



CORPORATE SOCIAL RESPONSIBILITY

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TLWNSI ISSUE BRIEF

Corporate Social Responsibility without Living Wages is Irresponsible and Unsustainable

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From time to time, TJSGA issues brief papers on topics pertaining to The Living Wages North and South Initiative (TLWNSI). This paper is the third on Corporate Social Responsibility. The author covers two issues, discussed as part of an earlier brief, which TJSGA considers worth insisting on due to the fundamental weight that they carry on the future of CSR. In this way, the author begins with the issue of the current reporting of the impact of corporate activity on a voluntary basis and with great latitude in its application. Then, the author insists on exposing the total absence of the element of a living wage in CSR standards, despite the fact that not paying a living wage constitutes a rational decision of business entities to exploit their workers, which is tantamount to a predatory practice. A situation that not only should be enough for civil society to not grant good corporate citizenship to any company practicing it, but that also constitutes a violation of a basic human right: the right to live a dignified life.

More than a decade after its emergence, Corporate Social Responsibility (CSR) is still a very lukewarm approach to the need to make corporations benefit society as much as they benefit their own private interests, and not the other way around as it occurs today. In fact, we continue to see that a set of structural

changes, anchored on the idea of maximum business flexibility, which overwhelmingly benefits corporations, is imposed across the globe in a rather undemocratic manner. Furthermore, as new efforts emerge to make CSR a permanent fixture of business culture, it seems that most stakeholders avoid consistently fundamental elements of social justice. In this way, living wages, which we regard as the key element of social responsibility, as well as other necessary components of CSR, such as the enforceability of comprehensive reporting, are left up to the corporations to fulfil voluntarily. This approach is allowing corporations to look good without really doing the public good. Thus, which is it? Is CSR a business responsibility or just a competitive strategy that corporations will use, with total flexibility, as they deem feasible? Our challenge is to make living wages the fundamental element of CSR, and CSR an inextricable element of business practice and sustainability.

The Moral Argument for CSR

If we observe today's capitalism, for all practical purposes, we are right back at the end of the Victorian era with the robber barons and the industrialists and bankers of Darwinian capitalism. Indeed, the great global economic powerhouses increasingly resemble, through never-ending mergers and acquisitions, the big trusts of the nineteenth-century and dictate in many ways the agendas of the governments in the world. The governments' brief will –during the immediate post WWII era– to fulfil their regulatory responsibility and act as “balancing agents” to control the natural excesses of the market system has been completely obliterated by political ambitions and rampant corruption. The facts speak for themselves: the driving power behind political campaigns and government agendas are the very private interests of those who financed the campaigns of those with the reigns of power. However, in the true

democratic ethos that we aspire to build, the governments' first responsibility remains to procure the welfare of all ranks of society.

The fact is that, in a truly democratic ethos, corporations cannot elude their social responsibility because their activity impacts the economic, social and environmental dimensions in a rather pervasive manner. But, our excessively individualistic, materialistic and non-engaging culture has allowed corporations and governments to make of today's democracy a complete mockery, and we are all to blame for this. Nonetheless, in a true democracy, companies cannot ignore societies because their *raison d'être*, the accumulation of capital, is only possible due to the existence of these societies, which constitute their markets, and, especially, because their activities have a tridimensional impact on societies and their habitat.

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In stark contrast to the traditional private sector position of considering shareholders their only stakeholders, in CSR, the stakeholders represent the different interest groups of society where corporations operate, be they workers, consumers, social justice NGOs, environmentalists, indigenous groups and so on, all with a legitimate right to demand socially responsible corporate behaviour. In the new Global Civil Society (GCS), corporations represent the corporate citizen,¹ who, as all individuals, must be subject to rules and be socially responsible. Thus, the stakeholders are all the members of the corporation's social environs, which contribute to, or are encroached by, the corporation's activity. In this way, Corporate Social Responsibility is

the inherent obligation of each business entity to account for the way its activity impacts the environmental, economic and social dimensions of its environs and to ensure that this impact generates equitable and sustainable benefits –and no harm– to all stakeholders involved. Therefore, CSR must not be a choice, but the fundamental responsibility of corporations, for it is unethical as well as completely undemocratic to profit over democratic societies, ergo, to play a zero-sum game.

