects its entrepreneurial and innovative traditions. On its own initiative, it developed what it terms its 'Natural Step' framework to enable it to assess the ecological and social sustainability of its commercial activity. Sustainability is both commercially important and environmentally relevant in an industry based largely on timber.

When social campaigners singled out Starbucks for having exploited third-world farmers, the company saw the attack as a direct threat to its brand, present in 33 markets around the world, and to its ambitious growth plans. So in 2001 the company launched a project to attract and reward coffee farmers who agree to adopt socially and environmentally responsible farming methods. To become accepted as 'preferred farmers' by Starbucks, producers have to accept a review of their activities on 20 measures. Those accepted are awarded points for meeting the various environmental, social and economic criteria specified by the company; and the more points they earn, the more Starbucks pays them for their coffee. According to the company's CSR Annual Report, Starbucks purchased 74 per cent of its green coffee at prices negotiated independently of the depressed commodity price. Preferred suppliers typically received a 5 per cent premium on each pound of beans they sold (Schrage, 2004).

A different kind of example can be found in the extractive industries. In this sector, there has been a history of inadequately assessed environmental risks, some of which have ultimately involved companies in huge unanticipated costs.

In this sector, enhanced CSR can serve to reduce the risk of future financial liability. Rio Tinto can be used to illustrate current developments. This company started taking CSR seriously in 1998 when it first produced a summary of its principles and policies for all its employees. The focus was on accountability, fairness, integrity and openness and was intended to capture industry best practices against which Rio Tinto wanted to measure and report its own performance. The document, 'The Way We Work', publicly commits the company to the application of appropriate standards and internal controls. It includes a code of conduct plus safety and occupational health standards to be applied worldwide, and also provides guidance for joint-venture partners. In 2003, guidance addressing bribery, corruption and political involvement was added; this included guidance on some of the hard questions relating to gifts and entertainment, the use of agents, and facilitation payments. Ultimately the company judges that a strong social and environmental agenda of this kind will support its business interests and that good community relations will provide a surer basis for uninterrupted operations (CEO, 2004). So in this case CSR is dictated by enlightened self-interest.

Other examples could be added. More generally, the Ashridge Centre for Business and Society surveyed Fortune 500 companies in 2000 (Maitland, 2000). Although only 52 of the 500 companies responded, 36 per cent of those which did so indicated that human rights issues had caused them to abandon a proposed investment project and 19 per cent of them had actually withdrawn from existing operations in a country on account of human rights issues. One publicly documented case of such disinvestment is that of 'PepsiCo', which left Burma in 1997 following intense public pressure from human rights and student groups. This last example, among others, illustrates the growing corporate sensitivity to social and environmental issues. Again, the response may have as much to do with self-interest as with morality. One factor which is certainly present in the corporate mind is a recognition that social and environmental considerations need to be addressed when they are likely to impact on corporate reputation or profitability. A different factor, sometimes present, is recognition that CSR aids employee attraction and motivation. Another factor, as in the Rio Tinto case, is the potential contribution of CSR activities to better management and minimization of operational risk.

One global company which ignored these risks was Bayer before 2001. Although their pharmaceutical product Baycol (Lipobay in the USA) was first associated with unexpected deaths in 1998, it was only in 2001, after the Federal German Institute for Medicines and Medicinal Products had determined that the product caused 'undesirable medication effects', that the product was taken off the market. When this was finally done, the company share value fell approximately 6 billion in just two days (Weige and Berg, 2003). Today, it is widely understood that a single negative story can strip billions of dollars from a company's market capitalisation in minutes.

Experiences like Bayer's, and more recently Royal Dutch Shell with its recording of oil reserves, are persuading a lot of big companies to move beyond minimal legal compliance with regulation, towards a deeper and more pro-active involvement in the wider community. To the extent that they are doing this, they are accepting a much broader concept of who and what constitutes a stakeholder in their business. Any move in this direction implies at least some degree of corporate social responsibility towards the community in general. Given this reality, it should be no surprise that one Canadian firm of consultants claim to have identified 'a continuum of CSR involvement by business, from 'CSR Lite' to 'Deep-CSR'' (Strandberg, 2002). CSR is here seen as a five-stage sequence starting with relatively superficial commitment to social and environmental improvement, as in undertaking 'GRI' reporting, through purely voluntary social initiatives in the community, ending with the deep-CSR of firms with a socially driven business model and mission. Sadly, no examples are given.

