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LOST IN TRANSITION?
The Future of Corporate Social Responsibility

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THE DIZZYING PACE OF CORPORATE SOCIAL RESPONSIBILITY (CSR) initiatives continues unabated. For its champions, CSR is moving quickly from a curiosity to the mainstream. For its skeptics, it remains too marginal and too voluntary to make a real difference in business behavior. Whether champion or skeptic, a decade of proliferating codes, collaboratives, conferences and courses warrants pause and reflection by both theorists and practitioners alike. Is this the moment to ask: 'What path are we on? And is the path we are on the right one?'

This is more than an academic query. It focuses attention on the formidable intellectual and financial resources applied to CSR to date, and questions whether results are commensurate with the resources expended. Is CSR more or less than the sum of its many, disparate parts? Does it promise to direct corporate ingenuity and influence toward addressing the urgent global challenges of the 21st century?

Few would dispute that the last decade was a turbulent time for corporations worldwide. Even prior to the epidemic of corporate misconduct since 2000, CSR was taking shape at individual corporations, as well as at national and international levels. Prodded by a combination of corporate anxiety with the prospect of tainted reputation, voluntary programs and partnerships advanced by governments and civil society, and the emergence of international codes and standards, few large corporations remain insulated from the CSR movement and the incremental changes it has fostered.

This steady, albeit slow, penetration of CSR into the corporate domain was disrupted by the epidemic of corporate misconduct that dominated government and media attention since its outbreak after 2000. While the CSR 'trade press' reports a steady stream of successes, the mass media dwells on accountability malfeasance. Breakdowns in corporate governance raise fundamental questions concerning the character of both corporations as organizations and the individuals that lead them. To some extent, CSR has been a victim of events that have little to do with its roots or focus. While Enron and its successors are stories of illegalities and ethical failures, CSR principally has been about beyond-compliance voluntarism. Yet, in the public mind, the two are co-mingled, to the detriment of corporations that are serious CSR practitioners.

Repeated episodes of misconduct continue to quietly corrupt public perceptions of CSR. Worthy CSR advances have been tainted by diminished trust in corporations as a whole. How, the public asks, can we rely on entities that violate the public trust to act as agents of long-term public benefit? While the totality of misconduct is miniscule relative to the number of corporations, this contamination effect is disproportionate to the number of deviant corporations. But these mathematics offer little comfort to those corporations that have demonstrated serious commitment to embedding CSR in their strategy and operations.

EVOLUTION

To chart a path forward for CSR, it is helpful to reflect on the genesis of the modern corporation. First, a disclaimer: the perspective offered here is heavily Anglo-American. France, Germany, and Japan, for example, have their distinctive corporate chronicles, as do the emerging nations such as Brazil, China, India and South Africa. This uniqueness calls for parallel assessment to the present one. With that key caveat in mind, the Anglo-American experience contains much of value in appraising CSR's strengths, limitations, and options.

Observing the corporate entity today, one sees an organisational form that draws its genetics from the conditions and institutions that date to the 16th century. Concepts of risk and reward are rooted in the tradition of the earliest investors in global trading companies chartered by the European royalty and, sometime later, by national governments. Initial investors were largely synonymous with business partners.

Over time, this combined owner-manager function was split. As large numbers of passive investors provided capital for expanding enterprises, they did so with little connection to day-to-day management. As capital providers, they were positioned to become the primary beneficiaries of the surplus generated by the corporations in which they invested. This concept of shareholder enrichment as the bedrock of corporate purpose—and its modern incarnation, shareholder value—has endured despite dramatic shifts in the mix of capital, labour, and technology that characterise modern production systems.

As shareholder primacy took root, the notion of the corporation as a dominantly public-purpose entity, with time-limited lifespan and specific objectives such as road or canal construction, gradually shifted to an open-ended lifespan with a broadly defined purpose to produce a full range of goods and services. By the end of the 19thth century, private enrichment had replaced public benefit as the core purpose of the corporation. A series of legal decisions in both the US and the UK created an entity with, essentially, all the rights of natural persons, limited liability for investors, few controls on mergers and acquisitions, and rights to own stock in other companies.

