Corporate Social Responsibility, Still an Infant Discipline

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From time to time TJSGA will issue brief papers on topics pertaining to The Living Wages North and South Initiative (TLWNSI). This paper is the first on Corporate Social Responsibility (CSR). The first part discusses both its current infant state as a key factor in social justice and as a strategic element in corporate business best practice. The second part presents our own CSR concept.

Corporate Social Responsibility (CSR) is a relatively recent phenomenon both in social development and much more so in corporate business culture. In many ways, CSR advances as counterculture to the long established idea of private and free enterprise. Free enterprise was supposed to be very private, to not have to answer to anyone about its business practices and to not be accountable to society except for fiscal matters. The only accountability was to private shareholders or institutional investors in the world's financial markets. Nevertheless, the increasingly negative and very pervasive impact of global corporations in all aspects of social life and in the environment has been the catalyst in the emergence of a diversity of stakeholders demanding accountability about the impact of corporate activity in the life of the planet as a whole.

The emergence of CSR notwithstanding, these are tough times in the struggle to make business behave responsibly, for, with the end of the post-war regulation paradigm, we have gone back to times of Victorian carriages, robber barons and Darwinian Capitalism. Indeed, in the last two decades of the twentieth century, we returned to an era of extreme corruption of the concept of liberty and we mocked democracy by giving untrammelled preeminence to corporations' interests and upholding their "right" to profit over people.

CSR roots

Just as in the Gilded Age, Neoliberalism has given corporations unfettered freedom to seek the increase of "shareholder value" at the expense of all other stakeholders. To be sure, with the almost complete deregulation and privatization of most sectors of the economy, the aim was to return to an ethos reminiscent of Dickensian factories and great U.S. trusts and to oppose the idea of true democracy. We should remind ourselves that, in a true democratic ethos, the governments' first responsibility is to procure the welfare of all ranks of society –like Adam Smith used to say. Indeed, although the intended end of classic English Liberalism, from Smith to Bentham, Ricardo and Stuart Mill, was to achieve the common good through the "invisible hand" of thousands of small companies, the industrialists corrupted concepts and governments, forming great trusts and enriching themselves at the expense of the other stakeholders. It was not until the consolidation of the post-war's Welfare State, in the 1950s and 1960s, that Darwinian Capitalism –which cynically advocated the survival of the fittest when most were not fit to compete on equal terms– was briefly abandoned.

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Today's corporate ethos

Unfortunately, political ambitions and corruption gradually eroded the governments' brief will to fulfil their regulatory responsibility and act as "balancing agents" to control the natural excesses of the market system, and, with the U.S. abandonment of the gold standard, we began our move to the so-called post-modern globalization. In this way, most people now endure a zero-sum game ethos, where the great beneficiaries are the global corporations. These great economic powerhouses increasingly resemble, through never-ending mergers and acquisitions and their day-to-day corporate practices, the big trusts of the nineteenth-century or the spice monopolies of the merchant era, and dictate in many ways the agendas of the governments in the world. To be sure, corporations instinctually reject any type of social responsibility by arguing that that is the governments business; but ironically, they have made governments abandon their regulatory responsibility to procure the welfare of all ranks of society.

A tridimensional pervasiveness: the argument for the need for corporate social responsibility

The fact is that corporations cannot elude their social responsibility because their activity exerts a tridimensional impact (economic, social and environmental). Their huge political influence has made governments abandon their basic responsibilities, which results in very negative pervasive and tridimensional effects. The now common practice of financing political campaigns has replaced, de facto, the social contract with a corporate one, where those who provide the moneys dictate the topics and direction of the governments' agenda. This is now a reality in many parts of the world, in developed and Third World countries alike. The huge fraud of the banking system in Mexico, increasing its public debt by more than $80 billion, rescued crony investors and assured an annual income to their new foreign owners at the expense of taxpayers. The corrupt privatization of almost all public assets in Argentina and the outright robbery of the banking deposits of millions of Argentineans brought upon the most developed nation in Iberian America its worst crisis in history. The "laissez-faire" attitude of European pharmaceutical industry's regulators, the "drugs agencies", who do not carry out their own studies to ensure that new drugs indeed bring real benefits to patients and not just extra profits to drug firms, ensure the very private welfare of the industry giants.[1] All these cases fall into the same category as the Enron and Worldcom fraudulent bankruptcies or the U.S. State Department demand to a U.S. federal court to dismiss a human rights lawsuit by Indonesian villagers against Exxon Mobil, saying a trial could harm U.S. economic and political interests in Asia.[2]