Indices and Measurement

Efforts have been made over recent years to measure the level of CSR displayed by corporations. Not surprisingly, this has proven difficult. There have also been efforts to identify the number of companies, which have accepted the principle of CSR. Yet there is no agreed code of CSR, despite millions of pages having been written on the subject. In fact, there is a multitude of codes and standards on offer; some of the best are said to be among the least known, while some that are more widely disseminated are not judged effective. So it is no surprise that British Telecom, for example, claim to have spent months searching the internet and talking with special interest groups trying to find out the most relevant codes and standards for them.

Recently, however, a guide to 32 of the most important CSR principles, codes, norms and standards has been published. This *Corporate Responsibility Code Book* (Leipziger, 2003) sets out the complete texts of these 32 codes and the accompanying commentary is informed by interviews with both standard-setters and those who have implemented the standards. The guide is both timely and useful.

At a conceptual level, the four key international frameworks are almost certainly the following (Macken, 2002):

- The United Nations Global Compact.
- AccountAbility 1000.
- Social Accountability 8000.
- The Global Reporting Initiative (GRI).

In addition to the above, in 1996 the UN Environment Programme jointly launched publication of an annual 'SustainAbility' league table of best practice in non-financial reporting. This 'Survey of Corporate Sustainability Reporting' showed how effective companies were proving to be in meeting CSR objectives, according to the companies' own corporate environmental reports. Some believe this SustainAbility table illustrates emerging best practice in reporting on Triple Bottom Line (TBL) accounting and accountability. SustainAbility claim to have accounting and reporting standards and codes in place or under development across all three dimensions of TBL. Their most recent report, in 2004, was produced in partnership with Standard & Poor's.

The 'Global Compact' was launched by UN Secretary General Kofi Annan in 1999. It promotes nine business principles (more recently 10), with considerable emphasis on labour practices. It is broad in scope and does not lend itself to easy measurement of progress. It aims to demonstrate that globalization helps the poor and also to achieve global consensus about the role of contemporary business in society.

'AccountAbility 1000', in contrast, comes out of the non-government Institute of Social and Ethical Accountability in London. In another contrast, it offers a standard for measuring and reporting ethical behaviour in business. Its designers hope thereby both to improve ethical performance and to be able to judge the validity of companies' ethical claims. The goal is to help business define targets, measure progress towards those targets, audit and report performance, and establish feedback mechanisms. The standard is designed for both internal and external audit procedures and to be applied by businesses of any size.

'Social Accountability 8000' is another voluntary universal standard for companies interested in auditing and certifying their labour practices, together with those of their suppliers and vendors. Like the Global Compact it highlights nine key areas for assessment, but unlike the Compact it seeks to measure performance in these areas. This is despite the inclusion of notoriously hard-to-measure dimensions like 'discipline' and 'discrimination'.

The 'Global Reporting Initiative' (GRI), although first conceived by the Coalition for Environmentally Responsible Economies (CERES) in 1997, was launched in New York as recently as 2003. It is designed to promote a widely acceptable framework for the voluntary reporting of economic, environmental and social performance by business and, importantly, is enjoying faster take-up than other CSR frameworks. It offers a corporate disclosure framework, which businesses can use to fully report their performance. The GRI is also leading debate on issues such as TBL in accounting and is acknowledged by many CSR enthusiasts as the leading initiative of its kind. A permanent GRI secretariat has been established in Amsterdam and more than 150 companies have published annual reports based on its guidelines (Fenton-Jones, 2003).

Companies using these guidelines dominate the sample of companies assessed in SustainAbility's 2004 Survey of Corporate Sustainability Reporting.