The imbalance between expanded corporate rights and few corporate obligations that evolved during the 19th century triggered a series of responses. In the US, beginning in the early 20th century, anti-trust legislation, securities regulations, trade unions, workplace standards, controls on natural monopolies such public utilities, and environmental controls were put in place over decades of struggle over the character and control of the corporation. Conflicts among shareholders, management, workers and the public were manifested in policy debates, labour unrest, and public protests. Government played the role of mediator to reconcile competing interests in relation to how corporations would conduct themselves, and how the wealth they created would be allocated across competing interests.

Government interventions sought to correct the intrinsic social weaknesses of unfettered market capitalism; for example, its inability to deal with externalities, income inequities, and monopolies. The 20th century was the century of market correction. While it tempered some of the most anti-social aspects of corporations and the market, it left intact the basic rules of corporate activity.

In the 21st century, as in times past, anxieties again are arising as to the strengths and limitations of corporations in their modern form. But these anxieties are framed in a fundamentally different social context. Globalisation—the expression of 16th century mercantilism but reconstituted into a far more powerful socio-economic force than its antecedent—has triggered a new wave of anxiety about the nature and purpose of the corporation.

As technology has reduced the effects of distance and frontiers, and the influence of corporations has ascended to unprecedented heights, serious questions arise as to the role and control of the corporation as a player in global development. It cannot be assumed that the rights and obligations, governance and regulation, that defined corporations in the 20th century is optimal—or even workable—in the 21st century. In the same vein, it cannot be assumed that CSR as we know it is up to the expectations we have created for it during the past decade.

FITNESS

Thus, we are left to ask if CSR, rooted in voluntarism and an abiding faith in markets, is capable of responding to these new realities. Issues unknown and/or unspoken only a decade ago now regularly appear on the corporate agenda, either by choice of corporations themselves or through initiatives of governments, activists, and, increasingly, investors. Human rights, HIV/AIDS, drug pricing, climate change, outsourcing, sweatshops—these, and many others, are moving to center stage. They are challenging business in ways unthinkable even five years ago. Pressures to practice transparency and demonstrate proactive management of reputation risks associated with social and environmental practices continue to intensify as markets slowly grasp and appreciate how such issues affect shareholder value.

Strange bedfellows press for changes in corporate governance and management, though often for entirely different motives. Who could have predicted that the Association of British Insurers and the California Public Employees Retirement System would join WWF (World-Wide Fund for Nature) and Amnesty International in scrutinising the social and environmental risks of global corporations?

As the pace of globalisation quickens, the role of corporations in shaping future development pathways has risen to the level of everyday public discourse as well as expert debate. The juxtaposition of unprecedented corporate influence on global affairs alongside diminished public confidence in corporate integrity fuels fundamental questions about corporate purpose in the 21st century. While this unease manifests itself in diverse ways across corporate stakeholders, the disquiet inevitably leads one to an overarching concern: **is CSR, as currently defined, capable of meeting societal expectations of corporations in the coming decades?**

The question, certainly, is not unique to corporations. Governments, multilateral institutions, labour and civil society organisations are under similar scrutiny. But, unlike corporations, these organisations are, by definition, servants of the public benefit. Corporations, on the other hand, have evolved as the pre-eminent engines of private wealth creation. While voluntary, market-based CSR may tame the most egregious anti-social behaviours, corporate purpose and practice that evolved during the 20th century remain largely undisturbed at the dawn of the 21st century. Is this desirable, and tenable, from a global development perspective?

