BUSINESS RESPONSIBILITY: RELATIONSHIPS, REGULATION AND REPUTATION

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Abstract

The practice of corporate social responsibility requires private enterprise to recognise its relationship to the public with which it interacts. Corporations may be private bodies formed to pursue private purposes, however, their processes have a very public impact. As boundaries between public and private sectors have blurred and the power of corporations has expanded beyond borders, traditional concepts of business purpose and privacy no longer provide a realistic reflection of current needs. There is increasing awareness of the impact of private enterprise on society and evidence of the benefits of embracing social responsibility. This paper explores how the movement in concepts of corporate purpose and public/private activities has redefined the business landscape. It discusses the relevance of government regulation, the need for

private sector initiative and closes with the suggestion that reputation is the new currency of control.

Introduction

When we think of business we may typically think of private sector, profit motivation and entrepreneurial initiative. Generally, business responsibility has been tied around this definition. Private bodies formed to pursue private purposes that mostly entail private profit. This landscape is changing. The growth in private sector power and influence, the re-emergence of concern for others other than self, and recognition of the interconnectedness of business activities with society at large play a significant role in this changed and changing business landscape. There are benefits to be gained from this redefinition of business purpose and ironically it will likely come from the application of entrepreneurial initiative.

The business purpose

The view that business is solely for the purpose of maximising shareholder value has dominated many decades of business practice. Economist Milton Friedman firmly implanted this view when he held that moral responsibility does not have a place in business, the sole purpose of which is profit making by any means, provided it is legal. He was critical of employees who through their organisation attempt to play a social role in the community (unless that is the organisation's defined raison d'etre) and accuses them of being "unwitting puppets" of social intelligentsia who seek to undermine free society. (1982).

Friedman's view was widely accepted by those making economic policy and it built upon the belief of Adam Smith (1976) that market forces are sufficient to address any social concerns. This view, however, relies on a level of morality that has been steadily undermined over decades of an exclusive focus on profit making. (Mackay, 2004). Adherence to this narrow belief has seen many companies design their actions to be sufficient to meet legislative requirements but not much more. Application of this view has led to not only a shift in power toward the free market but also the legitimisation of 'greed' and a destructive impact on the well being of stakeholders at large. (Dunphy, Griffiths, & Benn, 2003). Failure to meet moral considerations of corporate action has contributed to the insidious environmental and social morass facing humanity.

Fortunately, the last decade has also seen the introduction of a new regime for business. More contemporary perspectives hold that stakeholders are very relevant to the strategic management of a business. Freeman (1994) brought this viewpoint into sharp focus by replacing the view that managers simply have a duty to stockholders with the idea that managers have a fiduciary duty to stakeholders. His thesis questioned for whose benefit and at whose expense the organisation is being managed. What emerged was a growing awareness of the relevance of stakeholders, the social impact that business actions have and the responsibility a business must take for its actions. While the Friedman approach sees business in isolation from its community, a stakeholder approach speaks of the inter-connectedness of our actions. It sees an expansive business purpose that encourages unity and views the whole picture.

Corporate responsibility as social

Although a decade of thought surrounding stakeholder theory has passed, the purpose of business is beginning to include social responsibility. There is recognition that the concerns of society and the business of enterprise are connected. A focus on corporate social responsibility means the business makes a commitment to doing business in a way that is ethical, economically sound and socially responsive to the needs of the company's stakeholders. Those stakeholders include its owners and investors, its leaders and managers, its employees and contractors, its customers and suppliers, the natural environment, the wider community (Hopkins, 2003).

In the current business context, corporate social responsibility is a rising star. Acknowledged as no longer the exclusive domain of charitable, not-for-profit or public sector organisations, social responsibility has been put on the business agenda. Overall, however, its place on that agenda may not be where it needs to be. While it is being adopted by a growing number of organisations at some level, acceptance of the changes in expectations has been slow (Loza, 2004). To support social responsibility as a contemporary business practice and move beyond the legacy of Friedman's ideology, it is necessary to consider societal value as having intrinsic value, to acknowledge the artificiality of the private/public divide and to recognise reciprocity in the business/society relationship. These arguments will now be discussed.

Societal value has intrinsic value

Friedman's (1982) minimalist approach suggests businesses' responsibility is limited to making as much profit as possible for shareholders. This view coupled with share market capitalism has created an overemphasis on share value (Handy, 2002) - holding it as the main criterion for success. This has caused executives to take a very short term, opportunistic view of their business transactions. Executives in a review by the Business Council of Australia (BCA, 2004) acknowledge feeling locked into short-termism by the complex influence of major market players such as investment analysts, fund managers and institutional investors. Some may say that who pays the piper should call the tune, however, it has been shown that better results can be obtained by businesses that look beyond the making of money.