CSR in its Current State

Despite the rapid growth experienced in the last ten years in the development of CSR in the North, it is still in a rather primeval state; much of it due to the naturally spontaneous emergence of concepts that have been advanced by a diversity of stakeholders in GCS to develop their CSR framework from their own perspective. This, to be sure, has occurred with little coordination with other stakeholders and other CSR developers. Thus, although the need to coordinate the development of CSR and agree on the criteria and methodology for its application has been recognized, and progress has been made, there is still a great need for convergence, refinement and, especially, upgrading.

Nevertheless, a clear consistency has emerged in the way the so-called “best practices” are being developed. Unfortunately, it is the absence and not the presence of two key ingredients where we find consistency. One, enforceable and comprehensive reporting, corresponds to the format of the concept. The other, living wages, corresponds to the content of the concept. These two elements are critical if we aspire to build a truly democratic and comprehensive universal concept of CSR. Otherwise, we will be practicing a toothless kind of CSR, a “CSR-light”, where we demand nothing from corporations, for whatever they deem appropriate would suffice to award them with the image of responsible entities. There is a very thin edge between philanthropy and socially responsible behaviour, and we risk making of CSR a moot point, a cosmetic fixture in business practice, an act of good will.

¹ The Centre for Corporate Citizenship at Boston College, Boston United States, www.bc.edu/bc_org/avp/csom/ccc/index.html

If we suppress key ingredients that will make the difference, or worse, that constitute some of the major generators of injustice, then, as members of organized global civil society, we would act politically correct and very cynically irresponsible. Thus, organized civil society must put in place a new and dramatically higher benchmark for CSR. Otherwise, the public, due to the lack of noticeable public goods from CSR, will never become aware of it as a key tool to building true participatory democracy. Again, it is important to bear in mind that the purpose of CSR is to make corporations fulfil their responsibility to contribute to building a truly democratic, equitable and sustainable ethos. In this way, the two major components of enforceability of comprehensive reporting and of living wages, currently absent, must be included.

Comprehensive and Enforced Reporting

Currently, I am yet to identify any CSR concept, program or set of guidelines requiring enforceability. The organizations with the greater visibility and influence in the development of CSR, such as the UN Global Compact, the OECD Guidelines for MNCs and the Green Book of the European Union are all proponents of voluntary reporting. Other CSR concepts that have emerged from a coalition of global civil society organizations, such as the Global Reporting Initiative's GRI Guidelines or Accountability's AA1000 Assurance standards, have all developed under the assumption of voluntary reporting. There are two voluntary issues at stake in the development of CSR, one about voluntary reporting of the impact of corporate activity in general, and one regarding the content and format of reporting. In the former, CSR is left as an option for MNCs to incorporate the concept into their business model. In the latter, the contents of the reporting are also optional and voluntary. For instance, the GRI encourages corporations to report on all three economic, social and environmental dimensions. However, the GRI emphasises as an important feature its flexibility in using the guidelines.²

² Sustainability Reporting Guidelines 2002, p. 13-14, Global Reporting Initiative

That is, corporations are encouraged to reporting "in Accordance", which implies compliance with a set of requirements, which are also very flexible. However, reporting organizations are allowed to report partially and there is never a required commitment to eventually report "in Accordance". Moreover, corporations are encouraged to report on all three dimensions but they are asked to determine the degree of data consolidation and disaggregation in reporting. This means, for instance, that labour compensations in different countries can be consolidated into one global measure and, thus, leave poor labour compensation performance in Southern countries unexposed.³ The GRI also allows for critical elements of corporate activity to be regarded as additional indicators that may or may not be reported; among others, *those that represent a leading practice in economic, environmental, or social measurement, though currently used by few reporting organizations.*⁴

