Deconstructing Corporate Social Responsibility

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Outline

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What is CSR

Corporate social responsibility is a political ideology that wants private interests to be subsumed by public interests, narrowly defined.

CSR views corporations as a forum to resolve societal problems.¹ If every problem is your corporation’s problem, then you have a problem!

CSR is a construct of non-owner, non-contract and non-government interests to regulate corporations. CSR suggests that a corporation is not only responsible to the law, its investors, customers and employees, but also to 'society'. CSR does not, however, solve the problem of knowing what interests constitute society.

Knowing the weight and obligations that attach to each interest has been the very stuff of statute and common law. For example, there are three concepts of fairness – equality, meritocratic, and liberal or market based. These are in conflict, indeed for a corporation to suggest a single concept as being solely its measure of fairness would be disastrous. Choosing the right balance in the mix of the three has been the task of government for a very long time. Choosing the mix for a corporation is difficult and a never ending job. At best, CSR provides no guide as to how to achieve the right balance, at worst it provides a biased guide.

The principle division in the law has been between the interests of those with a contractual relationship and those without. The law can provide standards for both the performance of the contractual relations (the conditions to fulfil a valid contract) and the standard of non-contractual or public obligations such as taxation, emission standards and the like. Both sets of rules and standards, but especially public obligations, are established by consensus through the democratic process and the courts.

**Context**

CSR works on private dealing between corporations and NGOs to bypass the public consensus position. The NGO seeks to extend its agenda and influence, and the corporation seeks to manage the risk to its reputation.²

Those who promote CSR operate as if there is no human rights, environment, or social justice law, or means of enforcing them. On the contrary, ‘rights’ by other names have been progressively established for decades. For example, workers’ compensation & occupational health and safety to protect workers, building safety codes to protect patrons, privacy law to protect consumers, anti-discrimination to protect minorities, planning codes to safeguard community amenity, contracts to protect individual property rights, taxation to make a ‘social’ contribution, and a thousand more. Invoking broad UN conventions on rights insults the work of thousands who have gone before to flesh out the meaning of these concepts.

Similarly, the ‘sustainability’ and ‘social justice’ mantra are an insult to the entire fabric of the environment protection legislation and infrastructure and welfare state, established decades ago and immeasurably stronger now.

It is a difficult time to govern. The same governance problems arise for corporations.

It is clear that voters [stakeholders] have, over time, become better informed about their governments’ [corporations’] performance. Voters [shareholders] expect more of government [corporations] and their expectations are more divergent, consequently it becomes more difficult for government [corporations] to ‘identify any feasible set of policies that would satisfy its constituents.’³

The information society has caused a ‘creative destruction … disrupt[ing] existing social patterns. This in turn creates anxiety and dissatisfaction in large parts of the public’. Changes in social and cultural attitudes have caused a ‘change in the balance between the

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individual and the community’, which has led to a long-term trend toward the individual, a trend which ‘undercuts the authority of institutions.’

The political manifestation is a broad movement to participatory democracy, which has implications for governance.

### Who Promotes CSR

Into the institutional authority gap has stepped NGOs not only as political actors, but also as governance institutions in their own right.

‘Widespread disenchantment with conventional institutions has created an opening for new, alternative forms of authority.’ Mistrust is not confined to government and officialdom but extends towards other members of the public. ‘Encouraging people to fear, mistrust, complain and litigate is seen as a socially responsible act. Consequently, consumer advocates do not merely reflect the existing state of mistrust; they play an active role in educating people to believe the worst in most circumstances.’

### NGOs are Policy Communities

Not all are constituency based. For example, WWF, Australian Consumers Association and Greenpeace are not membership based organisations. They are supporter based, and have a self-perpetuating leadership. The Australian Council of Social Services is a federation of state and territory COSSs, whose membership consists of policy professionals (e.g. social workers). It is a union of professionals lobbying on behalf of their clients, the ‘disadvantaged’ who are not members.

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7 Furedi 2002, 185.
Graph is based on a sample of over 4000 adults derived from the Australian Survey of Social Attitudes for 2003. It displays the percentage of those from different educational backgrounds – low, middle and high - who participate in different forms of political activity. The activities are arranged approximately in descending order of participation. Only in the most basic form of political participation - voting in an election - is there an equivalent participation between people of differing educational background. To the question, ‘did you vote in the Federal election 2001’, the answer was ‘yes’ for between 97 per cent and 99 per cent of respondents in each category, which means that there is no statistically significant inequality between education categories.\(^8\)

8 In the Australian system of compulsory voting five per cent of the eligible voters fail to enrol, and a further five per cent fail to turnout on the day, which suggests that either the sample is slightly more ‘active’ than the norm, or some respondents are giving the answer expected of them!

