CORPORATE SOCIAL RESPONSIBILITY: MANAGING AND MINIMIZING THE ABUSE OF POWER

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Contents

1. Introduction
2. Core Principles
3. Innovation and Change
4. Stakeholder Management
5. Social Auditing
6. New Partnerships
7. Leadership
8. Power and Responsibility
9. Educational Challenges
Appendix
Glossary
Bibliography
Biographical Sketch

Summary

The responsible exercise of corporate power is one of the most important factors—possibly even *the* most important factor—that influences the nature, direction and level of success of our organizations both today and, even more importantly, in the years ahead. In addition, it is a critical factor in shaping society as a whole, as well as our lives individually.

In the responsibility-driven approach to the use of power there is a genuine concern with reconciling the interests of all the stakeholders within any decision making process.

This article discusses the emerging core principles for good global corporate citizenship. It also considers the tools and techniques that can be used to help improve the effectiveness of the management of stakeholder interests, especially in the context of the growing interest in Social auditing. Finally the critical importance of understanding, and effectively managing the link between Power, Responsibility, Leadership, and Learning, is emphasized.

1. Introduction

The word "Power" (defined as "the ability to make things happen") is probably the most important word in affecting the operational performance of organizations. In many areas of management there is almost an obsessional emphasis on the importance of the word "power." However, the word "Responsibility" (defined as "In whose interests are we making things happen?") is concerned with answering the question: "What *should be* important?" Understanding the relationship between power and responsibility, and then extending that understanding to include the critical links with leadership and learning, is at the core of the values that drive organizational performance, as well as those that influence societal stability and individual fulfillment, over the long term.

Unfortunately much management literature tends to reinforce the prevailing concept of power as illegitimate behavior designed primarily to benefit self-interest, rather than organizational goals. Only occasionally it is recognized, for example by Cynthia Hardy, in her book *Power and Politics in Organizations* (Dartmouth 1995, p. xx–xxi) that: "The responsible use of power is a concern to all sectors of society. Somehow we need to marry the understanding and use of power with an appreciation of its consequences on those on the receiving end of it...to find new ways to understand and act on the power structures of which we are all an inevitable part." But even the introduction of nine pages to this publication—while it had 136 mentions of the word "power"—there was only one mention of the word "responsible" and that is in the above quoted paragraph!

Today, the responsible exercise of corporate power is increasingly recognized as a critical element in the long-term competitive advantage of successful organizations. Not only can the pursuit of responsibility-driven attitudes, and policies help reduce risks in many potentially problematic areas, it can also be an invaluable way to enhance corporate reputations. In addition, there is growing recognition that the nature and reputation of a corporate "brand" is an increasingly important element in any corporate valuation.

Many companies, from Exxon to Shell, have become exposed to adverse criticism from the global media, which highlighted both the sensitive relationship between business and society, as well as the extent that this is now rapidly changing in many areas, which creates new challenging agendas for many organizations.

Responsible corporate citizenship covers a wide spectrum of approaches. One extreme is the minimal, essentially legalistic, approach to compliance. While, at the other end of the spectrum, there is a more complex link between power and responsibility-driven attitudes and actions reflecting an underlying, and deeply embedded, sense of values, or ethics, that then positively influence the motivation of all concerned with decision making within the organization.

In the responsibility-driven approach there is a genuine concern with reconciling the interests of all the stakeholders within any decision making process. Recent research (see: Royal Society of Arts (1996), *Tomorrow's Company* and J. C. Collins and J. I. Porras, *Built to Last*, Century (1994)) has confirmed that those organizations that are able to undertake this reconciliation effectively are those that produce the best long-term benefits for any particular stakeholder group, including the shareholders. A view recently confirmed by Kenneth Taylor, Partner in the Chicago-based firm Egon Zehnder, who maintains: "There is a very well acknowledged relationship between good governance and good performance."

A recent MORI survey (The inclusive approach and business success: The research evidence, *The Centre for Tomorrow's Company,* Gower, 1998, p. 1) found that 72% of UK business leaders agreed that a successful business will better serve its shareholders by focusing on the needs of its customers, employees, suppliers and the wider community.

2. Core Principles

But what are the core principles now emerging from this more responsibility-driven, approach to global corporate citizenship? In essence these are:

- A new balance in the relationship between power and responsibility of the stakeholders, reflected by business, government and civil society. One aspect of this change is the growing role of non-governmental organizations and charities, as well as using those organizations as the vehicle for providing goods and service within society. Although it is important to recognize that there are new issues of openness and accountability that need to be addressed in these sectors.
- There is a greater global perspective by both individuals and business. Over the past few years there has been a major increase in the recognition of the importance of the need to manage successfully the whole spectrum of "diversity." In this context companies increasingly recognize the need to try to combine "thinking globally with acting locally". In parallel, there is a growing recognition that the world is rapidly becoming one interconnected system that links the ecological, social and economic aspects of the system.

As Jeffrey Garten argued, in his article "Globalism doesn"t have to be cruel" (*Business Week*, February 9, 1998): "In the twilight of the twentieth century, making globalization work humanely is quickly becoming the dominant issue of our time." That view is reinforced by Hans Kung: "What is a world order without a binding and obligatory ethic for the whole of humankind – without a world ethic? What is the use of prohibitions in one country if they can be got round by going to other countries." (*Global Responsibility: In Search of a New World Ethic*, SCM Press, (1991).