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The implication is, for instance, in my opinion, that if most corporations ignore living wages, this disqualifies it as a core indicator. The underlying problem with so much flexibility is that only MNCs that sense they have good standards would report, whilst those that do not would never report. Furthermore, the fact that a reporting organization perceives itself to have a good standard does not guarantee it to be a good standard for many stakeholders. Again, if living wages is not an issue among most corporations, then reporting "in Accordance" is a good standard according to their own benchmark but not to the benchmark of stakeholders interested in living wages as a key component of social justice. To the GRI's credit, it emphatically stresses out the need for reporting organizations to engage with all stakeholders in order to make their CSR process fully inclusive and

³ *ibid*, 34

⁴ *ibid*, 34

credible. In fact, it gives precedence to the perspective of the information user.⁵ Indeed, the perspective of report users must have precedence, for the purpose of reporting is to comply with the obligation of corporations to be socially accountable to civil society. The GRI also makes the point in its principles that it aspires to make of the practice of CSR reporting a practice as ingrained in business culture as financial reporting.

The mere fact that CSR standards currently available include core as well as additional indicators proves that it is perfectly possible to agree on a mandatory universal CSR framework.

Nonetheless, as of today, it is up to organized civil society to enforce CSR as a mandatory practice. Governments permanently disregard the need for a legal framework or at least a set of principles. Just last May, the governments of the G7 and Russia (G8) showed their consistent lack of political will to uphold a universal framework of principles to support sustainability and good corporate citizenship. The G8 dropped its plans to establish a "Charter of Principles for a Responsible Market Economy", despite the fact that French President Jacques Chirac had prioritised Corporate Social Responsibility as an issue at the G8 when it committed to support corporate accountability and responsibility at the UN Earth Summit in Johannesburg.⁶ The concern is that if governments, not surprisingly, abjure, once again, from their most basic responsibility –to procure the common good– by not creating a universal CSR framework, and all CSR standards are developed to be used voluntarily, then stakeholders are left out in the open to try to make corporations adhere to a negotiable set of standards through painstaking individual negotiations. Although it is certain that the enormous diversity of stakeholders on a global basis would produce an infinite spectrum of social, economic, and environmental indicators that address their particular concerns, it is true as well that there is

a core set of standards that can be applied universally. The mere fact that CSR standards currently available include core as well as additional indicators proves that it is perfectly possible to agree on a mandatory universal CSR framework. However, to leave the observance of these standards up to the good will of corporations is a terrible precedent for the future of CSR.

In this way, unless enforceability in reporting becomes an inherent element of CSR, we will be allowing CSR to be regarded as a competitive business tool and not as a social responsibility of all business entities. One thing is not to question the ulterior motives of corporations to incorporate CSR as part of their business model and another is to leave CSR as a business option. If some corporations truly believe that they must be socially responsible and only thrive when not harming any of its external and internal stakeholders, and even benefit them with public goods, this would be a very desirable option. If, on the other hand, other corporations practice CSR for strictly competitive motives, as a tool that can help them be perceived positively by their niche markets, and, thus, enhance their image and increase their market share, this would also be a legitimate option. Thus, the rationale behind the use of CSR, whether morally or pragmatically infused, is irrelevant. What is relevant is that it must be an inherent element of business practice and not a strategic business option, for the voluntary observance of CSR is a great opportunity to behave politically correct without really being socially responsible.

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Living Wages

An even greater void in the development of criteria is the absence of a norm and of an indicator of the quality of the wages paid. This is a fundamental issue, for a living wage is a basic human right, and thus, it must be a

⁵ *ibid*, 27

⁶ G8 Drops plans for business standards, fails developing nations, Friends of the Earth International, press release, May 16, 2003

fundamental element of CSR. The corporation exploiting any of its workers in the world cannot be rendered socially, economically and environmentally responsible, and thus, it cannot expect to remain sustainable. However, the major aspiration of CSR standards currently, relative to labour rights, is typically that MNCs adhere to the ILO core conventions. At this time, the UN Global Compact, the OECD Guidelines for Multinationals, the EU's Green Book, the GRI and SA 8000, among others, adhere to the ILO conventions, but they do not address, whatsoever, the issue of a living wage. This is a major shortcoming, for the ILO does not deal as well with the issue of living wages in its core or in any of its other conventions. The ILO conventions do not cover all of the labour-related elements necessary to pursue social justice and sustainability.