GENETICS

At the heart of the question of corporate fitness to deliver against societal expectations lies what might be called **corporate genetics**. Corporate genetics comprises the elements that collectively define corporate purpose, or the *raison d'etre* of entity. More than two centuries has left a legacy of corporate character rooted in law, culture, and practice. If the corporation is to be transformed from primarily a private value generator to a public benefit generator (or a balance of the two), it is essential to decode, analyse and, as needed, alter its genetics. Otherwise, efforts to alter behaviour, the core pursuit of virtually all CSR initiatives, are destined to achieve only marginal results. This, in turn, will fall well short of what is needed to fully deploy corporations in the struggles against poverty, ecosystems' collapse and human rights abuses that will define the global agenda in the coming decades.

What, then, are the elements of corporate genetics? To illustrate, consider the various elements in three rings around corporate purpose, with closer rings implying greater influence on such purpose (Fig. 1). At the core, one may argue, lie attributes such as shareholder primacy, limited liability of equity holders, and **corporate personhood—**the rights of corporations under law to protections and privileges accorded human beings. Attributes of this type, deeply embedded in both tradition and the psyche of those with management and fiduciary responsibilities are, arguably, the essence of what shapes corporate purpose.

In a second ring is a set of elements that exert somewhat less influence, but act as powerful forces in shaping corporate character. Securities regulations, corporate governance, capital ownership and corporate law may be viewed as instruments that give life and durability to shareholder primacy, limited liability, and corporate personhood. Capital ownership among publicly traded companies is enabled by ring one attributes, even as its pattern is subject to shifts over time and place. The rise of public pension funds as powerful capital movers, for example, is a relatively recent phenomenon that is reshaping how boards and managers oversee the enterprises for which they are responsible. Similarly, corporate charters—the formal license to operate—embody the shareholder primacy and personhood attributes that exert dominant influence on core purpose.

In a third ring, most removed from the core determinants of purpose, are elements such as voluntary initiatives, international norms, company codes and policies, and company leadership. The first of these two encompass scores of voluntary or quasi-voluntary initiatives conceived by corporations themselves, business associations, and civil society organisations. These are a mainstay of CSR. International norms covering human rights, governance and labour standards, have been advanced by intergovernmental bodies such the UN, OECD, and the ILO. Also in the third ring are corporation-specific elements, company leadership and company codes and values. While some observers may place these closer to the core determinants of corporate purpose, Figure 1 depicts them more as derivatives on the first and second rings, implying dependence on elements that lie deep within the corporate genetic makeup.

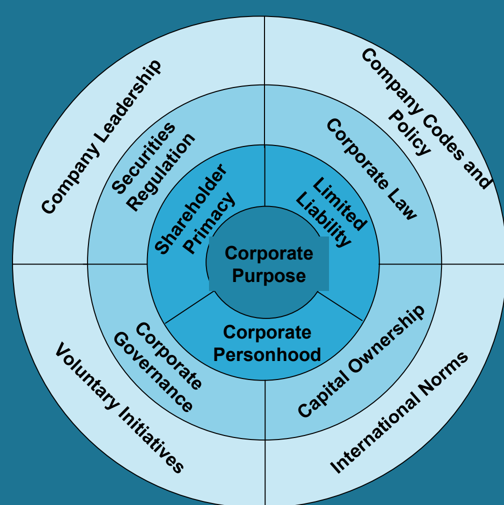

Figure 1. Genetics of Corporate Purpose

Reasonable differences of views surely exist among CSR champions and skeptics as to the placement of elements in the three rings of Figure 1. But these differences unlikely would shift ring one elements to ring three, or *vice versa*. If this assumption is correct, and basic configuration is an approximation of the genetic code of most modern publicly listed corporations, a key conclusion in relation to CSR emerges— **while the great majority of CSR thought and practice has focused on ring-three elements, the most powerful levers for change reside in rings one and two.**

The repercussions of this incongruity between focus and influence shed powerful light on how far CSR has traveled and where it is going in the future. For all the intense CSR activity during the last decade, the locus of such activity has been in the outer ring—on elements most removed from core genetics. It thus should come as no surprise that CSR has limited effect on fundamental behavioural change. The converse also is true. The relatively minor attention of CSR on inner and intermediate elements of corporate genetics inevitably slows the pace of change toward a more socially purposeful corporation.