In most first-world economies attempts are also being made to measure CSR. In Australia, for example, there is the Good Reputation Guide, later renamed RepuTex. This comprises survey research by a private organization which has respected university support. It attempts to rank the CSR of Australia's top 100 companies on an annual basis. The detailed annual report, including ratings, is then sold to companies for A$25,000. However RepuTex has attracted more than its share of serious methodological and ethical criticism. Companies that have responded to the survey and completed it carefully tend to score well, while companies which omit answers to some questions or do not respond at all, have in the past attracted zeros. This, of course, risks a situation in which respondent companies score highly while those which do not complete the survey do badly. Obviously, this can be seriously misleading; it is most certainly not necessarily the case that a company is bad in terms of CSR just because it fails to complete a voluntary survey (Johns, 2003). RepuTex claim to have learned from these mistakes and improved their methodology, but whether they can now gain widespread credibility and trust among the commercial community remains uncertain. The better-known international instrument of 'Social and Environmental Ranking', from SustainAbility, may well be a more trustworthy measure. SustainAbility are leading consultants on corporate responsibility and sustainable development issues. They have developed a so-called 'sustainable development toolkit' to help businesses reconcile their need to create shareholder value with broader social and environmental needs.

The issue of measurement is a complex one. In the first place, no universally agreed CSR standards have yet emerged. In any case, it is not yet known to what extent it makes practical sense to apply common standards across all sectors of business. Yet at the same time, in principle, measurement seems the only realistic way to monitor progress.

Impact of Codes

The cumulative impact of all these initiatives, directly on large corporations, and indirectly through influence on public debate and the climate of business opinion, seems considerable. One piece of unbiased evidence comes from the World Economic Forum in 2002 (Taylor, 2003). In that year, the Forum identified four reasons frequently cited by big business to justify what they chose to call 'good corporate citizenship'. These were: to enhance their corporate and brand reputation; to attract good employees; to protect their license to operate; and to help compete for market position. It stands out that all these reasons were reasons of self-interest. This means they can be relied upon to exert a continuing influence. Equally, it stands out that CSR activities were widely seen to be supportive of these self-interested goals. Further evidence of growing acceptance of CSR comes from 120 companies which voluntarily participated, in 2003, in the first index of 'Corporate Responsibility' of the 'Business in the Community' organization. This is an index which defines responsible business practice and enables companies to assess and compare how they integrate responsible practices across their organizations in four key areas. These are: environment, marketplace, workplace, and community. The fact that so many companies are prepared to give immediate support to an initiative of this kind is telling. It shows that regardless of how fuzzy the notion of CSR may be, it is receiving serious attention.

A comparable development has occurred within the financial sector under the auspices of the World Bank's International Finance Corporation. Here, heads of 'project finance' and 'risk management' have collaborated with ABN Amro, Barclays, Citibank, and WestLB, to adopt a sector-specific set of social and environmental rules known as the Equator Principles (Sevastopulo, 2003). These aim for sustainable development and include project evaluation guidelines which include environmental assessment, wildlife habitats and issues relating to indigenous peoples and child and forced labour.

Such developments reflect increasing sensitivity to the risk to corporate reputation of participating in controversial transactions in both the private sector and international organizations. For example, both Citibank and JP Morgan Chase have recently been publicly challenged for providing services which helped Enron inflate its reported earnings. John Ruggie, the Director of the Harvard Center for Business and Government (Ruggie, 2002), argues that many companies fail to grasp the extent to which they are at the receiving end of a sharp increase in social expectations about the role of the corporation in society. He believes that this is not just about philanthropy or even ethics, but about many-sided social accountability to society at large. He comments that 'we live in a world of proliferating problems without passports' and that, unlike many governments, large corporations have demonstrable global reach and can make decisions and act faster than governments or their agencies. In this view, we should recognize that large corporations are more than mere economic actors on the world stage and are powerful social actors in today's globalizing world. Ruggie argues that these realities are fundamental to an understanding of the emerging nature of corporate responsibility.

Unexplored Realities

Despite the huge volume of writing on CSR, it is strange that so very little is said about its costs and about who pays. It is equally strange that there is so little discussion about the decision-making processes involved and about who makes the decisions. Most surprisingly of all, scant attention is given to the potential political implications of widespread adoption of CSR activity. These are all central and important questions. Yet they are seldom at the forefront of comment. In this paper only a few brief, bald answers will be given. They are little more than statements of the obvious. They nonetheless need to be made explicit in any discussion of CSR which purports to be realistic.