The common thread is the lack of corporate accountability due to the extreme corruption of governments, which has moved them to abandon their social responsibility for the sake of very private interests, including their own self-interest. The social contract is now a corporate dictate. The trafficking of corporate interests has overtaken the political structures of nations on a global scale. Indeed, the Washington Consensus: the maximum reduction of the public role, through the elimination of the welfare state and economic deregulation, so that governments become mere agents of corporate interests, is just the basic demand. The ultimate goal is to make corporate interests explicitly prevail over the common good, allowing corporations to legally sue sovereign states, as in Metalclad's victory over Mexico through NAFTA.[3]

These events are possible because democracy in the world has been corrupted to its core. There is no trace of the old Greek concept of the agora, the place where public and private

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[1] Drug deals in Europe, Philippe Rivière, Le Monde Diplomatique, February, 2002
[2] U.S. Wants Suit by Indonesians Dismissed. Los Angeles Times, August 7, 2002.
[3] A new way of assessing the North American Free Trade Agreement, parting from the controversies generated by Chapter Eleven, Arturo Rafael Pérez García, Faculty of Law, Universidad La Salle, Mexico City, 27 November 2002.

interests were reconciled, because the public interest has been privatized and now governments discuss it in private with the world's centres of private capital.

Considering the overwhelming lack of will of most governments to fulfil their most basic responsibilities, it has become of utmost importance that Global Civil Society (GCS) takes the responsibility –as is increasingly happening in many other aspects of life in today's societies– of closely overseeing the behaviour of corporations. In this way, since the early 1990s GCS has mobilized to ensure that the common good and the basic principle of democratic governance, of pursuing the welfare of all ranks of society, remains firmly above the pursuit of very private interests.

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The concept of CSR

In true democracy, companies cannot ignore societies in any of the social spheres where they interact. This is because they are formed and managed by individual members of society, 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.

The most distinctive feature of the concept of CSR, that every private enterprise has a legitimate diversity of stakeholders, is in stark contrast with the traditional private sector position of considering shareholders their only stakeholders. In CSR, the stakeholders represent the different interests 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 GCS, corporations represent the corporate citizen,[4] who, as anybody, is subject to rules and must be socially responsible. Therefore, the stakeholders are all the members belonging to the corporation's social environs, which contribute to, or are encroached by, the corporation's activity.[5] In this way, Corporate Social Responsibility is the inherent obligation of each business entity to account for the way its activity impacts the economic, social and environmental dimensions of its environs and to ensure that this impact generates equitable and sustainable benefits –and no harm– to all stakeholders involved.

CSR in its current state

The last decade experienced rapid growth in the efforts to develop and establish CSR in the North, an event that is also having a strong impact in the South due to the important presence of MNCs in this region. However, CSR is a discipline still in its infant state, where many legitimate stakeholders spontaneously emerge to develop their CSR concept from their own perspective. This typically has occurred without 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 much progress has been made, there is still need for refinement and upgrading.