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It is hard to stress enough the importance of a living wage, for beyond the moral argument of human rights and the democratic argument of social justice, a living wage is an inextricable element in the sustainability of a market economy. We cannot expect markets to enjoy continued growth when the current model is based on the pursuit of the cheapest cost of labour around the world in order to maximize profitability and shareholder value. How can MNCs expect long-term sustainability in the expansion of their business if they continue to focus only on the consumption of the middle classes of the Northern markets, which, vis-à-vis the South, do enjoy living wages? How can a rational capitalist system expect long-term growth if it disregards the need for the continuous expansion of aggregate demand? Sustained economic growth without market expansion is absolutely unrealizable. For this reason, except for those who insist on the dogmatic rationale of neoliberalism, many well-known economists increasingly have denounced the impossible sustainability of the current system. Economists such as Sti-

glitz, Krugman and Sachs⁷ have recanted their initial support and criticized the one-sided paradigm, whilst others such as Hoogvelt clearly advocate the need for “global fordism,” to put money in the pockets of the excluded, in order to unblock the widening of the market.⁸ In a global market system, avoiding the issue of living wages in CSR, provides MNCs with a rather easy path to evade the question of the provision of fair labour endowments and to still look good. In this way, civil society must not grant good corporate citizenship to a corporation complying with the legal side of the issue (observance of ILO conventions) and failing with the moral and sustainable sides because it pays hunger wages in the South, even if it behaves very responsibly in all other measurements of the three dimensions. Simply put, a business organization cannot be socially responsible if it exploits some of its workers regardless of all other CSR outcomes. Awarding it with good corporate citizenship status is simply approving of the human exploitation, of Darwinian capitalism and abjuring from true democratic practice. Yet, at this time, this criterion continues to be absent from most CSR concepts emerging in the public arena.

It is important to state that because the wage gap between equivalent workers in the North (earning a living wage) and those in the South—of the same MNCs—is enormous, we should not expect MNCs to be capable of paying living wages in the short term. Instead, what the standard should demand, is a measurable commitment from MNCs to gradually close the gap, so that this goal can be achieved in the long term in accordance with an agreement previously established between the MNCs and civil society, i.e., thirty years. In this way, the annual measurement in a corporation's CSR reporting would reflect the annual real wage increase as a contribution to its long-term goal to close the wage gap.

⁷ James L. Phelan, Renowned U.S. economists denounce corporate-led globalization, *Common Dreams*, Le Monde Diplomatique, 21 November 2001

⁸ Ankie Hoogvelt, *Crisis and Restructuring: The New International Division of Labour, Globalization and the Postcolonial World. The New Political Economy of Development*, First Edition, The John Hopkins University Press, Baltimore, United States, 1997

The Market Logic Argument for Making Living Wages a Core Element of Sustainability

Beyond any moral and democratic arguments, the level of labour endowments is a key strategic element in the pursuit of increased shareholder value. It is also a key factor in transferring jobs from the North to the cheapest labour bidder in the South. Obviously, there is a direct conflict between business strategy and CSR, for fair labour endowments are also a key strategic element in the sustainability of the market system. The core of the problem is that the stock market imposes an extremely short-term –quarterly– business strategy on corporations. This blocks any possibility of long-term sustainability and centres business strategy in the lowest possible labour costs.

In this way, the quarterly demands of the stock market institutional investors leaves no possibility of generating the conditions for an equitable and stable reproduction of capital among all participants in the system. This classic extremely one-sided supply-side paradigm eventually causes not only most stakeholders to be on the losing end, but it also disables the supply-side's (the corporations and their shareholders) ability to accumulate wealth. Without room for market expansion, there is no possibility of sustained growth. The multiplying effects of an expanding economy, fuelled by the generation of aggregate demand –which increases the probability of sustainable growth– cannot emerge under a permanent supply-side economic ethos. This only generates a boom and bust cycle fuelled by the speculation of the institutional investors as we can attest with the increasingly recurrent periods of recession and the concurrent widening of income inequality in both North and South.⁹ A sustainable market system can only be achieved by performing a permanent balancing act between demand-side and supply-side economics. This would be a far more intelligent business strategy for both corporations and the stock market.