Who pays CSR expenditures? The first line answer, of course, is the firm. More profoundly, from what other financial flows in the firm are such expenditures taken? Ultimately, given finite resources, any and all CSR expenditures must come at the expense of either gross profit and/or tax paid; since these two are directly related, conceptually, it has to be both. So CSR activity does not come free. It is at the expense of profit and tax. This means that *de facto* payment is made by both the owners of the enterprise and the government(s) which receives its tax payments. As a direct consequence of CSR, both are made less well-off. In itself, this may be either good or bad, desirable or undesirable. It cannot, however, be assumed to be universally desirable. As *The Economist* (22 January 2004) (http://www.economist.com/business/displayStory.cfm?story_id = 2369912 3 December) pointed out, the problem with genuine CSR is that it is philanthropy at other people's expense. If managers support good causes out of their own generous entitlements, that is admirable; but if they do it out of income that would otherwise be paid to shareholders, that is a more dubious proposition.

The next question is, who makes the decisions? This answer is equally obvious; once again, it is the firm. This means, probably, the most senior managers of the firm at the local operational level. Theoretically, this might be any group of managers and/or influential shareholders. In any case, the point is that social and environmental decisions are here taken by a private group of people who, as likely as not, may include some who are not citizens of the country in question. These people have no formal responsibility beyond compliance with the law. They may also lack desirable local knowledge and expertise in matters of social and environmental policy. They are not in any sense representative of the wider society; most obviously they are not elected representatives. So it is by no means certain that they are the best people to take such decisions. Nor is it altogether clear what their degree of accountability for CSR decisions ought to be, given that full compliance with the law is in any case required and taken as given. This does not necessarily mean that firms should not engage in CSR activity when they and the society in which they operate support it. However, it does caution against putting firms under pressure to perform such activities as a matter of routine. We cannot simply assume that they will always be equipped to make such decisions.

There is also the fact that not many people would be happy to give CSR activist groups the decision-making role in social matters. Relinquishing the role of social conscience to special-interest groups is to pass authority to groups which are themselves unelected and as unrepresentative of society as a whole as business. They are also unaccountable. So there can be no expectation that they would represent the broader social good any better than anybody else.

There remains the question of the socio-political consequences in the event of a strong move by business into CSR activity. Such a move would almost inevitably engender a degree of competition between business and government, not in the economic sphere where we are familiar with it, but in the social and political sphere. Some would probably support such a development while others would oppose it. Supporters would probably claim that such competition would put pressure on negligent governments, of which there are many, to improve their performance. Opponents would probably claim that business lacks the constitutional legitimacy to make social decisions, which should more properly be left to society's elected representatives. Despite some serious thinking on the margin of economics (Henderson, 2001; Joseph and Parkinson, 2003), it is not clear to this author that such issues have been properly thought through. The huge uncertainty in this regard can be recognized, for example, in a recent report by SustainAbility entitled 'Gearing up: From corporate responsibility to good governance and scalable solutions' (2004). Here it is suggested that businesses should team up with governments to respond to problems. The report states:

> The challenge is not to get companies to take on the responsibilities of governments but to help ensure governments fulfil their own responsibilities

While the risks of both greater government control over business and greater business influence over government are explicitly acknowledged, the practicalities of this proposed new business–government liaison are little explored. First, it might not prove commercially or economically beneficial for business to become more closely enmeshed in socio-political decision-making. It might well be less distracting and more economically beneficial for business to retain an unequivocal economic orientation. Second, if private business does become linked in peoples' minds with the provision of social benefits of a kind more commonly associated with governments, there is an obvious risk that over time this business influence will be resented by governments. This possibility has not yet been given much attention, but it cannot be assumed that business–government rivalry over non-economic influence in society would be a positive development.

At the same time, most of us can recognize the great potential of big business for adding to human welfare in the communities in which they operate; especially in the poorer countries of the world, where government resources are inadequate. However, the foregoing suggests CSR activities may most wisely be undertaken in a piecemeal and quiet manner, with a minimum of fanfare and publicity except at the local level, rather than the opposite. Yet this is definitely not the trend at the present time. Despite the present drift towards increased acceptance of CSR, it is rather obvious that the wider socio-political repercussions of any major expansion of CSR activity across the world have yet to be rigorously assessed. So it is probably wise to remember that CSR remains without any widely accepted intellectual underpinning.