The Global Corporate Advisory Board has also developed some basic common principles of corporate governance for all boards. They identified a number of key issues and questions:

- What are the appropriate educational learning experiences for directors?
- How does the board appraise its performance?
- How should boards interact with investors and their advisers?
- What role should shareholders play in company management and corporate governance?
- How can the board best contribute to good economic performance?

(Corporate Governance: Powerful support for international guidelines, supplement, *Financial Times* March 19, 1999, p. 4.)

Building on the above theme, there is now a growing recognition that businesses operate most effectively in a society where there is a high level of trust and partnership, supported by a positive infrastructure, that also includes an effective legal system. This "inclusive" approach involves ensuring that there is an underlying spirit of co-operation, rather than conflict, between the stakeholders. Such a balance is not established quickly, or sustained easily. Trust between the groups involved does not arise either overnight, nor is it easily sustained, even when established. Trust is critically dependent on a perceived sense of fairness between the parties. If this balance does not already exist, stakeholders inevitably become involved in power struggles that can ultimately damage, even destroy, the structures and organizations within which they operate. Globally there are endless examples of companies, and other organizations, including political parties, where the relationships between employers and employees have broken down in such a way as to permanently damage companies, even industries.

According to Sir Geoffrey Chandler: "Company scrutiny is here to stay as they acquire greater influence in a globalized world. They face two possible scenarios: they can resist the extension of the boundaries of their responsibilities, as they have in the past, so jeopardizing their won reputations and—more dangerously—endangering the principle of the market system as a whole. Or they can demonstrate real corporate leadership which will underpin their economic contribution and raise their reputation." He rightly concludes: "There are no other choices." (Do the right thing, *Green Futures*, March/April 1999, p. 23.)

In the national context, democracy in the twentieth-century has provided an invaluable, but not infallible, vehicle for attempting to recognize and reconcile the conflicting interests of various groups within commonly agreed "rules of the game." If democratic processes are to have a reasonable chance of long run success they need to be reinforced by a genuine concern that the will, or power, of the majority will not be used to abuse the position, or rights, of any minority. In addition, again, an independent legal framework is an essential part of providing underlying stability to the system. Any social system needs to be able to innovate and evolve, and this innovative process needs to obtain benefits from an appropriate balance between co-operation and competition. Overall, these core issues need to be much more widely recognized as a basis for their more effective management.

It is increasingly recognized that it is no longer sufficient, if it ever was, to operate just on the basis of the core principle of Milton Friedman (*Capitalism and Freedom*, University of Chicago Press, 1962, p. 133.): "There is one – and only one – social responsibility of business: to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engage in open and free competition without deception or fraud."

Social responsibility is now recognized as being important to financial returns. As John Browne, chief executive, BP Amoco, maintained in a recent annual report: "Enduring success requires...the ability to make a constructive contribution to society and to bring positive energy to the solution of its problems" (Roger Cowe, "Healthy societies are good markets', *The Guardian*, Management, June 13, 1998, p. 21.)

Of course, if the connection between social responsibility and financial returns can be accepted, it is then possible to see the new situation as almost compatible with the views of Milton Friedman mentioned in an earlier paragraph, especially if the focus is on long-term returns. This emphasis on the long-term can be very helpful in getting agreement between the various parties, but the key element is invariably the need to reconcile differing views about what is actually meant by "the long-term." (See Appendix 1: Organizations Concerned with Social Responsibility.)

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Biographical Sketch

Over the past decade, **Dr Bruce Lloyd** has been particularly concerned with writing, researching and lecturing on a wide range of strategic issues that critically influence organizational performance. Since joining the academic world in 1989, he has had a major input into the development of the University MBA program. He is currently Professor of Strategic Management. Previous experience includes 7 years involvement in the international venture capital industry with the Commonwealth Development Finance Company and new venture development with ICI plc in Billingham, as well as earlier experience as an investment analyst in The City and as a plant manager with The British Petroleum Company Ltd.

Author of over 100 papers and articles on strategy related topics from *Economies of Scale* to *Political Risk Management*, with a recent focus on *The Future of Office and Office Work* (topic of Ph.D), *Flexible Working*, the relationship between *Power, Responsibility, Leadership and Learning*, and the role of *Wisdom in Knowledge Management*; all these topics are linked to the general issue of improving organizational effectiveness. Editor of two volumes in *The Best of Long Range Planning* on *Creating and Managing New Ventures* and *Creating Value through Acquisitions, Demergers, Buyouts and Alliances*. He has spoken at over 30 international conferences on strategy-related topics, and has had over 20 interview articles published in the *Leadership and Organizational Development Journal*. He is a Member of World Future Society and World Future Studies Federation; over 10 years as a Member of Council of The Institute of Management; Member of the Executive Committee of the Strategic Planning Society for the past decade and immediate past Chairman of the Editorial Board of the Journal *Long Range Planning*, as well as being its Review Editor**.** Member of the Editorial Board of *Leadership and Organizational Development Journal,* and *Futures.*