9 The question was, ‘In the past two years have you …’

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The category, *campaign activity*, consists of those people who were working with people of the same concern, or boycotted or bought a product as a form of political statement, or contacted a politician or government official.\(^9\) The data showed that such activity was overall less common than voting and highly unequal, ranging between 45 per cent of the least educated population and 60 per cent of the most educated population. The data also contained questions relating to membership of non-government organisations. These were divided into two classes, *service NGO* and *policy NGO*.\(^10\) Service NGOs consist of those people who joined a self-help/consumer health, special needs, neighbourhood or community-based group. Participation was low for all and unequal, ranging between 11 per cent of the least educated and 17 per cent of the most educated. The *demonstration* category\(^11\) - protest, march or demonstration - showed very low levels of participation and high inequality in participation, ranging between 7 per cent of the least educated to 18 per cent of the most educated.

10 Members included, ‘members’, ‘active members’ and ‘office-holders’. The latter two categories were in all cases less than 1 per cent.

11 The question was, ‘In the past two years have you …’
Policy NGOs consists of those people who were a member of a political party, or a lobby group to change specific government policies, or a group working to improve the environment, or an environmental or aid organisation, or a group that promotes rights. These groups showed the lowest level of participation of all activities and a high degree of inequality in participation, ranging between 5 per cent of the least educated and 9 per cent of the most educated.

Overall, the Australian data show that as the requirements of greater commitment on the part of the citizen increase, the overall level of participation declines, and the inequality in participation rises in favour of the more highly educated. These results place in doubt claims of NGOs to represent civil society and clearly show that advocacy or participatory democracy suffers from the problem of very unequal use. It also seems to suggest that increased public access to political activity places greater demands on citizens. Clearly, there are limits to the extent to which citizens can participate in ruling themselves. When these limits are reached, as they are in activity more extensive than voting or seeking out the help of a politician or a local group, questions arise about the representative nature of those prepared to make the sacrifices required for higher order participation. A recent study of the internal democracy of a selection of advocacy NGOs, for example, found that ‘in most [NGOs] policy is initiated by a small group that includes CEOs and some board members, including the chairperson.’

NGOs are policy communities, people who share a viewpoint. Whether their viewpoint should be granted privileges above others is an essential question for government and corporate managers who wish to engage with these communities.

CSR is in practice a mixture of philanthropy, business development, and reputation risk management, but little in the way of the theoretical public policy elements such as ‘social justice’, ‘environmental sustainability’ or ‘human rights’. Those corporations that attempt CSR in a comprehensive way – The Body Shop, Starbucks - invariably have the same niche market for goods and services as does Oxfam and WWF.

The dangers of corporations involving themselves in full-blown CSR are that they may begin to play the role of government, either in service provision or deciding public

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12 A question was asked about participation in a strike or industrial action. It is arguable that such activity is political activity, and the comparable results are 5, 8 and 9 per cent respectively for each educational category. The inclusion of industrial activity would therefore lower the overall level of participation but render it less unequal.

13 A question was asked about membership of a trade union. It is arguable that membership of a trade union is a political activity. If the argument was accepted, however, the same would hold, for example, for membership of a professional association. The inclusion of trade union membership would increase the overall level of participation and render it less unequal, but the inclusion of membership of a professional association would lower the overall level of participation and render it more unequal.

priorities, thereby weakening government, or that they are distracted from their core responsibility and therefore lose value for their real stakeholders, that is, owners, workers and customers. If a corporation engages CSR for strategic purposes, for example, to forestall further regulation, it may nevertheless be hastening regulation by giving credence to the concept.

CSR diverts the corporation from its purpose, and places it, inappropriately, in the role of government.

‘In the long run the dominant company will be the one that can afford to be socially responsible and managerially correct … ‘Corporate chief executives are being distracted by the demands of management experts and government officials to do “what’s right” rather than what good business sense suggests is best.’

‘The distinguished industrialist, the late Lord Hanson once explained how he chose his next target for a takeover. He said it was easy. "We just look at which firms are active in the Confederation of British Industry (CBI). We know they are not on the ball." For CBI today he might well substitute CSR.’