The Future of CSR

There is plenty of room for debate about CSR. A spread of opinion is evident on most aspects of the issue, including its scope, how best to encourage it, how best to measure it, and even whether to keep it entirely voluntary or introduce elements of compulsion. It is predictable that all these questions will be the subject of increasing attention in the near future.

This observer's judgement is that the contemporary debate is lop-sided and to an alarming extent omits central questions. Moreover, if CSR should deflect business from its primary economic goals, it is anyway unlikely to prove successful. Put simply, without a profitable business, there are no resources for CSR activities. Yet this need neither preclude nor inhibit business from 'good works' in the communities in which it operates. Business possesses an obvious capacity to add to social well-being across the globe. In fact, it has long had a tradition of such activity, ranging from Quaker entrepreneur-philanthropists in eighteenth and 19th-century England to the Tata family businesses in 20th-century India. However it is important to note explicitly that nobody has ever sought to impose such socially desirable activity on business by fiat. This may be a risk that some CSR enthusiasts now run (Hess, 2001; Kelly, 2001). The acceptance of costly burdens by profit-seeking companies cannot easily be imposed on the ill-qualified or the unwilling. There would be risk if CSR responsibilities were to be crudely imposed on business by legislation or regulation. It is obvious to this observer, from the cases cited earlier in this paper, that moral suasion and market pressure are each much more persuasive. To raise business-relevant environmental standards for all through legislation is one thing and is acceptable, but any attempt to impose burdens which are not business-relevant, through regulation, is very risky indeed. Such action would be far more than just contentious; it would invite wholly negative social outcomes, including corruption and economic inefficiency.

Reassuringly, the CSR website (www.iblf.org/csr/) is mild and persuasive in tone rather than assertive or moralistic. It draws attention to three levels in what it sees as an emerging governance framework: national legislation, international conventions, and voluntary standards. At the first level, national regulation, there is recognition that all companies, regardless of jurisdiction, are obliged to comply with the company law, labour, safety, and environmental standards of the countries in which they operate. Beyond this, there is a second level of internationally agreed conventions on a growing number of issues. These are increasingly used by global corporations as a basis for judgement and decision-making. Then, there is an emerging third level of voluntary standards. These are varied and often established by specific industry groups for their own purposes. Many promote competition among companies within a sector on equal terms. Some involve accreditation systems; others offer guidelines. Overall, this is a useful framework.

To this observer, there are three developments taking place today which are relevant to the future of CSR. First, more big companies are growing into regional and global corporations. It is said that there are now sixty to seventy thousand multinational corporations in the world economy, with an additional two to three hundred thousand national and regional subsidiaries (Zadek and McIntosh, 2002). These corporations account for one-third of the world's GDP and two-thirds of world trade (Parrett, 2004). In the course of their regional and global expansion these businesses confront differing local standards and tend to accept at least some measure of corporate responsibility for lifting standards in the poorest and least sophisticated environments in which they operate. They do so, if for no other reason, in order to avoid public criticism in their home country and in their major markets. Second, in an information-rich and increasingly integrated business world, often with active shareholder groups, we see companies giving far more structured attention than in the past to factors which might impact negatively on their corporate and brand reputations. There is indeed growing pressure on firms to be both more transparent and, on occasion, more active in the communities in which they operate. In a piecemeal way, within resource constraints, many businesses are responding positively to this pressure. Third, corporate leaders and senior managers, who still often receive share option bonus schemes, find that their share price and the moral high ground are positively correlated. This, too, encourages them to go some way towards meeting rising community expectations.

In short, there is indeed a trend towards CSR and, as instanced above, we only need to examine corporate self-interest to explain it. At the same time, it is desirable to caution those who are filled with missionary zeal on behalf of CSR against the imposition of legislation or compulsion in order to foster its progress and development. Such action risks backfiring and having negative side-effects. Equally important, after accepting that business can at times be more effective than government, business should not and cannot usurp government's constitutional role. It is political processes, alone, which have the legitimacy to make social and environmental choices for the community at large. It is probably undesirable for big businesses to be seen to challenge government in this respect.

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