⁹ Alvaro de Regil Castilla, To Globalize Wealth, nexos, November 1999, 23

If we do not put money in the pockets of all workers in the system, we cannot expect to enjoy sustainable economic growth; for capitalism is like a shark, if it does not move forward, it stalls and dies.

As a result, only if we are able to change this extremely short-term mentality in a rational manner can we aspire to build a sustainable and equitable market system. Thus, fair labour endowments must be at the centre of the core of CSR, for they are the major contributor to aggregate demand. If we do not put money in the pockets of all workers in the system, we cannot expect to enjoy sustainable economic growth; for capitalism is like a shark, if it does not move forward, it stalls and dies. In this way, from a purely pragmatic business angle, living wages must be at the core of any sustainable CSR concept as an inextricable element of market sustainability.

It has been argued that it is virtually impossible to end the autocracy of financial markets over the global system. However, despite the direct opposition at the core of the system, there are rational ways and instruments to gradually close the gap in wages and balance the economy to produce a sustainable system. First, there are good mechanisms that can be used to determine the right level of labour endowments among workers of the same corporations doing the same or a similar task. Thus, to those who think that it is difficult to assess living wages in the South, there are readily available mechanism, such as the purchasing power parities (PPPs) mechanism, annually reported by The World Bank and other organizations that can be used effectively to determine a living wage in a given country based on the estimated cost of living. The mechanism is not a perfect formula –there are no panaceas in micro or macroeconomics– but the wage gap is so wide that it can easily set a benchmark for the intended living wage goal, –which should be annually adjusted until the gap is closed. Second, the complexity of the issue of living wages in the current global market system, does not allow for short-term solutions. The closing of the North-South wage gap can only be accomplished, to be sure, in a very gra-

dualist manner through a long-term program that will take several decades. However, there are realistic proposals advanced by civil society addressing the complex set of interest and forces involved in the market system, which may appear to hinder the payment of living wages even if a corporation is willing to do it.¹⁰ The proposals present a pathway to provide living wages to all the workers of the market system as a critical step in pursuit of true economic sustainability. This pathway maps out a new market ethos that seeks to benefit all and that will be far more productive in revenue and shareholder value than the current one, to both corporations and institutional investors, the only winners in the current ethos.

There is also the very realistic leverage of consumer pressure that can make corporations enjoy increased meaningful competitiveness or suffer a substantial loss of revenue without civil society having to mobilize large portions of consumers. Thus, there is a clear path to make corporations enjoy increased profitability and sustainability, through a long-term commitment to CSR that includes gradual wage equalization, or suffer losses that will be costlier if they spark a consumer retaliation than if they suffer a stock market backlash.

Given all the forces that are at play, the transition from a disruptive one-sided approach must be performed, to be sure, very gradually through a long-term approach. However, it is something that is completely plausible despite the lack of political will among governments, corporations and financiers. If corporations expect to survive, they must commit, to be sure, to long-term CSR, even if they look at CSR for purely corporate reasons of long-term business sustainability, detached from any commitment to social responsibility. The latter rationale is very desirable, but the former is especially feasible if we are able to fully incorporate it as a critical part of

business logic: that is, if all stakeholders integrate living wages as the main engine of market expansion into the logic of financial markets.

