Good business

Ethical capital, stakeholder interests and the social dividend

Globalisation and privatisation are two factors contributing to a shift of power and influence from governments to the private sector. Beyond the economic implications are messages for business, argues ATTRACTA LAGAN. Social responsibilities must affect the way companies behave.

When a business incorporates, it becomes a legal entity that is separate from the individual citizens who own it and work in it. How this legal entity behaves as a citizen in its own right is becoming an increasing focus for interest groups both inside and outside organisations. Could it become the single biggest contributor to the success or failure of organisations in the future?

Many companies have demonstrated good corporate citizenship in the past, but all too often in a paternalistic, authoritarian style or, worse, in order to be seen to be good corporate citizens.

Now a new and deeper understanding of corporate citizenship is emerging globally. One indicator of this shift is a worldwide trend in auditing organisations' community activities. These social audits are designed to map a corporation's "social footprint" and report back to customers as well as shareholders. Companies who undergo this process implicitly recognise that they have obligations beyond the return of profits to shareholders and that "doing good" is good for business. This embracing of the notion that organisations are part of a wider society and have a two-way relationship with that society is fundamental to "stakeholder theory", popularly promoted by the British prime minister, Tony Blair.

Peter Drucker, in Post-Capitalist Society, maintains: "As a political term citizenship means active commitment. It means responsibility. It means making a difference in one's community, one's society, one's country." He argues that for a company to assume a citizenship role it has to undertake a commitment to manage business effectively, profitably, safely, legally and ethically; to minimise the adverse impact of its activities on the social and physical environment; to ensure those social issues which impact on its activity are within its competence to influence, as well as offering opportunities for mutual benefit for the company and society.

The ethical argument underpinning corporate citizenship is that work practices should be as important as company strategies because business is about people and relationships as much as it is about capital and shareholders.

Australian research released in June 1997 suggests that the overwhelming majority of Australians believe that ethics is a winning ingredient for companies and that it is good for companies to be involved with social causes. The research showed that 73% of people would prefer to buy a product associated with a social cause and 49%
would switch brands to do so. People even rated company ethics and corporate involvement with a community cause above Olympic sponsorship, media advertising and customer loyalty programs.

The concept of corporate citizenship has attracted a worldwide movement with an impressive number of followers, giving rise to a range of national and international organisations. Coordinated approaches, such as the European Business Network for Social Cohesion, the National Business Initiative in South Africa, Philippine Business for Social Progress, Business for Social Responsibility in the US and Business in the Community in the UK have all sprung up in the past few years.

Landcare Australia is a good if rare example of such an organisation in this country, but regrettably Australian business has yet to display the sort of collective commitment evidenced in other countries.

In the US, Fortune magazine has an annual rating of good corporate citizens using several indicators — only three of which are financial. The Financial Times produces a similar survey for UK companies, while Asia Business surveys Asian companies. Almost all the companies listed in the three surveys invest substantial resources and senior management effort in building good relationships with a wide range of stakeholders, including local communities. Analysts now anticipate that the concept of “ethical capital” which is closely linked to reputation, is likely to gather credence as a mainstream assessment of a company’s worth.

The latest British inquiry, sponsored by the Royal Society of Arts (RSA) looked at the sources of future sustainable success for UK business and identified an inclusive approach which acknowledges the interests of all key stakeholders as paramount. The inquiry suggests that the concept of a “licence to operate” reflects the changing expectations of the community and the “reasonable person” within it. This licence to operate implies a wider social responsibility and policy of accountability, to meet a much higher standard of consumer expectation. Importantly, the inquiry found that this new orientation was seen as the only way in which shareholders’ continuing value could be assured. It also implied that there are mutual and reciprocal relationships between the company and its stakeholders which may yet be served by a more collaborative approach.

The RSA research supports other research studies which similarly found that the traditional focus on shareholder returns as a sole priority is being replaced by a new school of thought that sees success being achieved by a long-term, inclusive and sustainable approach. There was unanimous recognition that maintaining community confidence can be as positive for company performance as the loss of confidence can be detrimental.

Much of the interest and public debate about the role of companies in society has arisen because of the inability of governments to prevent the increasing polarisation of the “haves” and the “have-nots”, whether it be in terms of jobs, access to health care or other wealth indicators.

Governments, in the pursuit of efficiency rather than equity, have withdrawn from what Peter Drucker calls their “social responsibilities” back to the line of their “moral responsibilities”, the so-called safety-net approach. Increasingly it is non-profit organisations working in partnership with private-sector organisations that are seeking to redress the flourishing inequalities of the 1990s. At the same time, the advent of the global market and the growing concentration of power of corporations has created today’s situation where several multinationals have revenue turnover greater than many western economies’ gross GDP. With such economic power comes political power and potential social responsibilities. Both of these are most readily manifested in multinationals’ power and influence in third world economies.

Whatever the political arguments about the fairness or otherwise of such developments it is clear that businesses can assume and are assuming responsibility for providing services that would traditionally have been provided by governments at all levels.

Here in Australia, the line between public and private enterprise has become blurred. It might not yet be recognised, but with the benefits of acquiring rights to the profit opportunities of recently privatised government enterprises comes a new social responsibility — to recognise the wider accountabilities to the new consumers that private business has acquired. This, and the rapidly changing consumer landscape, will require our corporations, large and small, to embrace corporate citizenship in its fullest meaning as a mutually beneficial paradigm.

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