In the management of a CSR process, there are four phases to be followed by corporations and GCS: planning, reporting, verification and certification. Planning and reporting require defining and jointly agreeing on the selection of the criteria that will be applied in the evaluation and in the

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[4] The Center for Corporate Citizenship at Boston College, Boston MA, www.bc.edu/bc_org/avp/csom/ccc/index.html.
[5] The Stakeholder Alliance, Washington, D.C. A project of the Center of rthe Advancement of Public Policy. Statement of Principle, http://www.stakeholderalliance.org/stmtprin.html.

reporting of a company's tridimensional impact. Unfortunately, the power of persuasion of the Northern initiatives leaves these phases in a state still rather bleak. A common weakness is to offer corporations a set of CSR standards to be used on a voluntary basis and with great latitude in its application. This incites many corporations to see a great window of opportunity to portray themselves as good corporate citizens and shield criticism from GCS. It is a great opportunity to behave politically correct without really being socially responsible. Furthermore, the other major common weakness, and a major void in the development of criteria, is the absence of a norm and/or of an indicator of the quality of the wages paid. This is a critical issue given the fact that a living wage is a basic human right, and, thus, must be a fundamental element of CSR. Typically, regarding labour rights, CSR standards adhere to the International Labour Organization core conventions. However, the ILO does not deal with the issue of living wages. This provides a loophole to avoid the issue of fair labour endowments and still look good. The right thing to do must be that, if a corporation complies with the ILO but strategically exploits its workers, it cannot be considered socially responsible because it is playing a zero-sum game, even if it is managing the impact of all the other elements –in addition to those of the ILO– in a very responsible manner. Yet this criterion is still absent from most CSR concepts emerging in the public arena.

The other two phases: assurance and certification, also suffer from a lack of standardization in the process of verification and the criteria to be used for granting or denying certification. Before the financial reporting scandals of 2002, there was a developing trend, in the case of multinationals such as Disney, Nike and Mattel, to hire firms such as PWC, Andersen, Ernest and Young and others in locations such as in the province of Guangdon in China, to conduct social accountability audits in their plants.[6] However, the scandals of Enron, Worldcom and others, in their relationship with accounting/auditing firms, brought discredit to the use of these consulting firms in the verification of compliance with a set of CSR standards. Now the trend is to develop independent assurance providers that will only be accountable to civil society, but, as a natural consequence of the infancy of CSR, this is still in its first stage. Fortunately, much effort is being done in this area to establish systematic processes of verification and train those who will actually execute them in the field. Nonetheless, as of today (March 2003), total consensus in the criteria to audit and certify has not been achieved; thus, standardization is still incomplete.

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Prognosis

While there is diversity in emphasis and specialization in the development and management of CSR by GCS, the timidity in demanding that the impact of corporate activity generates equitable benefits for all stakeholders is very evident. Often enough, the mission in the promotion of CSR appears to be more the offering of a vehicle for companies to be perceived positively, without true congruence with the intended principles of social responsibility, instead of demanding an equitable and sustainable tridimensional impact. The voluntary approach to CSR, the latitude enjoyed by corporations in its application, the lack of homogenous standards and processes, and, especially, the clear avoidance of living wages –the fundamental element of social justice and a key factor in the achievement of

[6] Business Ethics. Sweatshop Wars, The Economist, February 25th 1999

an equitable and sustainable system– make CSR still innocuous in our quest for true democracy and sustainability.

Nevertheless, we believe that the current shortcomings will be gradually eliminated in the near future, as increased dialogue between all stakeholders clears the way for upgrading and standardization, so that we eventually achieve total congruence with the principles of sustainability and true democratic practice.

TLWNSI's CSR Concept

The Jus Semper Global Alliance's mission is to contribute to global social justice by creating, at the micro-level, the ethos necessary to make all stakeholders of the global market system work to achieve equal terms of participation, so that all participants have the same opportunities to live a dignified life and benefit from a new and sustainable economic paradigm. We believe that creating this ethos is far more a matter of political will than of economic logic. Thus, we need a clear and compulsory framework with its inherent costs and benefits in order to bring about the necessary political will from the part of corporations. In this way, our CSR concept incorporates six fundamental characteristics:

Sustainability and Democratic Accountability

The purpose of Corporate Social Responsibility (CSR) is to make corporate business activity and corporate culture become sustainable in its three dimensions: economic, social and environmental. The only pathway with a future is that which makes all stakeholders sustainable. Corporations cannot flourish in detriment of a stakeholder, and, in general, of the welfare of all ranks of society. Thus, corporations must abandon their zero-sum game mentality and adopt a sustainable business culture that benefits all stakeholders in an equitable manner.