Sustainability and Democratic Accountability

The purpose of CSR, to make corporate business activity and corporate culture become sustainable in its three dimensions, is not realistic unless all other stakeholders also benefit in an equitable manner. Nonetheless, the underlying reason of CSR, its *raison d'être*, is not corporate sustainability or even market sustainability. The reason for CSR is the need for the true democratic sustainability of all participants in the system. In a market economy, CSR is a central element in the pursuit of true democracy, because without it no market society can become sustainable. We constitute democratic societies before market societies. Individualism ends where communal solidarity starts and real democracy asserts those limits as a function of its ontological reason.¹¹ The common good is its *raison d'être* and, thus, is the superior interest, which limits the domains of the private interest. Thus, CSR is a critical element in the pursuit of a truly democratic and participatory ethos. The market system is only the vehicle to achieve economic sustainability within a democratic global system. Consequently, the accumulation of capital must only be plausible and desirable as long as it does not harm the common good. This should be the principle of sustainability and democratic accountability in a real democracy and the spirit of CSR. If, so far, CSR has not addressed critical issues in the pursuit of sustainability, it is because the political and economic power of institutional investors and their global corporations inhibits the emergence of true democracy and, thus, of truly sustainable CSR standards.

¹⁰ The Living Wages North and South Initiative (TLWNSI), The Jus Semper Global Alliance, working draft, March 2003

¹¹ Cornelius Castoriadis. *Philosophy, Politics, Autonomy. Essays in Political Philosophy*, Odéon – Oxford University Press 27-37, 1991

Prognosis

CSR is currently an incomplete and toothless instrument in the pursuit of tridimensional sustainability. The voluntary approach and, especially, the clear avoidance of living wages leave Corporate Social Responsibility an innocuous vehicle in our quest for true democracy and sustainability.

The purpose is to incorporate CSR into the logic of the market with the intended outcome of generating tangible benefits for all stakeholders and to accomplish true sustainability.

Nonetheless, I believe that both institutional investors and corporations will gradually arrive at the conclusion that they cannot maintain a zero-sum game ethos for too long if they want to enjoy a future, and they will move to gradually shift their vision from extremely short-term into a balanced approach in the pursuit of their own sustainability. Moreover, the growing pressure from all other participants in the system will move them towards a convergence of strategy, which will enable them to command much greater leverage to, in turn, push corporations, investors and governments into a new convergence of purpose and outcomes. The purpose is to incorporate CSR into the logic of the market with the intended outcome of generating tangible benefits for all stakeholders and to accomplish true sustainability. In this way, there are grounds to be optimistic about the current shortcomings gradually being eliminated in the near future. Thus, if we sustain our efforts to increase the benchmark of CSR in terms of enforceability and of a universal framework, we will become, to be sure, realistic about reaching sustainability and true democracy.

...nothing will be achieved if Southern civil societies are not the first to uphold the need to make living wages an inextricable part of CSR.

It is important to point out, that in the specific case of living wages, the civil societies of the nations in the South have the most to gain, of all stakeholders involved, given the dramatic

inequality of their societies. The increasing violence, social unrest, and mass migration, resulting from a dramatic increase in poverty and inequality, will best be tackled if we are all able to gradually close the gap in wages so that the global market is in turn able to sustain its expansion with millions of new consumers currently excluded from the system because of their miserable wages. However, nothing will be achieved if Southern civil societies are not the first to uphold the need to make living wages an inextricable part of CSR. Therefore, they must approach their counterparts in the North, who are leading the way in the development and use of CSR, and convince them to make living wages a core element. All stakeholders in both North and South will benefit, but the South must take the lead in making living wages a key element of global sustainability. The North's civil societies cannot be nearly as sensitive to the problems of social injustice as the members of organized civil society in the Southern countries, who experience, on a daily basis, the problems deriving from increasing levels of exploitation and injustice, as well as from the absolute absence, in their so-called democratic governments, of the will to procure the welfare of more than half of their population living in misery.

Lastly, there are no technical and operational aspects that cannot be overcome, in many occasions in a rather easy fashion, both in the case of an enforceable universal framework of core indicators as well as in the case of living wages. Therefore, making the enforceability of comprehensive reporting and the element of living wages core ingredients of CSR is only a matter of political will. In this way, it is really up to global civil society to be congruent with the intended principles of CSR or just to act "politically correct" with the economic centres of power.

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