A study of organisations each known as a leader in its respective industry found that "'maximizing shareholder wealth' or 'profit maximisation' has not been the dominant driving force or primary objective" (Collins & Porras, 1994) p8. Instead they intentionally couple profit making with a core ideology that includes core values and a sense of purpose aligned with a larger end. In that these companies were found to be more profitable than profit-driven comparison companies, the limitations of Friedman's view may not be conducive to best practice and optimal value.

The bottom line remains central to business but we have seen organisations like Unilever extend it to a triple bottom line to include economic, social and environmental outcomes (Freeman & Werhane, 2003) - thus, recognising the value of outcomes other than direct economic ones. Questioning "What's a business for?" futurist Charles Handy (2002) says simply making profits for the sake of making profits is nonsensical. Profits must be made for a purpose other than themselves and that purpose needs to be for the benefit of others as well as the business owners. It must be to make a profit so the business can do something better, a larger end. Such larger ends may include 'good works'.

The value of 'good works' that draw on an organisation's core expertise furthers the case for an expansive approach to corporate responsibility (Freeman & Werhane, 2003). Among the examples given is Merck whose "gift" of 400 million doses of Mectizan (a cure for river blindness) to people in developing countries has virtually erased the disease. This goes beyond a purely profit agenda and in doing so can potentially create competitive advantage by having enhanced, broadened or stamped the company's claim to that core expertise. The societal value it has generated has intrinsic value for the company.

Justification replaces private/public divide

Free enterprise economists see corporations as private bodies formed for private purposes. Friedman (1982) objects to corporate social responsibility because it involves actions beyond the market mechanisms of the private sector and moves into a public role. Yet, what we judge as being private and public may not be quite so black and white or appropriate.

Private enterprise of individuals using their own property is contrasted to the public enterprise of the state using communal property and is often seen as somehow more "natural" (Sampford, 1990) p187. Sampford, however, questions this divide and its artificial nature. Upon reviewing institutions, he says "finding distinctions between public and private institutions that are both sustainable and capable of justifying the importance given to the difference between them is particularly difficult" (Sampford, 1990) p198. Instead of drawing direction from the definition of an institution as private or public, the treatment of that institution under the law should be directed by its reason for existing.

In considering the accountability of private enterprise, Lindblom (1986) stresses that the main reason a business exists is to discharge the public responsibility of producing a product or a service. It might be undertaken through a private enterprise structure but it is a responsibility driven by the public it serves. Its justification is to provide goods and services to the public. The argument that the private sector is somehow different from the public arena often unnecessarily gives it mastership or superior status over the public, particularly in the interests of upholding the value of privacy (Sampford, 1990). However, as we connect business and society it becomes obvious that many traditionally 'private' enterprises in fact have a very public impact that belies their claim to privacy.

As demands from society for transparency and accountability escalate, private enterprise is being called to define itself by its role rather than its private status. Modern perspectives see corporations being morally evaluated in terms of their roles and role responsibilities as an institution and by reference to moral standards such as respect for persons, avoidance of harm, respect for rights and fairness, honouring contracts and respect for property (Freeman & Werhane, 2003) . For example, if the business' role is to make apple juice and its apple juice product doesn't have sufficient apple content, then it has failed in its role responsibility. Whether a public or private organisation, its justification is the most relevant issue. The institution has failed in its relationship with the public it serves.

Reciprocity in the business/society relationship

Earlier concepts of corporate responsibility embraced a stewardship approach to business whereby a company held a duty to contribute its resources to the benefit of those less fortunate members of society. It was based on the concept that 'power begets responsibility' (Freeman & Werhane, 2003). Late in the 19th century, Andrew Carnegie championed this approach describing prosperity as the goal of free enterprise. Relying on both charity and stewardship as underpinning principles, he saw the ideal business as largely philanthropic (Solomon, 1992a).

This approach to corporate social responsibility was, however, paternalistic in its practice. Business owners saw themselves as parents caring for those less able to care for themselves. The relationship between business and society was not seen as equal. Whilst it worked and was admirable, it was progressively diluted and replaced by the economic concern of profitability (Solomon, 1992a). With the re-emerged emphasis on social responsibility, it may be that the relationship between business and society is again being interpreted with the legacy of paternalism.

The legacy of a paternalistic attitude sees the corporation as the authority 'giving' to the stakeholders. This is imbued with the assumption that stakeholders should be grateful for and accepting of what the company is prepared to 'give'. The recent example of James Hardy Limited moving offshore and leaving a grossly inadequate compensation fund for asbestos sufferers demonstrates this paternalistic attitude in action. It is an attitude that doesn't reflect the growing sophistication of society at large. And this was evidenced by the collective action of stakeholders affected by James Hardy's actions (including shareholders, past employees, medical professionals) being successful in changing the company's financial provision for asbestos-related claims.