The market system cannot enjoy sustainability if labour exploitation remains a core business strategy.

It is indispensable to bear in mind that the end of democratic societies is to procure for all its members the right and the access to a dignified welfare state and to the opportunities to freely develop their individual skills to carve out a livelihood. The market, in any case, must be only a vehicle to accomplish it and not an end. Therefore, this legitimate end constitutes the essence of true democracy and the fundamental public interest of a truly democratic society, and, thus, the private interest cannot prevail over the public interest. In this way, individualism stops where communal solidarity starts and real democracy asserts those limits as a function of its ontological reason.[7] The common good is its raison d'être and, thus, is the superior interest, which limits the domains of the private interest. Consequently, the accumulation of capital must only be plausible and desirable as long as it does not harm the common good. This is the principle of sustainability and democratic accountability in a real democracy. Therefore, corporations must become fully accountable for the impact of their activity. If Darwinian Capitalism has prevailed, it is because of the perverse will of the centres of power to enforce a mock democracy.

Living Wage: Indivisible from Social Justice and central to economic and social sustainability

For corporations, the level of labour endowments is usually used as a key strategic

[7] Cornelius Castoriadis. Philosophy, Politics, Autonomy. Essays in Political Philosophy, (1991 Odéon – Oxford University Press) 27-37

element in the pursuit of increased shareholder value and market competitiveness. It is also often the key business motivation for new foreign direct investment in the South by transferring jobs from North to South at extremely cheap labour costs. However, fair labour endowments are also a key strategic element in the sustainability of the market system.

The market system cannot enjoy sustainability if labour exploitation remains a core business strategy. Nonetheless, since the arrival of Neoliberalism, the pressure of the stock market has imposed an extremely short-term –quarterly– business strategy to corporations. This blocks any possibility of long-term sustainability and imposes a zero-sum game that centres business strategy in the lowest possible operating costs, especially labour costs.

In consequence, in economic terms, the development of the conditions for equitable and stable reproduction of capital is disabled in order to fulfil the demands of the stock market. This is the classic supply-side "extremely one-sided" neoliberal paradigm; but, if most other stakeholders have to lose in favour of international financial markets, the loss eventually expands to the supply side of the system. That is, if the regime of reproduction of wealth and of its accumulation is systematically centred on the supply-side, as is currently occurring, there is no possibility of developing a stable growing economy over a long period of time.

Our CSR concept is centred on the gradual achievement of living wages North and South as an inextricable element of both social justice and sustainability.

The multiplying effects of an expanding economy fuelled by the generation of aggregate demand –which increases the probability of sustainable growth– simply cannot emerge if the financial markets impose a supply-side paradigm. We can attest to this with the increasingly recurrent periods of recession and the increasing and concurrent widening of the gap between rich and poor in both poor and rich countries alike. Thus, there is no possibility of a sustainable economy without the existence of a permanent balancing act between supply-side and demand-side economics. To be sure, a balanced approach would be a far more productive business strategy for the private sector than the current one. The "short-termism" of the stock market is the overwhelming obstacle to sustainability. Thus, only by civil society forcing this change of mentality in a rationale manner, can we aspire to build a sustainable market system. In this way, CSR needs to be centred on the gradual development of fair labour endowments, for, beyond the obvious fact that a living wage is the fundamental element in the achievement of social justice, fair labour endowments are also the major contributor, in a corporation's economic impact, to the generation of aggregate demand. Therefore, the consistent growth of aggregate demand is a key and very desirable element in the sustainability of a market system. For this reason, our CSR concept is centred on the gradual achievement of living wages North and South as an inextricable element of both social justice and sustainability.