**Multiplex**

Multiplex is having trouble completing Wembley stadium for 2006 FA Cup. This is a serious problem! The scheduled completion date was December 2005, it is now expected by the end of March 2006, in time for the FA Cup Final to be played in May 2006. That is cutting it fine!

The major problem occurred in a dispute with one of two major sub-contractors for the steelwork. The sub-contractor had a cap on the price and has withdrawn claiming to be owed by Multiplex. Multiplex now have to rely on a second sub-contractor who has non-capped prices. Hence, prices to Multiplex will blow out, and with only one contractor, less will be achieved in a given timeframe.

What interests are at stake?

- If Arsenal makes the final (and Thierry Henri is fit), there will be a riot if the stadium is not ready!
- Multiplex and its shareholders stand to lose $109 million. Share prices have slid from over $6 at the start of the year to just over $3 in May.
- The principal owners, the Roberts family will lose their $50 million indemnity.
- Third parties claims will cost millions.

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Multiplex has to expend all of its energies to complete an ambitious engineering task, within contract, within the laws that govern the standards expected by the UK government, especially safety standards for the workforce and the patrons, impact on the environment and satisfy returns to investors who had many other choices for a return on their capital.

What gives ‘implied stakeholders’ the right to interfere with any of this?

I cannot find any reference to CSR in the Multiplex annual reports, but if the FA Cup is back in England in May (FA Cups have played in Wales), Multiplex will be, in my view and in the view of millions of soccer fans in England, not only socially responsible, but heroes.

**Banks**

Major Australian banks are dabbling in corporate social responsibility, some are making considerable efforts in ensuring that they gain top marks in CSR indexes devised by various parties such as Reputex. However, just last month, the Reserve Bank warned the banks that mortgage lenders have allowed householders to take on larger debt burdens than was prudent only a few years ago. What is the ‘good’ in a bank turning out its lights early or using both sides of its photocopy paper in order to rate well on an NGO formulated CSR index if it lowers its credit standards for housing finance? The real business of banking is not easily measured, to the extent that it is: well-resourced and experienced regulators, such as the Reserve Bank, are well placed to report to shareholders on the main game.
Till Debt Do Us Part

A husband uses a joint account to ‘trade’ in foreign currencies and loses over $1 million of the family savings. The bank and the husband fail to keep the other signatory, the wife, informed. The matter was settled out of court after years of litigation. The banks responsibility was to its customers, the husband and the wife, whom they failed. This real irresponsibility and no amount of faux CSR can replace it.

IAG

Companies that are applauded for entering the public debate over climate change. The impact of man-made greenhouse gas on climate is not certain, even less so is the correct response to the phenomenon. Undaunted, last year’s winner of the Ethical Investor Sustainable Company of the Year Award, Insurance Australia Group (IAG), argues that there is a very strong relationship between rising global sea temperatures and the ferocity and frequency of storm events. It has said that ‘the link between insurance and environmental risk is even clearer when considering that 19 out 20 of Australia’s major insurance payouts have been related to weather events’. However, no empirical relationship has yet been observed between modest temperature changes of a degree or so and the frequency or intensity of such events. With great respect, the evidence that increases in atmospheric greenhouse gases have warmed the seas or caused wild weather is very tenuous.

An insurance company cannot, especially using a poor policy instrument such as the Kyoto Protocol (UN Framework Convention on Climate Change), change the climate, but it can change the climate for customers! IAG is using the data to scare people o take out insurance. In other words, it is doing what it normally does, drum up business, but in this instance is using the cover of the Greenhouse issue. IAG is indulging in public policy debate in order to win customers, but has it made the right choice? The Kyoto policy is being used as a ‘dog-whistle’ on climate change to have people take out insurance on weather damage to their properties. Good for business, bad for public policy.

Strategies

Should NGOs approach your corporation with good ideas or complaints about the actions of your business, thank them for their information, and show them the door.

Never strengthen the NGO by supporting it.

Then test the validity of the information, subject it to cost/benefit analysis and decide whether or how to act.

The present enthusiasm for CSR will wain as it becomes clear that CSR carries the risks of inducing rather than forestalling further regulation and that while there are some business advantages in being an innovator in CSR these will decline as others either comply or feign compliance, or the costs of compliance rise.
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