What is obvious and being actioned in this example is the reciprocity of the business/society relationship. In discussing stakeholder theory, Freeman and Werhane (2003) remind us that the 'stakes' involved are reciprocal in that each holder can benefit or harm the other. Corporations need to acknowledge this reciprocity. The central question for business ethics is "what if there are activities which benefit shareholders to the detriment of society at large or vice versa?" (Sparkes, 1998). Friedman's assumption is that such an outcome is unlikely due to the efficiency of the market. Yet market efficiency is only one part of a much bigger picture. Such segmented attention and reliance upon one element doesn't provide for the situation as a whole.

Whole picture relevance

Concern for the complete picture of business and society rather than some of its individual segments is more realistic. Such attention to the bigger picture is the contribution made by a stakeholder approach. It has a sense of 'holism' that suggests we look beyond the narrow focus of profits and efficiency and individualism (Solomon, 1992b). It encourages us to look at the relationships between different segments and in a manner that acknowledges the reciprocity of those relationships. Further, we look at the impact on the whole which is not always the same as the sum of the individual parts (Solomon, 1992b).

It is this whole picture thinking that is thematic in the arguments presented so far in this paper. Embracing an expansive business purpose that gives intrinsic value to social initiatives, moving beyond notions of a division between public and private institutions and viewing relationships between business and society as part of a greater whole. The risk of not initiating this revised version of responsibility is that demand for change may come imposed by government regulation. The next part of this paper discusses views surrounding the 'inevitability' of regulation.

Inevitability of government regulation

In discussing the accountability of free enterprise, Lindblom (1986) p22 sees government regulation of private enterprise as both "inevitable and desirable". He grounds this by identifying the failure of two arguments traditionally used to support a hands-off approach to corporate responsibility. The first relies on control by the consumer.

The argument is that consumers voting with their dollar can hold private enterprise accountable. This holds true when the product is not what they want in and of itself. However, the hole in this argument is when the public likes the product but not the means by which it is produced. For example, where the enterprise irresponsibly pollutes the air or underpays its workers located in a lesser-developed country. These issues are secondary to the product or service yet in that they form part of the enterprises operations, they are integral to its public responsibility. Lindblom proposes that in such cases, buyer control has less impact.

However, since the writing of Lindblom's paper, examples of collective consumer action to address inappropriate private enterprise practices have emerged. An active movement of labour, religious, student, solidarity and community organisations now bring awareness to sweatshop production processes and environmental destruction and call for accountability. Interestingly, in the examples of Nike and Wal-Mart, the aim was not a boycott of product but for production that treats workers with fairness, dignity and justice. (Roddick, 2001) Given the success of this collective consumer and stakeholder action, this arm of Lindblom's case for government regulation is weakened. His objection to the second remains robust.

The second argument suggests that executive skills are sufficiently advanced to deal with the broad scope of responsibility that society expects of them. In that this relies on the benevolence of leaders to look after us and that this contrasts with what we expect of our public officials in government, it remains readily refutable. The powers of private enterprise to impact society are at least equal to that of the public sector and accordingly demand more than voluntary accountability. In addition, constant pressure to cut costs and improve the bottom-line challenges the capacity of any well-intentioned executives to embrace social responsibility. (Lindblom, 1986) This is consistent with Sampford's (1994) view that approaches to public sector ethics are equally relevant to private sector organisations and particularly because of the power held by each and the trust given to these organisations by society.

The flaws in this argument pointed out by Lindblom remain current. It cannot simply be 'assumed' that private enterprise will enact its social responsibility. As economic policies have taken a neo-liberal direction, deregulation and 'privatisation' has seen greater power and, by necessity, trust in the actions of private enterprise. While we have traditionally seen private enterprise as 'different' this distinction is clearly no longer appropriate. Although against the prevailing winds of neo-liberalism, government regulation is a legitimate means for addressing any potential vacuum of responsibility.

The role of government includes regulating private business in terms of its economic, social and environmental impact (Airo-Farulla, 2004). Opponents to this view may argue there is no difference in principle between the government intruding in your boardroom and the government intruding in your bedroom. Both are violations of individual freedom. This view is a simplistic notion that uses failed logic to misrepresent the situation. To illustrate, I draw on an example from Saul (2001) p55 who writes: "Wojtyla is the Pope. He is Polish. Therefore all Popes are Polish." He was arguing that the view of deregulation being inevitable is more about false logic supporting market fashion than a natural outcome. Similarly the boardroom/bedroom view draws association through false logic. For example: X is an institution. Y is an individual. We are both called private. Therefore we both must have freedom. This ignores the public role played by private enterprise and the vast power and influence that private institutions have compared to (at least most) private individuals. The more realistic alignment is between institutions as earlier discussed.