Comprehensive CSR tridimensional coverage

TLWNSI is not a developer of CSR standards. TLWNSI uses the tools that other organizations have developed for the planning, reporting, assurance and certification of a corporation's activity in the world, for we support and desire the full tridimensional compliance of MNCs with social, economic and environmental standards. Despite the fact that there will always be room for improvement in CSR standards, we believe that there is no need to develop our own version of sustainability standards, when civil society has already developed a good working framework. Thus, we support and adhere to various initiatives and frameworks, such as the UN Global Compact, a global multi-stakeholder initiative and network with four UN offices at its core; the Global Reporting Initiative (GRI), a multi-stakeholder process with sustainability reporting guidelines; or

Accountability AA1000, a process framework designed to complement the GRI guidelines.

However, for reasons explained in the first part of this brief, we add the element of fair labour endowments through our gradual wage equalization program to the CSR standards that have already been made available by various organizations of GCS. We believe that gradually achieving living wages will have many positive effects on many other aspects of sustainability. Nonetheless, we believe that corporations must act responsibly in all three dimensions and work to secure their sustainability by incorporating each individual issue into their own framework of best business practices. Corporations can choose to use any of the frameworks that we adhere to, but they must include our living wages gradual equalization program. Thus, our strategy is comprehensive and calls for compliance of all CSR dimensions with the incorporation of the living wage as the fundamental criterion.

Mandatory full compliance and individual reporting

TLWNSI requires mandatory compliance with its CSR program. Currently, most CSR processes are offered as voluntary tools that corporations can use with full flexibility in their reporting. For instance, if a company decides to report only on the social dimension, but avoids the environmental and economic dimensions, that is currently acceptable; or if a company prefers to consolidate its reporting instead of performing individual reporting, on a country-by-country basis, that is also still acceptable. In contrast, TLWNSI does not allow consolidation and requires corporations to include all three dimensions, with living wages as the fundamental criterion.

In this way, of all the CSR concepts, none, that we are aware of, addresses the issue of a living wage as mandatory. Thus, in contrast with other initiatives, if an MNC complies with all requirements except living wages, we will not provide certification.

Certification and Endorsement

Corporations adhering to TLWNSI and complying with our CSR concept will enjoy a certification and endorsement before Civil Society and their consumers. Those corporations refusing to provide the political will necessary to develop a sustainable system will simply become alienated, through systematic denunciation, as Global Civil Society and consumers become aware about their destructive business practices. On the other hand, those who provide the will and work with Civil Society will directly benefit from a certification and endorsement before Global Civil Society and their consumers, which will bring both short-term and long-term benefits to their business and all other stakeholders.

Uniqueness of TLWNSI's CSR

Gradual wage equalization based on home country's salaries. Since the beginning of the 1990s, a growing interest has built up to stop MNCs from pursuing a strategy of investing in Third World countries, centred on the availability of cheap labour and loose or non-existing legislation for environmental protection. However, TLWNSI is the first to concentrate specifically on the goal of closing the gap between First World and Third World workers of multinational corporations, performing the exact same job or equivalent to the one performed in the MNCs' operations in their home country. The major unique feature of this concept is the idea of using the MNCs' home country's salaries as the point of reference and the benchmark to close the gap –and then applying realistic criteria to actually determine the living wage that they should be paying in the first place.

Use of PPPs mechanism. TLWNSI is the only initiative proposing the Purchasing Power Parities (PPPs) mechanism, which is annually updated by the World Bank to assess wages and set long-term living wage goals. PPPs are not a perfect measure by any means. There are no perfect methods to assess the living wage of a worker in a country at a specific point in time, but PPPs provide a rational method to determine the differences in cost of living and determine realistic purchasing power. Moreover, the North-South wage gap is so wide that PPPs are a good indicator to establish a reasonable living wage as a long-term goal.

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Lastly, using data from the World Bank has the added strategic value that it cannot be attacked and disregarded by corporations as something made up, for it is coming directly from the institutions of the Washington Consensus.

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