FUTURES

What does this analysis signify for the future of CSR and to whether CSR is on the 'right' path?

If 'right' means incremental enhancement of corporation contributions to addressing discrete global challenges, then recent history may be viewed with at least modest satisfaction. CSR is making inroads, albeit slowly and piecemeal. The combined effects of national and international voluntary programmes, bolstered by emerging international norms, are giving rise to a package of best practices. Gradually, a shift in expectations surrounding corporate behaviour is occurring. Stakeholders, diverse in composition and motives, are altering the terms of engagement with corporations. 'Why not' is replacing 'why' when it comes to corporations' embrace of emerging norms for human, labour and environmental rights, as well as transparency and governance systems supportive of these key areas of CSR.

But if the 'right' path means deeper, broader, and enduring contributions, CSR as currently construed is destined to fall well short of public expectations. Such is the case because the modern corporation long ago shed its public benefit ancestry and evolved into an entity dedicated, first and foremost, to enrichment of its owners. This is not to say that the wealth it creates accrues entirely to its shareholders. Employees, suppliers, and communities certainly accrue benefits stemming from corporate activities. But these are byproducts, not equals, to shareholder enrichment. Corporate genetics does not allow otherwise. Indeed, the opposite is true. Its genetics fortify and perpetuate its role as private wealth generator.

This analysis is not an argument for abandoning CSR as we know it. But it is an argument that CSR as currently practised has been oversold. If government, civil society labour and corporations themselves are serious about a major elevation of corporate contributions to 21st century global imperatives, it is essential to envision new forms of corporate design that address and, as needed, alter its genetics. This is as true in the US and UK as it is for Germany and Japan, and for the emerging economies that promise to be the future engines of the global economy.

Focusing on genetics need not—indeed, should not—be interpreted as an all-or-nothing proposition. One can imagine, for example, undoing shareholder primacy in a form that equalises non-shareholder and shareholder interests. A glimpse of this is visible already in the legislatures of California and Minnesota where laws have been introduced that enable corporate boards to consider non-shareholder interests in the exercise of their fiduciary duties.

In a similar vein, civil society in the future may press for an end to most, but not all, aspects of the rights bestowed upon corporations as 'natural persons'. Or it may campaign for complete termination personhood while devising alternative mechanisms for establishing certain aspects of existing rights accorded natural persons. And in the case of limited liability, wholesale abandonment without some preservation of investor protections may result in capital deprivation, to the detriment of workers and communities. Perhaps less limited, rather than unlimited, liability is preferable from a social purpose standpoint.

Whatever set of approaches emerge to foster corporate social purpose, it is clear that treatment and fixes, the basics of CSR to date, are intrinsically limited as instruments of social change. The mounting estrangement between corporations and the public is living testimony to this. Instead, a focus on sources and cures that reconstitute obsolete elements of corporate genetics must assume a far more prominent role if corporations are to deliver the social, economic and environmental wealth which they are uniquely capable of producing. This, in short, is the path that must define the next chapter of CSR.

BIOSKETCH

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Allen L. White, Ph.D. is Vice President, Senior Fellow, and Member Board of Directors of Tellus Institute in Boston, USA. He co-founded the Global Reporting Initiative (GRI) in 1997 and served as Director and Acting Chief Executive from 1999-2002. Dr. White serves on the Steering Committee of the Institute of Responsible Investment, the Advisory Board of Civic Capital and on the Board of Directors of GAN-NET. He has advised multilaterals, foundations, corporations and NGOs on corporate responsibility policy and practices. Dr. White has held faculty and research positions at the University of Connecticut, Clark University and Battelle Columbus Laboratories, and is a former Fulbright Scholar in Peru. He has published and spoken widely on corporate accountability and the business role in sustainable development.