Desirability of government regulation

If regulation is a legitimate means, is it desirable for corporate social responsibility? Regulatory agencies and self-regulation are two options for government regulation. To what extent a government uses traditional 'command and control' techniques is directly related to the level of self-regulation undertaken by business (Airo-Farulla, 2004). Over the past few decades, the trend in Australia has been toward deregulation and greater reliance on self-regulation (Baxt, 1993) (Airo-Farulla, 2004). The exceptions to this trend are controversial events like corporate collapses. In commenting on the corporate failures of the 1980's, Hilmer (1993) observed that politicians typically respond to such events by introducing broad new laws. While the government is seen to be doing something, this approach burdens the community and its regulators with extra laws and most benefit accrues to lawyers and paper-related industries (Baxt, 1993) .

From an entrepreneurial perspective, self-regulation may be preferable. It retains control over the integration of social responsibility into business practice. Paradoxically, self-regulation engenders the highly valued freedom that is so attractive to private entrepreneurs. Sampford and Wood (1993) caution business people, however, from embracing ethical practices on the basis of pure self-interest. Seeing self-regulation as a means to avoiding regulatory solutions, is not sufficiently pervasive to endure over the longer term. If the motivation to implement social responsibility is not intrinsic, there will not be sufficient commitment to fuel it or to support it when economic and social issues are competing.

If the reason for being socially responsible is not value-driven, the underlying real values of the company culture will prevail and may, at best, reduce social responsibility to the minimum of legal compliance and, at worst, result in a detrimental impact upon society. If this approach prevails in the business sector, it would likely breed the situation in which regulation would be once again be on the government agenda. As such, there is a degree of 'inevitability' attached to government regulation of corporate social responsibility. This likelihood can be countered by private enterprise initiating a self-regulatory response founded on values that support socially responsible enterprise.

Self-regulatory initiative

Regulatory legislation is only one part of the picture for business ethics. Ethical standards reflecting the values of that enterprise is another. The design of the institution completes the picture (Sampford & Wood, 1993). The trio of law, ethics and institutional design must be considered in initiating a self-regulatory response. Understanding the laws that require compliance, defining the values that will drive social responsibility and designing the enterprise so that it brings integrity to the whole effort.

Bringing this initiative to life is achieved by looking at the justification of the enterprise. Asking 'why should society have them?' is a key starting point. This leads to a positive expression as to what the enterprise should aspire rather than a negative take on what should be avoided (Sampford & Wood, 1993) (Sampford, 1994). The justification provides the *raison d'etre* for the business and around that can be built compliance with the law, development of ethical standards and design of the enterprise in terms of structure and systems. Coherency across these three aspects is crucial. One can see how the mission and value statements on the corporate wall, while well-intentioned, can easily be undermined if internal systems (inadvertently or otherwise) reward contrary behaviour. Coherency and integrity in practice of self-regulation counts because it impacts the enterprise's reputation.

Regulation through reputation

The real currency of control may now be reputation. If an enterprise is unable to operate with sufficient transparency and accountability, its reputation will be at risk. The importance of reputation was made evident recently by investment guru Warren Buffet in his response to his investment company's connection with HIH transactions. A memo sent by Buffet to his company's directors and managers said the company "can afford to lose money, even lots of money; it can't afford to lose reputation, even a shred of reputation. You and I are the guardians of that reputation." (Main, 2005) p61. The effectiveness of reputation for regulation is that you can't fake it, at least not over the long term. The sophistication of stakeholders, their access to information and their capacity to organise through technology will ensure that transparency and accountability prevail.

This is not something to be feared. It simply means that those enterprises that leave the transition to social responsibility until later may well have a more challenging time. Although it is true that early adopters of CSR often find themselves with "a daunting list of further challenges" (Dunlop, 2005) p28, these issues will likely be less problematic than the challenges faced by enterprises that cling to non-sustainable regimes. In addition, early adopters will also have earlier receipt of the rewards social responsibility brings.

Conclusion

This is a time of change for private enterprise. Most of the change has already happened. It's now time for private enterprise to recognise it and integrate it before regulators require them to do it. What better means of making a successful company than being a leader in a field of the future? That field is 'sustainability' grounded in concern for the whole picture. It is a field in which business is inclusive of its stakeholders and makes decisions based on genuine concern for enriching society. It is a field in which private enterprise recognises and respects its role as an influential institution in our society. It is a field in which business and society are inextricably linked and in which they play, work and live together. This is a field that will prosper. It will require minimal legislation because entrepreneurial actions will foster integrity in their implementation of corporate social responsibility. Some may say this is a grand vision, however, as we know it is the visionary company that's optimising value.

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